中國銀行
BANK OF CHINA

Delivering Growth and Excellence

Annual Report 2010

Bank of China Limited

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

Stock Code: 3988

Bank of China Global Network

Bank of China is the most internationalised bank in China. After establishing its first overseas branch in London in 1929, the Bank gradually expended its overseas network to major global financial centres including Tokyo, Singapore and New York. At present, the Bank provides comprehensive and quality financial services to customers through its global network across the Chinese mainland, Hong Kong, Macau, Taiwan and 31 overseas countries and regions.


VANCOUVER
TORONTO
NEW YORK
LOS ANGELES
GRAND CAYMAN
PANAMA
SAO PAULO

Bank of China was formally established in February 1912 following the approval of Dr. Sun Yat-sen. From 1912 to 1949, the Bank served consecutively as the country's central bank, international exchange bank and specialist foreign trade bank, and fulfilled its commitment to serving the public and developing China's financial services sector. Prudent management and progressive reforms resulted in many significant achievements across the Bank's diversified business operations. After the founding of the People's Republic of China, with a long history in acting as the state-designated specialist foreign exchange bank, Bank of China became China's important opening-up window to the world and the key foreign exchange financing channel. Transformed from a specialist foreign exchange bank into a state-owned commercial bank in 1994, Bank of China began a joint stock restructuring in 2003, which resulted in Bank of China Limited being incorporated in August 2004 and listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange in June and July 2006 respectively, becoming the first Chinese commercial bank listed in domestic and overseas capital markets.

As the most international and diversified bank in China, Bank of China provides a comprehensive range of financial services to customers across the Chinese mainland, Hong Kong, Macau, Taiwan and 31 overseas countries and regions. The Bank's core business is commercial banking, including corporate banking, personal banking and financial markets services. BOCI, one of its wholly-owned subsidiaries, is the Bank's investment banking arm. BOCG Insurance and BOC Insurance run the Bank's insurance business. BOCG Investment, a wholly owned subsidiary, undertakes the Bank's direct investment and investment management business. BOCIM, its controlling subsidiary, operates the Bank's fund management business. BOC Aviation is in charge of the Bank's aircraft leasing business.

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

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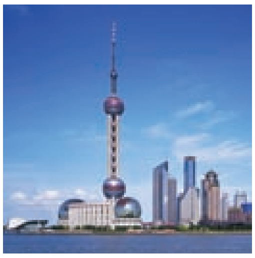


Development Strategy

Strategic Goal

To be a leading international bank, delivering growth and excellence

Strategic Positioning

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

Focusing on commercial banking while developing diversified business

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

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

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

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

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

Investment Value Proposition

Unique competitive advantages

- The only bank in China with a century old history of continuous operation
- One of the biggest commercial banks in China
- The most internationalised and diversified bank in China
- Strong home market presence and high-quality customer base
- Leader in foreign exchange businesses with strong product innovation
- Leader in fee-based business and non-interest income

Robust business growth

- Assets scale exceeded RMB10 trillion with a continuously optimised assets and liabilities structure
- Fast expansion of domestic business
- Rapid development of fee-based business and increasing contribution of non-interest income
- First mover and leader in cross-border and overseas RMB businesses
- Accelerated development in overseas operations with solid diversified business platform

Excellent financial results

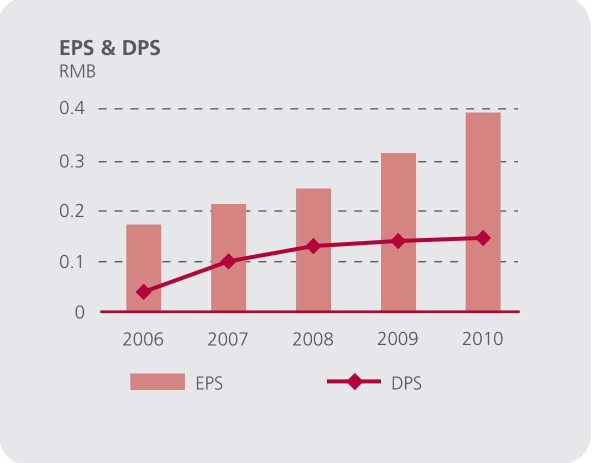
- Profit for the year reached RMB109.691 billion, up 28.52% year on year
- ROE and ROA increased to 18.87% and 1.14%, respectively
- Core CAR and CAR held at 10.09% and 12.58%, respectively
- Continuously improving asset quality

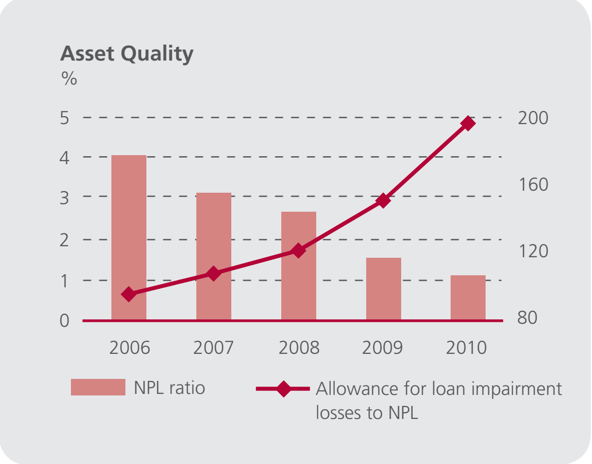
Proficient business management

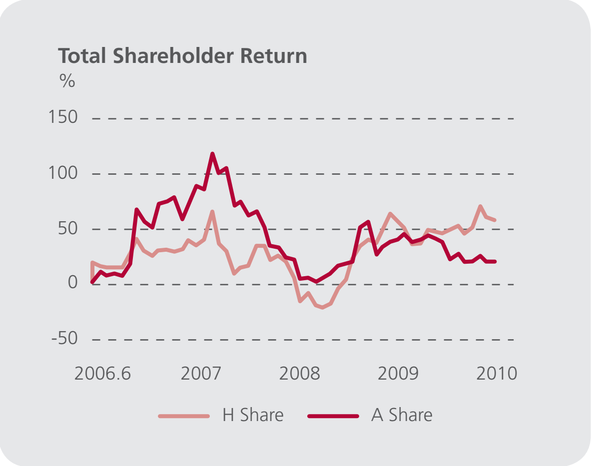
- High-standard corporate governance based on continuously improving governance mechanism
- Centralised, independent, professional risk management system and technology
- Outstanding and professional staff and experienced management team
- Continuously improving service channel and constantly enhancing technology foundation

Strong commitment to shareholders

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







Source: Bloomberg

Financial Highlights

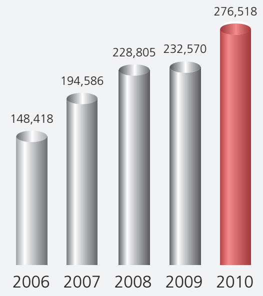
Note: The financial information in this report has been prepared in accordance with International Financial Reporting Standards (IFRS). The data are presented in RMB and reflect amounts related to the Group, unless otherwise indicated.

Unit: RMB million

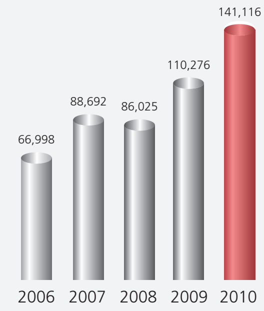
	Note	2010	2009	2008	2007	2006
Results of operations						
Net interest income		**193,962**	158,881	162,936	152,745	121,371
Non-interest income	1	**82,556**	73,689	65,869	41,841	27,047
Operating income	2	**276,518**	232,570	228,805	194,586	148,418
Operating expenses		**(122,409)**	(107,307)	(97,749)	(85,631)	(69,203)
Impairment losses on assets		**(12,993)**	(14,987)	(45,031)	(20,263)	(12,217)
Operating profit		**141,116**	110,276	86,025	88,692	66,998
Profit before income tax		**142,145**	111,097	86,751	89,955	67,630
Profit for the year		**109,691**	85,349	65,573	62,017	48,058
Profit attributable to equity holders of the Bank		**104,418**	80,819	64,039	56,229	42,624
Total dividend		**N.A.**	35,537	32,999	25,384	10,154
Financial position						
Total assets		**10,459,865**	8,751,943	6,955,694	5,995,553	5,332,025
Loans, net		**5,537,765**	4,797,408	3,189,652	2,754,493	2,337,726
Investment securities	3	**2,055,324**	1,816,679	1,646,208	1,712,927	1,892,482
Total liabilities		**9,783,715**	8,206,549	6,461,793	5,540,560	4,914,700
Due to customers		**7,483,254**	6,620,552	5,103,409	4,403,432	4,095,422
Capital and reserves attributable to equity holders of the Bank		**644,165**	514,992	468,272	424,766	387,286
Share capital		**279,147**	253,839	253,839	253,839	253,839
Per share						
Basic earnings per share for profit attributable to equity holders of the Bank (RMB)	4	**0.39**	0.31	0.24	0.21	0.17
Dividend per share (before tax, RMB)	5	**0.146**	0.14	0.13	0.10	0.04
Net assets per share (RMB)	6	**2.31**	2.03	1.84	1.67	1.53
Key financial ratios						
Return on average total assets (%)	7	**1.14**	1.09	1.01	1.09	0.95
Return on average equity (%)	8	**18.87**	16.48	14.37	13.85	13.42
Net interest margin (%)	9	**2.07**	2.04	2.63	2.76	2.45
Non-interest income to operating income (%)	10	**29.86**	31.68	28.79	21.50	18.22
Cost to income (calculated under domestic regulations, %)	11	**34.16**	34.92	31.52	33.70	36.53
Capital adequacy ratios						
Core capital adequacy ratio (%)		**10.09**	9.07	10.81	10.67	11.44
Capital adequacy ratio (%)		**12.58**	11.14	13.43	13.34	13.59
Asset quality						
Identified impaired loans to total loans (%)	12	**1.13**	1.55	2.76	3.17	4.24
Non-performing loans to total loans (%)	13	**1.10**	1.52	2.65	3.12	4.04
Allowance for loan impairment losses to non-performing loans (%)	14	**196.67**	151.17	121.72	108.18	96.00
Credit cost (%)	15	**0.29**	0.38	0.55	0.31	0.53
Human resources & Organisations						
Number of employees of the Group	16	**279,301**	262,566	249,278	237,379	232,632
Number of employees in the Chinese mainland		**250,976**	236,056	222,829	215,334	212,428
Number of branches and outlets of the Group		**11,058**	10,961	10,789	10,834	11,241
Number of branches and outlets in the Chinese mainland		**10,074**	9,988	9,983	10,145	10,598
Exchange rate						
USD/RMB year-end middle rate		**6.6227**	6.8282	6.8346	7.3046	7.8087
EUR/RMB year-end middle rate		**8.8065**	9.7971	9.6590	10.6669	10.2665
HKD/RMB year-end middle rate		**0.8509**	0.8805	0.8819	0.9364	1.0047

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

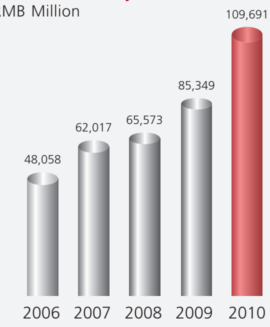
Operating income
RMB Million



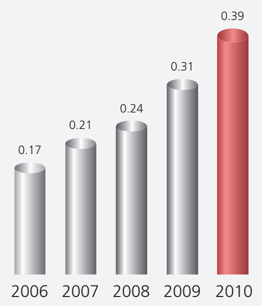
Operating profit
RMB Million



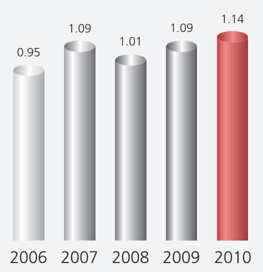
Profit for the year
RMB Million



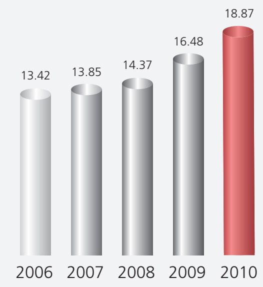
EPS (basic)
RMB



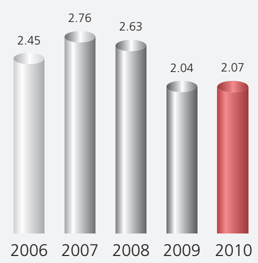
ROA
%



ROE
%

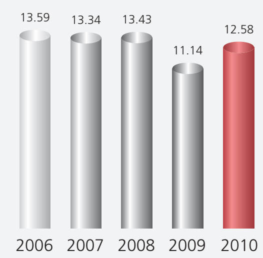


Net interest margin
%

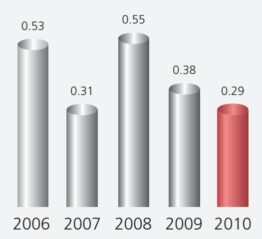


Cost to income (calculated under domestic regulations)
%

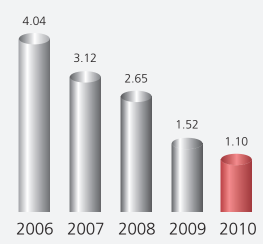
Capital adequacy ratio
%



Credit cost
%



Non-performing loans to total loans
%



Allowance for loan impairment losses to non-performing loans
%

Honours and Awards

Global Finance
Best Corporate Lending Bank (China) 2010
Best Foreign Exchange Bank (China) 2010

Euromoney
Real Estate Poll 2010
Best Commercial Bank in China

Trade Finance
Best Trade Bank in China

The Asset
Best Trade Finance Bank (China)

FinanceAsia
Best Trade Finance Bank (China)
Best Private Banking (China)

Financial Times
Best Private Bank

The Banker (Asian)
Best Wealth Management Bank

Global Compact Network China
UN Global Compact Notable COP

WPP Group
Ranked No.3 in The BrandZ Top 50 Most Valuable Chinese Brands

Stanford University USA and IDG Group
Global Competitiveness Brand 'China Top 10'

Ministry of Education
Advanced Enterprise in Subsidizing Students in National Institutions of Higher Education

ChinaHr.com
Best Employers in Financial Sector TOP10

21st Century Business Herald
Best Globalization Bank in Asia
Best Corporate Citizen
Chinese-Funded Excellent Private Banking Brand of the Year

China Business News
Bank of the Year 2010

Economic Observer
Best E-Banking in China

Money Weekly
Best Electronic Banking 2010
Best Auto Loan Banking 2010

South China Weekend Magazine
Best Online Banking 2010
Best Mobile Phone Banking Promotion Award

Directors & Boards
Outstanding Board of Directors award

IR magazine
Best Annual Report (Mainland China)

League of American Communications Professionals
Annual Report – Platinum award
Best Financial Report Financials – Gold award

Corporate Information

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

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

Legal Representative and Chairman: XIAO Gang

Vice Chairman and President: LI Lihui

Secretary to the Board of Directors
ZHANG Bingxun

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

Company Secretary: Cheung Ying YEUNG

Listing Affairs Representative: LUO Nan

Office Address:
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Telephone: (86) 10-6659 2638
Facsimile: (86) 10-6659 4568
E-mail: bocir@bank-of-china.com

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

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

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

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

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

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

Places where the Annual Report can be obtained
Major business locations

Domestic Legal Advisor: King & Wood PRC Lawyers

Auditors

Domestic auditor
PricewaterhouseCoopers Zhong Tian
Certified Public Accountants Limited Company
Address:
11th Floor, PricewaterhouseCoopers Center,
2 Corporate Avenue, No.202 Hu Bin Road,
Luwan District, Shanghai, China, 200021

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

Date of First Registration: 31 October 1983

Modified Registration Date: 26 August 2004

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

Corporate Business Licence Serial Number
100000000001349

Financial Institution Licence Serial Number
B0003H111000001

Tax Registration Certificate Number
Jingshuizhengzi 110102100001342

Organisation Code: 10000134-2

Securities Information

A Share
Shanghai Stock Exchange
Stock Name: 中國銀行
Stock Code: 601988

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

A-Share Convertible Bonds
Shanghai Stock Exchange
Securities Name: 中行轉債
Securities Code: 113001

Sponsors for A-Share Convertible Bonds
BOC International (China) Limited
CITIC Securities Co., Ltd.


一份耕耘，一份收獲。
一份耕耘，一份收获。
持续百年经营，筑就长青基业。

1. The 1st Extraordinary General Meeting of 2010 of Bank of China Limited.
2. Launching ceremony of Zhongguancun Technical SME Financial Service Model.
3. Wealth management center of Bank of China Zhejiang Branch.
4. Bank of China Tianjin Branch.

I am delighted to report our 2010 business results to all our shareholders and the public. During the year, profit attributable to equity holders of the Bank exceeded RMB100 billion and reached RMB104.418 billion, representing a year-on-year increase of 29.20%. Earnings per share also recorded an increase of RMB0.08 to RMB0.39. Return on average equity rose by 2.39 percentage points to 18.87%. At the same time, our asset quality continued to improve, with the balance and ratio of non-performing loans declining for the eighth successive year. The Board of Directors has proposed a dividend of RMB0.146 per share for 2010 for approval at the Annual General Meeting in May 2011.

In 2010, the global economy experienced a slow and weak recovery. Developed economies witnessed sluggish growth while some European countries suffered sovereign debt crises. Several countries introduced quantitative easing policies. This intensified global excess liquidity, boosted international commodity prices with more volatility, and increased the threat of inflation and asset bubbles in emerging markets. Although China's economy maintained stable and rapid development in 2010, there are still underlying problems that must be addressed as a matter of priority, such as an unbalanced economic structure and increasing inflationary expectations.

The Bank responded to this complex and volatile environment by strictly adhering to our scientific outlook on development and fully implementing both the government's macro-economic policies and our own strategic development plan. Through "streamlining structure, scaling up, managing risks and sharpening competitiveness", we achieved our goals for the year and significantly enhanced our business management.

Due to the successful implementation of our strategic development plan, the Bank's assets and liabilities grew rapidly in 2010, with total assets now in excess of RMB10 trillion. All of our various business lines were developed in a coordinated manner. Deposits increased and loan portfolio structure continued to improve. Fee-based business grew rapidly. New achievements were made in the integrated development of our domestic and overseas operations, and our diversified business platform was further consolidated and expanded. We continuously improved our internal management, especially in the key areas such as human resources, asset and liability management, and risk management. We accelerated infrastructure construction and successfully implemented a new core banking system in 23 domestic branches, which has significantly enhanced our outlet performance and led to a breakthrough in the development of electronic channels. Taking advantage of favourable capital market conditions, we successfully replenished the Bank's capital through an A-Share Convertible Bonds issue and A Share and H Share rights issues. At the end of 2010, our capital adequacy ratio reached 12.58%, laying a solid foundation for sustainable development.

Message from the Chairman

"The Bank responded to this complex and volatile environment by strictly adhering to our scientific outlook on development and fully implementing both the government's macro-economic policies and our own strategic development plan. Through 'streamlining structure, scaling up, managing risks and sharpening competitiveness', we achieved our goals for the year and significantly enhanced our business management."

In 2010, the Board of Directors conducted re-election. Mr. ZHANG Jinghua, Mr. WANG Gang and Mr. LIN Yongze retired at the expiry of their terms of office. Mr. SEAH Lim Huat Peter resigned as Non-executive Director of the Bank due to other work commitments. Ms. SUN Zhiyun, Ms. LIU Lina and Ms. JIANG Yansong were elected as Non-executive Directors, and Mr. CHOW Man Yiu, Paul and Mr. Jackson P. TAI were elected as Independent Non-executive Directors. On behalf of the Board of Directors, I would like to express our sincere appreciation to Mr. ZHANG Jinghua, Mr. WANG Gang, Mr. LIN Yongze and Mr. SEAH Lim Huat Peter for their contribution to our development, and express our warm welcome to Ms. SUN Zhiyun, Ms. LIU Lina, Ms. JIANG Yansong, Mr. CHOW Man Yiu, Paul and Mr. Jackson P. TAI as they join us.

2011 marks the start of China's 12th Five-Year Plan. The next five years will bring unprecedented opportunity for the development of commercial banking and the wider financial services industry. The pace of financial innovation will accelerate, the global trend for diversified operations will persist, and there will be new opportunities to develop the Bank's domestic and overseas operations in an integrated manner. At the same time, the financial industry is confronted with several challenges, such as greater regulatory scrutiny of product innovation, increasing difficulties in risk management, and higher standards for the quality of human resources. Facing these new opportunities and challenges, we will steadfastly adopt a scientific approach on development and earnestly implement our strategic development plan. Adhering to the principles of "streamlining structure, scaling up, managing risks and sharpening competitiveness", we will seize opportunities to unlock new areas of business and promote innovation, transformation and cross-border development, so as to achieve our strategic goal of becoming a leading international banking group and celebrating the 100th anniversary of the Bank with excellent performance.

On a final note, I would like to express my sincere appreciation to our shareholders and the public for your great support, and to members of the Board of Directors and the Board of Supervisors for your invaluable contributions. I also wish to express my gratitude to the management and to colleagues across the globe for your diligent work. I believe that, driven by our combined efforts, the century-old Bank of China will move unswervingly ahead and reach new height of development.

XIAO Gang
Chairman
24 March 2011

In 2010, the Bank responded proactively to a complex and challenging environment and recorded remarkable results. According to International Financial Reporting Standards, the Bank's total assets, liabilities and equity attributable to shareholders of the Bank amounted to RMB10,459.865 billion, RMB9,783.715 billion and RMB644.165 billion respectively, representing a respective increase of 19.51%, 19.22% and 25.08% from the previous year-end. During the year, the Bank achieved a profit after tax of RMB109.691 billion, a year-on-year increase of 28.52%. The profit attributable to equity holders of the Bank amounted to RMB104.418 billion, up 29.20% from the previous year. Return on average total assets and return on average equity stood at 1.14% and 18.87% respectively, representing a year-on-year increase of 0.05 and 2.39 percentage points. The balance of non-performing loans reached RMB62.470 billion, down RMB12.248 billion from the previous year-end; and the ratio of such assets to total loans fell by 0.42 percentage points to 1.10%. The ratio of allowance for loan impairment losses to identified impaired loans was 196.67%, up 45.50 percentage points.

The Bank maintained rapid profit growth in 2010, driven primarily by significant increases in net interest income and non-interest income, strict containment of credit cost, increased operating efficiency and a decline in the effective tax rate. During the year, the Bank's net interest income grew by 22.08% compared to the previous year and net interest

Message from the President

"The Bank will accelerate innovation in order to greatly expand its customer base, rapidly sharpen outlet competitiveness in order to increase market share, strengthen unified planning so as to push forward the integrated development of its domestic and overseas operations, and promote business management transformation in an effort to achieve innovative, transformative and cross-border development, with the aim of becoming a leading international bank."

margin rose by 0.03 percentage points. Non-interest income increased by 12.03% from the previous year, of which net fee and commission income rose by 18.41%. Credit cost was restricted to 0.29%, down 0.09 percentage points from 2009, while the cost-to-income ratio decreased by 0.76 percentage points to 34.16%. The effective tax rate declined to 22.83% from 23.18%.

The Bank made remarkable progress towards the following strategic priorities:

Promoting structural adjustment and accelerating business transformation. In 2010, RMB and foreign currency deposits rose by 14.54% and 9.98% respectively. The proportion of demand deposits increased by 0.49 percentage points. With a continuous improvement in credit structure, the proportion of loans to key domestic industries rose by 0.95 percentage points. The interest rates of new RMB and foreign currency loans surged by 12 and 101 basis points respectively during the year. The Bank maintained its top global ranking in the volume of international settlement transactions. The Bank retained its leading position in various businesses such as RMB settlement and precious metals. Overseas operations reported an increase in their total assets and liabilities of 32.53% and 34.30% respectively, further enhanced the advantages in internationalisation and diversification of the businesses.

Improving management through unified planning. In order to develop a resource-efficient business model, the Bank improved the comprehensive management of its assets and liabilities. The Bank's capital adequacy ratio rose by 1.44 percentage points from the previous year-end due to the successful execution of the Bank's capital replenishment plan. The Bank enhanced its comprehensive risk management and internal control which improved asset quality and resulted in a large decrease in the frequency and severity of fraud cases. In addition, the Bank implemented its talent development strategy and has constantly developed its corporate culture to create a cohesive and empowered workforce.

Improving operating efficiency through infrastructure construction. In 2010, the Bank successfully rolled out a new core banking system across 23 branches. The Bank also successfully launched significant IT projects related to the New Basel Capital Accord. The Bank accelerated its outlet transformation programme, optimised its outlet performance across the board. As a result, the average deposits and income per domestic outlet increased by 10.6% and 20.4% respectively from the previous year. In addition, the Bank further expanded its electronic channels and optimised its operating platform.

In 2011, China will begin to implement the 12th Five-Year Plan. The global economy will continue a slow and weak recovery. Though a number of economic and financial uncertainties persist, the banking industry will face significant strategic opportunities. In this context, the Bank will accelerate innovation in order to greatly expand its customer base, rapidly sharpen outlet competitiveness in order to increase market share, strengthen unified planning so as to push forward the integrated development of its domestic and overseas operations, and promote business management transformation in an effort to achieve innovative, transformative and cross-border development, with the aim of becoming a leading international bank.

On behalf of the management, I would like to take this opportunity to express our sincere gratitude to our investors and the public for your support and trust, to the Board of Directors and the Board of Supervisors for your guidance and assistance, and to our colleagues around the world for your diligence and contribution. I believe that, with our concerted efforts in pursuit of excellence, Bank of China will achieve outstanding performance in its 100th anniversary.

LI Lihui
President
24 March 2011

Message from the Chairman of the Board of Supervisors

In 2010, the Board of Supervisors earnestly performed its supervisory duties in strict accordance with the state laws and the Bank's Articles of Association and actively advanced the Bank's corporate governance with the focus on the Bank's key development strategy. Through performance assessment, specific investigations and reports review, the Board of Supervisors enhanced its supervision of the duty performance of the Bank's Board of Directors, senior management and their members. It also strengthened its oversight of the Bank's financial activities, risk management and internal control, promoted legal and compliant operation across the group and effectively safeguarded the interests of the Bank and its shareholders. Meanwhile, the Board of Supervisors further improved its own governance structure, reinforced the specialisation of its professional responsibilities and enhanced supervisors' abilities to perform their duties and strengthened self-construction.

The work of the Board of Supervisors was well recognised and supported by the Board of Directors and the senior management. Suggestions and relevant reminders received positive responses, fully utilising the supervisory function and further enhancing the Bank's corporate governance capacity.

LI Jun
Chairman of the Board of Supervisors
24 March 2011


一人智，不值两人議。
一人智，不值两人议。
融通两岸经贸，实现合作共赢 。

1. Staff chorus during the 60th Anniversary Celebration Gala of Bank of China Macau Branch.
2. Chairman Mr. XIAO Gang presided over the opening ceremony of Bank of China Taipei Representative Office.
3. BOC International Holdings Limited.
4. Bank of China Tower, Hong Kong.

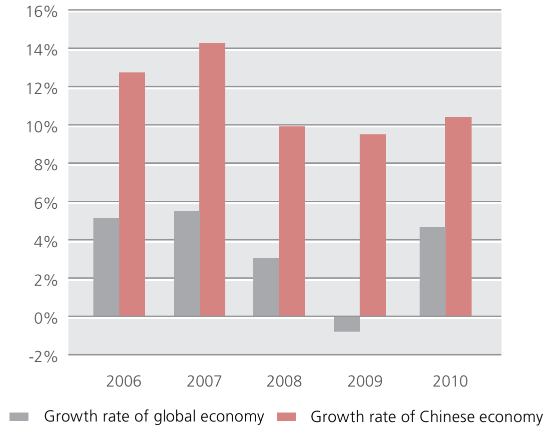
Management Discussion and Analysis — Financial Review

Economic and Financial Environment

The global economy appeared to rebound strongly at the start of 2010, although all countries continued to face economic uncertainty due to the international financial crisis. Towards the end of the year, global economic growth appeared to moderate and the rate of growth for the year was 5.0%. This was a remarkable improvement on 2009 and higher than the average growth rate during the period 2003 to 2007. Economic growth rates of the United States, the European Union and Japan reached 2.8%, 1.8% and 3.9%, respectively, while emerging markets generally experienced rapid growth of more than 7%. Global industrial output and international trade volumes returned to pre-crisis levels, although cross-border direct investments were just half of that before the downturn. Developed countries suffered from high unemployment rates and prices were sluggish. Debt crises in Greece and Ireland sent international financial markets into turmoil. As a result, capital markets underwent profound adjustments, major European currencies depreciated while the US dollar and Japanese yen appreciated, and yields of US treasury bonds dropped. The US Federal Reserve then embarked on a second round of quantitative easing, which prompted a recovery in international capital markets and put downward pressure on the US dollar. Meanwhile, emerging markets saw capital inflows and currency appreciation, bringing heavy inflationary pressure and increasing the risk of asset bubbles.

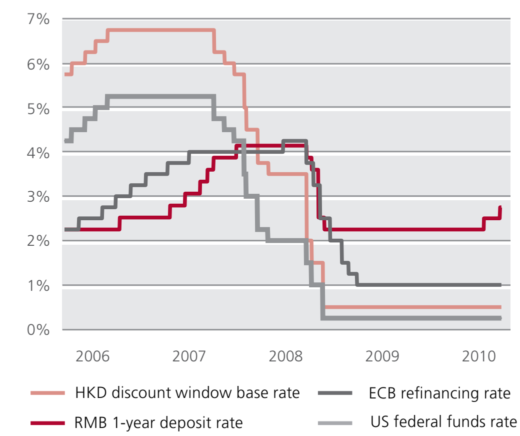
Faced with a complicated and volatile domestic and international economic environment, as well as serious natural disasters and other difficult challenges, the Chinese Government continued to resolutely implement the comprehensive policy plan it developed in response to the international financial crisis. It accelerated the transformation of the economic development model and strengthened and improved macroeconomic controls. As a result, the Chinese economy enjoyed strong growth momentum. In 2010, given brisk demand for investment and consumption in the Chinese mainland, Gross Domestic Product (GDP) grew by 10.3%. Total Fixed Asset Investment (TFAI) increased by 23.8%, Total Retail Sales of Consumer Goods (TRSCG) grew by 18.4%, imports and exports saw an increase of 34.7%, and the added value of large-scale industrial production showed steady growth of 15.7%. At the same time, real estate prices remained high and inflationary pressures mounted, as the Consumer Price Index (CPI) increased by 3.3%. China continued to face tough challenges in terms of energy conservation and emissions reduction, economic structural adjustment, and improving living standards. Hong Kong SAR experienced the rapid recovery of economy, with the CPI increased by 2.4% and exports grew by 22.8%.

Growth of Global and Chinese Economy from 2006 to 2010



Source: National Bureau of Statistics of China, International Monetary Fund (IMF)

Changes in Interest Rates of Major Countries/Regions from 2006 to 2010



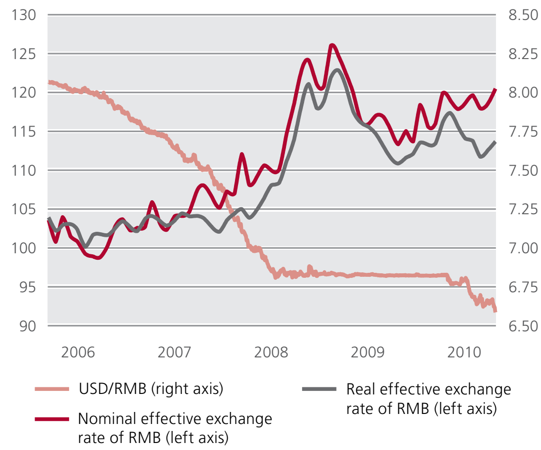
Source: People's Bank of China (PBOC), Thomson Reuters EcoWin

In 2010, the Chinese Government further enhanced the focus and flexibility of its macroeconomic controls and effectively implemented series policies in a well-timed and focused manner. The People's Bank of China (PBOC) raised benchmark interest rates of deposits and loans twice, and increased the mandatory reserve ratio for deposits six times. The banking system maintained robust levels of liquidity, monetary supply grew appropriately, and the operation of the financial system remained sound. In 2010, the broad measure of money supply

(M2) grew by 19.7%, RMB-denominated loans of financial institutions increased by RMB7.95 trillion and the growth rate fell to 19.9% year-on-year. The stock market experienced significant volatility. The composite index of the Shanghai Stock Exchange (SSE) dropped by 14.3%, total capitalisation grew by 8.8%, total capital raised increased by 129.9%, and transaction volumes also increased by 1.8%. The bond market continued its sound development, reflecting increased levels of bond issuance. The market capitalisation of RMB-denominated bonds amounted to RMB20.3 trillion by the end of 2010, up by 13.3% compared with the prior year-end. Reform of the RMB exchange rate formation regime recommenced, while the value of RMB against US dollar increased by 3.1% during the year.

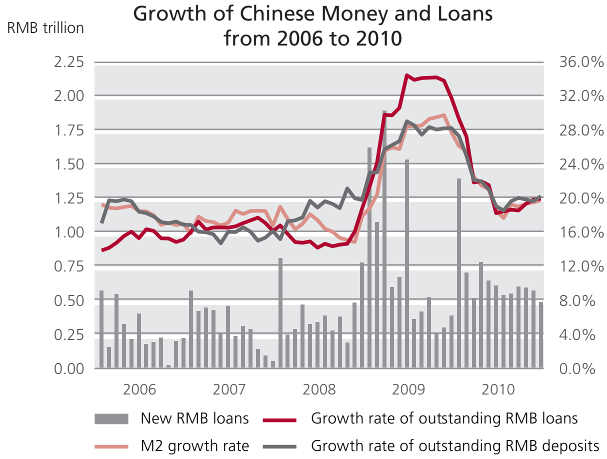
In 2010, Chinese financial regulatory authorities released a series of policies to effectively promote the sound development of the financial services industry. Specifically, the securities regulatory authority launched the Growth Enterprise Market (GEM), which led to a significant increase in new stock issuance by small and medium-sized enterprises. Banking regulatory authorities enacted measures to strengthen credit risk management in key fields, increase loan loss provisions, and replenish bank capital throughout the financial system and promote the implementation of Basel II. A number of large financial institutions completed their joint-stock reforms, while the major commercial banks enjoyed successful refinancing. The banking industry continued to achieve steady decreases in non-performing loans (NPLs), in both absolute and relative terms, thus improving their abilities to mitigate risks, more effectively serve the real economy and improve profitability. At the end of 2010, total assets of the domestic banking industry reached RMB94.3 trillion, an increase of 19.7% compared with the prior year-end. The balance of NPLs totalled RMB429.3 billion, a decrease of RMB68.03 billion compared with the prior year-end. The NPL ratio was 1.14%, down by 0.44 percentage point compared with the prior year-end. The ratio of loan loss provision reached 218.3%, an increase of 63.3 percentage points compared with the prior year-end.

Movement of RMB Exchange Rates from 2006 to 2010



Source: People's Bank of China (PBOC), Thomson Reuters EcoWin

Growth of Chinese Money and Loans from 2006 to 2010



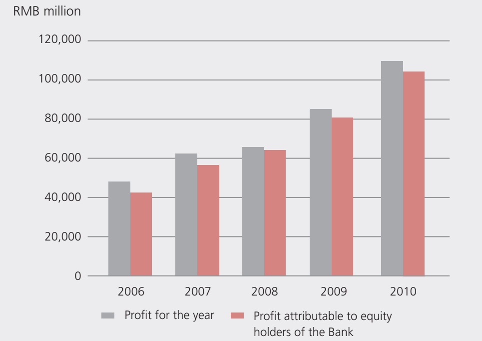
Source: People's Bank of China (PBOC)

The global economy is forecasted to continue economic growth in 2011, but uncertainties remain ahead. Macro-economic policies around the world vary widely and international financial markets will continue to be precarious. High unemployment rates will trouble most developed countries and trade protectionism may increase. Amid rising inflation, emerging markets will experience heavier pressures regarding the management of macroeconomic policies and international capital flows. The Chinese economy is still in a period of strategic development, but there will nevertheless be factors complicating the steady operation of the macro-economy. These include increased pressures from rising prices, the ongoing challenges of economic structural adjustment, intensified constraints on resources and the environment, and the weighty task of improving living standards. The Chinese Government will continue to focus on scientific development and accelerate the transformation of the economic development model. It will implement a proactive fiscal policy and a prudent monetary policy, enhance the focus, flexibility and effectiveness of its macro-economic controls, accelerate the economic structural adjustment, and constantly push forward reform and opening up. This will allow China to maintain steady and robust economic development and set a solid foundation for the implementation of the 12th Five-year Plan. The Chinese banking industry will strive to seize new opportunities, accelerate refinements to the existing business structure and mitigate systemic risks. These measures will serve as the underpinning of healthy and sustainable development.

Summary of Financial Position and Results of Operations of the Group for 2010

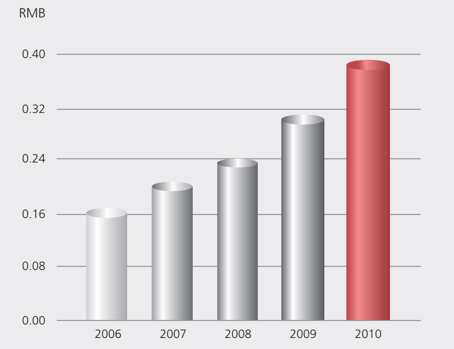
Profit for the year and profit attributable to equity holders of the Bank

The Group earned profit for the year of RMB109.691 billion and profit attributable to equity holders of the Bank amounting to RMB104.418 billion, increased by 28.52% and 29.20%, respectively, compared with the prior year.



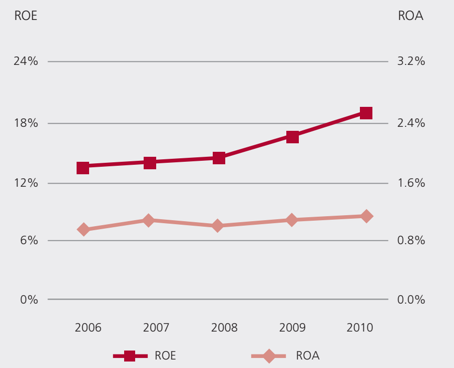
Earnings per share

In 2010, the basic earnings per share attributable to equity holders of the Bank was RMB0.39, an increase of RMB0.08 compared with the prior year.



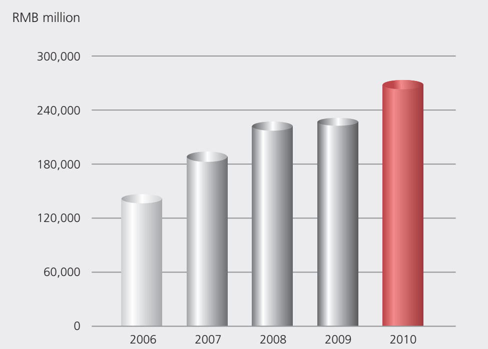
ROA & ROE

In 2010, the Group's return on average total assets was 1.14%, an increase of 0.05 percentage point compared with the prior year. Return on average equity was 18.87%, an increase of 2.39 percentage points compared with the prior year.



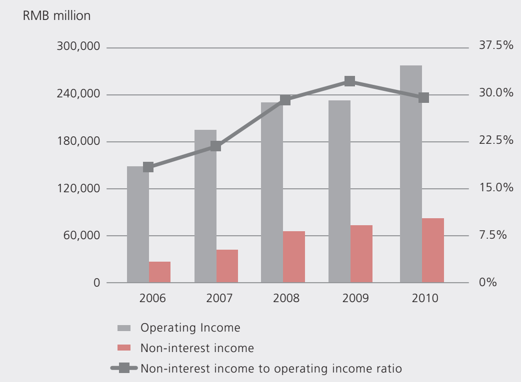
Revenue growth

The Group achieved an operating income of RMB276.518 billion, an increase of RMB43.948 billion or 18.90% compared with the prior year. This increase was primarily due to steady growth in net interest income and net fee and commission income.



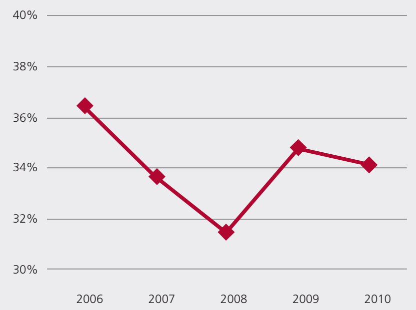
Non-interest income to operating income ratio

The Group recognised non-interest income of RMB82.556 billion, an increase of RMB8.867 billion or 12.03% compared with the prior year, primarily attributable to a strong increase in fee and commission income. The ratio of non-interest income to operating income was 29.86%. Please refer to the "Non-interest Income" section for more detailed information.



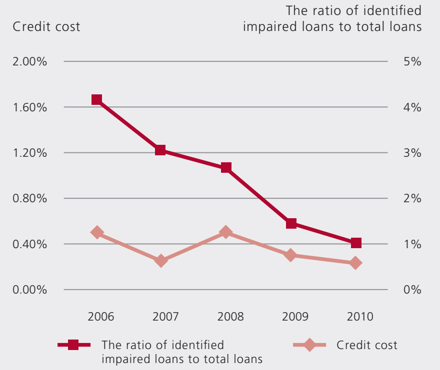
Cost to income ratio

The cost to income ratio calculated under domestic regulations was 34.16%, a decrease of 0.76 percentage point compared with the prior year. Please refer to the "Operating Expenses" section for more detailed information.



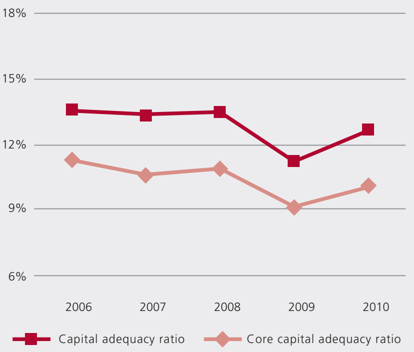
Asset quality

At the end of 2010, the ratio of identified impaired loans to total loans was 1.13%, a decrease of 0.42 percentage point compared with the prior year-end. The ratio of non-performing loans to total loans was 1.10%, a decrease of 0.42 percentage point compared with the prior year-end; and the ratio of the allowance for loan impairment losses to non-performing loans was 196.67%, up by 45.50 percentage points from the prior year-end. In 2010, the credit cost of the Group was 0.29%, down by 0.09 percentage point from the prior year. Please refer to the "Risk Management" section for more detailed information.



Capital adequacy ratio

At the end of 2010, the Group's capital adequacy ratio was 12.58% and its core capital adequacy ratio was 10.09%, an increase of 1.44 percentage points and 1.02 percentage points, respectively, from the prior year-end.



Income Statement Analysis

In 2010, guided by the scientific outlook on development, the Bank earnestly implemented the macro-economic policies and its strategic development plan, pushed forward its commitment to streamlining structure, scaling up, preventing risks and sharpening competitiveness. The Bank made significant progress in the transformation of its business, worked to optimise management processes, accelerated infrastructure construction. These efforts robustly strengthened its core competitiveness, increased its brand value and improved the management of its operations. The Group earned profit for the year of RMB109.691 billion. Profit attributable to equity holders of RMB104.418 billion, increased by 28.52% and 29.20%, respectively, compared with the prior year. Return on average total assets and return on average equity stood at 1.14% and 18.87%, respectively, increased by 0.05 percentage point and 2.39 percentage points compared with the prior year.

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

Unit: RMB million

Items	2010	2009	2008
Net interest income	**193,962**	158,881	162,936
Non-interest income	**82,556**	73,689	65,869
Including: net fee and commission income	**54,483**	46,013	39,947
Operating income	**276,518**	232,570	228,805
Operating expenses	**(122,409)**	(107,307)	(97,749)
Impairment losses on assets	**(12,993)**	(14,987)	(45,031)
Operating profit	**141,116**	110,276	86,025
Profit before income tax	**142,145**	111,097	86,751
Income tax expense	**(32,454)**	(25,748)	(21,178)
Profit for the year	**109,691**	85,349	65,573
Profit attributable to equity holders of the Bank	**104,418**	80,819	64,039

Net Interest Income and Net Interest Margin

In 2010, the Group earned net interest income of RMB193.962 billion, an increase of RMB35.081 billion or 22.08% compared with the prior year. Domestic RMB businesses contributed net interest income of RMB159.072 billion, an increase of RMB36.275 billion or 29.54% compared with the prior year. The average balances[1] and average interest rates of the Group's major interest-earning assets and interest-bearing liabilities, as well as the year-on-year change are summarised in the following table:

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

Unit: RMB million, except percentages

Items	2010 Average balance	2010 Average interest rate	2009 Average balance	2009 Average interest rate	Change Average balance	Change Average interest rate
Group						
Interest-earning assets						
Loans	**5,396,751**	**4.22%**	4,208,830	4.44%	1,187,921	(22) Bps
Investment debt securites[1]	**1,978,152**	**2.73%**	1,828,354	2.73%	149,798	–
Balances with central banks[2]	**1,308,553**	**1.42%**	1,208,659	1.42%	99,894	–
Due from banks and other financial institutions	**708,476**	**1.89%**	545,836	1.34%	162,640	55 Bps
Total	**9,391,932**	**3.34%**	7,791,679	3.36%	1,600,253	(2) Bps
Interest-bearing liabilities						
Due to customers[3]	**7,199,302**	**1.28%**	6,089,784	1.44%	1,109,518	(16) Bps
Due to banks and other financial institutions and due to central banks	**1,477,361**	**1.49%**	1,042,479	1.04%	434,882	45 Bps
Other borrowed funds[4]	**149,624**	**3.66%**	119,200	3.61%	30,424	5 Bps
Total	**8,826,287**	**1.35%**	7,251,463	1.41%	1,574,824	(6) Bps
Net interest margin		**2.07%**		2.04%		3 Bps
Domestic RMB businesses						
Interest-earning assets						
Loans	**3,895,037**	**5.07%**	3,093,483	5.22%	801,554	(15) Bps
Investment debt securities	**1,435,273**	**2.78%**	1,245,095	2.79%	190,178	(1) Bps
Balances with central banks	**1,123,481**	**1.54%**	969,277	1.64%	154,204	(10) Bps
Due from banks and other financial institutions	**549,417**	**2.18%**	259,481	1.37%	289,936	81 Bps
Total	**7,003,208**	**3.81%**	5,567,336	3.88%	1,435,872	(7) Bps
Interest-bearing liabilities						
Due to customers	**5,782,407**	**1.48%**	4,797,307	1.70%	985,100	(22) Bps
Due to banks and other financial institutions and due to central banks	**836,546**	**2.16%**	553,047	1.46%	283,499	70 Bps
Other borrowed funds	**98,876**	**3.95%**	77,004	4.27%	21,872	(32) Bps
Total	**6,717,829**	**1.60%**	5,427,358	1.72%	1,290,471	(12) Bps
Net interest margin		**2.27%**		2.21%		6 Bps
Domestic foreign currency businesses			Unit: USD million, except percentages			
Interest-earning assets						
Loans	**97,207**	**1.88%**	67,990	2.25%	29,217	(37)Bps
Investment debt securities	**24,296**	**2.56%**	29,713	2.92%	(5,417)	(36) Bps
Due from banks and other financial institutions[5]	**25,400**	**0.84%**	47,891	1.04%	(22,491)	(20) Bps
Total	**146,903**	**1.81%**	145,594	1.99%	1,309	(18) Bps
Interest-bearing liabilities						
Due to customers	**58,832**	**0.57%**	55,385	0.72%	3,447	(15) Bps
Due to banks and other financial institutions and due to central banks	**57,761**	**0.79%**	44,527	0.70%	13,234	9 Bps
Other borrowed funds	**3,688**	**2.28%**	4,269	2.18%	(581)	10 Bps
Total	**120,281**	**0.73%**	104,181	0.77%	16,100	(4) Bps
Net interest margin		**1.21%**		1.44%		(23) Bps

Notes:

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

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

Unit: RMB million

Items	2010	2009	Change	Analysis of net interest income variances[1] Volume	Interest rate
Group					
Interest income					
Loans	**227,529**	186,982	40,547	52,744	(12,197)
Investment debt securities	**53,987**	49,966	4,021	4,089	(68)
Balances with central banks	**18,604**	17,155	1,449	1,418	31
Due from banks and other financial institutions	**13,413**	7,321	6,092	2,179	3,913
Total	**313,533**	261,424	52,109	60,430	(8,321)
Interest expense					
Due to customers	**92,013**	87,444	4,569	15,977	(11,408)
Due to banks and other financial institutions and due to central banks	**22,086**	10,794	11,292	4,523	6,769
Other borrowed funds	**5,472**	4,305	1,167	1,098	69
Total	**119,571**	102,543	17,028	21,598	(4,570)
Net interest income	**193,962**	158,881	35,081	38,832	(3,751)
Domestic RMB businesses					
Interest income					
Loans	**197,630**	161,634	35,996	41,841	(5,845)
Investment debt securities	**39,902**	34,759	5,143	5,306	(163)
Balances with central banks	**17,249**	15,930	1,319	2,529	(1,210)
Due from banks and other financial institutions	**11,967**	3,560	8,407	3,972	4,435
Total	**266,748**	215,883	50,865	53,648	(2,783)
Interest expense					
Due to customers	**85,681**	81,730	3,951	16,747	(12,796)
Due to banks and other financial institutions and due to central banks	**18,093**	8,065	10,028	4,139	5,889
Other borrowed funds	**3,902**	3,291	611	934	(323)
Total	**107,676**	93,086	14,590	21,820	(7,230)
Net interest income	**159,072**	122,797	36,275	31,828	4,447
Domestic foreign currency businesses					Unit: USD million
Interest income					
Loans	**1,828**	1,528	300	657	(357)
Investment debt securities	**621**	867	(246)	(158)	(88)
Due from banks and other financial institutions[2]	**214**	499	(285)	(234)	(51)
Total	**2,663**	2,894	(231)	265	(496)
Interest expense					
Due to customers	**337**	397	(60)	25	(85)
Due to banks and other financial institutions and due to central banks	**458**	311	147	93	54
Other borrowed funds	**84**	93	(9)	(13)	4
Total	**879**	801	78	105	(27)
Net interest income	**1,784**	2,093	(309)	160	(469)

Notes:

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

2. This item includes balances with central banks.

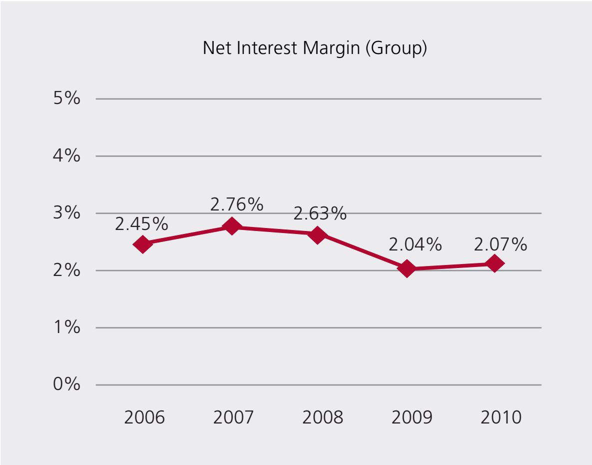
The average balances and average interest rates of domestic loans and due to customers, classified by business type, are summarised in the following table:

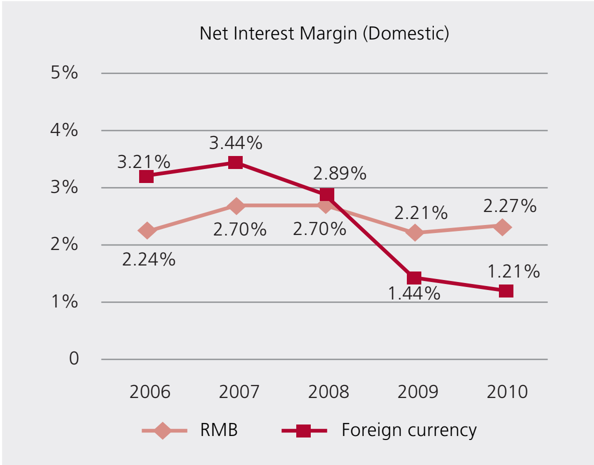
Unit: RMB million, except percentages

	2010		2009		Change	
Items	**Average balance**	**Average interest rate**	Average balance	Average interest rate	Average balance	Average interest rate
Domestic RMB businesses						
Loans						
Corporate loans	**2,624,132**	**5.33%**	2,036,833	5.65%	587,299	(32) Bps
Personal loans	**1,122,147**	**4.72%**	798,309	5.18%	323,838	(46) Bps
Trade bills	**148,758**	**3.24%**	258,341	2.03%	(109,583)	121 Bps
Total	**3,895,037**	**5.07%**	3,093,483	5.22%	801,554	(15) Bps
Including:						
Medium and long term loans	**2,693,845**	**5.22%**	1,916,658	5.59%	777,187	(37) Bps
1-Year Short term loans and others	**1,201,192**	**4.74%**	1,176,825	4.63%	24,367	11 Bps
Due to customers						
Corporate demand deposits	**1,731,069**	**0.71%**	1,348,578	0.68%	382,491	3 Bps
Corporate time deposits	**1,044,392**	**2.17%**	817,214	2.42%	227,178	(25) Bps
Personal demand deposits	**800,863**	**0.37%**	649,348	0.36%	151,515	1 Bp
Personal time deposits	**1,773,809**	**2.24%**	1,626,446	2.71%	147,363	(47) Bps
Other	**432,274**	**1.87%**	355,721	1.77%	76,553	10 Bps
Total	**5,782,407**	**1.48%**	4,797,307	1.70%	985,100	(22) Bps
Domestic foreign currency businesses			Unit: USD million, except percentages			
Loans	**97,207**	**1.88%**	67,990	2.25%	29,217	(37) Bps
Due to customers						
Corporate demand deposits	**20,471**	**0.14%**	18,239	0.09%	2,232	5 Bps
Corporate time deposits	**6,837**	**1.55%**	5,234	1.15%	1,603	40 Bps
Personal demand deposits	**9,819**	**0.09%**	9,614	0.09%	205	–
Personal time deposits	**18,546**	**0.77%**	19,105	1.34%	(559)	(57) Bps
Other	**3,159**	**1.61%**	3,193	1.77%	(34)	(16) Bps
Total	**58,832**	**0.57%**	55,385	0.72%	3,447	(15) Bps

Note: "Due to customers-other" item includes security and margin deposits, and structured deposits.

In 2010, the Group's net interest margin was 2.07%, an increase of 0.03 percentage point compared with the prior year. Net interest margin of domestic RMB businesses was 2.27%, an increase of 0.06 percentage point compared with the prior year, while that of domestic foreign currency businesses was 1.21%, a decrease of 0.23 percentage point compared with the prior year.



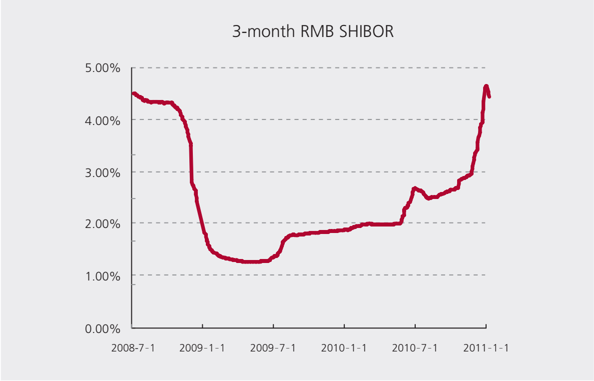


Major factors impacting the Group's net interest margin included:

(1) Significant progress was made to realign the Bank's business structure. In response to changes in the external business environment, the Bank strengthened the comprehensive and balanced management of its assets and liabilities. This led to a steady expansion in assets and liabilities and a further optimisation of business structure, including a higher proportion of RMB businesses and high-yield assets and further improved deposits structure. By the end of 2010, total assets of the Group increased by RMB1.71 trillion or 19.51% compared with the prior year-end to RMB10.46 trillion. The proportion of RMB-denominated assets represented 75.85% of total assets, an increase of 3.40 percentage points compared with the prior year-end. Loans represented 57.46% of the average balance of interest-earning assets, an increase of 3.44 percentage points compared with 2009. The proportion of demand deposits reached 47.95%, an increase of 0.49 percentage point from the prior year-end.

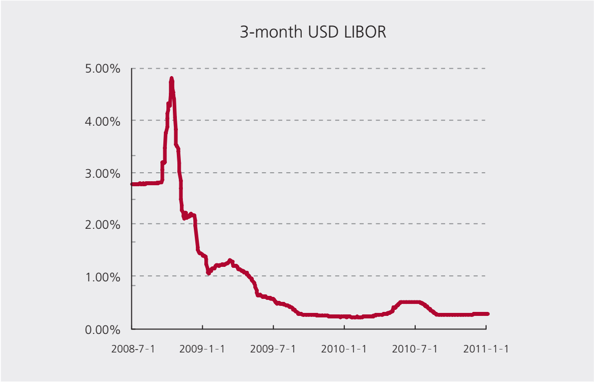
(2) Steady improvements in pricing capability. Fully exerting its competitive advantages in terms of global presence and diversified services, the Bank refined its loan pricing model consistent with domestic liquidity level, strengthened interest rates authorisation management, and enhanced the pricing management of RMB and foreign currency-denominated loans, in order to provide comprehensive and quality financial services to customers. In 2010, interest rates of RMB and foreign currency-denominated loans issued by the Bank's domestic institutions increased by 0.12 percentage point and 1.01 percentage points, respectively, compared with the prior year.

(3) Increase in RMB benchmark interest rates and market interest rates. In 2010, the PBOC raised interest rates twice and the mandatory reserve ratio for deposits six times. The benchmark interest rates for one-year RMB deposits and loans increased by a total of 0.5 percentage point, and the reserve ratio for RMB deposits increased by 3.0 percentage points from 15.5% at the beginning of the year to 18.5%. RMB liquidity moved gradually from ample towards a more appropriate level, and RMB market interest rates increased. In 2010, the average 3-month RMB SHIBOR was 2.45%, an increase of 0.94 percentage point compared with 2009.



Source: Wind Info

(4) Consistently low foreign currency market interest rates. In 2010, international financial markets suffered from continued turbulence. Impacted by the US Federal Reserve's second round of quantitative easing policy, global liquidity became excessive, and the USD-denominated market maintained low interest rates. In 2010, the average 3-month USD LIBOR was 0.34%, a decrease of 0.34 percentage point compared with 2009. Since the domestic interest rate on small-amount deposits denominated in foreign currencies remained largely stable, the decrease of average interest rates for foreign currency interest-bearing liabilities was lower than that of foreign currency interest-earning assets.



Source: Wind Info

Non-interest Income

The Group reported non-interest income of RMB82.556 billion in 2010, an increase of RMB8.867 billion or 12.03% compared with the prior year. This represented 29.86% of operating income. The principal components of non-interest income are as follows:

Net Fee and Commission Income

Unit: RMB million

Items	2010	2009	2008
Group			
Agency commissions	**11,021**	11,211	8,440
Credit commitment fees	**10,178**	8,364	6,411
Settlement and clearing fees	**9,144**	7,481	7,912
Spread income from foreign exchange business	**8,114**	7,264	9,360
Bank card fees	**9,574**	6,091	4,828
Other	**11,183**	9,823	6,761
Fee and commission income	**59,214**	50,234	43,712
Fee and commission expense	**(4,731)**	(4,221)	(3,765)
Net fee and commission income	**54,483**	46,013	39,947
Domestic			
Agency commissions	**4,920**	5,049	4,068
Credit commitment fees	**7,686**	6,039	5,447
Settlement and clearing fees	**7,962**	6,508	6,544
Spread income from foreign exchange business	**7,562**	6,938	9,012
Bank card fees	**7,452**	4,503	3,353
Other	**9,778**	8,309	5,367
Fee and commission income	**45,360**	37,346	33,791
Fee and commission expense	**(1,332)**	(1,099)	(1,000)
Net fee and commission income	**44,028**	36,247	32,791

In 2010, the Group earned a net fee and commission income of RMB54.483 billion, an increase of RMB8.470 billion or 18.41% compared with the prior year. Faced with changing markets and customer demands, the Bank leveraged the Group's strength as a diversified provider of financial services, focused on product innovation and cross-selling. As a result, strong growth was achieved across the Bank's business lines, among which the settlement and clearing, credit commitment and bank cards fees income each increased more than 20%. These clearly demonstrated their rising contributions to the Bank's income and further solidified foundations for the development of the Bank's fee-based businesses.

Other Non-interest Income

In 2010, the Group realised other non-interest income of RMB28.073 billion, an increase of RMB0.397 billion or 1.43% compared with the prior year. The major factors driving this growth included: (1) RMB1.080 billion related to a gain realised on the Bank's equity investment in Shanghai Airlines Co., Ltd. as a result of its acquisition by China Eastern Airlines Corporation Limited. (2) Gains on the opportunistic disposals of investment securities classified as available-for-sale. (3) Revenue from sale of precious metal products and aircraft leasing income grew significantly, driving the increase in other operating income. (4) The USD swap rate became more stable while RMB experienced accelerated appreciation in the second half of 2010, and the yields of related products decreased. Please refer to Notes V.3, 4 to the Consolidated Financial Statements for detailed information.

Operating Expenses

Unit: RMB million

Items	2010	2009	2008
Staff costs	**53,420**	45,474	39,365
General operating and administrative expenses	**30,816**	26,911	23,932
Depreciation and amortisation	**10,319**	8,691	8,160
Business and other taxes	**14,414**	11,645	11,367
Insurance benefits and claims	**8,937**	8,195	8,243
Other	**4,503**	6,391	6,682
Total	**122,409**	107,307	97,749

In 2010, the Group recorded operating expenses of RMB122.409 billion, an increase of RMB15.102 billion or 14.07% compared with the prior year. The Group's cost to income ratio (calculated under domestic regulations) was 34.16%, a decrease of 0.76 percentage point compared with the prior year. Cost efficiency was further improved. The Bank further increased human resources input in its outlets, key regions and business lines across its domestic, overseas and subsidiary institutions, which increased staff costs. The Bank devoted significant resources to the rapid development of key regions, businesses, products and projects, resulting in an increase in general operating and administrative expenses. The Bank continued to increase investment in infrastructure construction, including the development of outlets and channels and the launch of the IT Blueprint. These investments increased expenses such as depreciation and amortisation. Please refer to Notes V.5, 6 to the Consolidated Financial Statements for detailed information.

Impairment Losses on Assets

Impairment Losses on Loans and Advances

In 2010, the Group's impairment losses on loans and advances amounted to RMB15.564 billion, an increase of RMB0.119 billion compared with the prior year. Credit cost was 0.29%, a decrease of 0.09 percentage point compared with the prior year. For more information on loan quality and allowance for loan impairment losses, please refer to the "Risk Management – Credit Risk" section and Note V.8 and Note VI.3 to the Consolidated Financial Statements.

Impairment Losses on Other Assets

In 2010, the Group's impairment loss on other assets was net reversal of RMB2.571 billion. This was largely a result of factors such as the rebound in securities prices and the gain of principal and interests of foreign currency bonds, which together reflected a reversal of impairment losses on debt securities of RMB2.954 billion. For more details, please refer to Note V.8 and Note VI.3 to the Consolidated Financial Statements.

Income Tax Expense

In 2010, the Group incurred an income tax expense of RMB32.454 billion, an increase of RMB6.706 billion or 26.04% compared with the prior year. The Group's effective tax rate was 22.83%. The increase was primarily attributable to the rapid growth in operating profit. The reconciliation of the statutory income tax rate to the effective income tax rate is set forth in Note V.9 to the Consolidated Financial Statements.

Financial Position Analysis

At the end of 2010, the Group's total assets amounted to RMB10,459.865 billion, an increase of RMB1,707.922 billion or 19.51% from the prior year-end. The Group's total liabilities amounted to RMB9,783.715 billion, an increase of RMB1,577.166 billion or 19.22% from the prior year-end.

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

Unit: RMB million

	As at 31 December		
Items	**2010**	2009	2008
Assets			
Total loans and advances to customers	**5,660,621**	4,910,358	3,296,146
Allowance for impairment losses	**(122,856)**	(112,950)	(106,494)
Investment securities[1]	**2,055,324**	1,816,679	1,646,208
Balances with central banks	**1,573,922**	1,111,351	1,207,613
Due from banks and other financial institutions	**800,620**	618,199	525,509
Other assets	**492,234**	408,306	386,712
Total	**10,459,865**	8,751,943	6,955,694
Liabilities			
Due to customers	**7,483,254**	6,620,552	5,103,409
Due to banks and other financial institutions and due to central banks	**1,580,030**	1,152,424	858,045
Other borrowed funds[2]	**174,507**	113,984	108,231
Other liabilities	**545,924**	319,589	392,108
Total	**9,783,715**	8,206,549	6,461,793

Notes:

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

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

Loans and Advances to Customers

At the end of 2010, the Group's loans and advances to customers amounted to RMB5,660.621 billion, an increase of RMB750.263 billion or 15.28% compared with the prior year-end. This included RMB-denominated loans of RMB4,149.806 billion, which increased by RMB624.788 billion or 17.72% from the prior year-end. Foreign currency-denominated loans stood at USD228.127 billion, an increase of USD25.242 billion or 12.44% from the prior year-end.

In 2010, the Bank adopted practical and effective measures to prudently manage total credit volume and ensure that credit was extended in a rational and well-timed manner. The Bank took actions to optimise the profile of its credit portfolio, provided credit support to small and medium-sized enterprises, as well as projects related to energy conservation and reduction of polluting emissions, and strengthened strict controls over its lending to local government financing vehicles (LGFV) and its exposure to real estate. These measures promoted the smooth and healthy development of the Bank's lending businesses.

In 2010, asset quality continued to improve as the Bank further intensified its proactive risk management. At the end of 2010, the ratio of the Group's identified impaired loans to total loans was 1.13%, a decrease of 0.42 percentage point from the prior year-end. The ratio of non-performing loans to total loans was 1.10%, a decrease of 0.42 percentage point from the prior year-end. The ratio of allowance for loan impairment losses to non-performing loans was 196.67%, up by 45.50 percentage points from the prior year-end. For details about loan quality, please refer to "Risk Management – Credit Risk" section.

Investment Securities

At the end of 2010, the Group held investment securities of RMB2,055.324 billion, an increase of RMB238.645 billion or 13.14% from the prior year-end. RMB-denominated investment securities amounted to RMB1,496.069 billion, an increase of RMB215.732 billion or 16.85% from the prior year-end. Foreign currency-denominated investment securities amounted to USD84.445 billion, an increase of USD5.897 billion or 7.51% from the prior year-end. Striving always to achieve an appropriate balance between risk and return, the Bank actively sought investment opportunities, strengthened the profile of its RMB-denominated debt portfolio and continually optimised the mix of its foreign currency-denominated bond portfolios, in response to changes in international financial markets. At the end of 2010, the Group's RMB-denominated investment securities represented 72.79% of the Group's total securities, an increase of 2.31 percentage points from the prior year-end.

The classification of the Group's investment securities portfolio at the end of 2010 is shown below:

Unit: RMB million, except percentages

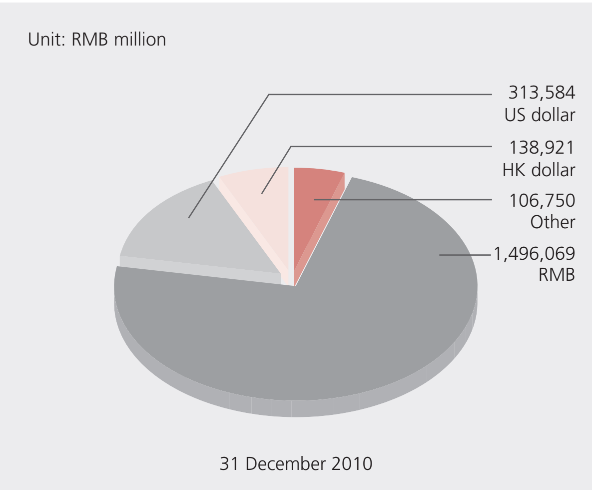
	As at 31 December					
	2010		2009		2008	
Items	**Amount**	**% of total**	Amount	% of total	Amount	% of total
Financial assets at fair value through profit or loss	**81,237**	**3.95%**	61,897	3.40%	87,814	5.33%
Securities available for sale	**656,738**	**31.95%**	622,307	34.26%	752,602	45.72%
Securities held to maturity	**1,039,386**	**50.57%**	744,693	40.99%	365,838	22.22%
Securities classified as loans and receivables	**277,963**	**13.53%**	387,782	21.35%	439,954	26.73%
Total	**2,055,324**	**100.00%**	1,816,679	100.00%	1,646,208	100.00%

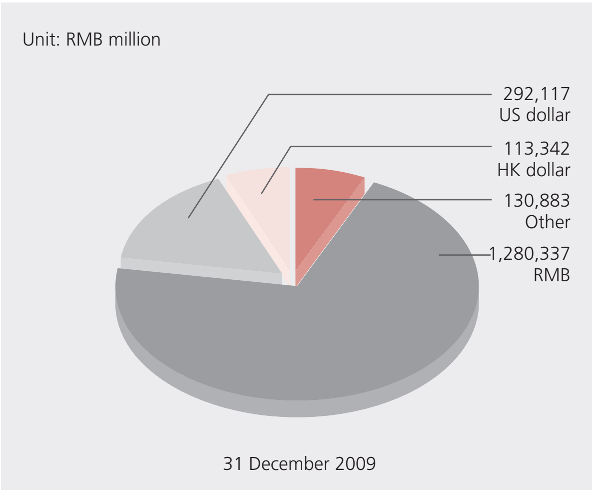
Investment Securities by Issuer Type

Unit: RMB million

	As at 31 December		
Items	**2010**	2009	2008
Chinese mainland issuers			
Government	**903,533**	743,721	672,199
Public sector and quasi-governmental bodies	**16,462**	15,021	2,307
Policy banks	**258,151**	240,884	185,926
Financial institutions	**44,422**	42,239	12,532
Corporates	**149,322**	109,480	22,516
China Orient Asset Management Corporation	**160,000**	160,000	160,000
Sub-total	**1,531,890**	1,311,345	1,055,480
Overseas issuers			
Governments	**152,895**	138,030	144,683
Public sector and quasi-governmental bodies	**56,929**	71,643	117,260
Financial institutions	**242,309**	231,753	246,800
Corporates	**37,446**	43,335	67,372
Sub-total	**489,579**	484,761	576,115
Equity securities	**32,683**	19,325	13,191
Other	**1,172**	1,248	1,422
Total	**2,055,324**	1,816,679	1,646,208

Investment Securities by Currency





At the end of 2010, the carrying value of US subprime mortgage related debt securities, US Alt-A mortgage-backed securities and Non-Agency US mortgage-backed securities held by the Group amounted to USD2.973 billion (RMB19.692 billion), and the related impairment allowance was USD2.393 billion (RMB15.847 billion).

At the end of 2010, the carrying value of debt securities issued by US Freddie Mac and Fannie Mae held by the Group was USD0.742 billion (RMB4.915 billion). The carrying value of mortgage-backed securities guaranteed by these two agencies was USD1.033 billion (RMB6.841 billion). The principal and interest payments on these securities are currently on schedule.

At the end of 2010, the total carrying value of debt securities issued by Portugal, Ireland, Italy, and Spain held by the Group was RMB2.166 billion, a decrease of RMB4.854 billion from the prior year-end, and the related impairment allowance was RMB84 million. The Group did not hold any debt securities issued by Greece. The Bank will continue to follow developments in international financial markets and prudently assess the allowances for related assets losses in accordance with the requirements of the relevant accounting standards.

Due to Customers

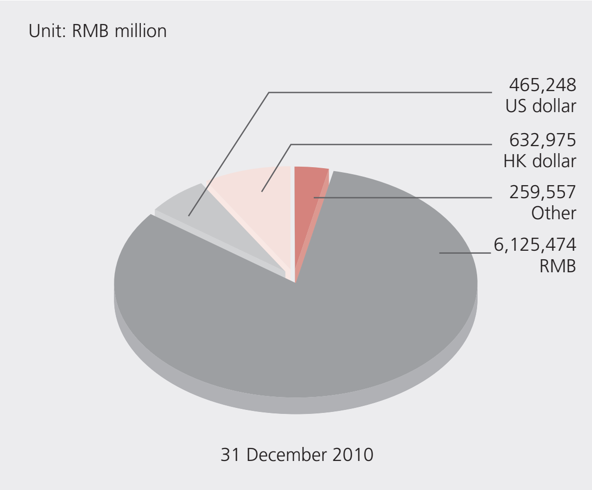
In 2010, the Bank strengthened the marketing of its deposits offerings, accelerated the promotion of the construction of outlets and e-channels, upgraded the service functions of outlets, set up more self-service facilities, and intensified its customer service capabilities, thus greatly expanding its customer base. As a result of these measures, customer deposit volumes achieved rapid and sustainable growth. At the end of 2010, the Group's deposits from customers amounted to RMB7,483.254 billion, an increase of RMB862.702 billion or 13.03% from the prior year-end. This included RMB-denominated deposits of RMB6,125.474 billion, an increase of RMB777.795 billion or 14.54% compared with the prior year-end. Foreign currency-denominated deposits were USD205.019 billion, an increase of USD18.605 billion or 9.98% from the prior year-end.

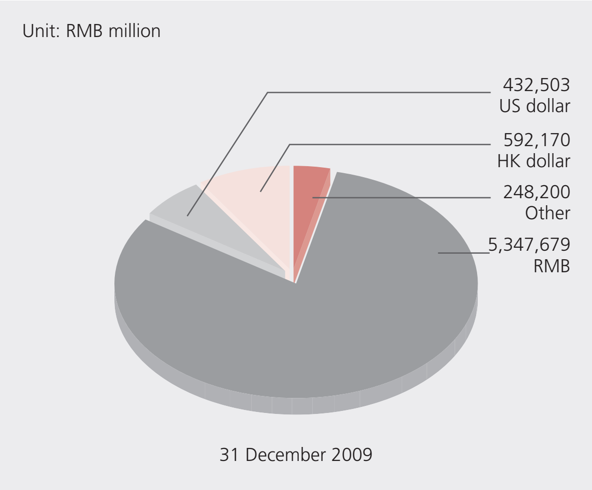
The following table sets forth the principal components of deposits from customers for the Group and its domestic institutions:

Unit: RMB million, except percentages

	As at 31 December					
	2010		2009		2008	
Items	**Amount**	**% of total**	Amount	% of total	Amount	% of total
Group						
Corporate deposits						
Demand deposits	**2,244,807**	**30.00%**	1,948,036	29.42%	1,375,251	26.95%
Time deposits	**1,739,924**	**23.25%**	1,491,691	22.54%	1,002,516	19.64%
Sub-total	**3,984,731**	**53.25%**	3,439,727	51.96%	2,377,767	46.59%
Personal deposits						
Demand deposits	**1,343,434**	**17.95%**	1,194,533	18.04%	901,188	17.66%
Time deposits	**2,109,872**	**28.20%**	1,986,292	30.00%	1,823,156	35.72%
Sub-total	**3,453,306**	**46.15%**	3,180,825	48.04%	2,724,344	53.38%
Certificates of deposits	**45,217**	**0.60%**	–	–	1,298	0.03%
Total	**7,483,254**	**100.00%**	6,620,552	100.00%	5,103,409	100.00%
Domestic						
Corporate deposits						
Demand deposits	**2,011,048**	**31.74%**	1,737,659	30.58%	1,219,355	28.66%
Time deposits	**1,468,247**	**23.17%**	1,337,614	23.55%	838,303	19.71%
Sub-total	**3,479,295**	**54.91%**	3,075,273	54.13%	2,057,658	48.37%
Personal deposits						
Demand deposits	**964,549**	**15.22%**	819,522	14.42%	628,279	14.77%
Time deposits	**1,892,570**	**29.87%**	1,786,878	31.45%	1,568,333	36.86%
Sub-total	**2,857,119**	**45.09%**	2,606,400	45.87%	2,196,612	51.63%
Total	**6,336,414**	**100.00%**	5,681,673	100.00%	4,254,270	100.00%

Customer Deposits by Currency





Equity

At the end of 2010, the Group's total equity was RMB676.150 billion, an increase of RMB130.756 billion or 23.97% from the prior year-end. This change was primarily attributable to: (1) after-tax profit of RMB109.691 billion, with profit attributable to equity holders of the Bank of RMB104.418 billion in 2010; (2) cash dividend of RMB35.537 billion paid in respect of the 2009 profit approved by the equity holders of the Bank at the Annual General Meeting; (3) an increase in share capital of RMB25.308 billion due to a rights issue of the Group's A Shares and H Shares, with share surplus of RMB33.991 billion for 2010. Please refer to the Consolidated Statement of Changes in Equity in the Consolidated Financial Statements for more detailed information on equity movements.

Off-balance Sheet Items

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

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

Contingent liabilities and commitments include credit commitments, legal proceedings and claims, assets pledged, collateral accepted, capital commitments, operating leases, treasury bonds redemption commitments and securities underwriting obligations. Credit commitments were the largest component of the Bank's off-balance sheet items, totalling RMB2,027.435 billion at the end of 2010. Please refer to Note V.41 to the Consolidated Financial Statements for more detailed information on contingent liabilities and commitments.

Cash Flow Analysis

At the end of 2010, the balance of the Group's cash and cash equivalents was RMB769.371 billion, a net increase of RMB183.052 billion compared with the prior year-end. This was mainly attributable to supplementary capital arising from the Group's rights issues, strengthened issuance of RMB-denominated bonds, and well-managed credit extension in 2010. Please refer to the "Risk Management" section for more detailed information on liquidity management.

Segment Reporting by Geography

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

Unit: RMB million

	Chinese mainland		Hong Kong, Macau and Taiwan		Other countries and regions		Elimination		Group	
Items	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Net interest income	**171,161**	137,107	**18,577**	17,636	**4,224**	4,138	**–**	–	**193,962**	158,881
Non-interest income	**50,971**	45,816	**29,616**	25,849	**2,603**	2,455	**(634)**	(431)	**82,556**	73,689
Including: net fee and commission income	**44,028**	36,247	**8,866**	8,223	**2,001**	1,781	**(412)**	(238)	**54,483**	46,013
Operating expenses	**(96,596)**	(81,283)	**(24,031)**	(24,384)	**(2,416)**	(2,071)	**634**	431	**(122,409)**	(107,307)
Impairment losses on assets	**(11,669)**	(15,545)	**(472)**	1,014	**(852)**	(456)	**–**	–	**(12,993)**	(14,987)
Profit before income tax	**113,867**	86,095	**24,719**	20,936	**3,559**	4,066	**–**	–	**142,145**	111,097
Income tax expense	**(28,047)**	(21,713)	**(3,618)**	(3,041)	**(789)**	(994)	**–**	–	**(32,454)**	(25,748)
Profit for the year	**85,820**	64,382	**21,101**	17,895	**2,770**	3,072	**–**	–	**109,691**	85,349
At the year-end										
Assets	**8,520,945**	7,364,064	**1,780,334**	1,330,004	**547,954**	426,799	**(389,368)**	(368,924)	**10,459,865**	8,751,943
Liabilities	**8,004,925**	6,960,958	**1,638,846**	1,203,524	**529,152**	410,830	**(389,208)**	(368,763)	**9,783,715**	8,206,549

At the end of 2010, total assets[2] of the Chinese mainland segment amounted to RMB8,520.945 billion, an increase of RMB1,156.881 billion or 15.71% from the prior year-end, representing 78.54% of the Group's total assets. In 2010, this segment recorded an after-tax profit of RMB85.820 billion, an increase of RMB21.438 billion or 33.30% compared with the prior year, representing 78.24% of the Group's profit for the year.

Total assets of the Hong Kong, Macau and Taiwan segment amounted to RMB1,780.334 billion, an increase of RMB450.330 billion or 33.86% compared with the prior year-end, representing 16.41% of the Group's total assets. This segment achieved after-tax profit of RMB21.101 billion in 2010, a significant increase of 17.92% compared with the prior year. For details, please refer to the "Business Review – Commercial Banking Business in Hong Kong, Macau, Taiwan and Other Countries and Regions" section.

The assets of other countries and regions segment amounted to RMB547.954 billion, an increase of RMB121.155 billion or 28.39% compared with the prior year-end, representing a proportion of 5.05% to the Group's assets. This segment achieved an after-tax profit of RMB2.770 billion in 2010.

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

Critical Accounting Estimates and Judgments

The Group makes estimates and judgments that affect the reported amounts of assets and liabilities within the next fiscal year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The management believes that the accounting estimates and judgments made in 2010 properly reflected the economic conditions in which the Group was operating. Please refer to Notes II and III to the Consolidated Financial Statements for more detailed information related to the Group's accounting policies and accounting estimates.

2 The figures for segment assets, segment annual profit and their respective percentages are prior to intragroup elimination.

Fair Value Measurement

The Group has in place sound internal control systems for fair value measurement. In accordance with the *Guidelines on Market Risk Management in Commercial Banks, Chinese Accounting Standards 2006* and *International Financial Reporting Standards (IFRS)*, with reference to the *New Basel Capital Accord*, and drawing on the best practices of leading international banks regarding valuations, the Bank formulated the *Bank of China Limited Policy for Valuation and Price Verification of Financial Instruments* to standardise the fair value measurement of financial instruments and enable timely and accurate financial information disclosure.

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

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

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

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

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

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

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

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

Other Financial Information

There are no differences in the equity and profit after tax of the Group prepared in accordance with IFRS to that prepared in accordance with CAS. Please refer to "Supplementary Information" for detailed information.

Honesty is the best policy.

诚信为本。

遵循商业规则，信守服务承诺。

1. Opening ceremony of Bank of China Düsseldorf Branch.
2. President Mr. LI Lihui presided over the opening ceremony of Bank of China Perth Branch.
3. Bank of China (Luxembourg) S.A., Brussels Branch.
4. New office building of Bank of China London Branch.

Management Discussion and Analysis — Business Review

In 2010, the Group implemented its strategic development plan and achieved healthy growth across the Group's business lines. The following table sets forth the profit before tax for each line of business:

Unit: RMB million, except percentages

Items	2010 Amount	2010 % of total	2009 Amount	2009 % of total
Commercial banking business				
Including:				
Corporate banking business	**89,170**	**62.73%**	69,437	62.50%
Personal banking business	**32,980**	**23.20%**	26,377	23.74%
Treasury operations	**11,005**	**7.74%**	10,668	9.60%
Investment banking and insurance	**2,241**	**1.58%**	2,270	2.04%
Others and elimination	**6,749**	**4.75%**	2,345	2.12%
Total	**142,145**	**100.00%**	111,097	100.00%

A detailed review of the Group's principal deposits and loans at the end of 2010 is summarised in the following table:

Unit: RMB million, except percentages

Items	As at 31 December 2010	As at 31 December 2009	Change
Corporate deposits			
Domestic: RMB	**3,301,778**	2,903,326	13.72%
Foreign currency	**177,517**	171,947	3.24%
Hong Kong, Macau, Taiwan and other countries and regions:	**505,436**	364,454	38.68%
Sub-total	**3,984,731**	3,439,727	15.84%
Savings deposits			
Domestic: RMB	**2,675,301**	2,408,075	11.10%
Foreign currency	**181,818**	198,325	(8.32%)
Hong Kong, Macau, Taiwan and other countries and regions:	**596,187**	574,425	3.79%
Sub-total	**3,453,306**	3,180,825	8.57%
Corporate loans			
Domestic: RMB	**2,910,239**	2,531,164	14.98%
Foreign currency	**630,446**	655,084	(3.76%)
Hong Kong, Macau, Taiwan and other countries and regions:	**703,698**	576,628	22.04%
Sub-total	**4,244,383**	3,762,876	12.80%
Personal loans			
Domestic: RMB	**1,217,171**	979,072	24.32%
Foreign currency	**729**	393	85.50%
Hong Kong, Macau, Taiwan and other countries and regions:	**198,338**	168,017	18.05%
Sub-total	**1,416,238**	1,147,482	23.42%

Commercial Banking Business

Domestic Commercial Banking Business

In 2010, the Bank's domestic commercial banking business recorded profit before tax of RMB113.610 billion, an increase of RMB27.710 billion or 32.26% compared with the prior year. The principal components are set forth below:

Unit: RMB million, except percentages

	2010		2009	
Items	**Amount**	**% of total**	Amount	% of total
Corporate banking business	**81,628**	**71.85%**	61,859	72.01%
Personal banking business	**28,311**	**24.92%**	21,527	25.06%
Treasury operations	**3,619**	**3.19%**	2,448	2.85%
Others	**52**	**0.04%**	66	0.08%
Total profit before tax	**113,610**	**100.00%**	85,900	100.00%

Corporate Banking Business

In 2010, the Bank steadily developed its corporate banking business by unveiling a full-scale campaign to expand its customer base, proactively optimising customer structure and industry mix and constantly improving the marketing services system for key customers. The Bank maintained an intense focus on product innovation, enhanced overall business linkages, consolidated its competitive strengths in trade finance and accelerated the integrated development of its domestic and overseas operations in accordance with the "Going-Global" strategy. These actions enhanced its core competitiveness in corporate banking. In 2010, the domestic corporate banking business recorded profit before tax of RMB81.628 billion, an increase of RMB19.769 billion or 31.96% compared with the prior year.

Corporate Loans

The Bank continued to develop its credit business in an innovative manner, optimising the industry mix of loan portfolio, promoting balanced development of large, medium and small-sized customers, and proactively refining the development strategy of foreign currency loans to enhance the efficient utilisation of credit resources. The Bank established a key customer base at the head office level comprising 1,500 group customers. By leveraging its advantages arising from diversified services offering, the Bank served as lead arranger and agent bank in a series of large-scale projects marketing in China, and was rated as number one Mandated Lead Arranger in domestic, Hong Kong and Macau markets for the last four years, as well as in Asia-pacific market (except Japan) for recent three years. It completed 25 large-sized overseas M&A loan projects, and the domestic and overseas corporate banking businesses realised coordinated development. Furthermore, the Bank improved its risk management capability and the asset quality of its corporate loans. In 2010, the Bank was awarded the "Best Corporate Lending Bank (China) 2010" by *Global Finance*, as well as the "Best Arranger of Chinese Loans" and "Deal of The Year" by authoritative international magazines, including *EuroWeek Asia* and *Trade Finance*.

In 2010, RMB-denominated corporate loans of the Bank's domestic operations increased by RMB379.075 billion or 14.98%, while foreign currency-denominated corporate loans decreased by USD0.743 billion compared with the prior year-end. The proportion of corporate loans granted to key industries, including transportation, water conservation and electric power, increased by 0.95 percentage point compared with the prior year-end, whereas that to the manufacturing industry and industries with overcapacity continued to fall. As the customer structure further improved, the proportions of loans extended to customers with high rating of BB and above and SME customers continued to increase. The balance of non-performing corporate loans of the Bank's domestic operations was RMB51.556 billion, a decrease of RMB10.182 billion compared with the beginning of the year, with the ratio of non-performing loans to total loans down by 0.48 percentage point to 1.46%.

Corporate Deposits

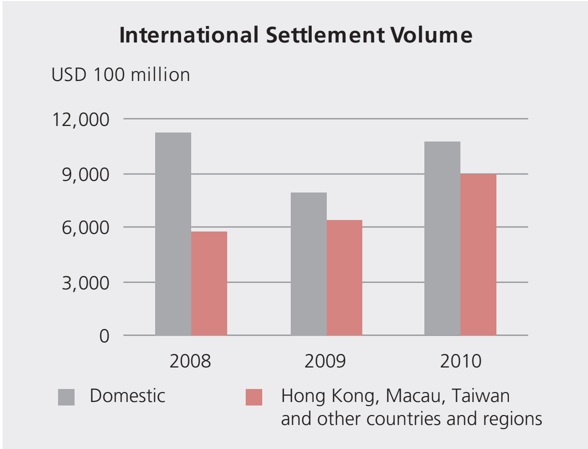
Through the expansion of customer base, the improvement of service channels, the intensified efforts of product innovation as well as service capability, the Bank actively developed deposit-taking business and achieved sustainable growth of deposits from administrative institutions. In 2010, RMB-denominated corporate deposits in the Bank's domestic operations increased by RMB398.452 billion or 13.72% compared with the prior year-end, and its foreign currency-denominated corporate deposits increased by USD1.622 billion.

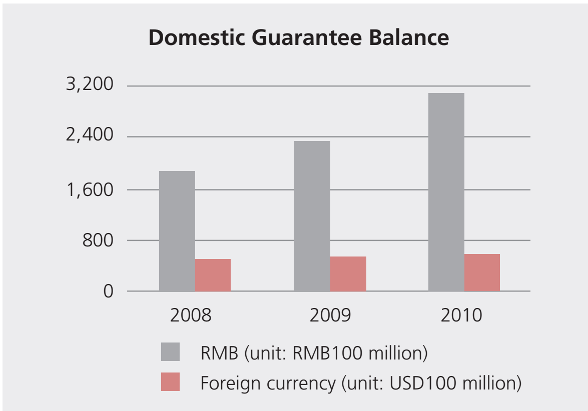
Domestic Settlement and Cash Management

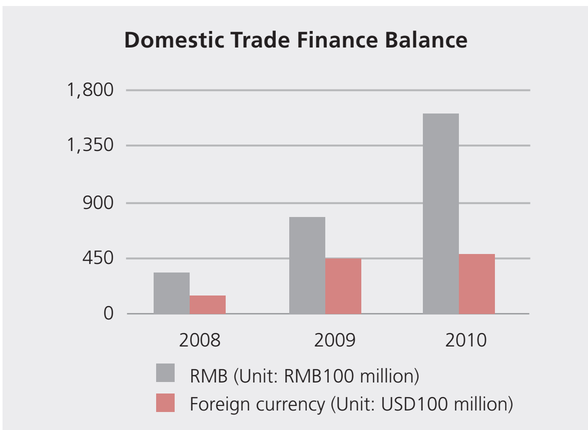
The Bank has developed a domestic settlement and cash management product offering comprised of more than 60 products, which designed to meet the diverse needs of corporate customers. The Bank has also put in place effective fund sweeping and real-time information gathering mechanisms, and has promoted all-round risk control and improved financial management efficiency. The Bank's focus on product innovation resulted in the launch of the "BOC Global Cash Management" product. This product provided clients with integrated cash management solutions via a combination of account management, collection and payment management, liquidity management, investment and financing management and cross-border cash management services, among others. The Bank also introduced other new domestic settlement products, such as "Electronic Commercial Draft", "Batch Special Arranged Collection", "Account Service for Members of Merchandise Markets or Companies" and "Agency Service for Estate Maintenance Fund".

International Settlement and Trade Finance Business

In 2010, the recovery of China's international trade growth created opportunities for the Bank's trade finance business, which connects domestic and overseas markets. The Bank capitalised on this by continuing to improve its product innovation and core competitiveness. The "Hui Li Da" product portfolio was further enriched and the scope of supply chain finance services continued to expand. Development of trade finance business between domestic and overseas institutions has achieved a significant leap forward. The Bank conducted the world's first purchase order financing transactions under the Trade Services Utility (TSU) and export commercial invoice discounting under Bank Payment Obligation (BPO). Syndicate guarantee, marine guarantee, Environment Protection Agency (EPA) guarantee and other new products were also launched. Fully leveraging its competitive advantages, the Bank promoted its cross-border RMB trade settlement business and maintained a leading position in domestic market.







In 2010, the transaction volume of international settlement business conducted by the Group exceeded USD1.97 trillion, making it the world leader. The balance of foreign currency trade finance and letters of guarantee conducted by domestic operations reached USD47.502 billion and USD56.221 billion respectively, maintaining the Bank's leading position in the domestic market. The volume of two-factor export factoring was USD2.415 billion, ranking first globally. RMB trade finance developed rapidly, with the turnover and balance both doubled compared with the prior year. Domestic branches conducted more than RMB160 billion of cross-border RMB trade settlement business. The Bank was recognised as the "Best Trade Finance Bank in China" by various local and international media, such as *The Asset, FinanceAsia, Trade Finance, CFO* and others.

Financial Institutions Business

The Bank aggressively promoted partnership with other financial institutions, as evidenced by the signing of pioneering agreements of comprehensive cooperation with several Taiwanese banks. The Bank created the innovative "China Desk" model to provide tailor-made services to "Going-Global" Chinese enterprises, individuals and foreign firms conducting business with China. This involved establishing dedicated China Desks in countries where the Bank has no physical presence. The Bank also launched the first RMB Letter of Credit transaction with Russian commercial banks. It has further developed its collaboration with China Foreign Exchange Trading System (CFETS) and can handle ten currencies, further strengthening the position of its overseas branches as tier-one clearing agencies for CFETS. The Bank led its peers in the number of clearing accounts for cross-border RMB business. Having established correspondent relationships with 860 of the top 1,000 banks in the world, the Bank led the domestic market in incoming business volumes from correspondent banks at the end of 2010. The Bank also ranked first in domestic market in terms of the volume of B-share clearing, and the number of third party custody clients grew by 23% over the prior year-end. The Bank achieved a 65% penetration of large banks, insurance companies and securities firms customers, and has also accelerated partnering with small and medium-sized banks.

Small-sized Enterprises Business

The Bank developed an innovative and differentiated service model, with the rapid expansion of small enterprise market and successful transformation of operation model. It has introduced the "BOC Credit Factory", which was designed to provide professional, efficient and comprehensive financial services that meet the special financing needs of small-sized enterprises. The Bank has also developed the "Zhongguancun Financial Service Model", specifically tailored to promote the rapid development of high-tech small-sized enterprises. At the 2010 International Conference for Outstanding SME Service Providers, the Bank won the "Outstanding Service Institution among Banks" Award and "BOC Credit Factory" won the "Outstanding Service Products among Banks" Award. According to a survey of Beijing Ipsos Market Consulting Co., Ltd., the satisfaction of the Bank's SME customers reached a relatively high level of 94.3%, an increase of 1.8 percentage points compared with the prior year-end. The number of small enterprises loan customers reached 20.2 thousand, an increase of 21.16% from the prior year-end. The Bank's outstanding loans extended to small enterprises increased by 35.11% to RMB239.365 billion from the prior year-end, and the non-performing loans were RMB6.691 billion, a decrease of RMB3.122 billion compared with the prior year-end.

Investment Banking Business

In 2010, the Bank actively developed its capabilities in investment banking and financing advisory services and improved business and product innovation. This was supported by cooperation across the Group's commercial banking, investment banking and direct investment platforms. The Bank revitalised efforts to promote new investment banking products, including structured finance offerings for Chinese corporations restructuring and listing overseas, listing and debt issuance consultancy, private equity financing consultancy, and leasing and structured financing arrangements. The Bank also successfully provided the People's Government of Sichuan Province, Hengqin New Area of Zhuhai and Putuo District of Shanghai with governmental financial advisory services. In 2010, the Bank was awarded the "Best M&A Service Bank" and "Best M&A Project" by *Securities Times*.

Pension Business

The Bank constantly enlarged the scope of its pension services and enhanced its pension products, which resulted in increased market share. The pension business has been progressively extended from corporate annuities to occupational annuities, social security, employee benefits planning and other fields. By the end of 2010, the number of pension accounts reached 1.6394 million, investments under custody were RMB26.56 billion and the number of customers stood at over 5,000. Newly-opened individual pension accounts reached 750,900 and new capital in custody reached RMB9.07 billion, an increase of 18.0% and 18.6% respectively over 2009.

RMB Settlement for Cross-border Trade

Since the pilot launch of RMB settlement for cross-border trade in July 2009, the Bank had realised dramatic growth in this regard by leveraging its traditional advantages in international settlement.

Cross-border RMB settlement was applicable to all the existing international settlement and trade financing products of the Bank. Besides, in line with specific project requirements, the Bank tailored all-round cross-border new products and product portfolio programs for customers at home and abroad. What's more, relying on its extensive overseas network, BOC has established an RMB product line covering deposit, loan, international settlement, clearing, treasury operation, credit card, insurance and fund etc in its overseas operations. The Bank's cross-border settlement service enabled customers to mitigate exchange rate risk, cut down financial costs and obtain additional benefits.

By the end of 2010, cross-border RMB settlement transactions handled by domestic pilot branches of the Bank totalled RMB160 billion, while RMB clearing and settlement transactions handled by BOCHK exceeded RMB350 billion. A total of 23 tier-one branches in 20 domestic pilot provinces had provided such services to over 3,000 customers from various industries, making the Bank lead its peers in terms of business scale, business volume and the number of customers. Domestic and overseas operations of the Bank had handled cross-border RMB transactions for customers in over 70 countries and regions. By tapping its unique advantage of clearing by Hong Kong clearing bank and Shanghai correspondent bank, the Bank had preliminary established RMB clearing channels covering the whole world.

Personal Banking Business

In 2010, in response to changes in the market environment, the Bank promoted management transformation, strengthened proactive management capabilities, refined its product innovation mechanisms and improved R&D effectiveness, with the core competitiveness of personal banking business enhanced. In 2010, the Bank's domestic personal banking business realised pre-tax profit of RMB28.311 billion, an increase of RMB6.784 billion or 31.51% compared with the prior year.

Savings Deposits

By actively transforming its development approach and increasing its customer base, the Bank rapidly expanded its personal banking assets and savings deposits. The Bank further optimised the functions of its savings deposit accounts, publicised new products including the "Caring Teenager Wealth Management Account" and "Wage Management Plan", and developed its foreign currency savings deposit products with preferential interest rates. By the end of 2010, the balance of domestic RMB savings deposits reached RMB2,675.301 billion, an increase of RMB267.226 billion or 11.10% compared with the end of 2009. The balance of foreign currency savings deposits amounted to USD27.454 billion, maintaining the Bank's leading position with a market share of 50.93% among all financial institutions.

Personal Loan Business

The Bank strengthened differentiated management of personal loans along regional, customer and product lines, boosted the construction of "Ideal Home" brand, and promoted the direct marketing operations. It achieved sustainable, harmonious and healthy development of its personal loan business by continuously optimising the business process, creating innovative products and services, emphasising customer retented and expanded, and reinforcing risk prevention in key fields. By the end of 2010, RMB-denominated personal loans from domestic operations increased by RMB238.099 billion or 24.32% compared with the prior year-end. Its second-hand residential mortgage loans, personal auto loans and sponsored student loans businesses all led its peers. The Bank also won the "Best Auto Loan Bank in 2010" awards from the *Moneyweek*.

Wealth Management and Private Banking

The Bank continued to enhance a three-tier wealth management model. It accelerated the construction of its wealth management service channels, with 1,979 wealth management centres, 125 prestigious wealth management centres and 17 private banking centres operating in the Chinese mainland. Meanwhile, the Bank made initial progress in establishing Asian and European wealth management platforms. It actively promoted its financial manager team, with the number of financial managers increasing by over 50% during the year, and the number of Associated Financial Planners (AFPs), Certified Financial Planners (CFPs) and Executive Financial Planners (EFPs) arriving more than 10,000. It enhanced the innovation and marketing of wealth management products, with the number of financial products exceeding 1,000, and also promoted the "BOC Auspicious Gold Bar". The Bank reinforced the construction of a value-added service system and meanwhile formed an investment advisory information platform. Overall, the expertise of the Bank's wealth management services was significantly improved. By the end of 2010, the number of middle and high-end customers and the total financial assets under management increased by 38% and 26%, respectively.

Guided by the "customer-centric" concept, the Bank continuously strengthened the product and service model innovation of private banking, preliminarily realised the business transformation. It also formed the private banking business platform, which characterised by the synergies of corporate and personal business, utilisation of the Group's resources and the integrated development of domestic and overseas operations. Through all these measures, the Bank dedicated to provide a series of integrated and value-added financial services for high net worth customers. By the end of 2010, private banking customers increased by nearly 50%.

The Bank's wealth management and private banking business also won nearly ten awards from leading domestic and overseas mainstream medium, including *Asian Banker, Euromoney, The Financial Times, Finance Asia*, and the China Central Television (CCTV).

Bank Cards Business

The Bank actively promoted the development in card business and constantly innovated products and functions of bank cards to provide diversified, differentiated and global bank card products and services. The Bank issued core and basic products such as the "Great Wall Credit Card" targeting the enterprises and individuals implementing "Going Global" strategy, as well as products with certain themes such as "Taobao Card" and "Taobao Campus Card" targeting young groups. Meanwhile, the Bank launched the Mobile Phone Payment Card with China Telecom targeting mobile phone users and also issued corporate cards such as the "Corporate Annuity Credit Card" and "Pension Credit Card" in alliance with the Corporate Banking Unit. The Bank also issued prepaid cards in overseas branches such as Malaysia and Sydney targeting overseas market and foreigners coming to China. The Bank endeavored to expand instalment businesses, including cardholder and merchant instalment and specific-purpose instalment products, contributing to a rapid growth of bank card fees income. The Bank established and improved a full-scale credit card risk management mechanism, strengthened the source-oriented risk control, and actively promoted the construction of risk operation system, with its capability of risk management constantly enhanced. By the end of 2010, the Bank's outstanding cards issued by domestic branches totalled 28.7696 million, among which the effective cards totalled 21.7431 million, a year-on-year increase of 25.66%. The volume of RMB card merchant acquiring transactions reached RMB1,109.7 billion, a year-on-year increase of 79.90%. The volume of foreign currency card merchant acquiring transactions amounted to RMB20.9 billion, continuously maintaining a leading market share.

Great Wall Global Card

In October 2010, the Bank launched the Great Wall Global Card with versatility, receiving great popularity from the customers. The Great Wall Global Card embraced a brand new concept in product R&D and provided tailored services based on the specific requirements of each customer, with the establishment of a service platform with comprehensive functions. The product not only integrated the functional advantages and unique services of existing credit cards of the Bank, and provided services such as credit card payment for online purchasing, automatic redemption of airline mileages, E-mail and mobile statement, global travelling insurance, selected privileged overseas merchants, global emergency assistance and other privileges. The Great Wall Global Card possessed an industry-leading function of unified RMB settlement for global transactions. In the future, the Bank will continue to optimise the functions and services, provide all-round and high quality exclusive services to customers, and realise global privileges in one card!

Financial Markets Business

In 2010, the Bank continued to refine the structure of its financial markets business, build upon its traditional strengths and increase its brand recognition. Product innovation capability was improved and business development potential was enhanced. By developing market-leading products and consolidating key business areas, the Bank achieved steady and sound development of its financial markets business.

Investments

The securities investments of the Bank include both RMB-denominated and foreign currency-denominated investments. RMB-denominated investments are principally comprised of Treasury bonds, PBOC bills, financial institutions bonds and debenture bonds, while foreign currency-denominated investments consist largely of government bonds, debenture bonds and structured bonds. In 2010, the Bank continued to pursue centralised management of the Group's bond investments. It enhanced investment management by improving the investment process and analysis framework for debenture bonds, maintaining a unified risk appetite across the Group and further intensifying post-investment management so as to ensure sound development of its investment business.

The Bank worked constantly to optimise the structure of its bond investments. In 2010, the Bank increased RMB-denominated investments to appropriate levels and improved its investment management, with the aim of achieving right balance between profitability and liquidity and continuously enhancing professional management. The Bank also increased its investments in the government bonds of developed countries/regions, supranational bonds, large-scale financial institution bonds. The Bank further decreased structured and other higher-risk bonds, and proactively reduced its holdings of Southern European government bonds as well as US Freddie Mac and Fannie Mae bonds. As a result, the overall risk of the Bank's foreign currency-denominated investment portfolio was further reduced.

Trading

In 2010, leveraging its traditional strength in trading business and its keen understanding of market trends and customer demand, the Bank enhanced innovation and promoted its key trading businesses, including foreign exchange market making and precious metals. By taking advantage of the market's expectation of RMB appreciation and the gold appreciation cycle, the Bank continued to rank first in the domestic market in terms of spot foreign exchange purchase and sale against the RMB, and achieved rapid growth in forward foreign exchange purchase and sale against the RMB and gold leasing. The Bank launched "Dual-way Renminbi/Gold Trading", and completed the first transaction of forward foreign exchange purchase and sale against the RMB for individually owned business in China. The Bank introduced spot exchange trading of the Russian Rouble against the RMB on bank-wide basis, making it one of the first market makers of RMB/Rouble exchange in the domestic inter-bank market. Bank of China (Eluosi) also became the most important RMB market maker in the Russian inter-bank market. The Bank also continued to expand its trial programme of emerging market currencies quotation, including the South Korean Won, Malaysian Ringgit, Indonesian Rupiah, Thai Baht and Brazilian Real. It was also engaged in foreign exchange trading on behalf of clients in terms of emerging markets currencies.

Client Business

With a focus on product improvement and service enhancement, the Bank took steps to expand its wealth management business both in terms of product issuance and market share. In particular, the Bank developed such key products as "Weekend Wealth Management" and "Daily Purchase & Redemption" to help customers improve their management of capital. By promoting tailored products, the Bank enhanced its service capabilities for middle and high-end personal banking customers. With risk effectively controlled, the Bank promoted internal R&D procedure by integration of the Head Office and branches, which made it easier for the Bank to capture customer demand signals and thus contributed to sound innovation. In 2010, the total sales volume of its RMB and foreign currency denominated wealth management products was equivalent to RMB2,893.9 billion, an increase of 87.99% from 2009.

The Bank energetically developed underwriting business, strengthened product innovation, continuously expanded the scope of customer services and consolidated long-term relationships with large key customers. The Bank also expanded its underwriting business for financial institution issuers, successfully underwriting the first RMB-denominated bond issued by a foreign-funded bank, Bank of Tokyo-Mitsubishi UFJ (China), Ltd. In 2010, the Bank acted as the lead underwriter or joint lead underwriter for 57 issues of short-term financing bills and medium-term notes and 2 issues of financial institution bonds, totalling RMB95.45 billion.

The Bank actively enhanced its financial markets business for corporate customers. It launched financial market consulting services to provide customers with risk mitigation and integrated solutions, as well as diversified financial markets services covering derivatives, debt underwriting, wealth management and foreign exchange purchase and sale.

Custody Business

In response to the bearish market, the Bank consolidated the client relationship management and product

development to meet the needs of key clients, including fund companies, the National Council for Social Security Fund and insurance companies. The Bank focused on the enhancement of competitive products and services for mutual funds, Separately Managed Accounts, social security fund, insurance portfolios, QFIIs and QDIIs, and strived to launching new products for trustees, corporate pensions and banks' collective investment plans. The Bank also worked on providing innovative custody services for off-shore RMB funds and private equity (PE) funds, with the view of optimising the structure of its custody products and services. As its capability of providing global custody service enhanced, the Bank became the first domestic bank developing the Global Custody System. By the end of 2010, the Bank's assets under custody brought by domestic clients exceeded RMB1 trillion, leading its peers.

Village Bank

The Bank actively exploited effective modes serving agriculture, rural areas and farmers, achieving remarkable progress. Following the requirements of government policies on pushing forward the building of a new socialist countryside and striving to promote the reform and innovation of the rural financial system, with approval of the Board of Directors, the Bank decided to establish joint venture BOC Fullerton Community Bank with Temasek Holdings (Private) Limited, one of its strategic investors. On 3 November 2010, the CBRC approved the Bank as the lead sponsor and its plan to establish the first batch of community banks in 14 counties of Hubei, Shandong and Zhejiang provinces. On 14 January 2011, the Bank obtained approval from the CBRC Hubei Office on the establishment of community banks in Qichun

BOC Huishitong Wealth Management Program

In November 2010, the Bank launched "BOC Huishitong Wealth Management Program" (Issue 1), the first wealth management product in China that invested in global foreign exchange market. This product provided holders with USD denominated assets with a new access to preserve and increase asset value.

The raised proceeds were invested in spot and forward foreign exchange transactions as well as instruments of money market and bond securities. Through flexible asset allocation and hedging strategies, the manager conducted proactive management to increase the value of investment portfolios. Created on 23 November 2010, the first issue of BOC Huishitong Wealth Management Program reported a net asset value of USD1.0134 per share at the end of December 2010, which was a sound operation and satisfactory performance.

As the first Chinese bank that entered foreign exchange market and international bond and money markets, the Bank was highly experienced in investments in foreign exchange, bond and money markets. Leveraging its strengths of investment management, the Bank has made ongoing efforts in product and service innovation based on in-depth analysis and professional management of various instruments.

and Jingshan. On 4 Mar 2011, Qichun BOC Fullerton Community Bank, the first domestic joint venture community bank set up by large commercial bank with overseas strategic investors, officially launched in Qichun, Hubei province.

Commercial Banking Business in Hong Kong, Macau, Taiwan and Other Countries and Regions

Leveraging the Group's resources and competitive advantages, the operations in Hong Kong, Macau, Taiwan and other countries and regions promoted the integrated development of the Group's domestic and overseas businesses. Its core competitiveness of the RMB businesses were further enhanced, with a more comprehensive product range and service coverage extended from the Asia Pacific region to the rest of the world. Bank of China Taipei Representative Office was established in Taiwan on 24 September 2010, making the Bank one of the first Chinese mainland banks to open an office in Taiwan. The Bank also set up 12 new overseas institutions in other countries and regions in 2010. Up to date, the operations of the Bank have covered Hong Kong, Macau, Taiwan and 31 countries and regions, and the global distribution further refined.

In 2010, BOCHK, the holding subsidiary of the Bank, realised after-tax profit of RMB14.540 billion, up by 15.56% compared with the prior year. BOCHK was appointed as the HK Dollar banknote issuing bank and the clearing bank for RMB businesses in Hong Kong. It continued to give full play to its advantages of leading RMB businesses, and gained the largest market shares in terms of key products.

The Bank made positive progress in all kinds of business in Macau. In 2010, the Bank adopted a pragmatic and aggressive strategy of operation. With the "customer-focused and market-oriented" target, it actively built up partnerships with large enterprises, supported the growth of SMEs, and launched Macau's first Cross-bank Deposit and Transfer Service, Cross-border Trade Link, new version of BOCNET (personal). The Bank actively fulfilled the banknote-issuing bank and Public Cashier Bank's duties. As RMB clearing bank, it achieved a significant breakthrough in RMB deposits, cross-border trade settlement and all kinds of its related product.

The government's "Going Global" strategy sparked fresh progress in the integration of the Bank's domestic and overseas operations. In 2010, the Bank successfully executed 25 large-scale international M&A loan projects totalling USD2.6 billion, and completed several export buyers' credit projects totalling USD1.0 billion, which effectively promoted the balanced development of domestic and overseas corporate services. The Bank further optimised the management of overseas corporate banking customers by integrating them into the Group's key customers system. Meanwhile, it established an information platform to support integrated domestic and overseas business development, and promoted the global corporate banking information system and loan management system for overseas companies, which covered the entire business scope of overseas corporate banking.

Bank of China signed Comprehensive Business Cooperation Agreement with Bank of Taiwan, the first of its kind between banks across the Taiwan Strait.

BOCHK

BOCHK took full advantage of the reviving economy and the opening of RMB business to enhance the competitiveness of its traditional banking businesses and deepen its customer relationships. Total assets experienced robust growth. Various breakthroughs were made in offshore RMB business, further reinforcing its leading position in the market. During the year, subordinated notes were issued in order to diversify financing channels. Its capital base was enhanced and the capital adequacy ratio remained at a healthy level. By strengthening its collaboration with the Group, BOCHK managed to drive rapid development in major businesses and improved its operating performance.

BOCHK actively expanded its core banking businesses, reinforcing its market-leading position. In 2010, despite of intense market competition, BOCHK undertook various initiatives to drive the growth in customer deposits. By leveraging the market's growing financing needs, BOCHK recorded steady and robust growth in its lending business. It also maintained its leading position in the Hong Kong-Macau syndicated loan market as well as the Hong Kong residential mortgage market. BOCHK was granted the "SME's Best Partner Award" for the third consecutive year by the Hong Kong Chamber of Small and Medium Business Limited. Trade finance grew significantly compared with the prior year-end. Loan quality remained sound, with BOCHK's classified loan ratio still the best in the Hong Kong market and continuing to improve. Credit card business recorded satisfactory growth with both cardholder spending and merchant acquiring volume up from 2009.

Taking opportunities arising from the opening of the RMB business, BOCHK proactively expanded its offshore RMB businesses with focus on product innovation. BOCHK pioneered the introduction of RMB insurance, treasury and trade settlement products and services in Hong Kong. As a market leader, the Bank acted as the lead manager for several RMB-denominated bonds issued in Hong Kong. In addition, BOCHK secured its leading position with a 73.2% year-on-year increase in the issuance of RMB-HKD dual currency credit cards. It also introduced the Shenzhen-Hong Kong Cross Border Autopay Service in partnership with China UnionPay to provide reliable and convenient cross-border payment service to its customers. It introduced the "BOCHK Offshore RMB Bond Index", the first of its kind in Hong Kong, providing a reference for RMB bond investment in Hong Kong. The scope of BOCHK's RMB clearing service was extended in 2010 and BOCHK was authorised by the PBOC as the Clearing Bank of RMB banknotes business for Taiwan.

BOCHK optimised its network of Chinese mainland branches and further expanded its mainland business. Leveraging Nanyang Commercial Bank (China), Limited (NCB (China)) as its major mainland business platform, it registered satisfactory growth in its deposit and loan businesses. Meanwhile, BOCHK continued to expand its branch network. NCB (China) Wuxi branch and Shanghai Hongqiao sub-branch were opened for operation during the year. BOCHK also continued to promote its cross-border wealth management, cross-border attestation services, wealth management products and bank card businesses.

In 2010, BOCHK enhanced its business service platform and fostered closer collaboration with the wider Group in order to provide customers with comprehensive services. Improvements to the business service platform included the optimisation of the securities trading platform, the launch of "BOCHK Mobile Banking", the expansion in its ATM network, and the consolidation of its four specialised hotline numbers, among others. Meanwhile, collaboration with the Group was reinforced through the implementation of the "Global Relationship Manager Program" and "Global Unified Facilities Arrangement", thus stepping up our global servicing capability for corporate customers. The cross-border attestation service "Wealth Express" in collaboration with the Group's other institutions and the introduction of the "BOC Wealth Express Card" improved cross-border wealth management services for personal customers.

(For a full review on BOCHK's business performance, please refer to BOCHK Annual Report.)

Diversified Business Platform

In 2010, consistent with the Group's strategic development plan, the Bank's subsidiaries fully leveraged their competitive advantages in order to maximise their contribution to the Group. BOCI boosted its marketing efforts and intensified synergy with the wider Group. It won tenders for financial advisory services, stock issues, bond underwriting and other services related to several major projects, maintaining the leading position in Chinese investment banks. BOCIM increased investment income and intensified its marketing campaign. It reported good performance for new fund issues and the growth rate of its assets under management ranked first among large and medium-sized fund companies. BOC Insurance stepped up its efforts with regard to strategic transformation and further improved its bancassurance business model. BOCG Investment focused on fund management, enhanced product innovation and diversified funding sources while accelerating the adjustment of its business strategy and optimising the structure of its retained assets, so as to speed up the turnover of assets and thus achieve exponential development. BOC Aviation took advantage of the market recovery to expand its businesses and upgrade its internal management, which contributed to a rapid growth in its after-tax profit.

Investment Banking Business

BOCI

In response to the highly volatile capital markets and intense competition in 2010, BOCI enhanced its marketing and project execution functions, increased its strategic investment and reinforced its risk and compliance management. This enabled it to achieve an after-tax profit of RMB1.365 billion.

BOCI continued to develop its corporate finance and financial advisory business. In 2010, BOCI ranked first among Chinese investment banks in terms of underwriting volumes of IPOs and placements in Hong Kong. In the role of lead underwriter, BOCI completed 14 IPO projects, 13 share placement projects, and rights issue projects for Industrial and Commercial Bank of China, China Construction Bank and the Bank. The number of IPO and placement projects completed in 2010 reached a historic height. In addition, BOCI completed 13 debt financing projects as the lead underwriter, ranking first in Asian-Pacific convertible bond issuance market (excluding Japan) in terms of the underwriting volumes as bookrunner, making a breakthrough in bonds issuance businesses. BOCI provided a number of enterprises with pre-IPO financing, equity financing, restructuring of domestic corporations, merger and acquisition financing, large project financing and other leveraged and structured financing services.

BOCI's securities business maintained good momentum in terms of its development. BOCI continued to enrich the scale and variety of its product offering, resulting the securities customers increasing significantly and assets under management enlarging steadily, making it one of the leading participants in the Hong Kong Stock Exchange in terms of cash equity transaction volume. Meanwhile, its private banking business grew rapidly.

BOCI also achieved breakthrough growth in its asset management business. BOCI Prudential maintained its top-ranked position in Hong Kong's Mandatory Provident Fund market and the Macau pension market. BOCI Prudential has successfully cross-listed the "W.I.S.E. – SSE 50 China Tracker" on the Taiwan Stock Exchange, making it the first overseas ETF listed on the Taiwan Stock Exchange that tracks China's A shares market, a breakthrough in cross-border ETF business.

Its direct equity investment businesses maintained stable and sound development. In 2010, "Bohai Industrial Investment Fund" successfully invested in 3 projects. "BOCI Infrastructure Fund" completed its first phase of fund-raising. The establishment of China Cultural Industry Fund ("Cultural Fund") achieved significant progress.

Business in the Chinese mainland improved steadily. BOCI China ranked third and first in stock underwriting and bond underwriting, respectively, in terms of total underwriting amount, and ranked top ten in retail brokerage in terms of turnover volume per branch. In addition, six retail brokerage branches were opened in 2010. BOCI China accelerated the development of its advisory services and the asset under management grew steadily. BOCI China successfully established two collective asset management programs and broadened the "China Red" product series. Further, BOCI China was granted a proprietary trading license for equities and continued to develop its wholly owned futures and direct investment subsidiaries.

BOCIM

In 2010, BOCIM adopted proactive measures to cope with the drastic fluctuations in the capital market. The scale of newly-launched products raised exceeded RMB16.0 billion. By the end of 2010, total assets under management of BOCIM had reached RMB39.7 billion, up by 35% compared with the end of 2009. In 2010, BOCIM was awarded the "Annual Golden Bull Innovation Prize 2009", while the BOC China Opportunities Fund was awarded the prizes of "Sustainable Success Golden Bull Fund for Open-end Balanced Funds on a 3-year Basis", "Active Allocation Balanced Star Fund with 3-year Sustainable Reward 2009" and "Golden Fund" prize for balanced funds, and the BOC Bond Fund also received the prize of "2009 Star Bond Fund".

Insurance Business

BOCG Insurance

The Bank operates its insurance business through BOCG Insurance, its wholly owned subsidiary registered in Hong Kong. BOCG Insurance principally operates a general insurance business, as well as a life assurance business through BOCG Life, which is jointly owned with BOCHK (Holdings). At present, BOCG Insurance has six branches in Hong Kong and holds a dominant position in the Hong Kong property insurance market. In 2010, it recorded a gross premium income of HKD1.558 billion (RMB1.329 billion), an increase of HKD40 million or 2.64% in comparison with the prior year. BOCG Insurance continuously strengthened cooperation with agent banks and promoted insurance products to fit the needs of their customers, such as the "BOC Family Comprehensive Protection Plan", "China Express" and "BOC Medical Comprehensive Protection Plan", with the linkages between these products further strengthened.

BOCG Life

In 2010, BOCG Life remained to focus on developing its financial planning specialist team and implementing "need-based selling" approach, while continuing to boost product innovation and optimise its product mix. Regular-premium business recorded robust growth and became the major source of new business. BOCG Life pioneered the introduction of RMB insurance in Hong Kong, with its position in the market further reinforced. In terms of standard new business premium, BOCG Life rose in market ranking from No. 4 in 2009 to No. 2 in 2010. During the year, it recorded gross premium income over HKD8.6 billion, an increase of 11% from 2009.

BOC Insurance

In 2010, BOC Insurance achieved strong performance by transforming its strategy and devoting more resources to exploring the potential of its bancassurance business. BOC Insurance recorded gross premium income of RMB2.783 billion in 2010, a year-on-year increase of 33.26%. Of this, premium income from the bancassurance channel increased significantly by 71.5% year-on-year to RMB1.548 billion, representing 55.62% of total premium income. BOC Insurance has made great leaps forward in product innovation by improving its mechanisms, resulting in new bancassurance products such as "Enterprises Loan Guarantee Insurance", "Bi-Benefit Loan" and "Credibility Insurance", which combined insurance benefits with the advantages of banking product to meet diversified customer demands. BOC Insurance has developed its bancassurance business to include three forms of distribution model: a referral business model, a channel product business model and a bancassurance/finance product business model. BOC Insurance also recorded premium income of RMB0.32 billion from BOC Insurance card products, with the number of issued insurance cards topping 1.2 million.

Investment Business

BOCG Investment

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

In 2010, in line with the Bank's business diversification development strategy, BOCG Investment further intensified its cooperation with other Group members, established a unified business platform, optimised its business structure, enriched its investment categories and further diversified its funding sources. As a result of efforts, BOCG Investment experienced steady growth in business and continuous improvement in organisational structure, with the profitability significantly increased.

In 2010, by leveraging the Group's competitive strengths and grasping market opportunities, BOCG Investment enhanced its project management capabilities and market-oriented operations to maintain adequate liquidity and improved profitability, thus increasing investment returns. Under the overall development strategy of the Group, BOCG Investment cooperated with other Group members in several equity investment projects in order to jointly serve the Bank's major clients. In 2010, the equity investments of BOCG Investment reached HKD10.9 billion, fund investments stood at HKD2.1 billion, and its NPA investments reached HKD3.9 billion. Total investment income was HKD6.1 billion in 2010.

BOC Aviation

In 2010, BOC Aviation enhanced its operating performance, achieving a record after-tax profit of USD168 million, a significant increase of 22% compared with the prior year. BOC Aviation increased its fleet size, taking delivery of 32 aircraft. At the end of 2010, the fleet comprised 166 aircraft, of which 140 were owned and 26 managed, with total assets exceeding USD6.6 billion. In 2010, BOC Aviation announced new orders totalling over USD2 billion for 30 A320 aircraft and 8 Boeing 777-300ER aircraft, to be delivered from 2012 to 2014. These 8 Boeing aircraft will be leased to Thai Airlines on a long-term basis. In addition, BOC Aviation established new relationships with Chinese airlines, delivering 2 new aircraft to Xiamen Airlines and Spring Airlines each.

Channel Management

In 2010, guided by its strategic development plan, the Bank made steady progress on channel development. Traditional outlets and electronic channels were developed in a coordinated manner, bringing about significant improvement in both efficiency and quality of customer service.

The outlet transformation programme was further intensified and the transition towards unified outlets was nearly completed. The Bank was actively exploring further optimisation of staffing, mechanisms and procedures. The Bank improved its retail outlet management mechanism transformation by enhancing performance management, optimising management hierarchy and building middle to large-sized full-function outlets. The Bank strengthened its marketing team, optimised its operational processes and improved service efficiency and saved human resources. The Bank took full advantage of significant opportunities such as the World Expo 2010 in Shanghai and the 2010 Asian Games to improve outlet service quality. The Bank also improved the sales and service capabilities of retail outlets for corporate clients, particularly SME clients, by rapidly scaling up its specialised marketing teams, such as customer managers and comprehensive sales staff, and improving the efficiency and quality of retail outlets service. In 2010, the Bank was awarded "the World Expo Financial Service Organisations" by the China Banking Association. By the end of 2010, the number of domestic commercial banks' outlets reached 10,071. The Bank had 9,644 full-time lobby managers working in its retail outlets, covering 96% of business outlets, an increase of 18% over the previous year-end.

The Bank has further optimised its e-banking channels so as to provide customers with safe, convenient and integrated online financial services. These channels comprised online banking, telephone banking, mobile banking, self-service banking, and home banking. At the end of 2010, the number of e-banking customers exceeded 75 million, up 40.13% compared with the prior year-end, while the number of transactions conducted through e-banking channels accounted for 53.97% of total transactions.

In 2010, the Bank enriched the online banking service functions, achieving higher online banking transaction volumes. At the end of 2010, the number of corporate online banking customers exceeded 0.4 million, up 176.17% compared with the end of 2009. The transaction volume of corporate online banking reached over RMB40 trillion, and the Bank's online payment of customs duties maintained its leading market share. The number of personal online banking customers exceeded 25 million, up 100.44% compared with the end of 2009, and the transaction amount of personal online banking exceeded RMB4 trillion, soaring 169.50% from the prior year-end. The Bank enhanced corporate online banking services by launching Inquiry Version services and SME Version services, as well as new functions such as agency collection by batch, time deposit, international settlement and foreign exchange settlement, so as to satisfy corporate customers' needs. The Bank also expanded personal online banking by introducing new services, including small amount foreign exchange purchase and sale, sale of wealth management products, loan inquiry and cross-border remittance, as well as the new VIP Version service, which provides superior online banking services for middle and high-end customers. In addition, overseas online banking was upgraded and its service range expanded. At the end of 2010, the Bank's online banking service covered 27 overseas countries and regions.

In 2010, the Bank accelerated the promotion of the construction of its telephone banking system, expanding the unified telephone banking system to 23 branches including Beijing Branch. The customer service call centre in Beijing also served the customers of 16 branches. The Bank improved its telephone banking service capabilities, providing 24-hour and multilingual service support. The Bank also took steps to set up a group customer service centre. At the end of 2010, the Bank had a total of 49.30 million contracted customers of its telephone banking service.

The Bank also introduced its mobile banking service, including a WAP Version and a Client Version, providing account management, fund transfer, credit card, bill payment, loan inquiry, investment and mobile payment services to personal customers. The Bank also collaborated with major telecom operators, including China Mobile, China Unicom and China Telecom.

The Bank increased the number of self-service facilities and fully optimised their functions. At the end of 2010, the numbers of domestic ATMs, self-service terminals

and self-service banks in service reached 24,000, 14,000 and 7,600, respectively. The self-service terminals were equipped with new function of small amount foreign exchange purchase and sale, and fund transfer between bank card and deposit book, achieving a market-leading position and further enhancing the migration from counter-based business.

The Bank also launched its brand new home banking service channel, aiming to capitalise on opportunities arising from the Government's "Three Networks Convergence" telecoms integration strategy. The home banking pilot programme in Hangzhou provided personal customers with account inquiry, TV payment and bill payment services, further improving the overall e-banking service channel system.

In 2010, the Bank received a number of awards and honours including the "Financial Business Innovation Prize" granted by the China International Financial Exhibition Organising Committee, the "Best e-Banking In China" award from *The Economic Observer*, the "Excellent e-Banking in 2010" award from the *China Business Journal*, and the "Best Personal Online Banking in 2010" award from the *Securities Times*.

IT Blueprint Implementation

In 2010, the Bank achieved a breakthrough in implementing its IT Blueprint project. In February, IT Blueprint Version 2.0 (the new core banking system and the supporting peripheral upgrade systems), was successfully launched in Hebei Branch. Subsequently, it was successfully implemented in five batches across 22 domestic branches ahead of schedule: five branches in Northwest China (Shaanxi Branch, Gansu Branch, Ningxia Branch, Xinjiang Branch and Qinghai Branch), five branches in Southwest China (Yunnan Branch, Guizhou Branch, Sichuan Branch, Chongqing Branch and Tibet Branch), six branches in Heilongjiang, Jilin, Inner Mongolia, Shanxi, Jiangxi and Anhui (Heilongjiang Branch, Jilin Branch, Inner Mongolia Branch, Shanxi Branch, Jiangxi Branch and Anhui Branch), three branches in Henan, Hainan and Shandong (Henan Branch, Hainan Branch and Shandong Branch), and three branches in Beijing, Tianjin and Liaoning (Beijing Branch, Tianjin Branch and Liaoning Branch). The new system has been operating smoothly across these 23 implemented branches, supporting more effective business development and receiving a positive customer response. The Bank began upgrading the IT Blueprint to Version 3.0 in early July 2010, so as to ensure successful implementation of new systems in domestic branches and continuous improvement of the functions and performance capability of the system. These 23 branches were expected to complete the upgrading in the first quarter of 2011. The Bank is steadily implementing the IT Blueprint project as scheduled and plans to implement it to other domestic branches by the end of 2011.

The implementation of the IT Blueprint project completed the replacement for core banking system and the integration of core banking system and all peripheral application systems. The new systems adopted a customer-oriented and transaction-driven business processing mode and realised the integrated and uniform management of customer information by providing support for various businesses such as deposits, loans and payments. Meanwhile it completely boosted the business process reengineering, and switched the operation model and management concept from "account centric" to "customer centric". As the IT Blueprint implemented in all domestic branches by the end of 2011, the Bank would realise standardised operation, simplified process, convenient service and rigorous risk control, with the capability of management and customer service significantly enhanced.

Management Discussion and Analysis — Risk Management

In 2010, the Bank aimed to enhance the integrity, intensiveness, pertinency and effectiveness of its risk management and made great efforts to strengthen its proactive, comprehensive and quantitative risk management.

The Bank's core risk management objective is to optimise capital allocation and maximise shareholders' interests within the context of a prudent risk appetite and consistent with the requirements of regulatory authorities and expectations of depositors and other interested parties. The Bank seeks to maintain a moderate risk appetite and reach a balance between risk and return according to rational, stable and prudent principles.

The risk management framework of the Bank is comprised of the Board of Directors and its Risk Policy Committee, the Risk Management and Internal Control Committee, the Securities Investment and Management Committee, the Asset Disposal Committee and Anti-Money Laundering Committee under the Management, the Risk Management Unit, the Financial Management Department and other related departments. The Board of Directors of the Bank takes the responsibility to approve overall strategy of risk management and risk appetite, and supervise the Management to carry out the strategy. The Management is responsible for implementing the strategy, preferences and policies of risk management determined by the Board of Directors, furthermore, it monitored and took all the risks existing in the business undertakings. Departments that burden the function of risk management are responsible for the daily management of various risks, and also dedicated to identifying, measuring, monitoring, controlling and reporting the risks. The Bank manages risk at the branch level through a vertical management model and manages risk at the business department level through a window management model. The Bank monitors and controls risk in its subsidiaries by delivering its risk management requirements to the subsidiaries' Boards of Directors and the Risk Policy Committees under the Board.

Credit Risk

Credit risk is the risk of loss arising from the failure of a borrower or counterparty to repay a loan or otherwise meet a contractual obligation. The Bank's credit risk is primarily derived from loans, trade finance and treasury business.

In 2010, the Bank continued to exercise integrated management of credit examination and approval, credit rating and risk classification. It made timely adjustments to credit policies in response to changes in the macro economy and to industry policies of the government, strengthened risk identification and assessment and stepped up credit management and control, with a view to making its risk management function more proactive and forward-looking.

In terms of corporate banking, the Bank formulated its *Guidelines for Industry Credit Granting of 2010* according to the government's macro-economic regulatory measures, which extended the coverage and set out details of the Bank's industry credit granting guidelines, enhanced its industry credit portfolio management, and guided the optimisation of its credit structure. The Bank actively implemented the policies of the State and issue guidelines for credit extension in support of energy saving and emissions reduction. The Bank strengthened the management of real estate development loans by exercising strict control over credit extension to real estate developers, with a focus on supporting superior customers and projects. The Bank maintained strict risk management and control over loans granted to industries with overcapacity and actively exited lending relationships with enterprises that did not meet the requirements of state industry policies. The Bank took further steps to organise its loan process, including disbursement of loans based on the needs of borrowers. It enhanced monitoring and early-warning mechanisms, strengthened post-lending control, improved the analysis, monitoring and early-warning systems for customer, industry and regional risks, and actively exited lending relationships with higher-risk customers.

The Bank further strengthened the management of loans granted to local government financing vehicles, and strictly controlled the increment. It reviewed such outstanding loans, and also took measures to mitigate risks, such as adding supplementary debtors, increasing guarantors and collateral, and reducing or exiting exposure to potentially risky loans. The total supply of loans granted to local government financing vehicles was effectively under control, and the coverage degree of cash flows was further enhanced.

In terms of personal banking, the Bank implemented serious management on risks from personal loans and rigorously executed dynamic and differentiated policies for personal housing loans, so as to promote sound development of its real estate mortgage business. It strengthened the analysis and monitoring of credit risk in personal loans and bank card business, developed and rolled out the retail assets monitoring tools, and improved quantitative risk management and control.

The Bank strengthened the consolidated risk management of the Group by perfecting the consolidated management mode of cross-border and cross-industry institutions. It steadily pushed forward country risk management, including the trial of country risk limits, and actively guided regional allocation of the credit.

The Bank generally measured and managed the quality of credit risk-bearing assets based on the *Guideline for Loan Credit Risk Classification* issued by the CBRC, which requires Chinese commercial banks to classify loans into the following five asset quality categories: pass, special-mention, substandard, doubtful and loss, among which loans classified in the substandard, doubtful and loss categories are regarded as non-performing loans. For the overseas operations of the Bank, if applicable local regulations and requirements are stricter than the *Guidelines for Loan Credit Risk Classification*, the Bank classifies the assets according to the local regulations and requirements. In 2010, the Bank continued to make progress in centralising the management of loan classification in its domestic operations where all corporate loan classifications are reviewed and approved by the Head Office and tier-one branches. In classifying the loans, consideration was given to various factors that will affect the quality of loans with the core criteria of the probability of asset recovery and the extent of loss. To obtain a loan's final risk classification, the Bank must perform standardised process of classifying, checking, reviewing and approving. The loan classification may be revised when there are significant changes to its credit risk status.

At the end of 2010, the Group's non-performing loans totalled RMB62.470 billion, representing a decrease of RMB12.248 billion from the prior year-end; and the ratio of non-performing loans to total loans dropped by 0.42 percentage point to 1.10% compared with the prior year-end. At the end of 2010, the Group's allowance for impairment losses on loans and advances was RMB122.856 billion, representing an increase of RMB9.906 billion from the prior year-end. Allowance for loan impairment losses to non-performing loans ratio was 196.67%, an increase of 45.50 percentage points compared with the prior year-end. Non-performing loans of domestic operations totalled RMB60.508 billion, representing a decrease of RMB11.285 billion from the prior year-end. The ratio of non-performing loans to total loans dropped by 0.45 percentage point to 1.27% compared with the prior year-end. The Group's outstanding special-mention loans amounted to RMB148.045 billion, an increase of RMB8.978 billion compared with the prior year-end, accounting for 2.62% of total loans outstanding, down by 0.21 percentage point compared with the prior year-end.

Five-category Loan Classification

Unit: RMB million, except percentages

	As at 31 December 2010		As at 31 December 2009		As at 31 December 2008	
Items	**Amount**	**% of total**	Amount	% of total	Amount	% of total
Group						
Pass	**5,450,106**	**96.28%**	4,696,573	95.65%	3,048,668	92.50%
Special-mention	**148,045**	**2.62%**	139,067	2.83%	159,988	4.85%
Substandard	**28,603**	**0.50%**	35,858	0.73%	39,411	1.20%
Doubtful	**20,784**	**0.37%**	26,148	0.53%	35,212	1.06%
Loss	**13,083**	**0.23%**	12,712	0.26%	12,867	0.39%
Total	**5,660,621**	**100.00%**	4,910,358	100.00%	3,296,146	100.00%
NPLs	**62,470**	**1.10%**	74,718	1.52%	87,490	2.65%
Domestic						
Pass	**4,556,215**	**95.76%**	3,965,698	95.20%	2,436,838	91.51%
Special-mention	**141,862**	**2.97%**	128,222	3.07%	142,661	5.36%
Substandard	**27,142**	**0.57%**	33,752	0.81%	36,585	1.38%
Doubtful	**20,531**	**0.43%**	25,655	0.62%	34,354	1.29%
Loss	**12,835**	**0.27%**	12,386	0.30%	12,366	0.46%
Total	**4,758,585**	**100.00%**	4,165,713	100.00%	2,662,804	100.00%
NPLs	**60,508**	**1.27%**	71,793	1.72%	83,305	3.13%

Migration Ratio (%)

Items	2010	2009	2008
Pass	**2.02**	2.40	3.65
Special-mention	**5.13**	10.07	8.02
Substandard	**23.05**	25.60	33.51
Doubtful	**15.66**	9.76	7.89

In accordance with IAS 39, loans and advances to customers are considered impaired, and allowances are made accordingly, if there is objective evidence of impairment resulting in a measurable decrease in estimated future cash flows from loans and advances. At the end of 2010, the Group reported identified impaired loans totalling RMB63.876 billion, a decrease of RMB12.130 billion compared with the prior year-end. The Group's impaired loans to total loans ratio decreased by 0.42 percentage point to 1.13% compared with the prior year-end. Domestic operations reported identified impaired loans totalling RMB62.211 billion, a decrease of RMB11.469 billion compared with the prior year-end. The domestic impaired loans to total loans ratio was 1.31%, representing a reduction of 0.46 percentage point compared with the prior year-end. Operations in Hong Kong, Macau, Taiwan and other countries and regions reported identified impaired loans of RMB1.665 billion and an impaired loans to total loans ratio of 0.18%, down by RMB0.661 billion and 0.13 percentage point compared with the prior year-end, respectively.

Movement of Identified Impaired Loans

Unit: RMB million

Items	2010	2009	2008
Group			
Balance at the beginning of the year	**76,006**	90,879	90,317
Increase during the year	**20,780**	28,676	32,352
Reduction during the year	**(32,910)**	(43,549)	(31,790)
Balance at the end of the year	**63,876**	76,006	90,879
Domestic			
Balance at the beginning of the year	**73,680**	87,352	89,437
Increase during the year	**20,020**	27,519	30,478
Reduction during the year	**(31,489)**	(41,191)	(32,563)
Balance at the end of the year	**62,211**	73,680	87,352

Loans and Identified Impaired Loans by Currency

Unit: RMB million

	As at 31 December					
	2010		2009		2008	
Items	**Loans**	**Impaired loans**	Loans	Impaired loans	Loans	Impaired loans
Group						
RMB	**4,149,806**	**54,583**	3,525,018	65,506	2,354,454	76,599
Foreign currency	**1,510,815**	**9,293**	1,385,340	10,500	941,692	14,280
Total	**5,660,621**	**63,876**	4,910,358	76,006	3,296,146	90,879
Domestic						
RMB	**4,127,410**	**54,359**	3,510,236	64,950	2,338,684	75,035
Foreign currency	**631,175**	**7,852**	655,477	8,730	324,120	12,317
Total	**4,758,585**	**62,211**	4,165,713	73,680	2,662,804	87,352

The Bank makes adequate and timely provisions for impairment losses in accordance with prudent and established principles. Allowances for impairment losses on loans consist of two components: individually assessed and collectively assessed allowances. At the end of 2010, domestic branches' allowance for loan impairment losses to total loans was 2.45%. Please refer to Notes II.4 and VI.3 to the Consolidated Financial Statements for further discussion of the accounting policy in relation to allowances for impairment losses.

In 2010, the Group's impairment losses on loans and advances were RMB15.564 billion, an increase of RMB0.119 billion compared with the prior year, and the credit cost was 0.29%, a decrease of 0.09 percentage point compared with the prior year. Impairment losses on loans and advances in domestic operations totalled RMB14.714 billion, a decrease of RMB0.347 billion compared with the prior year, with the credit cost of 0.33%, a decrease of 0.11 percentage point compared with the prior year.

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

Main regulatory ratios	**Regulatory standard**	**As at 31 December 2010**	As at 31 December 2009	As at 31 December 2008
Loan concentration ratio of the largest single borrower (%)	≤10	**2.9**	3.8	3.4
Loan concentration ratio of the ten largest borrowers (%)	≤50	**20.2**	28.0	17.6

Notes:

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

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

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

The following table sets forth the ten largest individual borrowers at 31 December 2010:

Unit: RMB million, except percentages

	Industry	Outstanding loans	% of total loans
Customer A	Water, environment and public utility management	21,710	0.38%
Customer B	Water, environment and public utility management	20,000	0.35%
Customer C	Mining	16,936	0.30%
Customer D	Mining	16,424	0.29%
Customer E	Transportation and logistics	16,084	0.28%
Customer F	Mining	12,921	0.23%
Customer G	Public utilities	12,088	0.21%
Customer H	Production and supply of electric power, gas and water	11,470	0.20%
Customer I	Transportation and logistics	11,444	0.20%
Customer J	Transportation and logistics	10,239	0.18%

Market Risk

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

The pace of economic recovery varied across different countries and regions in 2010. Quantitative easing policies and sovereign debt crises produced a substantial impact on the global economy, and the financial markets kept a high volatility. As a result, the Bank continued to take proactive measures to strengthen the Group's market risk management, further enhancing the market risk limit system and adjusting business structures to better support effective risk control. The Bank strengthened stress testing for market risk by designing more diversified and scientific stress test scenarios, enhanced relevant policies and procedures, and intensified daily monitoring to enhance forward-looking management. The Bank strengthened its market risk information system infrastructure, and integrated its market risk data. The Bank also continued to develop compliance protocols in line with the requirements of the New Basel Capital Accord, and streamlined the policies and procedures concerning market risk management. The Bank has now completed preparations for its application to implement the internal model approach for market risk laid out by the New Basel Capital Accord, and has accepted the preliminary assessment of the CBRC in this regard.

The Bank took several steps to manage market risk in its trading book. Limits were set on the Group's value at risk (VaR) and a coherent risk appetite was established. The Bank enhanced its consolidated risk management and strengthened risk control in its overseas RMB business. The Bank developed new risk control measures consistent with structural adjustments to the business, which resulted in a decline in the overall risk level of the Group's trading business compared to last year. The Bank promoted a more proactive approach to the market risk management of its investment book. Risk monitoring became more frequent and risk reports were improved in quality. With the Securities Investment Management Committee playing a full-function role, the Bank strived to mitigate bond investment risks and optimise the structure of bond portfolio. The Bank, BOCHK and BOCI calculate VaR using a confidence level of 99% (1% statistical probability that actual losses could exceed the VaR estimate) and a historical simulation approach. For details of information on the VaR of the Bank's trading book, please refer to Note VI.4 to the Consolidated Financial Statements.

Market risk in the banking book mainly comprises interest rate risk and exchange rate risk, with the interest rate risk being dominant. Interest rate risk arises mainly from mismatches in the maturities, re-pricing periods or benchmark interest rates of assets and liabilities. The Bank manages the interest rate risk of the banking book primarily through interest rate re-pricing gap analysis. The data generated by gap analysis is used to perform sensitivity analysis, scenario analysis and stress testing, assist decision making regarding the re-pricing structure adjustment of the interest-earning assets and interest-bearing liabilities. Limits of the net interest income fluctuation are set as a percentage of the net interest income budget for domestic operations and are approved by the Board of Directors and monitored by the Risk Management Department periodically. The Bank introduced an advanced international interest rate risk measurement and analysis system in 2010, and has so far implemented the first phase of its functionality, which would provide support in enhancing the capability of interest rate risk management. The Bank closely followed domestic and foreign currency interest rate trends and promptly adjusted interest rates of its local and foreign currency deposits and loans in accordance with the change of benchmark interest rates and market interest rates. For details of interest rate re-pricing gaps, please refer to Note VI.4 to the Consolidated Financial Statements.

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

Group

Unit: RMB million

	As at 31 December 2010			As at 31 December 2009		
Items	**RMB**	**USD**	**HKD**	RMB	USD	HKD
Up 25 bps	**(2,552)**	**242**	**(456)**	(2,179)	177	(251)
Down 25 bps	**2,552**	**(242)**	**456**	2,179	(177)	251

Exchange rate risk management covers both trading and non-trading exchange rate risks. Trading exchange rate risk mainly arises from foreign exchange transactions in which the Bank is engaged on its own account or on behalf of customers. Non-trading exchange rate risk mainly arises from foreign currency profit or loss and investment in overseas branches and subsidiaries. The Bank manages and controls exchange rate risk by way of FX transactions or hedging to ensure currency matching in assets and liabilities, maintaining FX exposure within specified limits. For details of FX risk exposure, please refer to Note VI.4 to the Consolidated Financial Statements.

Liquidity Risk

Liquidity risk is the risk that a commercial bank is unable to obtain at a reasonable cost the funds required to meet repayment obligations or sustain its asset business. This risk exists even if a bank's solvency remains strong. The Bank's objective in liquidity risk management is to maintain liquidity at a reasonable level according to the business development strategy, and to ensure the Bank has adequate funds to meet business development needs and ensure due debt repayment, whether under normal business conditions or under stress.

In 2010, the PBOC's control of monetary policy was keenly focused and well timed. During the year, it increased mandatory reserve ratios six times and interest rates twice, and adjusted market liquidity through open market operations. As a result, there were greater fluctuations in the liquidity of the banking system.

In 2010, the PBOC further optimised the RMB exchange rate formation regime, and the domestic market experienced constrained foreign currency liquidity due to RMB appreciation and other factors. The Bank improved its integrated overseas funds management, enhanced the Group's ability to manage foreign currency funds and used funds more efficiently. The Bank promoted the coordinated development of its RMB and foreign currency businesses as well as its domestic and overseas businesses by expanding its overseas funding sources.

3 This analysis is based on the approach prescribed by the CBRC, which includes all off-balance sheet positions. It is presented for illustrative purposes only, and is based on the Group's gap position at the end of 2010 without taking into account any change in customer behaviour, basis risk or any prepayment options on debt securities. As the interest rates of the major currencies are at a low level, the table has only shown the potential impact on the Group's income of interest rates moving up or down 25 basis points.

In 2010, the Bank continued to refine its liquidity management function, revising the *Liquidity Risk Management Policy of Bank of China Limited* and supporting guidelines, and guiding its branches to maintain reserves at a reasonable level, cut down liquidity costs and improve fund use efficiency.

In 2010, the Bank continued to refine its liquidity stress testing mechanism and conducted quarterly stress testing. The testing results showed that the Bank would be able to pay due debts and sustain its asset business in distressed scenarios. The Bank utilised Basel III quantitative impact study to strengthen its monitoring of liquidity.

As at 31 December 2010, the Bank's liquidity position, as shown in the table below, met regulatory requirements. (Liquidity ratio is the indicator of the Group's liquidity; loan to deposit ratio, excess reserve ratio and inter-bank ratios are the indicators of liquidity of the Bank's domestic operations in the Chinese mainland):

Major regulatory ratios		**Regulatory standard**	**As at 31 December 2010**	As at 31 December 2009	As at 31 December 2008
Liquidity ratio (%)	RMB	≥25	**43.2**	45.3	48.8
	Foreign Currency	≥25	**52.2**	55.6	76.6
Loan to deposit ratio (%)	RMB & Foreign Currency	≤75	**70.2**	70.3	61.3
Excess reserve ratio (%)	RMB	–	**2.1**	2.7	3.5
	Foreign Currency	–	**14.6**	10.3	20.5
Inter-bank ratio (%)	Inter-bank borrowings ratio	≤4	**1.00**	1.04	1.91
	Inter-bank loans ratio	≤8	**1.08**	2.82	1.67

Notes:

1. Liquidity ratio = current assets/current liabilities. Liquidity ratio is calculated in accordance with the relevant provisions of the PBOC and CBRC;
2. Loan to deposit ratio = outstanding loans/balance of deposits;
3. RMB excess reserve ratio = (reserve in excess of the mandatory requirements + cash)/(balance of deposits + remittance payables);
4. Foreign currency excess reserve ratio = (reserve in excess of the mandatory requirements + cash + due from banks and due from overseas branches and subsidiaries)/balance of deposits;
5. Inter-bank borrowings ratio = total RMB inter-bank borrowings from other banks and financial institutions/total RMB deposits;
6. Inter-bank loans ratio = total RMB inter-bank loans to other banks and financial institutions/total RMB deposits.

Liquidity gap analysis is one of the methods used by the Bank to assess liquidity risk. Liquidity gap results are periodically calculated and monitored and used for sensitivity analysis and stress testing. As at 31 December 2010, the Bank's liquidity gap situation was as follows: (for more details of the liquidity position, please refer to Note VI.5 to the Consolidated Financial Statements.)

Group

Unit: RMB million

Items	**As at 31 December 2010**	As at 31 December 2009
Overdue	**11,136**	14,912
On demand	**(3,770,963)**	(3,357,812)
Up to 1 month	**293,431**	307,603
1-3 months	**(107,056)**	(70,044)
3-12 months	**127,728**	132,759
1-5 years	**1,809,370**	1,744,538
Over 5 years	**2,312,504**	1,773,438
Total	**676,150**	545,394

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

Reputational Risk

In 2010, the Bank earnestly implemented the *Guidelines for Reputational Risk Management of Commercial Banks* of the CBRC, formulated the Group's reputational risk management policy and established the Group's reputational risk management team. The Bank also launched seminars and training sessions on reputational risk management, regularly assessed and analysed the Group's reputational risk, distributed reputational risk reminder cards, and carried out emergency drills concerning major reputational risk events. As a result, the Group's reputational risk management was significantly strengthened, realising a number of new achievements.

Internal Control and Operational Risk Management

The Bank strengthened the overall coordination of its internal control efforts, enhanced the internal control foundation, optimised internal control measures, and upgraded technological support. The operational efficiency and results of the three internal control defence lines were thus continuously enhanced.

Branches, business departments and staff at various levels of the Bank are the first line of defence, responsible for internal control when promoting business development. In 2010, the Bank enhanced the effectiveness of internal control efforts at this level, improved the internal control supervisory mechanisms of tier-two branches and consolidated the internal control awareness and capacity at the first line of defence.

The Risk Management Unit (Operational Risk), together with business management departments, is the second line of defence. It is responsible for the overall planning of internal control policies, and for directing, examining, monitoring and assessing the work of the first line of defence. In 2010, the Bank's second line of defence improved the mechanism for transmitting rules and regulations, intensified efforts on supervising the implementation of rules and thus enhanced the effectiveness of internal control. The Bank introduced innovative management concepts, tools and technology, closely tracked risk situations after the implementation of the IT Blueprint, and strengthened the identification, monitoring, early warning and prevention of operational risk, achieving enhanced risk management. It continued to implement the rectification follow-up mechanism so as to strengthen supervision over the progress and effectiveness of rectification efforts.

The Internal Audit Department is the third line of defence. In 2010, the department accelerated the transformation of internal audit in line with the Bank's strategic priorities and in response to changes in the prevailing risk environment. The department mainly focused on business lines auditing and carried out inspections of systematic and material risks at all levels of the Group's domestic branches and overseas operations. Focusing on management, mechanisms, processes and systems as well as solutions, the department reinforced the overall assessment of the Group's risk management and internal control, improving risk management capabilities and satisfying the regulatory requirements. In addition, the department played an important role in the ongoing implementation of the IT Blueprint and Basel II by taking pre-event intervention.

The Bank continued to fully implement operational risk management projects consistent with Basel II, acted in accordance with the *Basic Rules on Enterprise Internal Control* and ensured that the Group's internal control and operational risk management system was properly integrated across its domestic and overseas operations. The Bank further improved its operational risk governance structure and assigned operational risk management functions within business lines and domestic and overseas institutions. The Bank established a systematic operational risk management framework by applying tools and templates for operational risk classification standards, risk identification and assessment, key risk monitoring, loss data collection and capital measurement. The Bank implemented an integrated group-wide operational risk management information platform to improve management efficiency and information transparency. The Bank provided in-depth training and built expert teams to enhance the professional competence and research ability of its operational risk management function. In accordance with the *Basic Rules on Enterprise Internal Control* and relevant implementation guidelines, the Bank formulated the *Bank of China Implementation Plan on the Basic Rules on Enterprise Internal Control and the Implementation Guidelines* to further improve the internal control framework.

The Bank strictly complied with the accounting laws and regulations and established an accounting system with implementing standard accounting documentation, book-keeping and financial reporting processes to ensure the accuracy and completeness of the financial information. In accordance with relevant accounting laws and regulations, the Bank developed policies and procedures for financial reporting and auditing process and standardise the process of the financial reporting and auditing to ensure true, accurate and complete disclosure of the financial statements. Through these procedures and processes, it ensures the effectiveness of the Bank's internal controls over financial reporting process.

In 2010, consistent with the requirements of *the China's 2008-2012 Anti-money Laundering Strategy*, the Bank further enhanced its support of anti-money laundering (AML) efforts. It optimised data collection for its AML system, and rolled out an AML contingency system in 23 domestic branches. Besides, the Bank made efforts to improve its ability to detect suspicious transactions, studied and reconstructed scanning rules on suspicious transactions, and launched a special campaign against online gambling in the electronic banking sector. The Bank strengthened group AML management further regulated its sanction compliance management mechanism with a published notice on issues regarding the implementation of related UN Security Council resolutions, as required by the PBOC. It strengthened information and experience sharing and held AML trainings and examinations. By streamlining and promoting well-developed AML practices at the branch level, the Bank managed to promote the balanced development of the Group's AML management.

Basel II Implementation

The Bank accelerated the implementation of Basel II based on the principles of "adaptability and applicability".

The Bank has essentially completed the implementation of Pillar I measurement system of Basel II, with a focus on first meeting the CBRC requirements. In 2010, in respect of credit risk, the Bank established and upgraded its internal rating system covering corporates, financial institutions, sovereign risk exposure and risk separation system covering retail risk exposure. In respect of market risk, the Bank launched internal models on the group-wide and legal entity-wide basis. In respect of operational risk, the Bank measured its risk and related capital charges for the eight business lines identified under the Basel II standardised approach, as well as taking the initiative in China to launch the risk-weighted assets (RWA) engine. The Bank made remarkable progress in construction of Pillar II and Pillar III, and continuously enhanced its capital planning and management. The Bank assisted the CBRC with its preliminary assessment and will file an official implementation application according to CBRC requirements.

The Bank continued to fully capitalise on its Basel-related achievements by adopting them into wider practice as soon as they were delivered, thus ensured that early achievements quickly became a productive force for the overall enhancement of the Group's risk management function. In 2010, the Bank improved its risk governance framework and internal risk reporting system, consolidated the fundamental institutional structures and systems required for Basel II implementation, and implemented coherent group-wide policies and procedures. It adopted the risk identification approaches laid out by Basel II, actively conducted stress tests, improved the accuracy and stability of its risk measurement models, and enhanced its model validation and calibration mechanism. The Bank also pushed forward the launching or upgrading of ten Basel II related systems including facility rating, risk mitigation and internal model approach implementation, and further consolidated the risk data base. The Bank continued to expand the application of risk parameter estimates and other Basel II features so as to optimise its asset structure.

The Bank takes a forward-looking and committed approach to Basel II implementation, in line with its overall strategy. In 2010, it accelerated preparations for the implementation of the Basel II advanced approach, enhanced project management and quality control, and kept updated with new developments in international and domestic regulatory requirements. The Bank prudently assessed the impact of Basel III implementation, made overall plan to implement Basel II and Basel III, and conducted in-depth technical studies. Meanwhile, the Bank made great efforts in detecting and fostering experts in risk management and Basel II implementation.

Capital Management

In 2010, the Bank implemented its medium and long-term capital management plan, strengthened its capital management, replenished its capital base, and achieved impressive results. At the end of 2010, the capital adequacy ratio was within the target range, the average weight of risk assets declined continuously during the year, and the return on economic capital increased steadily. The Bank satisfied regulatory requirements and realised a sustained appreciation in shareholder value.

The Bank took a number of effective measures to strengthen capital management externally and internally. First, in response to changes in the business environment and regulatory policies, the Bank re-examined the medium and long-term capital plan in time and improved capital management measures. Second, the Bank continued to optimise its asset structure and thus reduced capital charges. Third, guided by the advanced methods of the Basel II Internal Capital Adequacy Assessment Process (ICAAP), the Bank further enhanced its capital budgeting and performance evaluation mechanism, increased capital constraint awareness across the Bank and optimised its business structure. Fourth, the Bank actively sought support of relevant authorities and replenished capital through various channels.

The Bank replenished capital in a proactive and prudent manner. It successfully issued RMB24.93 billion of subordinated bonds and RMB40.0 billion of A-share convertible bonds (CB) on 9 March 2010 and 2 June 2010, respectively, and undertook rights issues totalling approximately RMB60 billion in A-share and H-share markets on 18 November 2010 and 14 December 2010, respectively, accomplishing a refinancing plan of over RMB100 billion. The successful capital replenishment has laid a solid foundation for the Bank's future development. It is the new starting point for the Bank to further improve its capital management, promote the sustainable and sound development of all its businesses and continuously generate strong shareholder returns.

Successful listing of the Bank's A-Share Convertible Bonds.

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

Organisational Management

At the end of 2010, the Bank had a total of 11,058 domestic and overseas branches, subsidiaries and outlets, including 10,074 branches, subsidiaries and outlets in Chinese mainland and 984 branches, subsidiaries and representative offices in Hong Kong, Macau, Taiwan and other countries and regions, an increase of 97 compared with the prior year-end. For the commercial banking business in Chinese mainland, there were 37 tier-one and direct branches, 288 tier-two branches and 9,745 outlets. Hong Kong, Macau, Taiwan and other countries and regions' branches and subsidiaries accounted for 711 operating outlets (including 172 business operations in Chinese mainland) and 273 non-operating outlets.

In 2010, the Bank further restructured its organisational framework. The Head Office established the Risk Management Unit to reinforce the integrity, intensiveness, pertinency and effectiveness of the Bank's risk management and internal control. The Head Office further optimised the internal organisational framework of the Corporate Banking Unit, Personal Banking Unit, Financial Markets Unit and Operation Service Unit to improve customer service ability. The Bank continued to consolidate its post-lending management by establishing an integrative post-lending management framework based on the principle of "strategy, implementation, decision-making and supervision", and explored unified management mode on its institutions in Shanghai. The Bank further increased the allocation of organisational resources to key regions and business lines to support business development.

Geographic Distribution of Organisations and Employees

Unit: RMB million/unit/person, except percentages

	Assets		Organisations		Employees	
Items	**Total assets (RMB million)**	**% of total**	**Number of branches and outlets**	**% of total**	**Number of employees**	**% of total**
Northern China	4,164,115	33.68%	1,455	13.16%	45,433	16.27%
Northeastern China	534,749	4.32%	904	8.18%	24,250	8.68%
Eastern China	2,590,246	20.95%	3,415	30.88%	83,778	30.00%
Central and Southern China	1,880,166	15.21%	2,705	24.46%	64,392	23.05%
Western China	866,782	7.01%	1,595	14.42%	33,123	11.86%
Hong Kong, Macau and Taiwan	1,780,334	14.40%	862	7.80%	25,935	9.29%
Other countries and regions	547,954	4.43%	122	1.10%	2,390	0.85%
Elimination	(1,904,481)					
Total	10,459,865	100.00%	11,058	100.00%	279,301	100.00%

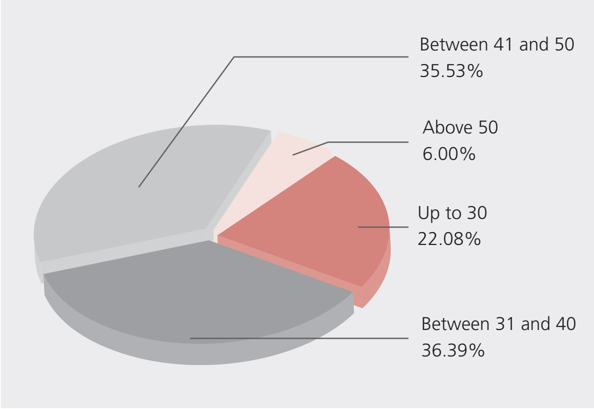
Note: The proportion of geographic assets was based on the data before elimination.

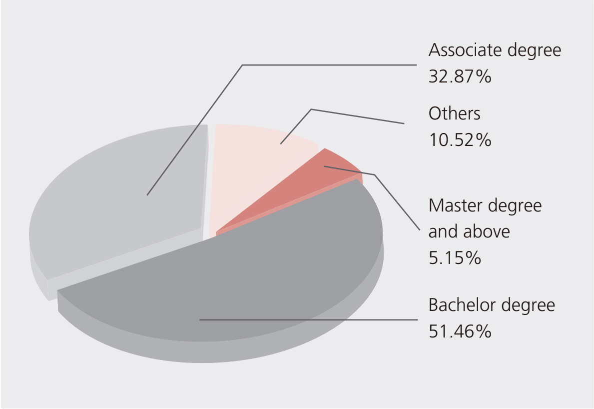
Human Resources Development and Management

At the end of 2010, the Bank had 279,301 employees. There are 250,976 employees in the operations of Chinese mainland, which included 250,781 (containing 61,094 external contractual staff) in the domestic commercial banks; there are 28,325 employees in operations of Hong Kong, Macau, Taiwan and other countries and regions (including 10,005 staff in business operations that set up in Chinese mainland). By the end of 2010, the Bank had incurred retirement expenses for a total of 6,790 retirees.

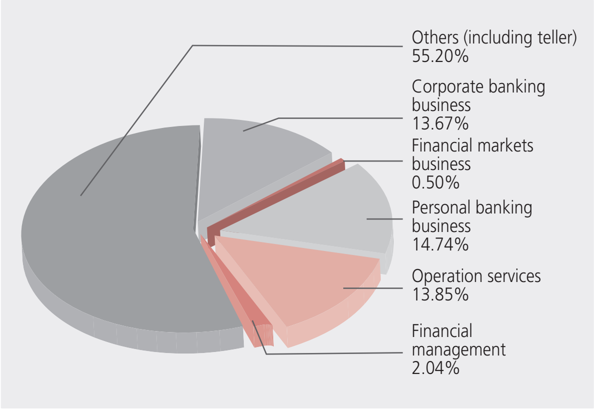
In 2010, the Bank promoted a forward-looking talent development strategy in line with the Group's strategic development plan. It focused on the cultivation and development of talent, the optimisation of the strategy-oriented resource allocation mechanism, and the transformation of human resources services, further improving the human resources management system oriented to market, strategy and service. The Bank made full use of its resources from Hong Kong, Macau, Taiwan and other countries and regions, and placed great emphasis on business management training, specialised technology training, international talent training and reserve talent training. In 2010, 57,415 training sessions were offered with 2,000,345 participants. In terms of human resource allocation and human cost management, the Bank further optimised its performance-oriented resource allocation mechanism and performance-linked pay mechanism, especially in key regions and business lines. Performance management played its role of strategic orientation, incentive and restraint through enhanced transmission of strategy. In terms of staff career development, the professional career serial construction was enhanced, especially for professionals in trading, syndicated loan and international settlement businesses. In 2010, the Bank took steps to optimise its human resources services by establishing the Human Resources Shared Services Centre. The Bank upgraded and optimised the e-HR system, promoting the specialisation and IT-based human resource management. The Bank also continued to optimise the human resource management mechanism of its overseas operations and subsidiaries to provide support to its business development.

Composition of contracted staff in the Bank's domestic commercial banking business in terms of age and education at the end of the year was as follows:





Composition of staff in the Bank's domestic commercial banking business in terms of job function at the end of the year was as follows:



Management Discussion and Analysis — Corporate Social Responsibilities

In 2010, the Bank continued to comprehensively implement the scientific outlook on development, and earnestly performed its corporate social responsibilities. It spared no efforts to provide disaster relief to those areas affected by major natural disasters, such as the earthquake in Yushu of Qinghai Province, landslides in Zhouqu of Gansu Province and drought in Southwest China. It strengthened its support to education and continued to bolster the development of culture and environmental protection, making an active contribution to the building of a harmonious society.

The Bank actively engaged in disaster prevention and relief efforts, triggered emergency business continuity plans to guarantee normal operation of outlets in affected areas, opened "green channels" for donations in domestic and overseas outlets, waived fees and fast-tracked the remittance of such donations, and helped affected people to restore production and rebuild their homes. The Bank's staff and domestic and overseas institutions donated a total of RMB71 million to affected areas.

In 2010, the Bank continued to vigorously support education. It donated RMB3 million in research funds and grants to Chinese universities, including Nanjing University and Zhejiang University, in order to support the construction of world-class faculties and make important research projects possible. By the end of 2010, the Bank has granted RMB15.094 billion of government-sponsored student loans since this lending started, which helped 1.48 million students complete their studies. In June 2010, the Bank successfully bid to continue as sole lender of government-sponsored student loans for universities under central ministries for the period of 2010-2014.

In 2010, the Bank continued to enhance its support of cultural, environmental and poverty-assisting initiatives. It became the first Chinese enterprise to hold a seat on the Board of Directors of the Lincoln Centre for the Performing Arts, and played an active role in Sino-American cultural exchange and cooperation. The Bank gave ongoing support to "Show the World: the Culture-Based Development Goodwill Action for Ethnic Minorities in China", a programme launched by the United Nations Development Programme (UNDP) China and Ms. Zhu Zheqin (a.k.a. Dadawa). It sponsored the Cross-straits Forum Activity entitled "Co-growth of Spirit and Wealth". It also donated RMB5 million to the "Greening Yangtze River – Chongqing Action" programme of the China Green Foundation, and RMB3 million to China Yellow River Foundation to support the conservation of the ecological environment along the Yangtze and Yellow rivers. Meanwhile, it introduced the "Monthly Donation for Poverty Alleviation" in cooperation with the China Foundation for Poverty Alleviation.

In 2010, the Bank's impressive performance in the field of corporate social responsibility achieved recognition from domestic and overseas specialist institutions and media. The Bank won such awards as "Best Corporate Citizen", "Best Bank for Performing Social Responsibilities" and the "United Nations Global Compact Modelling Social Responsibility Report". The Bank was also included in all three indices of the Hang Seng Corporate Sustainability Index Series when it was launched in July 2010, becoming a sustainable leader among Hong Kong-listed domestic enterprises.

The Bank joined hands with UNDP to support 'Show the World' Goodwill Action.

↑ The Bank earnestly conducted the ‘2010 Banking Industry Public Education Day’ activity.

← Employees of London Branch donated to the earthquake-stricken Yushu county of Qinghai Province.

↙ Employees of Bank of China Macau Branch took part in the dragon-boat race held by the Macau Association of Banks.

↓ Young volunteers of the Bank celebrated the Internatinoal Children’s Day with the children of migrant workers.

Management Discussion and Analysis — Outlook

2011 marks the start of the 12th Five-year Plan, and is a crucial year for the Bank to implement its development strategy. The Bank will continue to adopt a scientific approach to development and firmly implement its strategic development plan according to the principles of "streamlining structure, scaling up, preventing risk and sharpening competitiveness". The Bank will seize opportunities, break through bottlenecks and sharpen its core competitiveness through innovation, business transformation and cross-border development, thus realising its strategic objective to be a leading large-sized multinational banking group, so as to salute the Bank's 100th anniversary.

Seize development opportunities. The financial sector will continue to experience significant development opportunities in the 12th Five-Year Plan period, as evidenced by the promising development of traditional commercial banking business, accelerated financial innovation, the trend towards diversified operations and the integration of domestic and overseas businesses. Seizing these opportunities, the Bank will vigorously promote the innovation, strengthen its entrepreneurial spirit, deepen its sense of responsibility and improve execution capability. It is expected to maintain two-digit growth in lending and realise a new round of sound and rapid development.

Transform development model. The Bank will expand its customer base, improve service capability, consolidate and enlarge its diversified business platform and promote faster development of its investment banking, direct investment, insurance, fund management, aviation leasing and other non-commercial banking businesses. Upholding the principles of specialised operation, intensive management and the integrated development of domestic and overseas businesses, the Bank will accelerate its overseas businesses.

Enhance management efficiency. The Bank will further reform its management and internal operation mechanisms, improve risk management, strengthen synergies across the front, middle and back-offices, optimise financial and balance sheet management, improve human resources management, enhance corporate culture construction, and advance the Bank's management capabilities up to a new level.

Changes in Share Capital and Shareholdings of Substantial Shareholders

Disclosure of Shareholding under A-Share Regulation

Changes in Share Capital during the Reporting Period

Unit: Share

	1 January 2010		Increase/decrease during the reporting period					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
I. Shares subject to selling restrictions	-	-	-	-	-	-	-	-	-
1. State-owned shares									
2. Shares held by state-owned legal persons									
3. Shares held by other domestic investors									
Including:									
Shares held by domestic legal persons									
Shares held by domestic natural persons									
4. Shares held by foreign investors									
Including:									
Shares held by foreign legal persons									
Shares held by foreign natural persons									
II. Shares not subject to selling restrictions	**253,839,162,009**	**100.00%**	**25,308,000,722**	**-**	**-**	**60,464**	**25,308,061,186**	**279,147,223,195**	**100.00%**
1. RMB-denominated ordinary shares	177,818,910,740	70.05%	17,705,975,596	-	-	60,464	17,706,036,060	195,524,946,800	70.04%
2. Domestically listed foreign shares									
3. Overseas listed foreign shares	76,020,251,269	29.95%	7,602,025,126	-	-	-	7,602,025,126	83,622,276,395	29.96%
4. Others									
III. Total	**253,839,162,009**	**100.00%**	**25,308,000,722**	**-**	**-**	**60,464**	**25,308,061,186**	**279,147,223,195**	**100.00%**

Notes:

1. As at 31 December 2010, the Bank had issued a total of 279,147,223,195 shares, including 195,524,946,800 A Shares and 83,622,276,395 H Shares.

2. As at 31 December 2010, there is no selling restriction for all the Bank's A Shares and H Shares.

3. Pursuant to the resolution passed at the 2010 Second Extraordinary General Meeting, the 2010 First A-Share Holders Class Meeting and the 2010 First H-Share Holders Class Meeting and as approved by domestic and overseas regulatory authorities, the Bank undertook a rights issue for its A Shares and H Shares during the reporting period. The rights issue for A Shares was completed in November 2010 with 17,705,975,596 A Shares issued, which were listed and traded on 18 November 2010. The rights issue for H Shares was completed in December 2010 with 7,602,025,126 H Shares issued, which were listed and traded on 14 December 2010.

4. During the reporting period, an aggregate of 60,464 shares were converted from the A-Share Convertible Bonds of the Bank.

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

Issue and Listing of Securities

Please refer to the section headed "Convertible Bonds" for details of the public offering of A-Share Convertible Bonds by the Bank during the reporting period.

With the approval of CBRC and CSRC, the Bank offered A Rights Shares, on the basis of 1 A Rights Share for every 10 existing A Shares held and at the price of RMB2.36 per share, to all A-Share Holders whose names appeared on the register of members of the Bank, as maintained by China Securities Depository and Clearing Corporation Limited, Shanghai Branch, after the close of trading hours on the Shanghai Stock Exchange ("SSE") on the A Share Record Date, 2 November 2010. A total of 17,705,975,596 A Shares were subscribed and issued and RMB41,639,158,379.81 was raised in the offering.

With the approval of domestic and overseas regulatory authorities, the Bank offered H Rights Shares, on the basis of 1 H Rights Share for every 10 existing H Shares held and at the price of HKD2.74 per share, to H-Share Holders whose names appeared on the register of H-Share Holders and who were not Excluded Shareholders of the Bank after the close of office hours on the H Share Record Date, 12 November 2010. A total of 7,602,025,126 shares were issued and RMB17,659,653,976.86 was raised in the offering.

In addition to the increase in number of shares due to the rights issues mentioned above, the converting period of the BOC Convertible Bonds (code 113001) commenced from 2 December 2010. As at 31 December 2010, an aggregate of 2,270 Convertible Bonds had been converted into A Shares of the Bank, representing an aggregate of 60,464 A Shares.

During the reporting period, as a result of the rights issues and the conversion of BOC Convertible Bonds (code 113001), the issued share capital of the Bank increased to RMB279,147,223,195, with 279,147,223,195 shares.

For details of the issue and listing of A Share and H Share Rights Issues and the changes in shareholding structure of the Bank, please refer to the related announcements on the websites of the SSE (www.sse.com.cn), HKEx (www.hkexnesws.hk) and the Bank (www.boc.cn).

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

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

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

Number of Shareholders and Shareholdings

Number of shareholders as at 31 December 2010: 1,211,506 (including 968,367 A-Share Holders and 243,139 H-Share Holders)

Top ten shareholders as at 31 December 2010

Unit: Share

No.	Name of shareholder	Number of shares held	Percentage in total share capital	Number of shares subject to selling restrictions	Number of shares pledged or frozen	Type of shareholder	Type of shares
1	Central Huijin Investment Ltd.	188,553,352,005	67.55%	–	None	State	A
2	HKSCC Nominees Limited	78,587,816,818	28.15%	–	Unknown	Foreign legal person	H
3	Li Ka Shing	2,823,470,087	1.01%	–	Unknown	Foreign natural person	H
4	The Bank of Tokyo-Mitsubishi UFJ Ltd.	520,357,200	0.19%	–	Unknown	Foreign legal person	H
5	Asian Development Bank	506,679,102	0.18%	–	Unknown	Foreign legal person	H
6	China Life Insurance Company Limited – dividend – personal dividend – 005L – FH002Shanghai	335,415,554	0.12%	–	None	State-owned Legal Person	A
7	China Life Insurance Company Limited – traditional – ordinary insurance products – 005L – CT001Shanghai	129,201,524	0.05%	–	None	State-owned Legal Person	A
8	Aluminum Corporation of China	99,999,900	0.04%	–	None	State-owned Legal Person	A
8	Shenhua Group Corporation Limited	99,999,900	0.04%	–	None	State-owned Legal Person	A
10	China Southern Power Grid Co., Ltd.	90,909,000	0.03%	–	None	State-owned Legal Person	A

The number of shares held by H-Share Holders was recorded in the Register of Members as kept by the H-Share Registrar of the Bank.

During the reporting period, Huijin increased its shareholding in the Bank by 17,141,213,819 Shares.

"China Life Insurance Company Limited – dividend – personal dividend – 005L – FH002Shanghai" and "China Life Insurance Company Limited – traditional – ordinary insurance products – 005L – CT001Shanghai" are both products of China Life Insurance Company Limited. Besides, the Bank is not aware of any connected relations or concerted action among the afore-mentioned shareholders.

HKSCC Nominees Limited acted as the nominee for all institutional and individual investors that maintain an account with it as at 31 December 2010. The aggregate number of H Shares held by HKSCC Nominees Limited included the shares held by National Council for Social Security Fund ("NCSSF") and Temasek Holdings (Private) Limited ("Temasek").

Convertible Bonds

Overview of Convertible Bond Issuance

With the approval of CBRC (Yinjianfu [2010] No.148) and CSRC (Zhengjianxuke [2010] No.723), the Bank issued RMB40 billion Convertible Bonds in China's A Share market on 2 June 2010. With the approval of the SSE (Shangzhengfazi [2010] No.17), RMB40 billion of A-Share Convertible Bonds have been listed on the SSE since 18 June 2010.

Convertible Bondholders and Guarantors

Number of Convertible Bondholders as at 31 December 2010: 19,134
Guarantor of the Bank's Convertible Bonds: None

Top ten convertible bondholders as at 31 December 2010

No.	Name of convertible bondholders	Amount of Convertible Bonds held as at the end of the reported period (in RMB)	Percentage of total issued Convertible Bond (%)
1	New China Life Company Limited – dividend – group dividend – 018L – FH001Shanghai	2,111,603,000	5.28%
2	CITIC Securities Company Limited	1,374,331,000	3.44%
3	ICBC Credit Suisse Credit Value-added Debt Securities Investment Fund	1,240,643,000	3.10%
4	China Credit Trust Co., Ltd – BoComm Fixed Income Paper – Trust	1,157,847,000	2.89%
5	China Life Insurance Company Limited – dividend – personal dividend – 005L – FH002Shanghai	1,100,000,000	2.75%
6	China National Petroleum Corporation Annuity Plan – ICBC	696,089,000	1.74%
7	ICBC Credit Suisse Asset Management Co., Ltd. – ICBC – Specific Client Asset Management	671,757,000	1.68%
8	Morgan Stanley & Co. International Plc.	645,162,000	1.61%
9	ICBC Credit Suisse Double Interest Debt Securities Investment Fund	619,000,000	1.55%
10	Industrial Convertible Bond Mixed Securities Investment Fund	600,000,000	1.50%
10	China Life Insurance Company Limited – traditional – ordinary insurance products – 005L – CT001Shanghai	600,000,000	1.50%

Changes in Convertible Bonds During the Reporting Period

Unit: RMB

Name of convertible bond	Before the change	Increase/decrease Conversion	Redemption	Back-sell	Others	After the change
Bank of China A-Share Convertible Bond	40,000,000,000	227,000	–	–	–	39,999,773,000

Accumulated Conversion of Convertible Bonds During the Reporting Period

Amount of conversion during the reporting period (RMB)	227,000
Converted shares during the reporting period (share)	60,464
Accumulated converted shares (share)	60,464
Proportion of accumulated converted shares to total shares before conversion (%)	0.00002%
Amount of remaining Convertible Bonds not converted (RMB)	39,999,773,000
Proportion of amount of remaining Convertible Bonds to total issued Convertible Bonds (%)	99.9994%

Previous Adjustments of the Conversion Price

On 27 May 2010, the Bank's 2009 Annual General Meeting approved the Bank's 2009 profit distribution plan and the announcement on A Share dividend distribution was published on 31 May 2010. In accordance with the "Determination and Adjustment of Conversion Price" provision in the Prospectus of Public Offering of Convertible Bonds of Bank of China, the Bank adjusted the conversion price from RMB4.02 to RMB3.88 per share with effect from 3 June 2010 (being the share registration day for dividend distribution). The conversion price of the Bank's Convertible Bonds on the first day of trading was RMB3.88 per share.

With the approval of domestic and overseas regulatory authorities, the Bank issued 17,705,975,596 A Shares and 7,602,025,126 H Shares to A-Share Holders and H-Share Holders respectively. Following the A Share Rights Issue, the conversion price of the Bank's Convertible Bonds has been adjusted from RMB3.88 to RMB3.78 per share since 16 November 2010. Following the H Share Rights Issue, the conversion price has been adjusted from RMB3.78 to RMB3.74 per share since 16 December 2010.

For details of the adjustments of the conversion price, please refer to the related announcements on the websites of the SSE, HKEx and the Bank.

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

Dagong International Credit Rating Co., Ltd. ("Dagong International") has evaluated the Bank's Convertible Bonds, and provided the credit rating report (Da Gong Bao D [2010] No.81) assigned an AAA counterparty rating to the Bank and an AAA credit rating to its Convertible Bonds. Dagong International believes that the Bank is able to provide significantly strong support to the repayment of its issued bonds.

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

Guided by a sound corporate governance mechanism, the Bank is transparent in its financials, efficient in its management and prudent in its operations. The Bank has healthy liquidity and no historical record of default. The Bank will further enhance its management, and develop business in the future and is capable of repaying debts in a timely manner.

Disclosure of Shareholding under H-Share Regulation

Substantial Shareholder Interests

The register maintained by the Bank pursuant to section 336 of *the Securities and Futures Ordinance*, Hong Kong (the "SFO") recorded that, as at 31 December 2010, the following corporations were substantial shareholders (as defined in the SFO) having the following interests in the Bank:

Unit: Share

Name of shareholder	Capacity	Number of shares held/Number of underlying shares	Type of shares	Percentage in total issued A Shares	Percentage in total issued H Shares	Percentage in total issued share capital
Central Huijin Investment Limited	Beneficial owner	188,553,352,005	A	96.43%	–	67.55%
National Council for Social Security Fund	Beneficial owner	10,641,776,129 [1]	H	–	13.99% [1]	3.81% [2]
Temasek Holdings (Private) Limited	Attributable interest	10,481,591,118 [3]	H	–	13.79% [3]	4.06% [4]

Notes:

1. The above interest of NCSSF reflects its latest disclosure of interest made pursuant to the SFO during the reporting period, which does not reflect the Bank's rights issue in December 2010.

2. The above interest of 10,641,776,129 H Shares held by NCSSF accounts for 3.81% of the Bank's total issued share capital as at the end of 2010. According the NCSSF's disclosure of its interest in the Bank as at 4 January 2011, it held an interest in 10,868,098,141 H Shares of the Bank, equivalent to 3.89% of total issued share capital.

3. The above interest of Temasek reflects its latest disclosure of interest in the Bank made pursuant to the SFO, which does not reflect the Bank's rights issue in December 2010. Temasek holds the entire issued share capital of Fullerton Management Pte. Ltd. ("Fullerton Management"), which in turn holds the entire issued share capital of Fullerton Financial Holdings Pte. Ltd. ("Fullerton Financial"). Accordingly, Temasek and Fullerton Management are deemed to have the same interests in the Bank as Fullerton Financial under the SFO. Fullerton Financial holds 10,471,575,118 H Shares of the Bank. Temasek also has an interest in 10,016,000 H Shares of the Bank through other corporations controlled by it.

4. Including the rights shares subscribed for by Temasek in December 2010, as at 31 December 2010, Temasek held an interest in 11,335,743,932 H Shares of the Bank, equivalent to 4.06% of the Bank's total issued share capital as at the end of 2010.

All the interests stated above represented long positions. Save as disclosed above, as at 31 December 2010, no other interests or short positions were recorded in the register maintained by the Bank under section 336 of the SFO.

Controlling Shareholder of the Bank

Central Huijin Investment Ltd.

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

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

As at 31 December 2010, no other legal-person shareholders held 10% or more of the shares issued by the Bank (excluding HKSCC Nominees Limited).

Where there is a will,there is a way.

有志者事竟成。

依托国际化网络，助力中国企业布局全球的雄心。

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1. Employees of Bank of China New York Branch participated local community service activities.
2. Mr. LI Jun, Chairman of the Board of Supervisors, went marketing overseas.
3. BANCO DA CHINA BRASIL S.A.
4. Bank of China (Canada).

Directors, Supervisors and Senior Management

Basic Information

Name	Age	Gender	Position	Term of office
XIAO Gang	52	Male	Chairman	From August 2004 to the date of the Annual General Meeting in 2013
LI Lihui	58	Male	Vice Chairman and President	From August 2004 to the date of the Annual General Meeting in 2013
LI Zaohang	55	Male	Executive Director and Executive Vice President	From August 2004 to the date of the Annual General Meeting in 2013
ZHOU Zaiqun	58	Male	Executive Director and Executive Vice President	From February 2008 to the date of the Annual General Meeting in 2013
HONG Zhihua	58	Female	Non-executive Director	From August 2004 to May 2011
HUANG Haibo	58	Female	Non-executive Director	From August 2004 to May 2011
CAI Haoyi	56	Male	Non-executive Director	From August 2007 to the date of the Annual General Meeting in 2013
SUN Zhijun	55	Female	Non-executive Director	From October 2010 to the date of the Annual General Meeting in 2013
LIU Lina	55	Female	Non-executive Director	From October 2010 to the date of the Annual General Meeting in 2013
JIANG Yansong	47	Female	Non-executive Director	From October 2010 to the date of the Annual General Meeting in 2013
Anthony Francis NEOH	64	Male	Independent Non-executive Director	From August 2004 to the date of the Annual General Meeting in 2013
Alberto TOGNI	72	Male	Independent Non-executive Director	From June 2006 to the date of the Annual General Meeting in 2012
HUANG Shizhong	48	Male	Independent Non-executive Director	From August 2007 to the date of the Annual General Meeting in 2013
HUANG Danhan	61	Female	Independent Non-executive Director	From November 2007 to the date of the Annual General Meeting in 2013
CHOW Man Yiu, Paul	64	Male	Independent Non-executive Director	From October 2010 to the date of the Annual General Meeting in 2013
Jackson P. TAI	60	Male	Independent Non-executive Director	From March 2011 to the date of the Annual General Meeting in 2014
LI Jun	54	Male	Chairman of the Board of Supervisors	From March 2010 to the date of the Annual General Meeting in 2013
WANG Xueqiang	53	Male	Supervisor	From August 2004 to the date of the Annual General Meeting in 2013
LIU Wanming	52	Male	Supervisor	From August 2004 to the date of the Annual General Meeting in 2013
DENG Zhiying	51	Male	Employee Supervisor	From August 2010 to the date of Employee Delegates' Meeting in 2013
LI Chunyu	51	Male	Employee Supervisor	From December 2004 to the date of Employee Delegates' Meeting in 2011
JIANG Kuiwei	42	Male	Employee Supervisor	From May 2008 to the date of Employee Delegates' Meeting in 2011
QIN Rongsheng	48	Male	External Supervisor	From May 2010 to May 2011
BAI Jingming	50	Male	External Supervisor	From May 2010 to May 2011
ZHANG Lin	54	Female	Secretary of Party Discipline Committee	From August 2004
WANG Yongli	46	Male	Executive Vice President	From August 2006
CHEN Siqing	50	Male	Executive Vice President	From June 2008
ZHU Shumin	50	Male	Executive Vice President	From August 2010
YUE Yi	54	Male	Executive Vice President	From August 2010
CHIM Wai Kin	50	Male	Chief Credit Officer	From March 2007
NG Peng Khian	55	Male	Chief Audit Officer	From April 2007
ZHANG Bingxun	61	Male	Secretary to the Board of Directors	From May 2008

Notes:

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

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

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

Compensation for Directors, Supervisors and Senior Management Members Paid in 2010

Unit: RMB thousand

Name	Fees	Remuneration paid	Contribution by the employer to compulsory insurances, housing allowances, etc	Total compensation before tax for 2010 (see notes)	Total compensation before tax for 2009 (see notes)	Whether also compensated by a controlling shareholder company or other associated companies
XIAO Gang	–	775.5	232.5	1,008.0	1,606.2	No
LI Lihui	–	697.9	225.3	923.2	1,472.5	No
LI Zaohang	–	669.6	218.9	888.5	1,417.4	No
ZHOU Zaiqun	–	670.7	220.2	890.9	1,416.8	No
ZHANG Jinghua	–	–	–	–	–	Yes
HONG Zhihua	–	–	–	–	–	Yes
HUANG Haibo	–	–	–	–	–	Yes
CAI Haoyi	–	–	–	–	–	Yes
WANG Gang	–	–	–	–	–	Yes
LIN Yongze	–	–	–	–	–	Yes
SUN Zhijun	–	–	–	–	–	Yes
LIU Lina	–	–	–	–	–	Yes
JIANG Yansong	–	–	–	–	–	Yes
SEAH Lim Huat Peter	300.0	–	–	300.0	300.0	No
Anthony Francis NEOH	550.0	–	–	550.0	550.0	No
Alberto TOGNI	1,085.1	–	–	1,085.1	450.0	No
HUANG Shizhong	550.0	–	–	550.0	550.0	No
HUANG Danhan	350.0	–	–	350.0	350.0	No
CHOW Man Yiu Paul	67.5	–	–	67.5	–	No
LI Jun	–	565.5	168.2	733.7	–	No
LIU Ziqiang	–	169.6	59.9	229.5	1,458.0	No
WANG Xueqiang	–	542.6	168.9	711.5	1,044.8	No
LIU Wanming	–	542.6	166.1	708.7	1,019.5	No
DENG Zhiying	–	225.9	53.1	279.0	–	No
LI Chunyu	–	310.2	104.7	414.9	552.2	No
JIANG Kuiwei	–	481.1	58.8	539.9	841.5	No
QIN Rongsheng	111.8	–	–	111.8	–	No
BAI Jingming	94.6	–	–	94.6	–	No
ZHANG Yanling	–	381.5	130.2	511.7	1,386.8	No
ZHANG Lin	–	652.4	211.9	864.3	1,372.7	No
WANG Yongli	–	654.1	205.2	859.3	1,367.5	No
CHEN Siqing	–	655.2	255.8	911.0	1,405.4	No
ZHU Shumin	–	218.0	89.7	307.7	–	No
YUE Yi	–	218.0	84.8	302.8	–	No
CHIM Wai Kin	–	5,804.4	721.0	6,525.4	11,005.7	No
NG Peng Khian	–	1,805.1	506.2	2,311.3	4,447.8	No
ZHANG Bingxun	–	612.5	215.7	828.2	1,282.1	No

Full compensation for Chairman of the Board of Directors, Chairman of the Board of Supervisors, Executive Directors and senior management members has not been finalised in accordance with the government regulations. The Bank will make announcement for further disclosure.

Due to the aforesaid reasons, total compensation before tax for 2010 presented in the above table does not include the unpaid proportion of 2010 remuneration. While total compensation before tax for 2009 is the final confirmed compensation for the Bank's Directors, Supervisors and senior management members, the details of which could be referred to the *Announcement on Supplementary Information Regarding the Compensation of Directors, Supervisors and Senior Management Members in 2009* published by the Bank on April 27, 2010.

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

Notes:

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

2. Non-executive Directors ZHANG Jinghua, HONG Zhihua, HUANG Haibo, CAI Haoyi, WANG Gang, LIN Yongze, SUN Zhijun, LIU Lina and JIANG Yansong signed an agreement in 2010 to waive their 2010 director's fees.

3. Mr. LI Jun was elected Chairman of the Board of Supervisors in March 2010. Mr. LIU Ziqiang ceased to serve as Supervisor and Chairman of the Board of Supervisors in March 2010. Mr. QIN Rongsheng and Mr. BAI Jingming were elected External Supervisors in May 2010. Mr. DENG Zhiying was elected Employee Supervisor in August 2010. Mr. CHOW Man Yiu, Paul was elected Independent Non-executive Director in October 2010. Mr. SEAH Lim Huat Peter ceased to serve as Non-executive Director in December 2010. The above persons' compensation are calculated on the basis of their actual time working as the Directors or Supervisors with the Bank in 2010.

4. Ms. ZHANG Yanling resigned from the position of Executive Vice President in July 2010. Mr. ZHU Shumin and Mr. YUE Yi were appointed as Executive Vice President in August 2010. The above persons' compensation are calculated on the basis of their actual time working as the senior management members with the Bank in 2010.

The Bank has incurred RMB23,858 thousand in compensation to its Directors, Supervisors and senior management members' services in 2010.

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

Non-executive Director Mr. CAI Haoyi serves as Director of the Bank of China Equity Investment Management Division of Banking Department, Central Huijin Investment Ltd.

Save as disclosed above, in 2010, none of the Bank's Directors, Supervisors or senior management members held any position in the shareholding companies of the Bank.

Directors

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

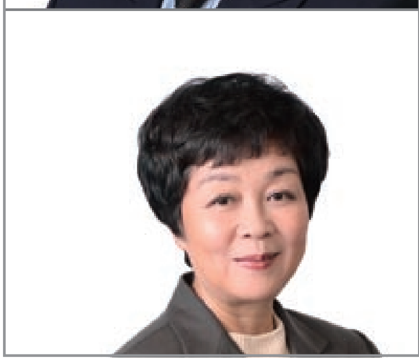
Directors

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









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1 CHEN Muhua

Honorary Chairperson

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

2 XIAO Gang

Chairman

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

3 LI Lihui

Vice Chairman and President

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

4 LI Zaohang

Executive Director and Executive Vice President

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

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

5 ZHOU Zaiqun

Executive Director and Executive Vice President

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

6 HONG Zhihua

Non-executive Director

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

7 HUANG Haibo

Non-executive Director

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

8 CAI Haoyi

Non-executive Director

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

9 SUN Zhijun
Non-executive Director

Non-executive Director of the Bank since October 2010. Ms. SUN worked in several positions in the Ministry of Finance from 1982 to 2010, including as an official of the Cultural and Health Division of the Cultural, Educational, Administrative and Financial Department, Deputy Director of the Social Security Division of the Cultural, Educational, Administrative and Financial Department, Director of the Health and Medical Services Division of the Social Security Department, and Deputy Director General and Director General of the Social Security Department. Ms. SUN is currently a member of the tenth executive committee of the All-China Women's Federation. Ms. SUN graduated from the Department of Finance and Economics at the Shanxi University of Finance and Economics with a Bachelor's degree in February 1982.

10 LIU Lina
Non-executive Director

Non-executive Director of the Bank since October 2010. Ms. LIU worked in several positions in the Ministry of Finance from 1982 to 2010, including as an official of the Foreign Trade and Finance Division and the Foreign Trade Division, Deputy Director of the Comprehensive Affairs Division, Director of the Foreign Trade Division of the Commerce and Trade Department, Director of the Foreign Trade Division, Director of the Fifth Enterprise Division of the Enterprise Department, and Deputy Inspector of the Enterprise Department. Ms. LIU graduated with a Bachelor's degree in Economics from the China Northeast University of Finance and Economics in January 1982. In July 2007, Ms. LIU obtained postgraduate degree in World Economics from the Party School of the Central Committee of C.P.C in July 2007.

11 JIANG Yansong
Non-executive Director

Non-executive Director of the Bank since October 2010. Ms. JIANG worked in several positions at China Everbright Bank from October 1999 to 2010, including Deputy General Manager and General Manager of the International Business Department and General Manager of the Risk Management Department. Ms. JIANG served on the Board of Directors of Everbright Financial Leasing Limited during 2010. Ms. JIANG worked at the China Development Bank from March 1999 to October 1999, where she was in charge of the International Settlement Business Management Division of the International Finance Bureau. Ms. JIANG worked in several positions at the former China Investment Bank from 1986 to 1999, including Deputy Director of the Treasury Division, General Manager of Division One of International Business Department and General Manager of the International Business Department. Ms. JIANG holds professional titles of senior risk manager and senior economist. Ms. JIANG is currently an arbitrator at the China International Economic and Trade Arbitration Commission. Ms. JIANG graduated from the Economics Department of Peking University in 1984 and obtained a Master's degree in Economics from Peking University in 1986.

12 Anthony Francis NEOH
Independent Non-executive Director

Independent Non-executive Director of the Bank since August 2004. Mr. NEOH currently serves as a member of the International Consultation Committee of CSRC. Mr. NEOH previously served as Chief Advisor to CSRC, a member of the Basic Law Committee of the Hong Kong Special Administrative Region under the Standing Committee of the National People's Congress of China, Chairman of the Hong Kong Securities and Futures Commission, a member of the Hong Kong Stock Exchange Council and its Listing Committee, Deputy Judge of the Hong Kong High Court, and Administrative Officer of the Hong Kong Government. From 1996 to 1998, Mr. NEOH was Chairman of the Technical Committee of the International Organisation of Securities Commissions. Mr. NEOH was appointed as Queen's Counsel (since retitled as Senior Counsel) in Hong Kong in 1990. Mr. NEOH graduated from the University of London with an honours degree in Law in 1976. Mr. NEOH is a barrister of England and Wales and admitted to the State Bar of California. In 2003, Mr. NEOH was conferred the degree of Doctor of Laws, honoris causa by the Chinese University of Hong Kong. He was elected Honorary Fellow of the Hong Kong Securities Institute and Academician of the International Euro-Asian Academy of Sciences in 2009, and was designated by the PRC to the List of Conciliators and Arbitrations of the International Centre for Settlement of International Disputes of the World Bank in 2010. Mr. NEOH was a Non-Executive Director of Global Digital Creations Holdings Limited from November 2002 to December 2005, and an Independent Non-executive Director of the Link Management Limited, Manager of the Link Real Estate Investment Trust, from September 2004 to March 2006, and Independent Non-executive Director of China Shenhua Energy Co., Limited from November 2004 to June 2010. He joined the Board of China Life Insurance Company Limited as an Independent Non-executive Director in June 2010. Global Digital Creations Holdings Limited is listed on the Growth Enterprise Market of the Hong Kong Stock Exchange. China Shenhua Energy Co., Limited, the units of the Link Real Estate Investment Trust and China Life Insurance Company Limited, respectively, are listed on the Main Board of the Hong Kong Stock Exchange.

13 Alberto TOGNI
Independent Non-executive Director

Independent Non-executive Director of the Bank since June 2006. Mr. TOGNI joined Swiss Bank Corporation, the predecessor of UBS AG, in 1959 and, after the establishment of UBS AG through the merger of Swiss Bank Corporation and Union Bank of Switzerland in 1998, continued in UBS AG's employment until his retirement in April 2005. Mr. TOGNI served in various capacities during his 46-year career with Swiss Bank Corporation and (after 1998) UBS AG. From 1998 to 2005, he was Executive Vice Chairman of UBS AG overseeing the risk profile of the group. From 1994 to 1997, he was group Chief Credit Officer and group Chief Risk Officer at Swiss Bank Corporation. Prior to 1994, he held various positions at Swiss Bank Corporation overseeing the bank's worldwide credit portfolio. Mr. TOGNI has been serving as a Non-executive Director of Bank of China (Suisse) SA since August 2009. Mr. TOGNI holds a banking certificate from the Swiss Business School. He graduated in 1965 from the New York Institute of Finance with a degree in investment analysis.

14 HUANG Shizhong
Independent Non-executive Director

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

15 HUANG Danhan
Independent Non-executive Director

Independent Non-executive Director since November 2007. Ms. HUANG graduated from the Law School of Robert Schuman University of Strasbourg, France with a State Doctor's degree in Law in 1987, being the first PRC scholar receiving such a degree in France in a social science discipline. Since returning to China, Ms. HUANG has successively worked in the Ministry of Foreign Trade and Economic Cooperation (now the Ministry of Commerce), universities, law firms and state-owned foreign trade companies and financial institutions, including General Manager of the Legal Department of China Construction Bank from August 1999 to March 2001, and General Counsel of China Galaxy Securities Company Limited from April 2001 to September 2004. Ms. HUANG also served as a member of the First Session of the Public Offering Examination and Approval Commission under CSRC from 1993 to 1995 and as Senior Expert in Trade in Services to the EU-China Trade Project (2004-2009). Ms. HUANG currently is Key Expert in Trade in Services to the new EU-China Trade Project (2010-2015), and a Senior Advisor of Sinobridge PRC Lawyers. Ms. HUANG has been serving as the PRC Director of West African Development Bank since September 2007 and her current term of office will expire in August 2011.

16 CHOW Man Yiu, Paul
Independent Non-executive Director

Independent Non-executive Director of the Bank since October 2010. Mr. CHOW was an executive director and Chief Executive of Hong Kong Exchanges and Clearing Limited from 2003 to January 2010. Hong Kong Exchanges and Clearing Limited is listed on the main board of The Stock Exchange of Hong Kong Limited. Mr. CHOW currently serves as the Treasurer and a member of the Council and the Court of the University of Hong Kong, Chairman of Hong Kong Cyberport Management Company Limited, a director of Plan International Hong Kong, an independent non-executive director of China International Fund Management Company Limited (Shanghai) and a member of the International Advisory Board of Saudi Stock Exchange Company (Tadawul). Mr. CHOW served as Chief Executive, Asia Pacific Region (ex-Japan) of HSBC Asset Management (Hong Kong)

Limited from 1997 to 2003. From 1992 to 1997 and 2003 to January 2010, Mr. CHOW was a member of the Standing Committee on Company Law Reform of the Government of the Hong Kong Special Administrative Region ("HKSAR Government"). Mr. CHOW also served as a Director of the World Federation of Exchanges from 2003 to January 2010 and became Chairman of its Working Committee in 2007 and 2008 and then its Vice-chairman in 2009 and was a member of the Advisory Committee of the Hong Kong Securities and Futures Commission from 2001 to 2007. Mr. CHOW graduated from the University of Hong Kong with a Bachelor's degree in Science (Engineering) in 1970. He obtained a Diploma in Management Studies and an MBA in 1979 and 1982, respectively, from the University of Hong Kong. He also obtained a Diploma in Finance (Distinction) from the Chinese University of Hong Kong in 1987. He was awarded the Justice of the Peace, the Silver Bauhinia Star and the Gold Bauhinia Star by the HKSAR Government in 2003, 2005 and 2010, respectively. Mr. CHOW is a Distinguished Fellow of the Hong Kong Computer Society, an Honorary University Fellow of the University of Hong Kong, an Honorary Fellow of the Hong Kong University of Science and Technology, a Fellow of the Hong Kong Institute of Chartered Secretaries, a Fellow of the Institute of Chartered Secretaries and Administrators, an Honorary Fellow of Hong Kong Securities Institute and a Certified General Accountant (Honorary) of the Canadian Certified General Accountants Association of Hong Kong.

17 Jackson P. TAI

Independent Non-Executive Director

Independent Non-Executive Director of the Bank since March 2011. Mr. TAI has over 35 years of experience in the banking industry. He held various key positions in DBS Group Holdings Limited ("DBS Group") and DBS Bank Limited ("DBS Bank") including Vice Chairman and Chief Executive Officer of DBS Group and DBS Bank from 2002 to 2007, President and Chief Operating Officer of DBS Group and DBS Bank from 2001 to 2002, Chief Financial Officer of DBS Bank from 1999 to 2001. He was also a director of DBS Bank (China) Limited from 2007 to 2008. Prior to that, he was with J.P. Morgan & Co. Incorporated from 1974 to 1999. He was Managing Director in the Investment Banking Division and had held various management positions in New York, Tokyo and San Francisco. Mr. TAI was a director of ING Group from 2008 to 2010. He currently serves as a director of a number of companies listed in New York and Singapore, including: director of NYSE Euronext since 2010; director of MasterCard Incorporated since 2008; and director of CapitaLand Limited since 2000. Mr. TAI is also a member of Harvard Business School Asia-Pacific Advisory Board currently. Mr. TAI graduated from Rensselaer Polytechnic Institute with a Bachelor of Science degree in 1972, and from Harvard University with a Masters of Business Administration degree in 1974.

Supervisors

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








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1 LI Jun
Chairman of the Board of Supervisors

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

2 WANG Xueqiang
Supervisor

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

3 LIU Wanming
Supervisor

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

4 DENG Zhiying
Employee Supervisor

Employee Supervisor of the Bank since August 2010. Mr. DENG currently serves as the General Manager of the Supervisory Department in the Bank's Head Office, Mr. DENG has served as Deputy General Manager of the Supervisory Department in the Bank's Head Office from July 2008 to July 2010. From June 2007 to July 2008, Mr. DENG served as a member of the Party Committee and the secretary of the Party Discipline Committee in the Tianjin Branch of the Bank. From June 1993 to June 2007, Mr. DENG worked in the supervisory office, the Inspection and Audit Department, the Supervisory Department of the Bank's Head Office. From August 1984 to June 1993, Mr. DENG worked in the Party Discipline Committee. Mr. DENG received a Bachelor's degree in History from Nankai University in 1984.

5 LI Chunyu
Employee Supervisor

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

6 JIANG Kuiwei
Employee Supervisor

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

7 QIN Rongsheng
External Supervisor

External Supervisor of the Bank since May 2010. Mr. QIN currently serves as Secretary of the Party Committee, professor and tutor of doctoral graduates of Beijing National Accounting Institute, and enjoys the Government Special Allowance of the State Council. He was Vice President of Beijing National Accounting Institute from April 1999 to June 2003, and acted as Assistant President and Vice President of Jiangxi University of Economics and Finance from July 1984 to April 1999. Now, he concurrently acts as Vice President of the China Audit Society, Vice President of the China Association of Chief Accountant, a member of the Certified Public Accountant Examination Committee of the Ministry of Finance, a member of the China Audit Standard Committee, as well as Independent Director of Poly Real Estate Group Co., Ltd., Changjiang Securities Co., Ltd. and China Minsheng Banking Co., Ltd. Mr. QIN graduated with a bachelor's degree from Jiangxi College of Finance and Economics in 1984, and obtained a doctorate degree from the Renmin University of China in 1995.

8 BAI Jingming
External Supervisor

External Supervisor of the Bank since May 2010. Mr. BAI currently serves as Deputy Director, researcher and tutor of doctoral graduates at the Research Institute for Fiscal Science under the Ministry of Finance, and enjoys the Government Special Allowance of the State Council. From July 1990 to August 2004, he worked as the director of the editorial department, the deputy director of the Comprehensive Policy Research Office, the associate researcher of the Regional Finance Research Office and the assistant researcher of the Fundamental Theory Research Office at the Research Institute for Fiscal Science under the Ministry of Finance. Now, he acts as an executive director of the Chinese Finance Society, Vice Chief Editor of *The Public Finance Research* magazine, Vice Chief Editor of *China Business Information & Data*, an independent director of Luneng Jinsui Futures Co., Ltd. and a part-time professor at Shandong University, Zhongnan University of Economics and Law, and the Southwest University of Finance and Economics. Mr. BAI graduated from the Chinese Academy of Social Sciences with a Master's degree in economics in 1986, and received a doctorate degree in economics from the Chinese Academy of Social Sciences in 1990.

Senior Management

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

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1 LI Lihui
Vice Chairman and President

Please refer to the section "Directors".

2 LI Zaohang
Executive Director and Executive Vice President

Please refer to the section "Directors".

3 ZHOU Zaiqun
Executive Director and Executive Vice President

Please refer to the section "Directors".

4 ZHANG Lin
Secretary of Party Discipline Committee

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

5 WANG Yongli
Executive Vice President

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

6 CHEN Siqing
Executive Vice President

Executive Vice President of the Bank since June 2008. Mr. CHEN joined the Bank in 1990 and worked in the Hunan Branch of the Bank before he was seconded to the Hong Kong Branch of China and South Sea Bank Ltd. as Assistant General Manager. Mr. CHEN held various positions in the Bank from June 2000 to May 2008, including Assistant General Manager, Vice General Manager of the Fujian Branch, General Manager of the Risk Management Department of the Head Office and General Manager of the Guangdong Branch. Mr. CHEN has served as Vice Chairman of the Board of Directors of BOCI International Holdings Limited ("BOCI") since May 2010. Mr. CHEN graduated from Hubei College of Finance and Economics in 1982. He obtained an MBA from Murdoch University, Australia in 1999.

7 ZHU Shumin
Executive Vice President

Executive Vice President of the Bank since August 2010. Mr. ZHU joined the Bank in 1988 and served as Global Head for Personal Banking Business of the Bank from May 2009 to July 2010. From July 2003 to May 2009, Mr. ZHU served as General Manager of the Jiangsu Branch of the Bank. From November 2000 to July 2003, Mr. ZHU served as Deputy General Manager of the Jiangsu Branch and General Manager of Suzhou Branch of the Bank. Mr. ZHU previously held various positions in the Suzhou Branch, the Taizhou Branch and the Yangzhou Branch, Jiangsu. Since March 2010, Mr. ZHU has been serving as Chairman of the Board of Directors in Bank of China Consumer Finance Company Limited. He received an MBA from Fudan University in 2008.

8 YUE Yi
Executive Vice President

Executive Vice President of the Bank since August 2010. Mr. YUE joined the Bank in 1980 and served as Global Head for Financial Markets Business of the Bank from March 2009 to July 2010. From March 2008 to March 2009 Mr. YUE served as Global Head for the Personal Banking Business of the Bank. From February 2005 to August 2008 Mr. YUE served as General Manager of Personal Banking Department of the Bank. Mr. YUE previously held various positions in the Retail Banking Department, the Seoul Branch and the Beijing Branch of the Bank. Since September 2010, Mr. YUE has been serving as Chairman of Bank of China (UK) Limited. He received his Master's degree in Finance from Wuhan University in 1999.

9 CHIM Wai Kin
Chief Credit Officer

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

10 NG Peng Khian
Chief Audit Officer

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

11 ZHANG Bingxun
Secretary to the Board of Directors

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

Changes in Directors, Supervisors and Senior Management

Changes in the Bank's Directors were as follows:

Ms. SUN Zhijun, Ms. LIU Lina, Ms. JIANG Yansong began to serve as Non-executive Directors of the Bank and Mr. CHOW Man Yiu, Paul began to serve as an Independent Non-executive Director of the Bank as of 22 October 2010. Mr. ZHANG Jinghua, Mr. WANG Gang and Mr. LIN Yongze ceased to serve as Non-executive Directors of the Bank as of 22 October 2010.

Mr. SEAH Lim Huat Peter ceased to serve as a Non-executive Director of the Bank as of 31 December 2010.

Mr. Jackson P. TAI began to serve as an Independent Non-executive Director of the Bank as of 11 March 2011.

Ms. HONG Zhihua and Ms. HUANG Haibo, the incumbent Non-executive Directors of the Bank, have tendered their resignations as directors and the special committee members with effect from 28 May 2011. The Board of Directors of the Bank has approved the nomination of Mr. ZHANG Xiangdong and Mr. ZHANG Qi as Non-executive Directors of the Bank and will submit it to the 2010 Annual General Meeting of the Bank for review and approval.

Changes in the Bank's Supervisors were as follows:

Mr. LI Jun was elected Supervisor at the First Extraordinary General Meeting in 2010. His term of office will end until the date of the Bank's Annual General Meeting in 2013. Mr. LI Jun was elected Chairman of the Board of Supervisors at the First Meeting of the Second Term of Board of Supervisors on 19 March 2010.

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

Mr. QIN Rongsheng and Mr. BAI Jingming were elected External Supervisors at the 2009 Annual General Meeting of the Bank in May 2010. Due to the relevant government regulations, Mr. QIN Rongsheng and Mr. BAI Jingming, the incumbent External Supervisors of the Bank, have tendered their resignations as supervisors and the special committee members with effect from 28 May 2011. The Board of Supervisors of the Bank has approved the nomination of Mr. MEI Xingbao and Ms. BAO Guoming as External Supervisors of the Bank and will submit it to the 2010 Annual General Meeting of the Bank for review and approval.

The Board of Supervisors elected one new Employee Supervisor. Mr. DENG Zhiying was elected Employee Supervisor with a term of office of three years at the Employee Delegates' Meeting of the Bank in August 2010. His term of office will end until the date of the Employee Delegates' Meeting of the Bank in 2013.

Changes in the Bank's senior management were as following:

Mr. ZHU Shumin was appointed as Executive Vice President of the Bank in August 2010.

Mr. YUE Yi was appointed as Executive Vice President of the Bank in August 2010.

Ms. ZHANG Yanling resigned from the position of Executive Vice President of the Bank on 23 July 2010.

Corporate Governance

In 2010, the Bank intensified efforts to prevent systemic risks, enhanced its ability to make decisions on a scientific basis and continuously improved its corporate governance in strict compliance with laws, regulations and regulatory requirements.

1 Seizing opportunities for capital market fund raising

The Board of Directors seized up the situation and held extraordinary board meetings and Shareholders' Meetings regarding refinancing. With approval of the Shareholders' Meetings, the Bank carried out refinancing plans through the issue of A-Share Convertible Bonds and rights issues of A Shares and H Shares. By taking advantage of favourable market opportunity to replenish its capital, the Bank has paved the way for full implementation of its development strategy and set strong foundations for business expansion.

2 Enhancing governance structure and efficiency

In 2010, the Bank amended its Articles of Association to allow electronic delivery of its corporate communications to shareholders of foreign investment shares, which improved communication efficiency, saved the Bank's costs and helped conserve environmental resources. The Board of Supervisors established the Duty Performance and Due Diligence Supervision Committee and the Finance and Internal Control Supervision Committee to support the fulfillment of its duties and obligations. The Bank made adjustments to several items regarding the delegation of authorities by the Shareholders' Meeting to the Board of Directors, approved the plan on the delegation of authorities by the Board of Directors to the senior management, further optimised the power and responsibility mechanism, and thus improved business management efficiency.

3 Improving the structure of the Board of Directors and the Board of Supervisors by electing new directors and supervisors

The Bank completed the election and re-election of the Board of Directors in 2010. The executive directors and a number of non-executive directors were re-elected. Three non-executive directors were re-elected and two independent non-executive directors were newly elected, which further increased the proportion of independent non-executive directors in the Board of Directors. Two external supervisors and one employee supervisor were newly elected, which improved the composition of the Board of Supervisors.

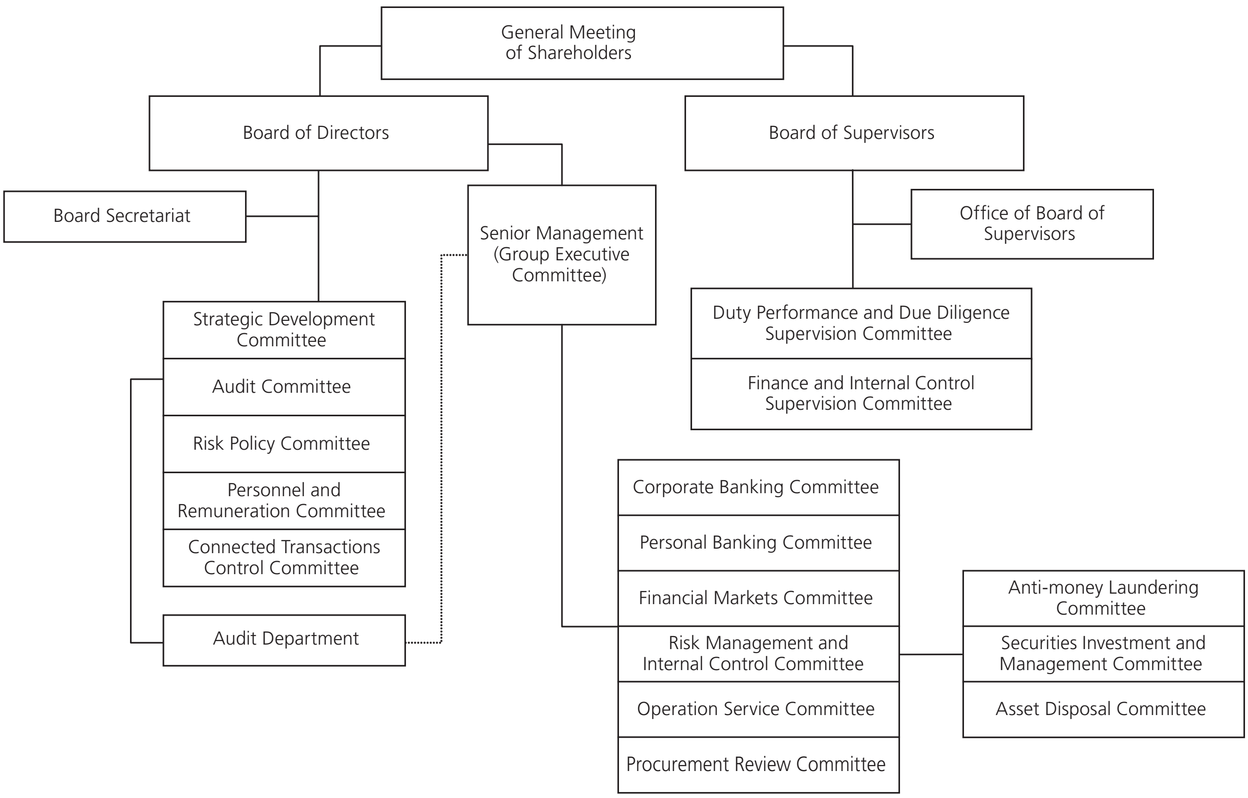
4 Enhancing the information disclosure management and further improving the relevant works

In 2010, the Board of Directors approved the implementation of the *Rules Governing Persons with Knowledge of Inside Information of Bank of China Limited (Trial)*, built up the mechanism for the registration and filing of persons holding inside information so as to prevent insider trading. The Bank enhanced information disclosure emergency event procedures by formulating the *Operation Manual for the Management of Information Disclosure Emergencies of Bank of China Limited*, in order to ensure the information disclosed in line with the principles of timeliness, fairness, truthfulness, accuracy and completeness. During the reporting period, the Bank announced various reports to the public including the 2009 Annual Report, 2010 First Quarter Report, 2010 Interim Report, 2010 Third Quarter Report and other temporary reports.

The Board of Directors continually improved its ability to make key decisions, develop core strategies and monitor systemic risks in an efficient manner. In 2010, the strength of the Bank's corporate governance continued to be recognised by the market. The Bank was awarded "Outstanding Board of Directors" award from *Directors & Boards*, China's only corporate governance publication. The Bank was selected into the Hang Seng Corporate Sustainability Index and has been elected as sample stock for the SSE Corporate Governance Index for three consecutive years.

Corporate Governance Framework

The Bank's corporate governance framework is shown below:



Code on Corporate Governance Practices

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

Shareholders and Shareholders' Meeting

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

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

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

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

All the afore-mentioned meetings were convened and held in strict compliance with the relevant governing laws and regulations, including the listing rules of the Chinese mainland and Hong Kong. The Bank's Directors, Supervisors and senior management members attended the meetings and communicated with shareholders on issues of their concern. The Bank published the resolutions and legal opinions of the afore-mentioned Shareholders' Meetings in a timely manner pursuant to regulatory requirements.

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

The Board of Directors earnestly and fully implemented the resolutions passed in the Shareholders' Meetings during the reporting period.

According to the proposals approved by the 2010 First Extraordinary General Meeting regarding the general mandate to issue new shares and the proposed issue of Convertible Bonds, RMB40 billion Convertible Bonds of the Bank were listed on the SSE on 18 June 2010. According to the proposal on rights issues of A Shares and H Shares approved by the 2010 Second Extraordinary General Meeting, the 2010 First A-Share Holders Class Meeting and the 2010 First H-Share Holders Class Meeting, rights issues of A Shares and H Shares were completed in November and December 2010 respectively.

According to the proposals to elect directors approved by the 2009 Annual General Meeting and the 2010 Second Extraordinary General Meeting, the relevant re-appointment and appointment, approval and filing procedures have been concluded with the regulatory authorities.

According to adjustments on several items regarding the delegation of authorities by the Shareholders' Meeting to the Board of Directors approved by the 2009 Annual General Meeting, the Board of Directors has performed its decision-making functions earnestly in strict compliance with the requirements of the relevant authorities. During the reporting period, the Board of Directors did not act beyond the authorities granted to it by the Articles of Association and the Shareholders' Meetings.

According to the profit distribution plan for 2009 approved by the 2009 Annual General Meeting, the Board of Directors diligently carried out the profit distribution implementation scheme in order to deliver dividends to shareholders as early as possible, to better serve shareholders' interests. Dividend distribution was completed by 22 June 2010.

According to the proposal to revise the Articles of Association of the Bank approved by the 2009 Annual General Meeting, relevant amendments have been ratified by CBRC and the full text has been published on the websites of SSE, HKEx and the Bank. Accordingly, the Bank's Board of Directors oversaw the shift towards electronic distribution of corporate communications to H-Share Holders, which has improved efficiency and significantly reduced printing and delivery costs, thus also demonstrating the Bank's commitment to its social responsibilities on environmental protection.

Directors and Board of Directors

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

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

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

The Bank renewed the directors and officers' liability insurance for members of the Board in 2010 to provide protection against claims arising from the lawful discharge of duties by the directors, thus helping the directors to fully perform their duties.

Convening of Board Meetings

In 2010, the Bank convened nine on-site meetings of the Board of Directors, on 8 January, 22 January, 19 March, 27 April, 30 June, 23 July, 26 August, 27 October and 9 December respectively. At these meetings, the Board of Directors approved the Bank's 2010-2012 capital planning, a proposal to obtain a general mandate to issue new shares and a proposal to issue Convertible Bonds, a proposal on rights issues of A Shares and H Shares, the Bank's periodic reports and profit distribution plans, performance evaluation results of senior management and remuneration distribution plans, the appointment of directors, amendments to the Articles of Association, internal control self-assessment reports, the corporate social responsibility report, the appointment of senior management members, the *General Principles of Risk Management of Bank of China Limited (2010 Edition)*, the *Bank's Plan on the Implementation of the Basic Standard for Enterprise Internal Control and Supporting Guidelines*, a proposal on the issue of RMB-denominated bonds by the Bank in Hong Kong for an amount not exceeding RMB20 billion by the end of 2012, etc. The Board of Directors also reviewed the Bank's consolidated management report and the report on the latest progress of the New Basel Capital Accord and analysis of influences, etc.

In 2010, the Bank convened seventeen meetings of the Board of Directors via written resolutions. At these meetings, the Board of Directors reviewed such matters as the *Rules Governing Persons with Knowledge of Inside Information of Bank of China Limited (Trial)*, a proposal to donate to the earthquake afflicted area in Qinghai Province, and the publication of the announcement on an investment by a wholly-owned subsidiary of the Bank, etc.

The average attendance rate of the meetings of the Board of Directors in 2010 was 98%. The attendance rate of each director is given below:

Director	Number of meetings attended/Number of meetings convened during term of office
XIAO Gang	25/26
LI Lihui	26/26
LI Zaohang	25/26
ZHOU Zaiqun	26/26
ZHANG Jinghua	21/21
HONG Zhihua	26/26
HUANG Haibo	26/26
CAI Haoyi	26/26
WANG Gang	21/21
LIN Yongze	21/21
SUN Zhijun	5/5
LIU Lina	5/5
JIANG Yansong	5/5
SEAH Lim Huat Peter	26/26
Anthony Francis NEOH	26/26
Alberto TOGNI	24/26
HUANG Shizhong	24/26
HUANG Danhan	25/26
CHOW Man Yiu, Paul	5/5

Notes:

1. In 2010, the Bank's Board of Directors convened a total of twenty-six meetings, comprising nine on-site meetings and seventeen meetings held by written resolutions.

2. Chairman Mr. XIAO Gang was not able to attend the Board Meeting in person on 27 October 2010. He appointed another director to attend and vote at the meeting as his proxy.

3. Executive Director Mr. LI Zaohang was not able to attend the Board Meeting in person on 19 March 2010. He appointed another director to attend and vote at the meeting as his proxy.

4. Mr. SEAH Lim Huat Peter ceased to serve as Non-executive Director of the Bank as of 31 December 2010.

5. Independent Non-executive Director Mr. Alberto TOGNI was not able to attend the Board Meetings in person on 30 June and 23 July 2010. He appointed other directors to attend and vote at the meetings as his proxies.

6. Independent Non-executive Director Mr. HUANG Shizhong was not able to attend the Board Meetings in person on 8 January and 27 April 2010. He appointed other directors to attend and vote at the meetings as his proxies.

7. Independent Non-executive Director Ms. HUANG Danhan was not able to attend the Board Meeting on 30 June 2010 in person. She appointed another director to attend and vote at the meeting as her proxy.

8. Ms. SUN Zhijun, Ms. LIU Lina and Ms. JIANG Yansong began to serve as Non-executive Directors of the Bank and Mr. CHOW Man Yiu, Paul began to serve as Independent Non-executive Director of the Bank as of 22 October 2010. Mr. ZHANG Jinghua, Mr. WANG Gang and Mr. LIN Yongze ceased to serve as Non-executive Directors of the Bank as of 22 October 2010.

The Strategic Development Committee

The Strategic Development Committee comprises ten members, including Executive Directors Mr. XIAO Gang and Mr. LI Lihui, Non-executive Directors Ms. HONG Zhihua, Ms. HUANG Haibo, Mr. CAI Haoyi, Ms. SUN Zhijun, Ms. LIU Lina, Ms. JIANG Yansong, and Independent Non-executive Director Mr. Alberto TOGNI and Mr. Jackson P. TAI. The committee is chaired by Mr. XIAO Gang, Chairman of the Board of Directors.

The committee is mainly responsible for:

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

The Strategic Development Committee held four meetings in 2010, which mainly reviewed proposals covering the Bank's profit distribution plan for 2009, a general mandate to issue new shares of the Bank and the issuance of Convertible Bonds, proposed rights issues of A Shares and H Shares, the *Strategic Risk Management Policy of Bank of China (2010 Revised Edition)*, the Bank's business plans and financial budget for 2011, and the issuance of RMB-denominated bonds in Hong Kong for an amount not exceeding RMB20 billion by the end of 2012.

The average attendance rate of the meetings of the Strategic Development Committee reached 92.5%, and the attendance rate of each director is given below:

Director	Number of meetings attended/Number of meetings convened during term of office
XIAO Gang	4/4
LI Lihui	4/4
ZHANG Jinghua	3/3
HONG Zhihua	4/4
HUANG Haibo	4/4
CAI Haoyi	4/4
WANG Gang	3/3
LIN Yongze	3/3
SUN Zhijun	1/1
LIU Lina	1/1
JIANG Yansong	1/1
SEAH Lim Huat Peter	3/4
Alberto TOGNI	2/4

Notes:

1. Mr. SEAH Lim Huat Peter was not able to attend the committee meeting on 6 December 2010 in person. He authorised another director to attend and vote as his proxy. And he resigned from the member of the Strategic Development Committee effective on 31 December 2010.

2. Independent Non-executive Director Mr. Alberto TOGNI was not able to attend the committee meetings on 30 June 2010 and 6 December 2010 in person. He authorised other directors to attend and vote as his proxies.

3. Ms. SUN Zhijun, Ms. LIU Lina and Ms. JIANG Yansong were appointed as members of the Strategic Development Committee of the Bank as of 22 October 2010. And Mr. ZHANG Jinghua, Mr. WANG Gang and Mr. LIN Yongze retired as members of the Strategic Development Committee of the Bank as of 22 October 2010.

The Audit Committee

The Audit Committee comprises eight members, including Non-executive Directors Ms. HUANG Haibo, Ms. SUN Zhijun and Independent Non-executive Directors Mr. Anthony Francis NEOH, Mr. Alberto TOGNI, Mr. HUANG Shizhong, Ms. HUANG Danhan, Mr. CHOW Man Yiu, Paul and Mr. Jackson P. TAI. Independent Non-executive Director Mr. HUANG Shizhong serves as Chairman of the Audit Committee. The committee is mainly responsible for:

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

The Audit Committee held five meetings in 2010, mainly reviewed financial reports, the self-assessment report on internal control, the *Bank's Plan on the Implementation of the Basic Standard for Enterprise Internal Control and Supporting Guidelines*, the appointment, audit plan and fee of the external auditor for 2011, to approve the medium and long-term development plan for group internal audit of the Bank, the Internal Audit's work report in 2009, work plan and budget for 2010 and inspection priorities for 2011, and the revised *Policies of Selection, Rotation and Dismissal for External Auditors of Bank of China Limited (2010 edition)*. The committee also continuously monitored work related to the implementation of New Basel Capital Accord, the report of the internal audit concerning the special inspection on the lending to local government financing vehicles ("LGFV") and the implementation of the *Basic Standard for Enterprise Internal Control*.

The average attendance rate of Audit Committee meetings in 2010 was 100%. The attendance rate of each director is given below:

Director	Number of meetings attended/Number of meetings convened during term of office
HUANG Shizhong	5/5
HUANG Haibo	5/5
WANG Gang	3/3
SUN Zhijun	2/2
SEAH Lim Huat Peter	5/5
Anthony Francis NEOH	5/5
Alberto TOGNI	5/5
HUANG Danhan	5/5
CHOW Man Yiu, Paul	2/2

Notes:

1. Mr. WANG Gang ceased to serve as the Audit Committee member of the Bank as of 22 October 2010.

2. Non-executive Director Ms. SUN Zhijun and Independent Non-executive Director Mr. CHOW Man Yiu, Paul were appointed as the Audit Committee members of the Bank as of 22 October 2010.

3. Mr. SEAH Lim Huat Peter ceased to serve as the Audit Committee member of the Bank as of 31 December 2010.

In accordance with the *Procedure Rules on the Preparation of Annual Report of the Board Audit Committee of Bank of China Limited*, and pending the start of the audit work by the accounting firm, the Audit Committee affirmed 2010 audit plan, including the audit focuses for the 2010 Annual Report, risk assessment and recognition methods, the application of accounting standards, internal control and corruption testing, and human resources arrangements. The committee raised detailed requirements in line with this, and specially requested the accounting firm to report to the committee on the differences with the senior management on each particular issue, as well as the process and results of achieving consensus with them.

The Audit Committee received a report from the senior management concerning the Bank's operating status and major financial data, and put forward comments and recommendations. The committee requested that senior management submit the annual financial statements to the accounting firm in time to allow sufficient time for the audit. During the audit period, the committee maintained independent discussions with the accounting firm and arranged communication between the accounting firm and the independent directors. The Audit Committee compared and analysed the opinions of the accounting firm and the senior management after the accounting firm issued preliminary audit opinions, put forward questions and comments, and subsequently issued a note in writing. At its first meeting of 2011, the Audit Committee reviewed the Bank's 2010 financial statements and submitted them to the Board of Directors for approval.

In accordance with the *Policies of Selection, Rotation and Dismissal for External Auditors of Bank of China Limited*, the accounting firm of the Bank submitted its 2010 summary report. The senior management appraised the performance of the accounting firm. Based on this appraisal, the Audit Committee conducted its own assessment of the accounting firm in 2010 with a particular focus on their independence. After deliberation, the Audit Committee decided to submit to the Board of Directors the proposal of re-appointing PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company as the Bank's domestic auditor and PricewaterhouseCoopers Hong Kong as the Bank's international auditor for 2011, appointing PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company as the Bank's internal control auditor for 2011.

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

The Board of Directors of the Bank is responsible for establishing, improving and effectively implementing internal control, and has attached great importance to the establishing and development of the Group's internal control system. To this end, the Board of Directors has dedicated resources to cultivating a sound culture of internal control and compliance, and regularly reviewed the reports presented by the senior management concerning operational compliance, risk management, the settlement of fraud cases and the building and assessment of internal controls. By providing guidance on the internal control and compliance work of the Bank, the Board of Directors has actively promoted the building, improvement and effective implementation of internal controls, and steadily enhanced the risk mitigation ability and compliant operation of the Group.

The Audit Committee of the Board of Directors has paid close attention to the overall status of the Group's internal control, including the establishment and operation of internal control system regarding financial report and non-financial report, and has attached great importance to the Bank's implementation of the *Basic Rules on Enterprise Internal Control* and its supporting guidelines. During the reporting period, the Audit Committee reviewed and approved the Bank's plan for implementing the *Basic Rules on Enterprise Internal Control* and its supporting guidelines prepared by the senior management, and advanced relevant work accordingly. The Bank, under the guidance of the Audit Committee, further improved its internal control assessment system by implementing the *Standards of Internal Control Assessment of Bank of China Limited* and the *Standards of Recognising Internal Control Deficiencies of Bank of China Limited* on a trial basis, which laid a solid foundation for the Bank to implement the *Basic Rules on Enterprise Internal Control* and its supporting guidelines.

With the aim of mitigating systemic and material risks, the Audit Committee paid close attention to changes in the domestic and overseas economic and financial environment and guided the internal audit to set priorities for internal audit inspections and carry out internal audit activities according to the Group's strategic goals and in line with the policy of comprehensive risk management and risk assessment, in a view to improving the effectiveness and efficiency of the Group's operations as well as its corporate governance.

The Audit Committee received and studied the internal audit inspection reports and assessment opinions on internal control. It reviewed rectification progress with regard to external auditors' recommendations on internal control enhancement, and the prevention and control of fraud cases and violations. The committee also guided and urged the senior management to improve internal control systems. The Audit Committee guided the internal audit function to closely implement the IT Blueprint and the New Basel Capital Accord and put forth recommendations on internal control improvement from an independent third-party perspective.

During the reporting period, the Bank followed the relevant requirements of the *Basic Rules on Enterprise Internal Control* and its supporting guidelines, and performed internal control self-assessment in accordance with the *Standards of Internal Control Assessment of Bank of China Limited* and the *Standards of Recognising Internal Control Deficiencies of Bank of China Limited*, during which no material defect was found in internal control of the Bank (regarding financial report and non-financial report). Please refer to the announcement of the Bank dated 24 March 2011 for the relevant reports.

The Risk Policy Committee

The Risk Policy Committee comprises seven members, including Executive Director, Mr. ZHOU Zaiqun, Non-executive Directors Ms. LIU Lina and Ms. JIANG Yansong, and Independent Non-executive Directors Mr. Anthony Francis NEOH, Mr. Alberto TOGNI, Mr. HUANG Shizhong and Mr. CHOW Man Yiu, Paul. Mr. Anthony Francis NEOH acts as the Chairman of the committee. The committee is mainly responsible for:

- Reviewing risk management strategy, major risk management policies, procedures and systems, and providing suggestions to the Board of Directors;

- Reviewing the Bank's major risk activities, and exercising its veto power in a reasonable manner over any transaction that will or may lead to debts to the Bank and/or expose the Bank to market risk in excess of the single transaction risk limit or the accumulated transaction risk limit approved by the Risk Policy Committee or the Board of Directors;

- Monitoring the implementation of the Bank's risk management strategies, policies and procedures, and providing suggestions to the Board of Directors; and

- Reviewing the Bank's risk management situation, regularly assessing the duty performance of risk management and internal control by the senior management, departments and institutions of the Bank, including regularly hearing their reports and requesting improvement.

The Risk Policy Committee held six meetings in 2010, mainly reviewed and approved the general principles of risk management, the measures on the management of material risk assessment, the value at risk policy of the Bank, the market risk limit, the liquidity risk management policy and the reputation risk management policy. It also reviewed the progress report of the Bank's implementation of the New Basel Capital Accord, and the report on the internal rating system of credit risk.

In addition, the Risk Policy Committee paid constant attention to the Bank's securities investment, the Bank's lending to local government financing vehicles ("LGFV"), and the Bank's consolidated management, and evaluated the impact on the Bank from the government's macro policies and the latest regulatory requirements as well as the changes of the domestic and overseas economic environment. The committee's meetings contributed important opinions and proposals for further improving and enhancing the Bank's management mechanism and effectively controlling risks.

The average attendance rate of Risk Policy Committee meetings in 2010 reached 100%. The attendance rate of each director is given below:

Director	Number of meetings attended/Number of meetings convened during term of office
Anthony Francis NEOH	6/6
ZHOU Zaiqun	6/6
ZHANG Jinghua	4/4
LIN Yongze	4/4
Alberto TOGNI	6/6
HUANG Shizhong	6/6
LIU Lina	2/2
JIANG Yansong	2/2
CHOW Man Yiu, Paul	2/2

Notes:

1. Mr. ZHANG Jinghua and Mr. LIN Yongze ceased to act as members of the Risk Policy Committee of the Bank as of 22 October 2010.

2. Non-executive Directors Ms. LIU Lina and Ms. JIANG Yansong and Independent Non-executive Director Mr. CHOW Man Yiu, Paul began to serve on the Risk Policy Committee of the Bank as of 22 October 2010.

The Personnel and Remuneration Committee

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

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

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

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

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

The Personnel and Remuneration Committee held six meetings in 2010, At these meetings, the committee reviewed several proposals, including proposals on the performance evaluation and remuneration distribution plan for the Chairman of the Board of Directors, the President, the Chairman of the Board of Supervisors, supervisors and senior management members for 2009, 2010 performance targets for the Group, 2010 performance targets for the Chairman of the Board of Directors, the President and the senior management members, the remuneration plan for external Supervisors, proposals on the nomination and appointment of Directors, proposals on the appointment of the Vice Presidents of the Bank, and a proposal on adjustments to the membership of the Board committees.

The average attendance rate of the meetings of the Personnel and Remuneration Committee in 2010 was 100%. The attendance rate of each director is given below:

Director	Number of meetings attended/Number of meetings convened during term of office
CAI Haoyi	6/6
HONG Zhihua	6/6
Anthony Francis NEOH	6/6
HUANG Shizhong	6/6
HUANG Danhan	6/6

The Connected Transactions Control Committee

The Connected Transactions Control Committee comprises eight members, including Executive Directors Mr. LI Zaohang and Mr. ZHOU Zaiqun, and Independent Non-executive Directors Mr. Anthony Francis NEOH, Mr. Alberto TOGNI, Mr. HUANG Shizhong, Ms. HUANG Danhan, Mr. CHOW Man Yiu, Paul and Mr. Jackson P. TAI. Mr. Alberto TOGNI serves as chairman of the committee. The committee is mainly responsible for:

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

The Connected Transactions Control Committee held four meetings in 2010, at which it reviewed several reports, including the *Statement of Funds Provided to Major Shareholders and Related Parties for the Year Ended 31 December 2009*, the *Statement of Continuing Connected Transactions of the Bank in 2009*, a report on the rectification of problems found in internal and external inspections on connected transactions, the 2010 work report on connected transactions management and the 2011 work plan.

The average attendance rate of the meetings of the Connected Transactions Control Committee was 96%. The attendance rate of each director is given below:

Director	Number of meetings attended/Number of meetings convened during term of office
Alberto TOGNI	4/4
LI Zaohang	3/4
ZHOU Zaiqun	4/4
Anthony Francis NEOH	4/4
HUANG Shizhong	4/4
HUANG Danhan	4/4
CHOW Man Yiu, Paul	2/2

Notes:

1. Executive Director Mr. LI Zaohang was not able to attend the committee meeting in person on 18 March 2010. He authorised another director to attend and vote as his proxy.
2. Independent Non-executive director Mr. CHOW Man Yiu, Paul started to serve as member of the Connected Transactions Control Committee of the Bank as of 22 October 2010.

Independent Non-executive Directors

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

In 2010, the Bank's Independent Non-executive Directors attended meetings of the Board of Directors, reviewed proposals, participated in discussions and offered their professional opinions independently, objectively and diligently in accordance with the Articles of Association of the Bank, the *Procedural Rules for Board of Directors of Bank of China Limited and the Work Rules of Independent Directors of Bank of China Limited*.

In 2010, the Independent Non-executive Directors did not raise any objection to the resolutions of the Bank's Board of Directors or its special committees.

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

Pursuant to the provisions and requirements set forth in the circular (ZhengJianFa [2003] No.56) issued by CSRC and according to the principles of equity, fairness and objectiveness, the Independent Non-executive Directors of the Bank, Mr. Anthony Francis NEOH, Mr. Alberto TOGNI, Mr. HUANG Shizhong, Ms. HUANG Danhan, Mr. CHOW Man Yiu, Paul and Mr. Jackson P. TAI have provided the following information regarding the Bank's guarantee business:

The guarantee business is one of the Bank's ordinary business activities. It has been approved by the PBOC and CBRC and does not fall within the scope of guarantees as defined in the *Circular on Regulating Guarantee Businesses of Listed Companies*. The Bank has formulated specific management measures, operational processes and approval procedures in line with the risks of the guarantee business and carried out this business accordingly. The Bank's guarantee business comprises principally letters of guarantee. As at 31 December 2010, the outstanding amount of letters of guarantee issued by the Bank was RMB646.098 billion.

Supervisors and Board of Supervisors

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

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

As approved by the 2009 Annual General Meeting of the Bank, the Duty Performance and Due Diligence Supervision Committee and the Finance and Internal Control Supervision Committee were set up under the Board of Supervisors, and detailed working rules of special committees were formulated. This further improved the organisational framework of the Bank's Board of Supervisors, enhanced the division of labour with supervisory function and standardised working procedures for routine supervision.

The Board of Supervisors held eight meetings in 2010 and made related resolutions. The Duty Performance and Due Diligence Supervision Committee and the Finance and Internal Control Supervision Committee of the Board of Supervisors each held two meetings. For the performance and supervision opinions of the Board of Supervisors within the reporting period, please refer to the section "Report of the Board of Supervisors" in this annual report.

Senior Management

In 2010, the senior management of the Bank, in accordance with the powers bestowed upon them by the Articles of Association of the Bank and the rights delegated to them by the Board of Directors, drove forward the Bank's various businesses in line with the performance goals set by the Board of Directors for 2010, showing composure in the face of various challenges.

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

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

Securities Transactions by Directors and Supervisors

Pursuant to domestic and overseas securities regulatory requirements, the Bank formulated, implemented and made necessary amendments on the *Management Measures on Securities Transactions by Directors, Supervisors and Senior Management Personnel of Bank of China Limited* (the "Management Rules") to govern securities transactions by Directors, Supervisors and senior management members of the Bank. The terms of the Management Rules are more stringent than the mandatory standards set out in the *Model Code for Securities Transactions by Directors of Listed Issuers* contained in Appendix 10 to the Hong Kong Listing Rules (the "Model Code"). The Bank has made specific enquiry to all Directors and Supervisors, all of whom confirmed that they have complied with the standards set out in both the Management Rules and the Model Code throughout the reporting period.

Responsibility Statement of Directors on Financial Reports

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

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

Appointment of External Auditors

At the 2009 Annual General Meeting of the Bank, shareholders of the Bank approved the appointments of PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company as its domestic auditor and PricewaterhouseCoopers Hong Kong as its international auditor for 2010.

Fees paid to PricewaterhouseCoopers and its member firms for the audit of the financial statements of the Group, including those of the Bank's overseas subsidiaries and branches, were RMB213 million for the year ended 31 December 2010.

PricewaterhouseCoopers was not engaged in significant non-auditing services with the Bank. The Bank incurred RMB5.59 million for non-auditing services performed by PricewaterhouseCoopers for the year ended 31 December 2010.

PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers Hong Kong have provided audit services to the Bank for the last eight years. Mr. WANG Wei and Mr. HU Liang are the certified public accountants who signed the auditor's report on the Group's financial statements prepared in accordance with the Chinese Accounting Standards for the year ended 31 December 2010.

The Board will table a resolution at the 2010 Annual General Meeting, proposing to appoint PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers Hong Kong as external auditors of the Bank for 2011, being respectively responsible for audit services in relation to CAS and IFRS reporting, and to appoint PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company as the Bank's internal control auditor for 2011.

Investor Relations and Information Disclosure

The Board and senior management of the Bank attach great importance to investor relations and information disclosure. In 2010, the Bank actively carried out investor relations and information disclosure based on results releases and other important issues of the Bank in line with the principles of timeliness, proactivity, openness and fairness to ensure that communications channels are streamlined and effective and information disclosure is authentic, accurate and complete.

In 2010, the Bank earnestly performed its information disclosure obligations in accordance with the regulations of securities regulators in the Chinese mainland and Hong Kong. In line with the capital management strategy of the Group, it actively communicated its proposed refinancing plan to investors. In designing and implementing its refinancing plan, the Bank considered the needs of all types of shareholders, and prioritising capital market stability. The Bank's senior management fully communicated with the Bank's strategic investors, institutional investors and individual investors via various channels, including conference calls and online roadshows, which were widely supported by investors. The Bank's refinancing work was commenced in January 2010 and successfully completed in December 2010, pioneering on the capital replenishment of large-sized domestic commercial banks. The capital replenishment was widely applauded in terms of refinancing category selection, article design, information disclosure and public relations.

The Bank attaches great importance to day-to-day communication with the investment community and actively implements different types of investor relations activities. The Bank successfully organised global non-deal roadshows after the 2009 annual results and 2010 interim results announcements, in which senior management explained the Bank's long-term strategy and highlighted operational improvements to investors from the Chinese mainland, Hong Kong, Asia, Europe and North America. This was warmly welcomed by investors who were able to share concerns and feedback with the Bank's senior management. During the reporting period, the Bank's senior management and representatives of its major business departments have organised over 200 meetings with domestic and overseas institutional investors and analysts, effectively promoting the investment community's understanding of the Bank's investment value. At the same time, the Bank also continued to improve the investor relations webpage on its website and enhance the communication effectiveness of its investor relations telephone hotline and email. It also explored different means of communication to further enable institutional and individual investors to easily access to the Bank's latest developments in a timely manner.

In 2010, the Bank further promoted the development of its information disclosure system. The *Rules Governing Persons with Knowledge of Inside Information of Bank of China Limited (Trial)* was formulated and implemented to strengthen management confidentiality, meet regulatory requirements regarding the registration and filing of persons with insider information, improve the self-inspection mechanism and thus prevent insider transactions occurring during the processing of periodic reports, significant financing activities and other significant share price sensitive information. To enhance its ability to handle emergency events, the Bank formulated the *Operation Manual for the Management of Information Disclosure Emergencies of Bank of China Limited* to regulate emergency procedures. During the reporting period, the Bank further enhanced group-wide information disclosure management by promoting accountability systems and the information correspondent mechanism, strengthening internal control self-evaluation and the supervision and appraisal of information disclosure, organising regular trainings on information disclosure and conducting on-site investigations with its subsidiaries.

In 2010, the Bank's investor relations and information disclosure functions once again achieved public recognition. The Bank has won five awards from the Listed Company IR Research Centre, including "Top 10 IR Company", "Top 100 Annual IR Management Company", "Best Communication Award", "Best Disclosure Award" and "Best Social Responsibility Award". The Bank's 2009 Annual Report received the "Platinum Award" and "Best Financial Report Gold Award" from the League of American Communications Professionals, and was the only listed financial institution in Chinese mainland to be granted the "Top 100 annual reports Award". At the same time, the Bank's 2009 Annual Report also received "Best Annual Report (Mainland China)" from *IR* magazine, and awards from the ARC (Annual Report Competition) Awards in the US and the GALAXY AWARDS.

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

Report of the Board of Directors

The Board of Directors is pleased to present its report together with the audited consolidated financial statements of the Bank and its subsidiaries (the "Group") for the year ended 31 December 2010.

Principal Activities

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

Major Customers

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

Results and Appropriations

The results of the Group for the year are set out in the financial statements and notes thereof. The Board has recommended a final dividend of RMB0.146 per share (before tax), subject to the approval of shareholders at the forthcoming Annual General Meeting scheduled on Friday, 27 May 2011. If approved, the 2010 final dividend of the Bank will be denominated and declared in RMB and paid in RMB or Hong Kong dollars. For such conversion, RMB will be converted into Hong Kong dollars based on the average exchange rate as announced by the PBOC prevailing one week before 27 May 2011 (inclusive), being the date of the Bank's Annual General Meeting.

At the 2009 Annual General Meeting held on 27 May 2010, a final dividend of RMB0.14 per share (before tax) was approved for payment. The distribution plan was accomplished in June 2010 and the actual distributed amount was RMB35.537 billion. No interim dividend was paid for the period ended 30 June 2010 by the Bank. The Bank did not propose any capitalisation of the capital reserve to share capital in 2010.

Dividend Payout for the Past Three Years

Unit: RMB million (except percentages)

	2009	2008	2007
Total dividends	35,537	32,999	25,384
Payout ratio	44%	52%	45%

Notes:

1. Total dividends are the amount before-tax including interim dividends.
2. Payout ratio = total dividends/profits attributable to equity holders of the Bank.
3. In 2010, the Group adopted the Amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards included in the Annual Improvements 2010 in advance, which announced on May, 2010. The Group retrospectively applied the adjustments to the financial data of the previous years. Please refer to Note II to the Consolidated Financial Statements for detailed information.

Closure of Register of H-Share Holders

The H-Share Register of Members of the Bank will be closed from Wednesday, 27 April to Friday, 27 May 2011 (both days inclusive) for the purpose of determining H-Share Holders' entitlement to attend the Annual General Meeting. In order to attend the Annual General Meeting, H-Share Holders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Bank's H-Share Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Tuesday, 26 April 2011.

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

Donations

Charitable and other donations made by the Group during the reporting period amounted to approximately RMB81.6581 million.

Share Capital

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

Reserves

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

Distributable Reserves

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

Fixed Assets

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

Financial Summary

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

Connected Transactions

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

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

Before 3 June 2010, on which the Amendments to the Hong Kong Listing Rules took effect, BOCHK (Holdings) was a connected person of the Bank by reason of its being a substantial shareholder of BOC Services Co., Ltd., an indirect subsidiary of the Bank. Pursuant to the Services and Relationship Agreement entered into between the Group and BOCHK (Group) dated 6 July 2002 as amended and supplemented from time to time (the Services and Relationship Agreement, as amended, was valid for a period of three years commencing 1 January 2008), the Group has regularly engaged in a number of continuing connected transactions with BOCHK (Group) in the ordinary and usual course of its business. The Bank made the relevant announcement on 2 January 2008 and the annual caps of such connected transactions have been approved by the Bank's independent shareholders at its Annual General Meeting held on 19 June 2008.

From 3 June 2010, on which the Amendments to the Hong Kong Listing Rules took effect, BOCHK (Holdings) and its associates ceased to be connected persons of the Bank. Transactions between the Bank and BOCHK (Holdings) and its associates do not constitute connected transactions of the Bank thereafter.

Please refer to the "Unaudited Supplementary Financial Information – Continuing Connected Transactions" for more information on continuing connected transactions from 1 January 2010 to 2 June 2010.

Review and confirmation of the Independent Non-executive Directors on the non-exempt continuing connected transactions of the Bank

The Bank's Independent Non-executive Directors have reviewed the afore-mentioned non-exempt continuing connected transactions disclosed by the Group as at 2 June 2010 and confirmed that (1) all connected transactions have been (i) entered into by the Group in its ordinary and usual course of business; (ii) conducted either on normal commercial terms, or if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; (iii) entered into in accordance with the terms of the Services and Relationship Agreement, or where not applicable, on terms that are fair and reasonable and in the interest of the shareholders of the Bank as a whole; and (2) the annual amounts have not exceeded the respective annual caps for the year ended 31 December 2010.

Confirmation of the auditors on the non-exempt continuing connected transactions of the Bank

The auditors of the Bank have conducted a limited assurance engagement on the above continuing connected transactions disclosed by the Group for the period ended 2 June 2010, nothing has come to the auditors' attention that causes them to believe that the disclosed continuing connected transactions: (1) have not received the approval of the Bank's Board of Directors; (2) are not, in all material respects, in accordance with the pricing policies of the Bank; (3) have not been entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (4) have exceeded the annual caps for the year ended 31 December 2010.

Several related party transactions as disclosed in Note V.43 to the Consolidated Financial Statements fall under the definition of "continuing connected transaction" in Chapter 14A of the Hong Kong Listing Rules. The Bank has complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules.

Directors' Interests in Competing Businesses

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

Emoluments of Directors, Supervisors and Senior Management Members

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

Directors' and Supervisors' Service Contracts

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

Directors' and Supervisors' Interests in Contracts of Significance

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

Directors' and Supervisors' Rights to Acquire Shares

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

Particulars of the outstanding options granted to the Directors of the Bank under the Pre-Listing Share Option Scheme as at 31 December 2010 are set out below:

				Number of share options					
Name of director	Date of grant	Exercise price per share (HK$)	Exercisable period	Granted on 5 July 2002	Balance as at 1 January 2010	Exercised during the year	Surrendered during the year	Lapsed during the year	Balance as at 31 December 2010
LI Zaohang	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	–	–	–	1,446,000
ZHOU Zaiqun	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,084,500	–	–	–	1,084,500

Pursuant to the government regulations, the aforesaid outstanding options granted by the BOCHK (BVI) to the Directors of the Bank under the Pre-Listing Share Option Scheme is suspended.

Save as disclosed above, during the reporting period, neither the Bank, its holding companies, nor any of its subsidiaries or fellow subsidiaries was party to any arrangements that would enable the Bank's Directors and Supervisors, or their respective spouses or children below the age of 18, to benefit by acquiring shares in, or debentures of, the Bank or any other body corporate.

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

Save as disclosed above, as at 31 December 2010, none of the Directors or Supervisors of the Bank or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Bank pursuant to Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the *Model Code for Securities Transactions by Directors of Listed Issuers* as set out in Appendix 10 of the Hong Kong Listing Rules.

Financial, Business and Family Relations among Directors

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

Substantial Shareholder Interests

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

Management Contracts

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

Share Appreciation Rights Plan and Share Option Scheme

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

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

Purchase, Sale or Redemption of the Bank's Shares

As at 31 December 2010, approximately 39.57 million shares of the Bank were held as treasury shares. Please refer to Note V.37 to the Consolidated Financial Statements for details of purchase, sale or redemption of the Bank's shares by the Bank and its subsidiaries.

Pre-emptive Rights

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

Use of Raised Funds

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

With the approval of CBRC and PBOC, the Bank issued RMB40 billion RMB-denominated subordinated bonds and RMB24.93 billion RMB-denominated subordinated bonds in China's inter-bank bond market on 6 July 2009 and 9 March 2010, respectively. The RMB24.93 billion RMB-denominated subordinated bonds issued on 9 March 2010 was within the approved subordinated bonds issuance quota of CBRC, and replaced the redeemed subordinated bonds issued in 2005.

With the approval of CBRC and CSRC, the Bank issued RMB40 billion Convertible Bonds in China's A Share market on 2 June 2010. The total proceeds after the deduction of administrative expenses was approximately RMB39,776,221,747, which has been used solely for the replenishment of the Bank's supplementary capital and for the replenishment of the Bank's core capital after conversion of the Convertible Bonds.

With the approval of domestic and overseas regulatory authorities, the Bank issued 17,705,975,596 A Shares to existing A-Share Holders during the period from 3 November 2010 to 9 November 2010, and issued 7,602,025,126 H Shares to H-Share Holders during the period from 15 November 2010 to 3 December 2010. The total proceeds raised from these rights issues after the deduction of administrative expenses was approximately RMB59,298,812,356.67. The proceeds have been used solely for the replenishment of the Bank's core capital. For details, please refer to the related announcements on the websites of the SSE, HKEx and the Bank and the Notes to the Consolidated Financial Statements.

Tax Relief

A-Share Holders

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

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

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

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

H-Share Holders

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

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

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

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

Auditors

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

On behalf of the Board
XIAO Gang
Chairman
24 March 2011

Report of the Board of Supervisors

Meetings of the Board of Supervisors

In 2010, the Board of Supervisors held eight meetings:

1 The first meeting (on 19 March) examined and approved the proposal on the election of Mr. LI Jun to serve as Chairman of the Board of Supervisors of Bank of China Limited.

2 The second meeting (on 23 March) examined and approved the *2009 Annual Report of Bank of China Limited,* the *2009 Profit Distribution Plan of Bank of China Limited,* the *Self-assessment Report on Internal Control in 2009 of the Board of Directors of Bank of China Limited*, the *2009 Corporate Social Responsibility Report of Bank of China Limited,* the *2009 Report of the Board of Supervisors of Bank of China Limited* and the *Proposal on the Amendment to the Bank's Articles of Association as a Result of Establishing New Special Committees of the Board of Supervisors* of the Bank for submission to the General Meeting of Shareholders for deliberation.

3 The third meeting (on 26 March) examined the qualifications and conditions of Mr. QIN Rongsheng and Mr. BAI Jingming and agreed to nominate them as the candidates for External Supervisors for submission to the General Meeting of Shareholders for deliberation; and examined and approved the suggestions on External Supervisors' emolument plan for submission to the General Meeting of Shareholders for deliberation.

4 The fourth meeting (on 27 April) examined and approved the *2010 First Quarter Report of Bank of China Limited*.

5 The fifth meeting (on 4 June) examined and approved the *Detailed Work Rules of Duty Performance and Due Diligence Supervision Committee of Bank of China Limited* and the *Detailed Work Rules of Finance and Internal Control Supervision Committee of Bank of China Limited,* the *Work Rules of the Board of Supervisors' office of Bank of China Limited*, the *Working Plan of the Board of Supervisors & the Board of Supervisors' office of Bank of China Limited in 2010* and the *Members of Special Committees of the Board of Supervisors of Bank of China Limited*.

6 The sixth meeting (on 26 August) examined and approved the *2010 Interim Report of Bank of China Limited* and the *Special Report on the Deposit and Actual Use of Funds Raised in 2010 of Bank of China Limited*.

7 The seventh meeting (on 26 October) examined and approved the *2010 Third Quarter Report of Bank of China Limited*.

8 The eighth meeting (on 6 December) examined and approved *Measures on the Supervision of the Board of Supervisors of Bank of China Limited over the Responsibility Performance of the Board of Directors, the Senior Management and its Members*.

The average attendance rate of the meetings of the Board of Supervisors in 2010 was 98%. The attendance rate of each Supervisor is given below:

Supervisor	Number of meetings attended/Number of meetings convened during term of office
LI Jun	8/8
WANG Xueqiang	8/8
LIU Wanming	8/8
DENG Zhiying	3/3
LI Chunyu	8/8
JIANG Kuiwei	7/8
QIN Rongsheng	4/4
BAI Jingming	4/4

Note: Supervisor Mr. JIANG Kuiwei was not able to attend the meeting of the Board of Supervisors on 6 December 2010 in person. He authorised another supervisor to attend and vote as his proxy.

The Duty Performance and Due Diligence Supervision Committee of the Board of Supervisors held two meetings in 2010. At these meetings, the committee examined and approved the *Measures on the Supervision of the Board of Supervisors of Bank of China Limited over the Responsibility Performance of the Board of Directors, the Senior Management and its Members.*

The Finance and Internal Control Supervision Committee of the Board of Supervisors held two meetings in 2010. At these meetings, the committee examined and approved the *2010 Interim Report of Bank of China Limited*, the *Special Report on the Deposit and Actual Use of Funds Raised in 2010 of Bank of China Limited*, the *2010 Third Quarter Report of Bank of China Limited* and the *Guidance of the Board of Supervisors of Bank of China Limited to Examination and Supervision upon the Bank's Financial Reports*.

Performance of Supervision and Inspection by the Board of Supervisors

In 2010, in line with the relevant state laws and regulations and the Articles of Association of the Bank, the Board of Supervisors earnestly and comprehensively performed its supervision duties, including:

1 Supervising duty performance and due diligence. By attending meetings of the Board of Directors, its special committees and the senior management in a non-voting capacity, the Board of Supervisors analysed meeting resolutions to have a better knowledge of major operational and corporate governance-related decisions and the implementation thereof. The Board of Supervisors attached great importance to the implementation of

the General Meetings' resolutions by the Board of Directors and that of the Board of Directors' resolutions by the management, and strengthened supervision of the routine duty performance of the Board of Directors and the senior management members. The Board of Supervisors promulgated and implemented the *Measures on the Supervision of the Board of Supervisors of Bank of China Limited over the Responsibility Performance of the Board of Directors, the Senior Management and its Members*, and carried out an assessment on the duty performance and due diligence of the Board of Directors, and senior management members in 2010.

2 Earnestly performing financial supervision duties. The Board of Supervisors strengthened its examination of the accuracy and compliance of periodic reports, checked and reviewed such materials as financial statements in view of supervisory focuses and put forward opinions. It established systematic communication mechanisms with the Bank's Financial Management Department, Risk Management Department and external auditors, regularly reviewed reports on financial analysis and the preparation of financial statements, exchanged and brought forth opinions concerning important issues including lending to local government financing vehicles ("LGFV") and real estate sector loans so as to help the Bank further enhance the level of its financial management and risk management.

3 Strengthening investigations and supervision of risk management and internal control. The Board of Supervisors investigated the Bank's management of bad debts that have been written off, made timely suggestions and urged departments concerned to improve such management. The Board of Supervisors convened of a joint meeting of the three lines of defense internal control to analyse and study internal control achievements and challenges and determine working priorities for the future period. Meanwhile, the Board of Supervisors went to several branches to carry out on-site investigations into the construction of the Bank's internal control systems and put forward suggestions, thereby promoting the intensification of the Bank's internal control management.

The work of the Board of Supervisors was well recognised and supported by the Board of Directors and the senior management. Suggestions and relevant reminders received positive responses, fully utilising the supervisory function and further enhancing the Bank's corporate governance capacity.

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

1 Operations in accordance with laws

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

2 Financial position

The financial statements contained in the 2010 Annual Report of the Bank reflect truthfully and fairly the Bank's financial position and business performance for the reporting period.

3 Use of capital raised

During the reporting period, the actual use of the funds raised is in conformity with that committed by the Bank.

4 Purchase and sale of assets

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

5 Related party transactions

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

6 Internal control

The Bank further enhanced and improved its internal control during the reporting period. The Board of Supervisors examined and approved the *Internal Control Assessment Report of Bank of China Limited for 2010*.

Significant Events

Material Litigation and Arbitration

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

Purchase and Sale, and Merger and Acquisition of Assets

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

Implementation of Stock Incentive Plan during the Reporting Period

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

Significant Related Party Transactions

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

Major Contracts and the Enforcement thereof

Material Custody, Sub-contracts and Leases

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

Material Guarantee Business

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

Material Cash Assets of the Bank Entrusted to Others for Management

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

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

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

Undertakings

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

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

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

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

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

Other Significant Events

Investment Securities

No.	Type of securities	Securities code	Company name/ Securities name	Initial investment cost (unit: RMB)	Securities held (unit: share)	Carrying value at period end (unit: RMB)	Proportion of the total investment securities (%)	Gains/(losses) during the reporting period (unit: RMB)
1	Fund	–	Fortis-Flex III China Fund I	1,138,985,525	133,494	1,162,158,473	13.06%	22,327,549
2	Stock	823 HK	Link REIT	339,519,905	22,812,914	468,787,931	5.27%	90,486,063
3	Stock	1398 HK	ICBC	442,947,235	89,557,579	440,374,441	4.95%	(4,052,813)
4	Fund	2823 HK	i Share FTSE Xinhua A50 China Index EFF	332,670,917	29,412,337	318,439,470	3.58%	(23,495,860)
5	Stock	939 HK	CCB	299,740,437	52,198,640	309,450,245	3.48%	(7,486,044)
6	Stock	5 HK	HSBC Holdings PLC	314,319,787	4,478,662	303,729,608	3.41%	(4,003,135)
7	Stock	2628 HK	China Life Insurance Co., Ltd.	269,728,635	9,265,568	250,126,463	2.81%	(10,612,039)
8	Stock	941 HK	China Mobile Ltd.	231,383,842	3,417,876	224,494,892	2.52%	(1,058,397)
9	Stock	HBC UN	HSBC Holdings PLC-Spons ADR	191,816,531	555,593	188,392,502	2.10%	829,973
10	Fund	–	Fortis-Flex III China Fund II	167,722,482	19,711	165,158,005	1.86%	(1,734,503)
Other investment securities held at period end				5,032,033,998	–	5,070,371,824	56.96%	(393,905,164)
Gains of investment securities sold during the reporting period				–	–	–	–	255,600,122
Total				8,760,869,294	–	8,901,483,854	100%	(77,104,248)

Notes:

1. The table lists the top ten investment securities held by the Group in descending order at their carrying value at period end.

2. Investment securities listed in this table include stocks, warrants, convertible bonds, open-ended and close-ended fund, which are classified under financial assets at fair value through profit or loss.

3. "Other investment securities held at period end" refers to investment securities other than the top ten investment securities listed above held by the Group by the end of the reporting period.

Stocks of Other Listed Companies Held by the Group

Stock code	Company name	Initial investment cost (unit: RMB)	Proportion of total capital of the invested company	Carrying value at period end (unit: RMB)	Gains during the reporting period (unit: RMB)	Increase of the equity during the reporting period (unit: RMB)	Accounting classification	Source of shares
189 HK	Dongyue Group Ltd.	200,500,796	5.20%	442,944,504	3,216,402	310,612,536	Available for sale equity investment	IPO
2008 HK	Phoenix Satellite Television Holdings Ltd.	331,639,581	8.30%	918,495,496	7,011,416	231,376,728	Available for sale equity investment	Joint-stock reform
549 HK	Jilin Qifeng Chemical Fiber Co., Ltd.	58,822,250	10.95%	61,009,823	–	15,252,456	Available for sale equity investment	Joint-stock reform
Total	–	590,962,627	–	1,422,449,823	10,227,818	557,241,720	–	–

Notes:

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

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

Equity Investments in Unlisted Financial Companies Held by the Group

Company name	Initial investment cost (unit: RMB)	Equity held (unit: share)	Proportion of total capital of the invested company	Carrying value at period end (unit: RMB)	Gains during the reporting period (unit: RMB)	Increase of the equity during the reporting period (unit: RMB)	Accounting classification	Source of shares
JCC Financial Co., Ltd.	49,628,224	–	20%	90,893,282	12,132,693	–	Investment in associates and joint ventures	Investment
China Debt Credit Enhancement Investment Co., Ltd.	989,556,708	–	17%	1,038,420,818	–	48,864,110	Available for sale equity investment	Investment
The Debt Management Company Limited	14,125	1,660	11%	14,125	–	–	Available for sale equity investment	Investment
Bank of Ningxia Co., Ltd.	425,218,063	–	11%	425,218,063	–	–	Investment in associates and joint ventures	Investment
Hunan Hualing Financial Co., Ltd.	61,246,423	–	10%	74,471,341	9,079,749	–	Investment in associates and joint ventures	Investment
Total	1,525,663,543	–	–	1,629,017,629	21,212,442	48,864,110		

Notes:

1. Financial companies include securities firms, commercial banks, insurance companies, futures companies, trust companies, etc.

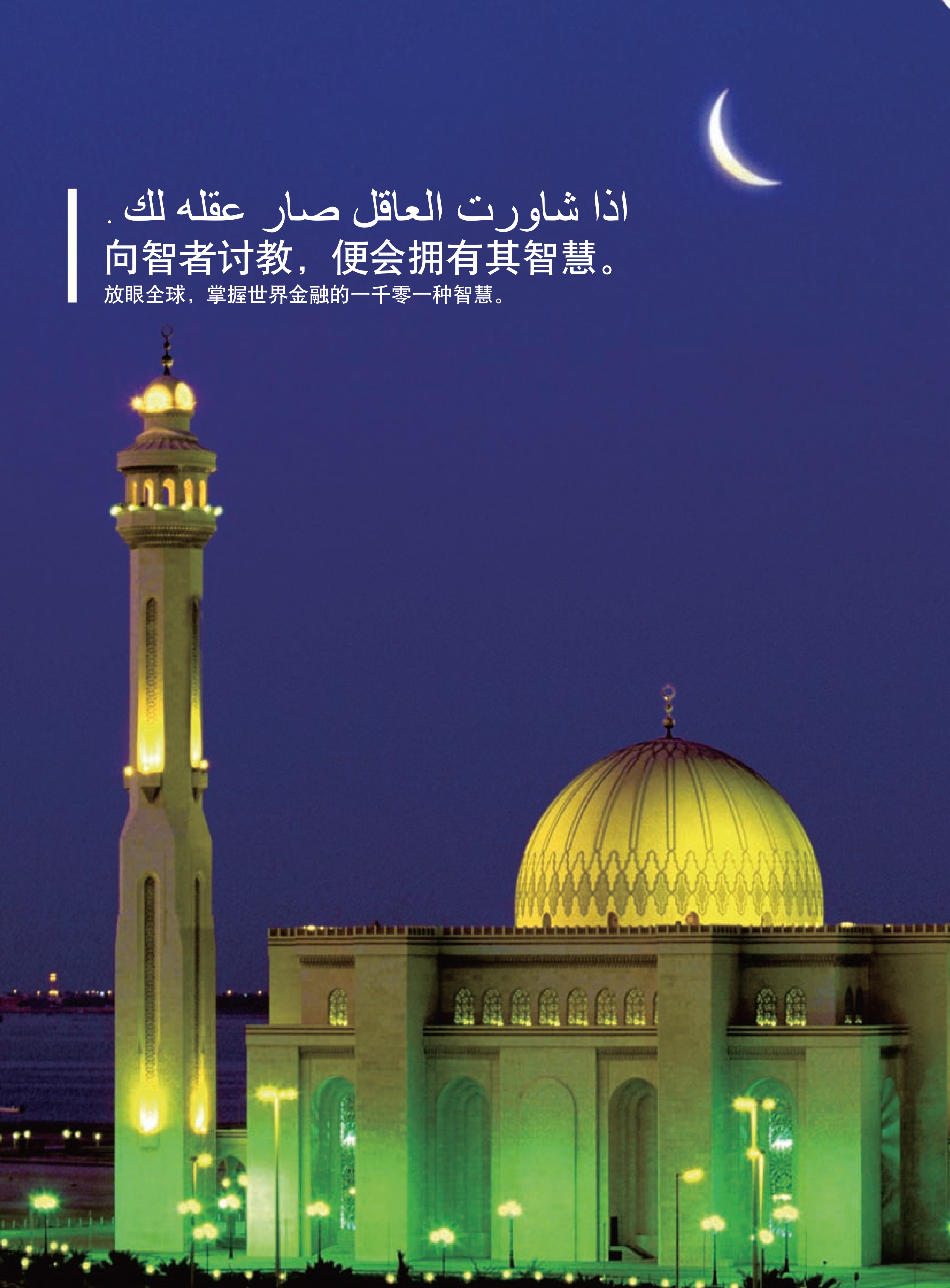
2. The table lists equity investments in unlisted financial companies in which the Group held a proportion of 5% or more of the total shares.

3. Carrying value is value after the reduction of impairment allowance.

4. "Gains during the reporting period" refers to the relevant investment's contribution to the Group's consolidated profits for the reporting period.

Trading of Stocks of Other Listed Companies during the Reporting Period

	Shares held at period beginning (unit: share)	Shares purchased during the reporting period (unit: share)	Shares sold during the reporting period (unit: share)	Shares held at period end (unit: share)	Amount of funds used (unit: RMB)	Gains during the reporting period (unit: RMB)
Trading of stocks of listed companies	1,449,273,143	920,285,689	617,901,039	1,671,133,857	6,660,801,729	524,087,266


اذا شاورت العاقل صار عقله لك.
向智者讨教，便会拥有其智慧。
放眼全球，掌握世界金融的一千零一种智慧。

1. BOC-BM China Desk opened at Bank Muscat SAOG.
2. Bank of China Bahrain Representative Office.
3. Bank of China Johannesburg Branch.
4. Bank of China (Zambia) Limited.

Independent Auditor's Report

羅兵咸永道

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

We have audited the consolidated financial statements of Bank of China Limited (the "Bank") and its subsidiaries (together, the "Group") set out on pages 141 to 367, which comprise the consolidated and the Bank's statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Bank are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

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

Other Matters

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2011

Consolidated Financial Statements

CONTENTS

CONTENTS (Continued)

Consolidated Income Statement

For the year ended 31 December 2010 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2010	2009 (Restated)*
Interest income	V.1	**313,533**	261,424
Interest expense	V.1	**(119,571)**	(102,543)
Net interest income		**193,962**	158,881
Fee and commission income	V.2	**59,214**	50,234
Fee and commission expense	V.2	**(4,731)**	(4,221)
Net fee and commission income		**54,483**	46,013
Net trading gains	V.3	**3,491**	5,849
Net gains on investment securities		**3,380**	1,337
Other operating income	V.4	**21,202**	20,490
Operating income		**276,518**	232,570
Operating expenses	V.5	**(122,409)**	(107,307)
Impairment losses on assets	V.8	**(12,993)**	(14,987)
Operating profit		**141,116**	110,276
Share of results of associates and joint ventures	V.19	**1,029**	821
Profit before income tax		**142,145**	111,097
Income tax expense	V.9	**(32,454)**	(25,748)
Profit for the year		**109,691**	85,349
Attributable to:			
Equity holders of the Bank		**104,418**	80,819
Non-controlling interests		**5,273**	4,530
		109,691	85,349
Earnings per share for profit attributable to equity holders of the Bank during the year (Expressed in RMB per ordinary share)	V.10		
– Basic		**0.39**	0.31
– Diluted		**0.39**	0.31

* For details of the restatement please refer to Note II.1.2 and Note II.23.

** For details of the dividends paid or proposed please refer to Note V.38.3.

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010 (Amount in millions of Renminbi, unless otherwise stated)

	Year ended 31 December	
	2010	2009 (Restated)*
Profit for the year	**109,691**	85,349
Other comprehensive income:		
Fair value gains/(losses) on available for sale financial assets:		
Amount taken to equity	**4,660**	667
Less: related income tax impact	**(756)**	790
Amount transferred to income statement	**(6,163)**	(1,803)
Less: related income tax impact	**1,117**	259
Subtotal	**(1,142)**	(87)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	**97**	(179)
Less: related income tax impact	**1**	3
Subtotal	**98**	(176)
Exchange differences on translating of foreign operations	**(2,973)**	986
Less: net amount transferred to income statement from other comprehensive income	**120**	(58)
Subtotal	**(2,853)**	928
Other	**140**	172
Other comprehensive income for the year, net of tax	**(3,757)**	837
Total comprehensive income for the year	**105,934**	86,186
Total comprehensive income attributable to:		
Equity holders of the Bank	**101,358**	79,853
Non-controlling interests	**4,576**	6,333
	105,934	86,186

* For details of the restatement please refer to Note II.1.2 and Note II.23.

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

Consolidated Statement of Financial Position

As at 31 December 2010 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December	
		2010	2009 (Restated)*
ASSETS			
Cash and due from banks and other financial institutions	V.11	**636,126**	434,351
Balances with central banks	V.12	**1,573,922**	1,111,351
Placements with and loans to banks and other financial institutions	V.13	**213,716**	223,444
Government certificates of indebtedness for bank notes issued	V.26	**42,469**	36,099
Precious metals		**86,218**	59,655
Financial assets at fair value through profit or loss	V.14	**81,237**	61,897
Derivative financial assets	V.15	**39,974**	28,514
Loans and advances to customers, net	V.16	**5,537,765**	4,797,408
Investment securities	V.17		
– available for sale		**656,738**	622,307
– held to maturity		**1,039,386**	744,693
– loans and receivables		**277,963**	387,782
Investment in associates and joint ventures	V.19	**12,631**	10,668
Property and equipment	V.20	**123,568**	109,954
Investment property	V.21	**13,839**	15,952
Deferred income tax assets	V.35	**24,041**	23,518
Other assets	V.22	**100,272**	84,350
Total assets		**10,459,865**	8,751,943

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

	Note	As at 31 December	
		2010	2009 (Restated)*
LIABILITIES			
Due to banks and other financial institutions	V.24	**1,275,814**	904,166
Due to central banks	V.25	**73,415**	61,615
Bank notes in circulation	V.26	**42,511**	36,154
Placements from banks and other financial institutions	V.27	**230,801**	186,643
Financial liabilities at fair value through profit or loss	V.28	**215,874**	44,234
Derivative financial liabilities	V.15	**35,711**	23,223
Due to customers	V.29	**7,483,254**	6,620,552
Bonds issued	V.30	**131,887**	76,798
Other borrowings	V.31	**42,620**	37,186
Current tax liabilities	V.32	**22,775**	17,801
Retirement benefit obligations	V.33	**6,440**	6,867
Deferred income tax liabilities	V.35	**3,919**	3,386
Other liabilities	V.36	**218,694**	187,924
Total liabilities		**9,783,715**	8,206,549
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Share capital	V.37.1	**279,147**	253,839
Capital reserve	V.37.1	**114,988**	76,710
Treasury shares	V.37.2	**(138)**	(43)
Statutory reserves	V.38.1	**40,227**	30,391
General and regulatory reserves	V.38.2	**71,195**	60,328
Undistributed profits		**148,355**	100,758
Reserve for fair value changes of available for sale securities	V.39	**4,015**	4,750
Currency translation differences		**(13,624)**	(11,741)
		644,165	514,992
Non-controlling interests	V.40	**31,985**	30,402
Total equity		**676,150**	545,394
Total equity and liabilities		**10,459,865**	8,751,943

* For details of the restatement please refer to Note II.1.2 and Note II.23.

Approved and authorised for issue by the Board of Directors on 24 March 2011.

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

Xiao Gang
Director

Li Lihui
Director

Statement of Financial Position

As at 31 December 2010 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December	
		2010	2009 (Restated)*
ASSETS			
Cash and due from banks and other financial institutions	V.11	**620,979**	434,710
Balances with central banks	V.12	**1,282,532**	1,034,085
Placements with and loans to banks and other financial institutions	V.13	**245,333**	237,813
Government certificates of indebtedness for bank notes issued	V.26	**2,486**	2,367
Precious metals		**83,100**	57,514
Financial assets at fair value through profit or loss	V.14	**17,814**	20,134
Derivative financial assets	V.15	**19,157**	12,512
Loans and advances to customers, net	V.16	**4,951,171**	4,297,885
Investment securities	V.17		
– available for sale		**392,480**	407,856
– held to maturity		**984,127**	674,861
– loans and receivables		**263,178**	374,132
Investment in subsidiaries	V.18	**79,933**	71,541
Investment in associates and joint ventures	V.19	**45**	18
Property and equipment	V.20	**65,494**	58,739
Investment property	V.21	**1,285**	1,384
Deferred income tax assets	V.35	**24,359**	24,126
Other assets	V.22	**75,066**	61,453
Total assets		**9,108,539**	7,771,130

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

	Note	As at 31 December 2010	As at 31 December 2009 (Restated)*
LIABILITIES			
Due to banks and other financial institutions	V.24	**1,098,337**	866,792
Due to central banks	V.25	**65,120**	59,089
Bank notes in circulation	V.26	**2,527**	2,422
Placements from banks and other financial institutions	V.27	**255,776**	235,051
Financial liabilities at fair value through profit or loss	V.28	**191,720**	27,258
Derivative financial liabilities	V.15	**17,232**	10,573
Due to customers	V.29	**6,546,663**	5,824,279
Bonds issued	V.30	**116,283**	78,081
Other borrowings	V.31	**23,121**	25,929
Current tax liabilities	V.32	**20,181**	15,474
Retirement benefit obligations	V.33	**6,440**	6,867
Deferred income tax liabilities	V.35	**177**	138
Other liabilities	V.36	**154,686**	132,005
Total liabilities		**8,498,263**	7,283,958
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Share capital	V.37.1	**279,147**	253,839
Capital reserve	V.37.1	**114,368**	76,170
Statutory reserves	V.38.1	**38,777**	29,107
General and regulatory reserves	V.38.2	**67,604**	57,402
Undistributed profits		**111,380**	70,838
Reserve for fair value changes of available for sale securities	V.39	**(2)**	1,069
Currency translation differences		**(998)**	(1,253)
Total equity		**610,276**	487,172
Total equity and liabilities		**9,108,539**	7,771,130

* For details of the restatement please refer to Note II.1.2 and Note II.23.

Approved and authorised for issue by the Board of Directors on 24 March 2011.

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

Xiao Gang
Director

Li Lihui
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010 (Amount in millions of Renminbi, unless otherwise stated)

		Attributable to equity holders of the Bank									
	Note	Share capital	Capital reserve	Statutory reserves	General and regulatory reserves	Undistributed profits	Reserve for fair value changes of available for sale securities	Currency translation differences	Treasury shares	Non-controlling interests	Total
As at 1 January 2010 as restated		253,839	76,710	30,391	60,328	100,758	4,750	(11,741)	(43)	30,402	545,394
Profit for the year		–	–	–	–	104,418	–	–	–	5,273	109,691
Other comprehensive income		–	139	–	–	(3)	(1,313)	(1,883)	–	(697)	(3,757)
Total comprehensive income for the year		–	139	–	–	104,415	(1,313)	(1,883)	–	4,576	105,934
Rights issue	V.37.1	25,308	33,991	–	–	–	–	–	–	–	59,299
Issuance of convertible bonds	V.30	–	4,148	–	–	–	–	–	–	–	4,148
Appropriation to statutory reserves	V.38.1	–	–	9,837	–	(9,837)	–	–	–	–	–
Appropriation to general reserve and regulatory reserve	V.38.2	–	–	–	10,874	(10,874)	–	–	–	–	–
Dividends	V.38.3	–	–	–	–	(35,537)	–	–	–	(3,283)	(38,820)
Exercise of subsidiary share options		–	–	–	–	–	–	–	–	6	6
Net change in treasury shares	V.37.2	–	–	–	–	–	–	–	(95)	–	(95)
Other		–	–	(1)	(7)	(570)	578	–	–	284	284
As at 31 December 2010		279,147	114,988	40,227	71,195	148,355	4,015	(13,624)	(138)	31,985	676,150

		Attributable to equity holders of the Bank (Restated*)									
	Note	Share capital	Capital reserve	Statutory reserves	General and regulatory reserves	Undistributed profits	Reserve for fair value changes of available for sale securities	Currency translation differences	Treasury shares	Non-controlling interests	Total
As at 1 January 2009 as restated		253,839	76,598	23,429	40,973	79,349	6,811	(12,710)	(17)	25,629	493,901
Profit for the year as restated		–	–	–	–	80,819	–	–	–	4,530	85,349
Other comprehensive income		–	115	(2)	–	–	(2,048)	969	–	1,803	837
Total comprehensive income for the year as restated		–	115	(2)	–	80,819	(2,048)	969	–	6,333	86,186
Appropriation to statutory reserves	V.38.1	–	–	7,190	–	(7,190)	–	–	–	–	–
Appropriation to general reserve and regulatory reserve	V.38.2	–	–	–	19,347	(19,347)	–	–	–	–	–
Dividends	V.38.3	–	–	–	–	(32,999)	–	–	–	(1,213)	(34,212)
Exercise of subsidiary share options		–	–	–	–	–	–	–	–	19	19
Net change in treasury shares	V.37.2	–	–	–	–	–	–	–	(26)	–	(26)
Other		–	(3)	(226)	8	126	(13)	–	–	(366)	(474)
As at 31 December 2009 as restated		253,839	76,710	30,391	60,328	100,758	4,750	(11,741)	(43)	30,402	545,394

* For details of the restatement please refer to Note II.1.2 and Note II.23.

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2010 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2010	2009 (Restated)*
Cash flows from operating activities			
Profit before income tax		**142,145**	111,097
Adjustments:			
Impairment losses on assets		**12,993**	14,987
Depreciation of property and equipment		**8,684**	7,226
Amortisation of intangible assets and other assets		**1,635**	1,465
Net gains on disposal of property and equipment, intangible assets and other long-term assets		**(341)**	(538)
Net gains on disposal of investment in subsidiaries, associates and joint ventures		**(128)**	(27)
Share of results of associates and joint ventures		**(1,029)**	(821)
Interest income arising from investment securities		**(51,936)**	(47,628)
Dividends arising from investment securities		**(165)**	(131)
Net gains on derecognition of investment securities		**(3,380)**	(1,337)
Interest expense arising from bonds issued		**4,676**	3,348
Net changes in operating assets and liabilities:			
Net increase in balances with central banks		**(259,151)**	(134,326)
Net increase in due from banks and placements with and loans to banks and other financial institutions		**(263,656)**	(194,289)
Net increase in precious metals		**(26,563)**	(17,176)
Net (increase)/decrease in financial assets at fair value through profit or loss		**(17,630)**	33,763
Net increase in loans and advances to customers		**(755,998)**	(1,623,045)
Net decrease in other assets		**30,067**	27,401
Net increase in due to banks and other financial institutions		**371,648**	179,938
Net increase in due to central banks		**11,800**	6,019
Net increase in placements from banks and other financial institutions		**44,158**	108,422
Net increase in due to customers		**862,702**	1,517,143
Net increase/(decrease) in other borrowings		**5,434**	(5,652)
Net increase/(decrease) in other liabilities		**221,283**	(67,967)
Cash inflow/(outflow) from operating activities		**337,248**	(82,128)
Income tax paid		**(28,251)**	(37,965)
Net cash inflow/(outflow) from operating activities		**308,997**	(120,093)

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

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2010 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2010	2009 (Restated)*
Cash flows from investing activities			
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		**2,977**	2,415
Proceeds from disposal of investment in subsidiaries, associates and joint ventures		**471**	128
Dividends received		**467**	398
Interest income received from investment securities		**51,077**	44,557
Proceeds from disposal/maturity of investment securities		**1,210,766**	1,563,880
Increase in investment in subsidiaries, associates and joint ventures		**(1,834)**	(2,773)
Purchase of property and equipment, intangible assets and other long-term assets		**(23,990)**	(34,627)
Purchase of investment securities		**(1,434,877)**	(1,770,894)
Net cash outflow from investing activities		**(194,943)**	(196,916)
Cash flows from financing activities			
Cash received from issuance of bonds		**85,711**	40,000
Cash received from rights issue		**59,299**	–
Repayments for debts issued		**(26,928)**	(28,676)
Cash payments for interest on bonds issued		**(3,406)**	(3,082)
Dividend payments to equity holders of the Bank		**(35,537)**	(32,999)
Dividend payments to non-controlling interests		**(3,283)**	(1,213)
Other cash inflows from financing activities		**290**	66
Other cash outflows from financing activities		**(117)**	(548)
Net cash inflow/(outflow) from financing activities		**76,029**	(26,452)
Effect of exchange rate changes on cash and cash equivalents		**(7,031)**	8,373
Net increase/(decrease) in cash and cash equivalents		**183,052**	(335,088)
Cash and cash equivalents at beginning of year		**586,319**	921,407
Cash and cash equivalents at end of year	V.42	**769,371**	586,319

* For details of the restatement please refer to Note II.1.2 and Note II.23.

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

Notes to the Consolidated Financial Statements

(Amount in millions of Renminbi, unless otherwise stated)

I GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

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

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

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

The Bank's principal regulator is the CBRC. The operations in Hong Kong, Macau, Taiwan and other countries and regions of the Group are subject to the supervision of local regulators.

The parent company is Central Huijin Investments Limited ("Huijin"), a wholly owned subsidiary of China Investment Corporation ("CIC"), which owned 67.55% of the ordinary shares of the Bank as at 31 December 2010 (31 December 2009: 67.53%).

These consolidated financial statements have been approved by the Board of Directors on 24 March 2011.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

1 Basis of preparation

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

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

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

1.1 Standards, amendments and interpretations effective in 2010

IFRS 3 Revised – Business Combinations: The revised standard continues to apply the acquisition method to business combinations, with some significant changes, such as the recognition and measurement of the identifiable assets acquired, the liabilities assumed, the non-controlling interest in the acquiree and the acquisition-related costs. The adoption of the revised standard does not have any material impact on the consolidated financial statements of the Group.

International Accounting Standard ("IAS") 27 Revised – Consolidated and Separate Financial Statements: The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity rather than in goodwill or gains and losses if there is no change in control. When control is lost, any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised. The adoption of the revised standard does not have any material impact on the consolidated financial statements of the Group.

The International Financial Reporting Interpretations Committee ("IFRIC") 16 – Hedges of a net investment in a foreign operation: This interpretation states that qualified hedging instruments in a net investment hedge may be held by any entity or entities within a group, including foreign operation itself. In particular, a group should clearly document its hedging strategy because of the possibility of different designations at different levels of a group. According to IFRIC 16, certain subsidiaries of the Group have designated such hedges for its net investments in foreign operations. The impact on the consolidated financial statements after the application of the interpretation is not material.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.1 Standards, amendments and interpretations effective in 2010 (Continued)

The standards, amendments and interpretations effective in 2010 noted below had no impact on the consolidated financial statements of the Group.

IAS 1 Amendment	Presentation of Financial Statements
IAS 17 Amendment	Leases
IAS 36 Amendment	Impairment of Assets
IAS 39 Amendment	Financial Instruments: Recognition and Measurement – Amendments for Eligible Hedged Items
IFRS 2 Amendment	Group Cash-settled Share-based Payment Transactions
IFRS 5 Amendment	Non-current Assets Held for Sale and Discontinued Operations
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 17	Distribution of Non-Cash Assets to Owners

1.2 Standards that are not yet effective but have been early adopted by the Group in 2010

IAS 24 Revised clarifies and simplifies the definition of a related party, provides a partial exemption from the disclosure requirements for transactions with government-related entities, and requires for additional disclosure such as commitments with related parties. The Group has adopted the partial exemption regarding disclosure requirements for transactions with government-related entities in the consolidated financial statements for the year ended 31 December 2010 and expects the adoption of the rest of requirements in IAS 24 Revised will not have a material impact on the consolidated financial statements of the Group.

The Group adopted IAS 32 Amendment – Classification of Rights Issues. This amendment requires rights issues to be classified as equity if they are issued for a fixed amount of cash regardless of the currency in which the exercise price is denominated, provided they are offered on a pro rata basis to all owners of the same class of equity. The early adoption was in connection with the rights issue of the Group's H shares in 2010, and has no retrospective effect on the consolidated financial statements of the Group.

In 2010, the Group adopted the Amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards included in the Annual Improvements 2010. The Group retrospectively applied the exemption to use as deemed cost the revaluation of certain assets on 31 December 2003 during the financial restructuring of the Bank. For the impact of the retrospective application, refer to Note II.23.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards that are not yet effective but have been early adopted by the Group in 2010 (Continued)

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

In addition, "Improvements to IFRS 2009" and "Annual Improvements 2010" were issued in April 2009 and May 2010 respectively, containing numerous technical and conforming amendments to IFRS, which the IASB consider non-urgent but necessary. These improvements comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Apart from the early adoption of the amendments to IFRS 1 and IFRS 7 from Annual Improvements 2010, no other amendments effective for annual periods after 1 January 2010 was early adopted by the Group and no material changes to accounting policies were made in 2010 or are expected in 2011 as a result of these amendments.

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

		Effective for annual period beginning on or after
IAS 12 Amendment	Deferred Tax: Recovery of Underlying Assets	1 January 2012
IFRS 9 and IFRS 9 Amendment	Financial Instruments	1 January 2013
IFRIC 14 Amendment	Prepayments of a Minimum Funding Requirement	1 January 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.3 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2010 (Continued)

The IAS 12 Amendment provides a practical approach for measuring deferred tax assets and liabilities related to investment properties measured using the fair value model in IAS 40 Investment Property, by introducing a presumption, which has the effect of basing the related deferred tax asset or liability on the tax rate applicable to capital gains and losses in the relevant jurisdiction, that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. While an adoption of IAS 12 Amendment is mandatory from 1 January 2012, earlier adoption is permitted. The Group is considering the impact of the amendment on the consolidated financial statements and the timing of its application.

IFRS 9 and IFRS 9 Amendment were issued in November 2009 and October 2010, respectively, and replaced those parts of IAS 39 relating to the classification, measurement and derecognition of financial assets and financial liabilities. Key features are as follows:

- Financial assets are required to be 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. They are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs directly attributable to acquisition. Financial assets are subsequently measured at amortised cost or fair value.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that (1) derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument are required to be measured at fair value; and (2) for financial liability designated as at fair value through profit or loss, the effects of changes in the liability's credit risk are recorded in other comprehensive income, unless this creates or enlarges an accounting mismatch in the income statement.

- The requirements in IAS 39 related to the derecognition of financial assets and financial liabilities were carried forward unchanged to IFRS 9.

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.3 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2010 (Continued)

Except for the application of IAS 12 Amendment, IFRS 9 and IFRS 9 Amendment, the adoption of other standards, amendments and interpretations as mentioned above is not expected to have a material effect on the consolidated financial statements of the Group.

2 Consolidation

2.1 Subsidiaries

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

The 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.

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 the income statement. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. If there is any indication that goodwill is impaired, recoverable amount is estimated and the difference between carrying amount and recoverable amount is recognised as an impairment charge. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

2.1 Subsidiaries (Continued)

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

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The results of subsidiaries are accounted for by the Bank on the basis of dividend received and receivable. The Group assesses at each financial reporting date whether there is objective evidence that investment in subsidiaries is impaired. An impairment loss is recognised for the amount by which the investment in subsidiaries' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the investment in subsidiaries' fair value less costs to sell and value in use.

2.2 Associates and joint ventures

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

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

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

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

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

2.2 Associates and joint ventures (Continued)

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

2.3 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 the income statement. 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 are reclassified to the income statement.

3 Foreign currency translation

3.1 Functional and presentation currency

The functional currency of Chinese mainland is the Renminbi ("RMB"). Items included in the financial statements of each of the Group's operations in Hong Kong, Macau, Taiwan and other countries and regions are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The presentation currency of the Group is RMB.

3.2 Transactions and balances

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

3 Foreign currency translation (Continued)

3.2 Transactions and balances (Continued)

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

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

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

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

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

(iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of deposit taken and other currency instruments designated as hedges of such investments are taken to other comprehensive income. When a foreign entity is disposed, these exchange differences are recognised in the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments

4.1 Classification

The Group classifies its financial assets into the following categories:

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

Financial liabilities are classified into two categories:

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

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

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

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

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.1 Classification (Continued)

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

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

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

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

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

(2) Held to maturity investments

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

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.1 Classification (Continued)

(3) Loans and receivables

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

- those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss;
- those that the Group upon initial recognition designates as available for sale; or
- those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

(4) Available for sale investments

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

(5) Other financial liabilities

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

4.2 Initial recognition

A financial asset or financial liability is recognised on trade-date, the date when the Group becomes a party to the contractual provisions of the instrument.

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.3 Subsequent measurement

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

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

4.4 Determination of fair value

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

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.5 Derecognition of financial instruments

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

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

4.6 Impairment of financial assets

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

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

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

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

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

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment of financial assets (Continued)

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

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

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

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

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

(1) Assets carried at amortised cost

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment of financial assets (Continued)

(1) Assets carried at amortised cost (Continued)

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

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the 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.

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

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

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment of financial assets (Continued)

(2) Assets classified as available for sale

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

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

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

4.7 Derivative financial instruments and hedge accounting

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

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.7 Derivative financial instruments and hedge accounting (Continued)

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. For derivatives not designated or qualified as hedging instruments, including those are intended to provide effective economic hedges of specific interest rate and foreign exchange risks, but do not qualify for hedge accounting, changes in the fair value of these derivatives are recognised in "Net trading gains" in the income statement.

The Group documents, at inception, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. These criteria should be met before a hedge can be qualified to be accounted for under hedge accounting.

(1) Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect income statement.

The changes in fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in fair value of the hedged item attributable to the hedged risk. The net result is included as ineffectiveness in the income statement.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. If the hedged item is derecognised, the unamortised carrying value adjustment is recognised immediately in the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.7 Derivative financial instruments and hedge accounting (Continued)

(2) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction that could ultimately affect income statement.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in equity in the Capital reserve. The ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the same periods when the hedged item affects the income statement.

When a hedging instrument expires or is sold, or the hedge designation is revoked or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument existing in equity at that time remains in equity and is reclassified to the income statement when the forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity is immediately transferred to the income statement.

(3) Net investment hedge

Net investment hedge is a hedge of a net investment in a foreign operation.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of as part of the gain or loss on the disposal.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.8 Embedded derivatives

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

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

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

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

4.9 Convertible bonds

Convertible bonds comprise of the liability and equity components. The liability component, representing the obligation to make fixed payments of principal and interest, is classified as liability and initially recognised at the fair value, calculated using the market interest rate of a similar liability that does not have an equity conversion option, and subsequently measured at amortised cost using the effective interest method. The equity component, representing an embedded option to convert the liability into common shares, is initially recognised in Capital reserve as the difference between the proceeds received from the convertible bonds as a whole and the amount of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds.

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.10 Offsetting financial instruments

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

5 Precious metals and precious metals swaps

Precious metals comprise gold, silver and other precious metals. The Group retains all risks and rewards of ownership related to precious metals deposited with the Group as precious metals deposits, including the right to freely pledge or transfer, and it records the precious metals received as an asset. A liability to return the amount of precious metals deposited is also recognised. Precious metals that are not related to the Group's precious metals market making and trading activities are initially measured at acquisition cost and subsequently measured at lower of cost and net realisable value. Precious metals that are related to the Group's market making and trading activities are initially recognised at fair value and subsequent changes in fair value included in "Net trading gains" are recognised in the income statement.

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

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

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

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

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

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

7 Property and equipment

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

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate.

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

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

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

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

7.1 Buildings, equipment and motor vehicles

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

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

7 Property and equipment (Continued)

7.2 Aircraft

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

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

7.3 Construction in progress

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

8 Leases

8.1 Lease classification

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

8.2 Finance lease

When the Group is a lessee under finance leases, the leased assets are capitalised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments.

The corresponding liability to the lessor is included in "Other liabilities". Finance charges are charged over the term of the lease using an interest rate which reflects a constant rate of return.

The Group adopts the same depreciation policy for the finance leased assets as those for which it has title rights. If the Group can reasonably determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over their useful life. If there is no reasonable certainty that the Group can determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over the shorter of the lease term and useful life.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

8 Leases (Continued)

8.2 Finance lease (Continued)

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

8.3 Operating lease

When the Group is the lessee under an operating lease, rental expenses are charged in "Operating expenses" in the income statement on a straight-line basis over the period of the lease.

When the Group is the lessor under operating leases, the assets subject to the operating lease are accounted for as the Group's assets. Rental income is recognised as "Other operating income" in the income statement on a straight-line basis over the lease term net of any incentives given to lessees.

9 Investment property

Investment property, principally consisting of office buildings, is held to generate rental income or earn capital gains or both and is not occupied by the Group.

Investment property is carried at fair value and changes in fair value are recorded in the income statement, representing the open market value determined periodically by independent appraisers.

10 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, including options and firm orders for aircraft, computer software and other intangible assets.

Options and firm orders for aircraft which arose from the acquisition of a subsidiary were initially recorded at fair value at the date of acquisition. The value of such options and firm orders are not amortised and will be added to the cost of aircraft when the related aircraft are purchased.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

10 Intangible assets (Continued)

The value of intangible assets is reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The recoverable amount of an intangible asset is the higher of the asset's fair value less costs to sell and value in use.

11 Repossessed assets

Repossessed assets are initially recognised at fair value plus related costs when they are obtained as the compensation for the loans principal and interest. When there are indicators that the recoverable amount is lower than carrying amount, the carrying amount is written down immediately to its recoverable amount.

12 Employee benefits

12.1 Defined contribution plans

In accordance with the policies of relevant state and local governments, employees in Chinese mainland participate in various defined contribution retirement schemes administered by local Labour and Social Security Bureaus. Operations in Chinese mainland contribute to pension and insurance schemes administered by the local pension and insurance agencies using applicable contribution rates stipulated in the relevant local regulations. Upon retirement, the local Labour and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees. In addition to these basic staff pension schemes, employees in Chinese mainland who retire after 1 January 2004 can also voluntarily participate in a defined contribution plan established by the Bank ("the Annuity Plan"). The Bank contributes to the Annuity Plan based on certain percentages of the employees' gross salaries.

All eligible employees in operations in Hong Kong, Macau, Taiwan and other countries and regions participate in local defined contribution schemes. Above operations contribute to these defined contribution plans based on certain percentages of the employees' basic salaries.

Contributions made by the Group to the retirement schemes described above are recognised as "Operating expenses" in the income statement as incurred. Forfeited contributions by those employees who leave the schemes prior to the full vesting of their contributions are used to reduce the existing level of contributions or retained in the retirement schemes in accordance with the requirements of the respective defined contribution plans.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

12 Employee benefits (Continued)

12.2 Retirement benefit obligations

The Group pays supplemental retirement benefits to employees in Chinese mainland who retired prior to 31 December 2003 and early retirement benefits to those employees who accepted an early retirement arrangement.

Supplemental retirement benefits include supplemental pension payments and medical expense coverage.

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

The liability related to the above supplemental benefit obligation and early retirement obligations existing at each financial reporting date, is calculated by independent actuaries using the projected unit credit method and is recorded as a liability under "Retirement benefit obligations" in the statement of financial position. The present value of the liability is determined through discounting the estimated future cash outflows using interest rates of RMB treasury bills which have terms to maturity approximating the terms of the related liability. The gains or losses including those arising from the changes in actuarial assumptions and amendments to pension plans are charged or credited to the income statement immediately as "Operating expenses" when they occur.

12.3 Housing funds

Pursuant to local government regulations, all employees in Chinese mainland participate in various local housing funds administered by local governments. Operations in Chinese mainland contribute on a monthly basis to these funds based on certain percentages of the salaries of the employees. These payments are recognised as "Operating expenses" in the income statement as incurred.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

12 Employee benefits (Continued)

12.4 Share-based compensation

(1) *Equity-settled share-based compensation schemes*

A subsidiary of the Group operates a number of equity-settled share-based compensation schemes. The fair value of the employee services received in exchange for the grant of the options under these schemes is recognised as an expense over the vesting period, with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. The fair value of the equity instruments is measured at grant date, and is not subsequently re-measured. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each financial reporting date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement over the remaining vesting period, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to "Share capital" (nominal value) and "Capital reserve" when the options are exercised.

(2) *Cash-settled share-based compensation scheme*

The Group also operates a cash-settled share appreciation rights plan. The related cost of services received from the employees and the liability to pay for such services are measured at fair value and recognised over the vesting period as the employees render services. Fair value is established at the grant date, re-measured at each financial reporting date with any changes in fair value recognised as "Operating expenses" in the income statement for the period and derecognised when the liability is settled.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the rights granted, excluding the impact of any non-market vesting conditions. Non-market conditions are included in the assumptions about the number of rights that are expected to vest. At each financial reporting date, the entity revises its estimates of the number of rights that are expected to vest. It recognises the impact of the revision to original estimates, if any, as "Operating expenses" in the income statement, with a corresponding adjustment to liability.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

12 Employee benefits (Continued)

12.5 Bonus plans

The Group recognises a liability and an expense for bonuses, taking into consideration its business performance and profit attributable to the Bank's equity holders. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

13 Provisions

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

14 Insurance contracts

14.1 Insurance contracts classification

The Group's insurance subsidiaries issue insurance contracts that transfer significant insurance risk. The Group perform significant insurance risk test at the contract initial recognition date. Insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. The Group issues non-life insurance contracts, which cover casualty and property insurance risk, and life insurance contracts, which insure events associated with human life (for example death, or survival) over a long duration.

The Group does not separately measure embedded derivatives that itself meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

14 Insurance contracts (Continued)

14.2 Insurance contracts recognition and measurement

(1) Non-life insurance

Premiums on non-life insurance contracts are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the financial reporting date is reported as the unearned premium liability in "Other liabilities".

Claims and loss adjustment expenses are charged to the income statement as "Operating expenses" when incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the financial reporting date even if they have not yet been reported to the Group.

(2) Life insurance

Premiums on life insurance contracts are recognised as revenue when they become payable by the contract holders. Benefits and claims are recorded as an expense when they are incurred. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised. For certain long-term insurance contracts (linked long-term insurance contracts) with embedded derivatives linking payments on the contract to units of an investment fund set up by the Group with the consideration received from the contract holders, the liability is adjusted for all changes in the fair value of the underlying assets, and includes a liability for contractual benefits that are expected to be incurred in the future which is recorded when the premiums are recognised.

14.3 Liability adequacy test

At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities (including unearned premium in the case of non-life insurance contracts). In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the income statement and reported as "Operating expenses", with a provision established for losses arising from the liability adequacy test.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

15 Treasury shares

Where the Bank or other members of the Group purchase the Bank's ordinary shares, Treasury shares are recorded at the amount of consideration paid and deducted from total equity holders' equity until they are cancelled, sold or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in capital and reserves attributable to equity holders of the Bank.

16 Contingent liabilities

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

17 Financial guarantee contracts

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

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement less amortisation calculated and the best estimate of the expenditure required to settle any financial obligation arising at the financial reporting date. Any increase in the liability relating to guarantees is taken to the income statement. These estimates are determined based on experience of similar transactions, historical losses and by the judgement of management.

18 Fiduciary activities

The Group acts as a custodian, trustee or in other fiduciary capacities, that result in its holding or placing of assets on behalf of securities investment funds, social security funds, insurance companies, qualified foreign institutional investors, annuity schemes and other institutions. These assets are not included in the statement of financial position of the Group, as they are not assets of the Group.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

18 Fiduciary activities (Continued)

The Group also administers entrusted loans on behalf of third-party lenders. In this regard, the Group grants loans to borrowers, as an intermediary, at the direction of third-party lenders, who fund these loans. The Group has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans, including their purpose, amounts, interest rates, and repayment schedule. The Group charges a commission related to its activities in connection with the entrusted loans, but the risk of loss is borne by the third-party lenders. Entrusted loans are not recognised in the statement of financial position of the Group.

19 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except derivatives, are recognised within "Interest income" and "Interest expense" in the income statement using the effective interest method. Interest income and expense for derivatives is recognised in "Net trading gains" in the income statement.

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

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

20 Fee and commission income

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

21 Income taxes

Income taxes comprise current income tax and deferred income tax. Current income tax and movements in deferred tax balances are recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

21.1 Current income tax

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the financial reporting date, and any adjustment to tax payable in respect of previous years.

21.2 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the financial reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from asset impairment allowances, revaluation of certain financial assets and liabilities including derivative contracts, revaluation of investment property, depreciation of property and equipment, provisions for pension, retirement benefits and salary payable.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

For deductible temporary differences associated with investment in subsidiaries, associates and joint ventures, a deferred tax asset is recognised to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilised.

Deferred tax liabilities shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

21 Income taxes (Continued)

21.2 Deferred income tax (Continued)

Deferred income tax liabilities on taxable temporary differences arising from investment in subsidiaries, associates and joint ventures are recognised, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

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

Deferred income tax related to fair value remeasurement of available for sale securities which are charged or credited in other comprehensive income, is also credited or charged in other comprehensive income and is subsequently reclassified to the income statement together with the deferred gain and loss.

22 Segment reporting

The Group reviews the internal reporting in order to assess performance and allocate resources. Segment information is presented on the same basis as the Group's management and internal reporting.

23 Comparatives

As mentioned in Note II.1.2, in 2010, the Group adopted the Amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards included in the Annual Improvements 2010. Pursuant to the Amendments, retrospective adjustments were made to certain assets and items in equity as at 31 December 2009 and 1 January 2009, and certain income and expenses for the year ended 31 December 2009 were restated. Comparative financial statements are presented based on the restated figures.

Certificates of deposit were formerly classified under the account caption "Certificates of deposit and placements from banks and other financial institutions" as at 31 December 2009. In accordance with industry practice, these certificates of deposit issued by the Group and the Bank are classified under "Due to customers" in the year ended 31 December 2010. The account caption and comparatives have been adjusted to conform to the revised presentation.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

23 Comparatives (Continued)

In addition to the impact of restatement above, the basic and diluted earnings per share for the year ended 31 December 2009 have also been adjusted to reflect the effect of the rights issues. For details of the calculation refer to Note V.10.

Items in the Group's consolidated statements of financial position as of 31 December 2009 and 1 January 2009, and the consolidated income statement, basic and diluted earnings per share for the year ended 31 December 2009 affected by the adoption of the Amendments to IFRS1, reclassification of certificates of deposits and the effect of rights issues, etc. are as follows:

Group

	As at 31 December 2009		
	Before restatement	Impact of restatement	Restated
ASSETS			
Property and equipment	113,508	(3,554)	109,954
Deferred income tax assets	24,774	(1,256)	23,518
Other assets	75,774	8,576	84,350
Other	8,534,121	–	8,534,121
Total assets	8,748,177	3,766	8,751,943
LIABILITIES			
Placement from banks and other financial institutions	186,643	–	186,643
Due to customers	6,620,552	–	6,620,552
Other	1,399,354	–	1,399,354
Total liabilities	8,206,549	–	8,206,549

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

23 Comparatives (Continued)

	As at 31 December 2009		
	Before restatement	Impact of restatement	Restated
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Capital reserve	66,278	10,432	76,710
Undistributed profits	105,084	(4,326)	100,758
Reserve for fair value changes of available for sale securities	5,473	(723)	4,750
Currency translation differences	(10,124)	(1,617)	(11,741)
Other	344,515	–	344,515
	511,226	3,766	514,992
Non-controlling interests	30,402	–	30,402
Total equity	541,628	3,766	545,394
Total equity and liabilities	8,748,177	3,766	8,751,943

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

23 Comparatives (Continued)

Group

	As at 1 January 2009		
	Before restatement	Impact of restatement	Restated
ASSETS			
Property and equipment	92,236	(3,338)	88,898
Deferred income tax assets	17,405	(1,338)	16,067
Other assets	69,913	8,690	78,603
Other	6,772,126	–	6,772,126
Total assets	6,951,680	4,014	6,955,694
LIABILITIES			
Placement from banks and other financial institutions	79,519	(1,298)	78,221
Due to customers	5,102,111	1,298	5,103,409
Other	1,280,163	–	1,280,163
Total liabilities	6,461,793	–	6,461,793
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Capital reserve	66,166	10,432	76,598
Undistributed profits	83,427	(4,078)	79,349
Reserve for fair value changes of available for sale securities	7,534	(723)	6,811
Currency translation differences	(11,093)	(1,617)	(12,710)
Other	318,224	–	318,224
	464,258	4,014	468,272
Non-controlling interests	25,629	–	25,629
Total equity	489,887	4,014	493,901
Total equity and liabilities	6,951,680	4,014	6,955,694

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

23 Comparatives (Continued)

Group

	Year ended 31 December 2009		
	Before restatement	Impact of restatement	Restated
Other operating income	20,536	(46)	20,490
Operating expenses	(107,021)	(286)	(107,307)
Other	197,914	–	197,914
Profit before income tax	111,429	(332)	111,097
Income tax expense	(25,831)	83	(25,748)
Profit for the year	85,598	(249)	85,349
Attributable to:			
Equity holders of the Bank	81,068	(249)	80,819
Non-controlling interests	4,530	–	4,530
	85,598	(249)	85,349
Earnings per share for profit attributable to equity holders of the Bank during the year (Expressed in RMB per ordinary share)			
– Basic	0.32	(0.01)	0.31
– Diluted	0.32	(0.01)	0.31

The effects of early adoption of the Amendments to IFRS 1 to the consolidated income statement and both basic and diluted earnings per share for the year ended 31 December 2010 were not material.

In addition to the restatement above, based on the Group's management and internal reporting, the Group has reclassified certain services among corporate banking, personal banking and treasury operations. Comparatives under the segment reporting as at and for the year ended 31 December 2009 have been reclassified accordingly. The reclassification increased the profit before income tax in corporate banking and personal banking by RMB1,722 million and RMB1,778 million, respectively, and decreased the profit before income tax in treasury operations by RMB3,500 million.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and judgements that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group has taken into consideration the impact of the economic environment on the industries and territories in which the Group operates when determining critical accounting estimates and judgements in applying accounting policies.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred to below.

1 Impairment allowances on loans and advances

The Group reviews its loan portfolio to assess impairment on a periodic basis, unless known circumstances indicate that impairment may have occurred as of an interim date.

In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements and assumptions when calculating loan impairment allowances related to loans and advances. These allowances, which reflect the difference between the carrying amount of a loan, or a portfolio of similar loans, and the present value of estimated future cash flows, are assessed individually, for significant loans, and collectively, for smaller portfolios of similar loans.

The estimate of future cash flows is most significantly related to impaired loans for which the impairment loss is assessed individually. Factors affecting this estimate include, among other things, the granularity of financial information related to specific borrowers, the availability of meaningful information related to industry competitors and the relevance of sector trends to the future performance of individual borrowers. China continues to experience rapid economic growth and these facts are not as well established as those in more developed markets. The effect of these factors requires significant judgement to be applied in the estimation of future cash flows. This is especially true in emerging sectors.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

1 Impairment allowances on loans and advances (Continued)

Significant judgement is also applied to the calculation of collectively assessed impairment allowances. The Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and advances before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The Group has considered the impact of the changes and uncertainty in the macro-economic environments in which the Group operates when assessing the methodology and assumptions used for loss estimates and made adjustments where appropriate.

2 Fair value of derivatives and other financial instruments

The Group establishes fair value of financial instruments with reference to a quoted market price in an active market or, if there is no active market, using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. Whenever possible these models use observable market inputs and data including, for example, interest rate yield curves, foreign currency rates and option volatilities. The results of using valuation techniques are calibrated against industry practice and observable current market transactions in the same or similar instruments.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

2 Fair value of derivatives and other financial instruments (Continued)

With respect to PRC government obligations related to large-scale policy directed financing transactions fair value is determined using the stated terms of the related instrument and with reference to terms determined by the PRC government in similar transactions engaged in or directed by the PRC government. In this regard, there are no other relevant market prices or yields reflecting arm's length transactions of a comparable size and tenor.

3 Impairment of available for sale investment securities and held to maturity investment securities

The Group follows the guidance of IAS 39 to determine when an available for sale or held to maturity investment security is impaired and when impairment on a debt security is reversed. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, the extent to which changes in fair value relate to credit events, and the financial health of and near-term business outlook for the investee/underlying portfolio, including factors such as industry and sector performance, technological innovations, credit ratings, delinquency rates, loss coverage ratios and counterparty risk.

The methodology and assumptions used for impairment assessments are reviewed regularly. In evaluating impairment of asset backed securities (ABS) and mortgage backed securities (MBS), the Group continued to use a significant decline in market price to be a key indicator of impairment. The Group also considered other objective evidence of impairment, taking into account the impact of liquidity on market prices and the movement in loss coverage ratios of individual ABS and MBS securities held by the Group.

4 Held to maturity securities

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

5 Provisions

The Group uses judgement to assess whether the Group has a present legal or constructive obligation as a result of past events at each financial reporting date, and judgement is used to determine if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and to determine a reliable estimate of the amount of the obligation.

On 22 July 2009, BOC Hong Kong Group agreed with the Securities and Futures Commission of Hong Kong, the Hong Kong Monetary Authority ("HKMA") and thirteen other distributing banks to make an offer to eligible customers to repurchase their holdings in all outstanding Lehman Brothers minibonds ("Minibonds") subscribed through BOC Hong Kong Group ("the Repurchase Scheme").

At the time when determining the charge to the income statement in 2009 in respect of the Minibonds, the Group took into account the estimated aggregate amount paid and payable under the Repurchase Scheme and the voluntary offer, the provision made prior to the date of the Repurchase Scheme and the amount recoverable from the Minibonds (Note V.5).

The amount recoverable from the Minibonds is uncertain and dependent on a number of factors including resolution of certain legal matters, which may result in a wide range of recovery outcomes. The Group has made an assessment of the amount recoverable under such uncertainties. The final amount recovered by the Group could be different from the assessment and may result in a considerable credit being recognised in the income statement in the period when it is realised.

6 Employee retirement benefit obligations

As described in Note II.12.2 and Note V.33, the Bank has established liabilities in connection with benefits payable to certain retired and early retired employees. The amounts of employee benefit expense and these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, pension benefit inflation rates, medical benefit inflation rates and other factors. Actual results that differ from the assumptions are recognised immediately and, therefore, affect recognised expense in the year in which such differences arise. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect the Bank's expense related to its employee retirement benefit obligations.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

7 Taxes

The Group is subject to income and business taxes in numerous jurisdictions, principally in the Chinese mainland and Hong Kong. There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Group has made estimates for items of uncertainty and application of new tax legislation taking into account existing tax legislation and past practice, in particular, the treatment of supplementary PRC tax applied to results of overseas operations.

Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax, deferred income tax, and business tax in the period during which such a determination is made.

8 Impairment of non-financial assets

Non-financial assets are periodically reviewed for impairment and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. When estimating the value in use of aircraft held by subsidiaries, the Group estimates expected future cash flows from the aircraft and uses a suitable discount rate to calculate present value. The Group obtains valuations of aircraft from independent appraisers for which the principal assumptions underlying aircraft value are based on current market transactions for similar aircraft in the same location and condition. The Group also uses the fair value of aircraft obtained from independent appraisers in its assessment of the recoverable amount of intangible assets and the goodwill arising from the purchase of the Group's aircraft leasing subsidiary.

IV TAXATION

The principal income and other taxes to which the Group is subject are listed below:

		Statutory rates Year ended 31 December	
Taxes	**Tax basis**	**2010**	2009
Chinese mainland			
Corporate income tax	Taxable income	**25%**	25%
Business tax	Business income	**5%**	5%
City construction and maintenance tax	Turnover tax paid	**1% – 7%**	1% – 7%
Education surcharges	Turnover tax paid	**3% – 3.5%**	3% – 3.5%
Hong Kong			
Hong Kong profits tax	Assessable profits	**16.5%**	16.5%

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Year ended 31 December	
	2010	2009
Interest income		
Loans and advances to customers	**227,529**	186,982
Investment securities and financial assets at fair value through profit or loss [(1)]	**53,987**	49,966
Due from central banks	**18,604**	17,155
Due from and placements with and loans to banks and other financial institutions	**13,413**	7,321
Subtotal	**313,533**	261,424
Interest expense		
Due to customers	**(92,013)**	(87,449)
Due to and placements from banks and other financial institutions	**(22,086)**	(10,789)
Other borrowed funds	**(5,472)**	(4,305)
Subtotal	**(119,571)**	(102,543)
Net interest income [(2)]	**193,962**	158,881
Interest income accrued on impaired financial assets (included within Interest income)	**965**	1,741

(1) Interest income on Investment securities and Financial assets at fair value through profit or loss is principally derived from debt securities listed on China Domestic Interbank Bond Market and unlisted debt securities in Hong Kong, Macau, Taiwan and other countries and regions.

(2) Included within Interest income and Interest expenses are RMB311,425 million (2009: RMB259,067 million) and RMB117,925 million (2009: RMB101,759 million) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 Net fee and commission income

	Year ended 31 December	
	2010	2009
Agency commissions	**11,021**	11,211
Credit commitment fees	**10,178**	8,364
Bank card fees	**9,574**	6,091
Settlement and clearing fees	**9,144**	7,481
Spread income from foreign exchange business	**8,114**	7,264
Consultancy and advisory fees	**4,385**	4,396
Custodian and other fiduciary service fees	**1,491**	1,375
Other	**5,307**	4,052
Fee and commission income	**59,214**	50,234
Fee and commission expense	**(4,731)**	(4,221)
Net fee and commission income	**54,483**	46,013

3 Net trading gains

	Year ended 31 December	
	2010	2009
Net gains from foreign exchange and foreign exchange products (1)	**3,072**	4,497
Net (losses)/gains from interest rate products	**(332)**	367
Net gains from equity products	**394**	573
Net gains from commodity products	**357**	412
Total (2)	**3,491**	5,849

(1) The net gains from foreign exchange and foreign exchange products for the year ended 31 December 2010 include losses in connection with the retranslation of foreign currency denominated monetary assets and liabilities of RMB661 million (2009: RMB1,938 million), and net realised and unrealised gains on foreign exchange derivatives (including the foreign exchange derivatives entered into in conjunction with the Group's asset and liability management and funding arrangements) of RMB3,733 million (2009: RMB6,435 million).

(2) Included in "Net trading gains" above for the year ended 31 December 2010 are gains of RMB903 million in relation to financial assets and financial liabilities designated at fair value through profit or loss (2009: losses of RMB406 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4 Other operating income

	Year ended 31 December	
	2010	2009
Insurance premiums [1]	**8,526**	9,356
Revenue from sale of precious metals products	**4,033**	2,894
Aircraft leasing income	**3,509**	2,711
Gains on disposal of property and equipment, intangible assets and other assets	**417**	654
Dividend income	**207**	141
Changes in fair value of investment properties	**1,649**	1,933
Gains on disposal of subsidiaries, associates and joint ventures	**128**	27
Other	**2,733**	2,774
Total	**21,202**	20,490

(1) Details of insurance premium income are as follows:

	Year ended 31 December	
	2010	2009
Life insurance contracts		
Gross earned premiums	**7,532**	6,840
Less: gross written premiums ceded to reinsurers	**(1,886)**	(16)
Net insurance premium income	**5,646**	6,824
Non-life insurance contracts		
Gross earned premiums	**3,329**	2,941
Less: gross written premiums ceded to reinsurers	**(449)**	(409)
Net insurance premium income	**2,880**	2,532
Total	**8,526**	9,356

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5 Operating expenses

	Year ended 31 December	
	2010	2009
Staff costs (Note V.6)	**53,420**	45,474
General operating and administrative expenses (1)	**30,816**	26,911
Business and other taxes	**14,414**	11,645
Depreciation and amortisation	**10,319**	8,691
Insurance benefits and claims		
– Life insurance contracts	**6,955**	6,421
– Non-life insurance contracts	**1,982**	1,774
Cost of sale of precious metals products	**3,664**	2,567
Allowance for litigation losses	**127**	63
Losses on disposal of property and equipment	**76**	120
Lehman Brothers related products (2)	**78**	2,889
Other	**558**	752
Total	**122,409**	107,307

(1) Included in the general operating and administrative expenses are principal auditors' remuneration of RMB213 million for the year ended 31 December 2010 (2009: RMB207 million), of which RMB46 million was for Hong Kong, Macau, Taiwan and other countries and regions of the Group (2009: RMB48 million).

Included in the general operating and administrative expenses are operating lease expenses of RMB3,724 million and other premises and equipment related expenses (mainly comprised of property management and building maintenance expenses) of RMB8,384 million (2009: RMB3,233 million and RMB7,633 million) respectively.

(2) Expenses incurred on Lehman Brothers related products for the year ended 31 December 2009 were primarily in relation to the Minibonds repurchase arrangements announced on 22 July 2009 (Note III.5).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6 Staff costs

	Year ended 31 December	
	2010	2009
Salary, bonus and subsidy	**37,848**	32,206
Staff welfare	**2,967**	2,613
Retirement benefits (Note V.33)	**571**	498
Social insurance, including:		
Medical	**1,583**	1,271
Pension	**3,553**	2,986
Annuity	**802**	702
Unemployment	**213**	194
Injury at work	**75**	64
Maternity insurance	**92**	77
Housing funds	**2,769**	2,225
Labour union fee and staff education fee	**1,343**	1,125
Reimbursement for cancellation of labour contract	**17**	21
Other	**1,587**	1,492
Total	**53,420**	45,474

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Directors', supervisors' and senior management's emoluments

Details of the directors' and supervisors' emoluments are as follows:

For the year ended 31 December 2010 (Amount in thousands of RMB)

	Fees	Remuneration paid	Contributions to pension schemes	Benefits in kind	Total
Executive directors					
Xiao Gang [3]	–[2]	775	52	181	1,008
Li Lihui [3]	–[2]	698	54	171	923
Li Zaohang [3]	–[2]	670	53	166	889
Zhou Zaiqun [3]	–[2]	671	56	164	891
Non-executive directors					
Hong Zhihua [1]	–	–	–	–	–
Huang Haibo [1]	–	–	–	–	–
Cai Haoyi [1]	–	–	–	–	–
Sun Zhijun [1] [5]	–	–	–	–	–
Liu Lina [1] [5]	–	–	–	–	–
Jiang Yansong [1] [5]	–	–	–	–	–
Zhang Jinghua [1] [4]	–	–	–	–	–
Wang Gang [1] [4]	–	–	–	–	–
Lin Yongze [1] [4]	–	–	–	–	–
Seah Lim Huat Peter [4]	300	–	–	–	300
Independent non-executive directors					
Anthony Francis Neoh	550	–	–	–	550
Alberto TOGNI	1,085	–	–	–	1,085
Huang Shizhong	550	–	–	–	550
Huang Danhan	350	–	–	–	350
Chow Man Yiu, Paul [5]	68	–	–	–	68
Supervisors					
Li Jun [3] [5]	–	565	36	133	734
Liu Ziqiang [3] [4]	–	170	19	41	230
Wang Xueqiang [3]	–	543	46	123	712
Liu Wanming [3]	–	543	45	121	709
Deng Zhiying [3] [5]	–	226	14	39	279
Li Chunyu [3]	–	310	39	66	415
Jiang Kuiwei [3]	–	481	34	25	540
Qin Rongsheng [5]	112	–	–	–	112
Bai Jingming [5]	95	–	–	–	95
	3,110	5,652	448	1,230	10,440

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Directors', supervisors' and senior management's emoluments (Continued)

For the year ended 31 December 2009 (Amount in thousands of RMB)

	Fees	Basic salaries	Contributions to pension schemes	Benefits in kind	Discretionary bonuses [6] Current	Discretionary bonuses [6] Deferred	Total
Executive directors							
Xiao Gang [6]	–[2]	397	50	214	463	482	1,606
Li Lihui [6]	–[2]	358	53	211	417	434	1,473
Li Zaohang [6]	–[2]	344	52	207	399	415	1,417
Zhou Zaiqun [6]	–[2]	344	55	201	400	417	1,417
Non-executive directors							
Zhang Jinghua [1]	–	–	–	–	–	–	–
Hong Zhihua [1]	–	–	–	–	–	–	–
Huang Haibo [1]	–	–	–	–	–	–	–
Cai Haoyi [1]	–	–	–	–	–	–	–
Wang Gang [1]	–	–	–	–	–	–	–
Lin Yongze [1]	–	–	–	–	–	–	–
Frederick Anderson GOODWIN	15	–	–	–	–	–	15
Seah Lim Huat Peter	300	–	–	–	–	–	300
Independent non-executive directors							
Anthony Francis Neoh	550	–	–	–	–	–	550
Alberto TOGNI	450	–	–	–	–	–	450
Huang Shizhong	550	–	–	–	–	–	550
Huang Danhan	350	–	–	–	–	–	350
Supervisors							
Liu Ziqiang [6]	–	348	78	205	405	422	1,458
Wang Xueqiang	–	364	43	150	488	–	1,045
Liu Wanming	–	364	43	150	463	–	1,020
Li Chunyu	–	211	36	143	162	–	552
Jiang Kuiwei	–	264	29	140	409	–	842
	2,215	2,994	439	1,621	3,606	2,170	13,045

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Directors', supervisors' and senior management's emoluments (Continued)

(1) During the years ended 31 December 2010 and 2009, these full-time non-executive directors of the Bank signed an agreement to waive the emoluments for their services to the Bank.

(2) For the years ended 31 December 2010 and 2009, these executive directors of the Bank did not receive any fees.

(3) The total compensation packages for these directors and supervisors for the year ended 31 December 2010 have not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's and the Bank's 2010 financial statements. The final compensation will be disclosed in a separate announcement when determined.

(4) Zhang Jinghua, Wang Gang and Lin Yongze ceased to be non-executive directors effective from 22 October 2010. Seah Lim Huat Peter ceased to be a non-executive director effective from 31 December 2010. Liu Ziqiang ceased to be a supervisor effective from 19 March 2010.

(5) Sun Zhijun, Liu Lina and Jiang Yansong were elected to be non-executive directors effective from 22 October 2010. Chow Man Yiu, Paul was elected to be an independent non-executive director effective from 22 October 2010. Li Jun was elected to be the chairman of the board of supervisors effective from 19 March 2010. Deng Zhiying was elected to be an employee supervisor effective from 19 August 2010. Qin Rongsheng and Bai Jingming were elected to be supervisors effective from 27 May 2010.

(6) A portion of the discretionary bonus payments for these executive directors and the chairman of the board of supervisors is deferred for more than 3 years based on the future performance in accordance with relevant regulations of the PRC authorities. The deferred payments will not be paid entirely or partially should there be any misconduct which causes an extraordinary loss to the group within the scope of their responsibilities.

In July 2002, options to purchase shares of BOCHK Holdings were granted to several directors of the Bank under the Pre-Listing Share Option Scheme. During the years ended 31 December 2010 and 2009, no such options were exercised by any director.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Directors', supervisors' and senior management's emoluments (Continued)

Five highest paid individuals

Of the five individuals with the highest emoluments, none of them are directors or supervisors whose emoluments are disclosed above.

The emoluments payable to the five individuals whose emoluments were the highest in the Group for the years ended 31 December 2010 and 2009 respectively are as follows:

	Year ended 31 December	
	2010	2009
Basic salaries and allowances	**26**	7
Discretionary bonuses	**22**	94
Contributions to pension schemes and others	**2**	3
	50	104

Emoluments of the individuals were within the following bands:

	Year ended 31 December	
Amounts in RMB	**2010**	2009
7,500,001-8,000,000	**1**	–
8,500,001-9,000,000	**1**	–
9,500,001-10,000,000	**1**	–
10,500,001-11,000,000	**1**	–
12,500,001-13,000,000	**1**	–
19,000,001-19,500,000	**–**	1
20,000,001-20,500,000	**–**	2
21,500,001-22,000,000	**–**	1
23,500,001-24,000,000	**–**	1

The above five highest paid individuals' emoluments are based on best estimates of discretionary bonuses. Discretionary bonuses include portions of payments that are deferred to future periods.

During the years ended 31 December 2010 and 2009, the Group has not paid any emoluments to the directors, supervisors, or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Impairment losses on assets

	Year ended 31 December	
	2010	2009
Loans and advances [1]		
– Individually assessed	**(1,790)**	(1,694)
– Collectively assessed	**17,354**	17,139
Subtotal	**15,564**	15,445
Investment securities [1] [2]		
Available for sale		
– Debt securities	**(2,884)**	(282)
– Equity securities and fund investments	**468**	11
	(2,416)	(271)
Held to maturity	**(69)**	(583)
Loans and receivables	**(1)**	–
Other	**(85)**	396
Total	**12,993**	14,987

(1) Details of new allowances and reversal of impairment losses on loans and advances and investment securities are disclosed in Notes V.16 and V.23, respectively.

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

	Year ended 31 December	
	2010	2009
US Subprime mortgage related debt securities	**(1,526)**	651
US Alt-A mortgage-backed securities	**(411)**	(105)
US Non-Agency mortgage-backed securities	**(647)**	(911)
Other securities	**98**	(489)
Net reversal	**(2,486)**	(854)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9 Income tax expense

	Year ended 31 December	
	2010	2009
Current income tax		
– Chinese mainland income tax	**28,082**	27,526
– Hong Kong profits tax	**2,701**	2,236
– Macau, Taiwan and other countries and regions taxation	**1,207**	1,184
Subtotal	**31,990**	30,946
Deferred income tax (Note V.35)	**464**	(5,198)
Total	**32,454**	25,748

The principal tax rates applicable to the Group are set out in Note IV.

The provision for Chinese mainland income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Bank and each of the subsidiaries established in the Chinese mainland and supplementary PRC tax on overseas operations as determined in accordance with the relevant PRC income tax rules and regulations (Note III.7).

Taxation on profits of Hong Kong, Macau, Taiwan and other countries and regions has been calculated on the estimated assessable profits in accordance with local tax regulations at the rates of taxation prevailing in the countries or regions in which the Group operates.

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

	Year ended 31 December	
	2010	2009
Profit before income tax	**142,145**	111,097
Tax calculated at applicable statutory tax rate	**35,536**	27,774
Effect of different tax rates on Hong Kong, Macau, Taiwan and other countries and regions	**(2,149)**	(2,049)
Supplementary PRC tax on overseas income	**1,080**	1,232
Income not subject to tax (1)	**(3,439)**	(3,149)
Items not deductible for tax purposes (2)	**2,074**	2,559
Other	**(648)**	(619)
Income tax expense	**32,454**	25,748

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

(2) Non-deductible items primarily include losses resulting from write-off of certain non-performing loans, and marketing and entertainment expenses in excess of those deductible under the relevant PRC tax regulations.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 Earnings per share (basic and diluted)

Basic earnings per share

Basic earnings per share were computed by dividing the profit attributable to the equity holders of the Bank by the weighted average number of ordinary shares in issue during the periods. The comparative Earnings per share for profit attributable to equity holders of the Bank for the year ended 31 December 2009 have been adjusted to reflect the effect of the rights issue.

	Year ended 31 December	
	2010	2009
Profit attributable to equity holders of the Bank	**104,418**	80,819
Weighted average number of ordinary shares in issue (in million shares)	**264,393**	262,495
Basic earnings per share (in RMB per share)	**0.39**	0.31

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

	Year ended 31 December	
	2010	2009
Issued ordinary shares as at 1 January	**253,839**	253,839
Weighted average number of shares from rights issue	**10,575**	8,662
Conversion of the bond into shares (Note V.30)	**–**	–
Weighted average number of treasury shares	**(21)**	(6)
Weighted average number of ordinary shares in issue	**264,393**	262,495

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 Earnings per share (basic and diluted) (Continued)

Diluted earnings per share

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

	Year ended 31 December	
	2010	2009
Profit attributable to equity holders of the Bank	**104,418**	80,819
Add: interest expense on convertible bonds, net of tax, outstanding as at 31 December	**521**	–
Profit used to determine diluted earnings per share	**104,939**	80,819
Adjusted weighted average number of ordinary shares in issue (in million shares)	**264,393**	262,495
Add: weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	**6,241**	–
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	**270,634**	262,495
Diluted earnings per share (in RMB per share)	**0.39**	0.31

11 Cash and due from banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Cash	**49,222**	39,596	**44,811**	36,007
Due from banks in Chinese mainland	**563,578**	355,849	**552,281**	352,483
Due from other financial institutions in Chinese mainland	**1,459**	936	**1,448**	936
Due from banks in Hong Kong, Macau, Taiwan and other countries and regions	**21,867**	37,970	**22,439**	45,284
Total (1)	**636,126**	434,351	**620,979**	434,710

(1) Included in the Bank's due from banks and other financial institutions are balances with the Bank's subsidiaries (Note V.43.7).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 Balances with central banks

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Mandatory reserves (1)	**1,109,878**	793,698	**1,104,652**	791,397
Surplus reserves (2)	**111,501**	135,951	**110,378**	133,115
Balance under reverse repo agreements (3)	**–**	64,910	**–**	64,910
Other deposits (4)	**352,543**	116,792	**67,502**	44,663
Total	**1,573,922**	1,111,351	**1,282,532**	1,034,085

(1) The Group places mandatory reserve funds with the People's Bank of China (the "PBOC") and the central banks of Hong Kong, Macau, Taiwan and other countries and regions where it has operations. As at 31 December 2010, mandatory reserve funds placed with the PBOC were calculated at 18.5% (2009: 15.5%) and 5% (2009: 5%) of eligible RMB deposits and foreign currency deposits from customers of branches in Chinese mainland of the Group respectively. The amount of mandatory reserve funds placed with the central banks of others is determined by local jurisdiction.

(2) This mainly represented the surplus reserve funds placed with the PBOC by branches in Chinese mainland of the Group.

(3) The Group accepts treasury bonds as collateral in connection with its reverse repo agreements with the PBOC. The Group is not permitted to sell or re-pledge such collateral accepted.

(4) This mainly represented balances, other than mandatory reserves and surplus reserves, placed with central banks by operations in Hong Kong, Macau, Taiwan and other countries and regions.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13 Placements with and loans to banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Placements with and loans to:				
Banks in Chinese mainland	**91,752**	54,391	**76,584**	43,652
Other financial institutions in Chinese mainland	**83,188**	72,051	**83,188**	72,051
Banks in Hong Kong, Macau, Taiwan and other countries and regions (1)	**39,019**	96,558	**56,146**	81,968
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions (1)	**–**	810	**29,658**	40,507
Subtotal (2)	**213,959**	223,810	**245,576**	238,178
Allowance for impairment losses	**(243)**	(366)	**(243)**	(365)
Total	**213,716**	223,444	**245,333**	237,813
Impaired placements	**243**	366	**243**	365
Percentage of impaired placements to total placements with and loans to banks and other financial institutions	**0.11%**	0.16%	**0.10%**	0.15%

(1) Included in the Bank's "Banks in Hong Kong, Macau, Taiwan and other countries and regions" and "Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions" are loans to the Bank's subsidiaries (Note V.43.7).

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

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Debt securities				
– Government	43,692	41,306	42,297	41,306
– Policy banks	29,778	38,184	29,778	38,184
– Financial institutions	3,262	5,022	2,547	4,484
Total	76,732	84,512	74,622	83,974

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Financial assets at fair value through profit or loss

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Trading financial assets				
Trading debt securities				
Issuers in Chinese mainland				
– Government	**5,477**	4,396	**5,420**	4,278
– Public sector and quasi-governments	**–**	30	**–**	10
– Policy banks	**1,936**	2,849	**1,032**	2,598
– Financial institutions	**333**	104	**30**	–
– Corporate	**1,012**	115	**348**	40
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
– Governments	**29,472**	17,591	**–**	4,441
– Public sector and quasi-governments	**203**	340	**–**	–
– Financial institutions	**1,353**	1,267	**61**	128
– Corporate	**4,585**	2,720	**–**	–
	44,371	29,412	**6,891**	11,495
Other trading financial assets				
Fund investments	**429**	568	**–**	–
Equity securities	**3,863**	1,034	**–**	–
Subtotal	**48,663**	31,014	**6,891**	11,495

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Financial assets at fair value through profit or loss (Continued)

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Financial assets designated at fair value through profit or loss				
Debt securities designated at fair value through profit or loss				
Issuers in Chinese mainland				
– Government	**174**	233	**23**	86
– Policy banks	**1,666**	1,730	**1,666**	1,730
– Financial institutions	**347**	359	**–**	–
– Corporate	**347**	–	**–**	–
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
– Governments	**242**	655	**–**	35
– Public sector and quasi-governments	**462**	1,377	**416**	551
– Financial institutions	**20,206**	17,076	**6,276**	2,259
– Corporate	**3,745**	4,580	**1,370**	2,730
	27,189	26,010	**9,751**	7,391
Other financial assets designated at fair value through profit or loss				
Fund investments	**2,577**	2,427	**–**	–
Loans	**1,172**	1,248	**1,172**	1,248
Equity securities	**1,636**	1,198	**–**	–
Subtotal	**32,574**	30,883	**10,923**	8,639
Total (1) (2)	**81,237**	61,897	**17,814**	20,134
Analysed as:				
Listed in Hong Kong	**7,735**	5,868	**2,346**	2,547
Listed outside Hong Kong (3)	**22,640**	18,974	**13,971**	12,899
Unlisted	**50,862**	37,055	**1,497**	4,688
Total	**81,237**	61,897	**17,814**	20,134

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Financial assets at fair value through profit or loss (Continued)

(1) As at 31 December 2010, the Group and the Bank held bonds issued by the Ministry of Finance PRC ("MOF") and bills issued by the PBOC included in Financial assets at fair value through profit or loss with the carrying value and the related interest rate range on such bonds and bills as follows:

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Carrying value	**5,651**	4,629	**5,443**	4,364
Interest rate range	**1.60%-9.00%**	1.31%-9.00%	**3.07%-4.48%**	1.31%-4.47%

(2) Included in the Group's Financial assets at fair value through profit or loss were certificates of deposit held of RMB2,062 million (31 December 2009: RMB2,254 million).

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

15 Derivative financial instruments and hedge accounting

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

The contractual/notional amounts and fair values of derivative instruments held by the Group and the Bank are set out in the following tables. The contractual/notional amounts of financial instruments provide a basis for comparison with fair value instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates or equity/commodity prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Derivative financial instruments and hedge accounting (Continued)

15.1 Derivative financial instruments

Group

	As at 31 December 2010			As at 31 December 2009		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps (1)	**1,979,959**	**30,763**	**(23,829)**	1,629,325	20,810	(12,353)
Currency options	**4,585**	**24**	**(25)**	4,331	16	(14)
Subtotal	**1,984,544**	**30,787**	**(23,854)**	1,633,656	20,826	(12,367)
Interest rate derivatives						
Interest rate swaps	**532,670**	**7,308**	**(10,081)**	459,885	6,213	(9,404)
Interest rate options	**85**	**–**	**–**	839	–	(4)
Interest rate futures	**7,388**	**8**	**(3)**	1,958	6	(3)
Subtotal	**540,143**	**7,316**	**(10,084)**	462,682	6,219	(9,411)
Equity derivatives	**8,684**	**123**	**(183)**	4,548	102	(106)
Commodity derivatives	**33,415**	**1,744**	**(1,590)**	20,611	1,224	(915)
Credit derivatives	**331**	**4**	**–**	3,482	143	(424)
Total	**2,567,117**	**39,974**	**(35,711)**	2,124,979	28,514	(23,223)

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Derivative financial instruments and hedge accounting (Continued)

15.1 Derivative financial instruments (Continued)

Bank

	As at 31 December 2010			As at 31 December 2009		
	Contractual/ notional amount	Fair value Assets	Fair value Liabilities	Contractual/ notional amount	Fair value Assets	Fair value Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps [(1)]	1,471,850	13,164	(10,162)	1,196,770	6,900	(3,646)
Currency options	1,090	15	(15)	1,839	7	(6)
Subtotal	1,472,940	13,179	(10,177)	1,198,609	6,907	(3,652)
Interest rate derivatives						
Interest rate swaps	253,521	5,113	(6,229)	273,240	4,926	(6,062)
Interest rate options	–	–	–	–	–	–
Interest rate futures	290	–	–	–	–	–
Subtotal	253,811	5,113	(6,229)	273,240	4,926	(6,062)
Equity derivatives	583	2	(1)	–	–	–
Commodity derivatives	21,679	859	(825)	13,216	667	(586)
Credit derivatives	331	4	–	2,868	12	(273)
Total	1,749,344	19,157	(17,232)	1,487,933	12,512	(10,573)

(1) These exchange rate derivatives primarily include foreign exchange transactions with customers; foreign exchange transactions to manage foreign currency exchange risks arising from customers; and foreign currency exchange transactions entered into as part of asset and liability management and funding requirements.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Derivative financial instruments and hedge accounting (Continued)

15.2 Hedge accounting

Included in the derivative financial instruments above are those designated as hedging instruments by the Group as follows (the Bank: nil):

Group

	As at 31 December 2010			As at 31 December 2009		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Derivatives designated as hedging instruments in fair value hedges						
Cross-currency interest rate swaps	1,012	183	(1)	372	141	–
Interest rate swaps	39,435	740	(1,568)	28,590	81	(1,059)
Subtotal (1)	40,447	923	(1,569)	28,962	222	(1,059)
Derivatives designated as hedging instruments in cash flow hedges						
Cross-currency interest rate swaps	3,776	48	(63)	979	15	(18)
Interest rate swaps	8,354	92	(106)	7,242	61	(115)
Subtotal (2)	12,130	140	(169)	8,221	76	(133)
Total	52,577	1,063	(1,738)	37,183	298	(1,192)

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Derivative financial instruments and hedge accounting (Continued)

15.2 Hedge accounting (Continued)

(1) Fair value hedges

The Group uses cross-currency interest rate swaps and interest rate swaps to hedge against changes in fair value of bonds issued and debt securities available for sale arising from changes in foreign exchange rates and market interest rates.

Gains or losses on fair value hedges are as follows:

	Year ended 31 December	
	2010	2009
Net (losses)/gains on		
– hedging instruments	**(177)**	652
– hedged items	**113**	(645)
Ineffectiveness recognised in Net trading gains	**(64)**	7

(2) Cash flow hedges

The Group uses cross-currency interest rate swaps and interest rate swaps to hedge against exposure to cash flow variability primarily from foreign exchange rates and market interest rates risk of debt securities held and variable rate borrowings.

For the year ended 31 December 2010, a net gain from cash flow hedges of RMB25 million was recognised in Capital reserve through other comprehensive income (2009: loss of RMB32 million), and ineffectiveness recognised in Net trading gains was a loss of RMB62 million (2009: loss of RMB4 million).

There were no transactions for which cash flow hedge accounting had to be ceased in the year ended 31 December 2010 or 2009 as a result of the highly probable cash flows no longer being expected to occur.

(3) Net investment hedges

The Group's consolidated statement of financial position is affected by exchange differences between the functional currencies of respective holding companies and functional currencies of their branches and subsidiaries. The Group hedges such exchange exposures only in limited circumstances. Hedging is undertaken using deposits taken in the same currencies as the functional currencies of related branches and subsidiaries which are accounted for as hedges of certain net investment in foreign operations.

For the year ended 31 December 2010, a net gain from the hedging instrument of RMB681 million was recognised in Currency translation differences through other comprehensive income on net investment hedges (2009: gain of RMB24 million), and there was no ineffectiveness in the years ended 31 December 2010 and 2009.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Loans and advances to customers, net

16.1 Analysis of loans and advances to customers

	As at 31 December					
	Group		Bank		Chinese mainland	
	2010	2009	**2010**	2009	**2010**	2009
Corporate loans and advances						
Loans and advances	**4,143,775**	3,534,685	**3,733,290**	3,185,339	**3,445,891**	2,961,094
Discounted bills	**100,608**	228,191	**98,487**	227,927	**94,794**	225,154
Subtotal	**4,244,383**	3,762,876	**3,831,777**	3,413,266	**3,540,685**	3,186,248
Personal loans						
Mortgages	**1,089,006**	907,912	**940,226**	777,329	**921,373**	764,362
Credit cards	**60,833**	31,336	**53,827**	24,968	**53,487**	24,702
Other	**266,399**	208,234	**245,733**	192,688	**243,040**	190,401
Subtotal	**1,416,238**	1,147,482	**1,239,786**	994,985	**1,217,900**	979,465
Total loans and advances	**5,660,621**	4,910,358	**5,071,563**	4,408,251	**4,758,585**	4,165,713
Allowance for impairment losses						
Individually assessed	**(36,834)**	(42,415)	**(36,427)**	(41,611)	**(35,985)**	(41,311)
Collectively assessed	**(86,022)**	(70,535)	**(83,965)**	(68,755)	**(80,814)**	(66,335)
Total allowance for impairment losses	**(122,856)**	(112,950)	**(120,392)**	(110,366)	**(116,799)**	(107,646)
Loans and advances to customers, net	**5,537,765**	4,797,408	**4,951,171**	4,297,885	**4,641,786**	4,058,067

16.2 Analysis of loans and advances to customers by geographical area, industry, collateral type and analysis of overdue loans and advances to customers by collateral type is presented in Note VI. 3.5.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Loans and advances to customers, net (Continued)

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

Group

	Loans and advances for which allowance is collectively assessed [(1)]	Identified impaired loans and advances [(2)] for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal	Total	Identified impaired loans and advances as % of total loans and advances
As at 31 December 2010						
Total loans and advances	**5,596,745**	**13,152**	**50,724**	**63,876**	**5,660,621**	**1.13%**
Allowance for impairment losses	**(77,447)**	**(8,575)**	**(36,834)**	**(45,409)**	**(122,856)**	
Loans and advances to customers, net	**5,519,298**	**4,577**	**13,890**	**18,467**	**5,537,765**	
As at 31 December 2009						
Total loans and advances	4,834,352	16,218	59,788	76,006	4,910,358	1.55%
Allowance for impairment losses	(60,128)	(10,407)	(42,415)	(52,822)	(112,950)	
Loans and advances to customers, net	4,774,224	5,811	17,373	23,184	4,797,408	

Bank

	Loans and advances for which allowance is collectively assessed [(1)]	Identified impaired loans and advances [(2)] for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal	Total	Identified impaired loans and advances as % of total loans and advances
As at 31 December 2010						
Total loans and advances	**5,008,245**	**13,095**	**50,223**	**63,318**	**5,071,563**	**1.25%**
Allowance for impairment losses	**(75,415)**	**(8,550)**	**(36,427)**	**(44,977)**	**(120,392)**	
Loans and advances to customers, net	**4,932,830**	**4,545**	**13,796**	**18,341**	**4,951,171**	
As at 31 December 2009						
Total loans and advances	4,333,658	16,152	58,441	74,593	4,408,251	1.69%
Allowance for impairment losses	(58,385)	(10,370)	(41,611)	(51,981)	(110,366)	
Loans and advances to customers, net	4,275,273	5,782	16,830	22,612	4,297,885	

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Loans and advances to customers, net (Continued)

16.3 Analysis of loans and advances to customers by collective and individual allowance assessments (Continued)

Chinese mainland

		Identified impaired loans and advances [(2)]				
	Loans and advances for which allowance is collectively assessed[(1)]	for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal	Total	Identified impaired loans and advances as % of total loans and advances
As at 31 December 2010						
Total loans and advances	**4,696,374**	**13,053**	**49,158**	**62,211**	**4,758,585**	**1.31%**
Allowance for impairment losses	**(72,284)**	**(8,530)**	**(35,985)**	**(44,515)**	**(116,799)**	
Loans and advances to customers, net	**4,624,090**	**4,523**	**13,173**	**17,696**	**4,641,786**	
As at 31 December 2009						
Total loans and advances	4,092,033	16,104	57,576	73,680	4,165,713	1.77%
Allowance for impairment losses	(56,000)	(10,335)	(41,311)	(51,646)	(107,646)	
Loans and advances to customers, net	4,036,033	5,769	16,265	22,034	4,058,067	

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

(2) Identified impaired loans and advances are loans for which objective evidence of impairment exists and which have been identified as bearing an impairment loss and assessed either:

- individually (including mainly significant corporate loans and advances over a certain amount which are impaired); or

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

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Loans and advances to customers, net (Continued)

16.4 Reconciliation of allowance for impairment losses on loans and advances to customers by individual and collective assessments

	Year ended 31 December					
	2010			2009		
	Individually assessed allowance	Collectively assessed allowance	Total	Individually assessed allowance	Collectively assessed allowance	Total
Group						
As at 1 January	**42,415**	**70,535**	**112,950**	51,146	55,348	106,494
Impairment losses for the year	**10,136**	**35,444**	**45,580**	12,931	28,837	41,768
Reversal	**(11,926)**	**(18,090)**	**(30,016)**	(14,625)	(11,698)	(26,323)
Written off and transfer out	**(4,079)**	**(1,438)**	**(5,517)**	(7,190)	(1,848)	(9,038)
Recovery of loans and advances written off in previous year	**631**	**135**	**766**	507	142	649
Unwind of discount on allowance	**(162)**	**(233)**	**(395)**	(339)	(293)	(632)
Exchange differences	**(181)**	**(331)**	**(512)**	(15)	47	32
As at 31 December	**36,834**	**86,022**	**122,856**	42,415	70,535	112,950
Bank						
As at 1 January	**41,611**	**68,755**	**110,366**	49,615	53,696	103,311
Impairment losses for the year	**10,075**	**34,924**	**44,999**	12,519	28,488	41,007
Reversal	**(11,290)**	**(18,043)**	**(29,333)**	(13,809)	(11,654)	(25,463)
Written off and transfer out	**(3,915)**	**(1,312)**	**(5,227)**	(6,502)	(1,627)	(8,129)
Recovery of loans and advances written off in previous year	**269**	**100**	**369**	114	101	215
Unwind of discount on allowance	**(155)**	**(233)**	**(388)**	(312)	(293)	(605)
Exchange differences	**(168)**	**(226)**	**(394)**	(14)	44	30
As at 31 December	**36,427**	**83,965**	**120,392**	41,611	68,755	110,366
Chinese mainland						
As at 1 January	**41,311**	**66,335**	**107,646**	49,087	51,670	100,757
Impairment losses for the year	**9,809**	**34,201**	**44,010**	12,239	28,192	40,431
Reversal	**(11,253)**	**(18,043)**	**(29,296)**	(13,716)	(11,654)	(25,370)
Written off and transfer out	**(3,850)**	**(1,289)**	**(5,139)**	(6,102)	(1,607)	(7,709)
Recovery of loans and advances written off in previous year	**269**	**–**	**269**	114	28	142
Unwind of discount on allowance	**(143)**	**(233)**	**(376)**	(297)	(293)	(590)
Exchange differences	**(158)**	**(157)**	**(315)**	(14)	(1)	(15)
As at 31 December	**35,985**	**80,814**	**116,799**	41,311	66,335	107,646

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Loans and advances to customers, net (Continued)

16.5 Reconciliation of allowance account for impairment losses on loans and advances to customers by customer type

	Year ended 31 December					
	2010			2009		
	Corporate	Personal	Total	Corporate	Personal	Total
Group						
As at 1 January	**92,028**	**20,922**	**112,950**	85,519	20,975	106,494
Impairment losses for the year	**44,165**	**1,415**	**45,580**	40,607	1,161	41,768
Reversal	**(29,965)**	**(51)**	**(30,016)**	(26,228)	(95)	(26,323)
Written off and transfer out	**(4,880)**	**(637)**	**(5,517)**	(8,070)	(968)	(9,038)
Recovery of loans and advances written off in previous year	**721**	**45**	**766**	594	55	649
Unwind of discount on allowance	**(210)**	**(185)**	**(395)**	(423)	(209)	(632)
Exchange differences	**(483)**	**(29)**	**(512)**	29	3	32
As at 31 December	**101,376**	**21,480**	**122,856**	92,028	20,922	112,950
Bank						
As at 1 January	**89,744**	**20,622**	**110,366**	82,653	20,658	103,311
Impairment losses for the year	**43,791**	**1,208**	**44,999**	40,091	916	41,007
Reversal	**(29,333)**	**–**	**(29,333)**	(25,463)	–	(25,463)
Written off and transfer out	**(4,727)**	**(500)**	**(5,227)**	(7,382)	(747)	(8,129)
Recovery of loans and advances written off in previous year	**369**	**–**	**369**	215	–	215
Unwind of discount on allowance	**(203)**	**(185)**	**(388)**	(397)	(208)	(605)
Exchange differences	**(389)**	**(5)**	**(394)**	27	3	30
As at 31 December	**99,252**	**21,140**	**120,392**	89,744	20,622	110,366
Chinese mainland						
As at 1 January	**87,229**	**20,417**	**107,646**	80,237	20,520	100,757
Impairment losses for the year	**42,887**	**1,123**	**44,010**	39,591	840	40,431
Reversal	**(29,296)**	**–**	**(29,296)**	(25,370)	–	(25,370)
Written off and transfer out	**(4,655)**	**(484)**	**(5,139)**	(6,974)	(735)	(7,709)
Recovery of loans and advances written off in previous year	**269**	**–**	**269**	142	–	142
Unwind of discount on allowance	**(191)**	**(185)**	**(376)**	(382)	(208)	(590)
Exchange differences	**(315)**	**–**	**(315)**	(15)	–	(15)
As at 31 December	**95,928**	**20,871**	**116,799**	87,229	20,417	107,646

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Investment securities available for sale				
Debt securities available for sale				
Issuers in Chinese mainland				
– Government	**122,199**	126,549	**111,334**	124,526
– Public sector and quasi-governments	**2,790**	5,659	**2,771**	5,640
– Policy banks	**95,121**	111,362	**90,818**	108,190
– Financial institutions	**20,617**	20,342	**8,268**	10,214
– Corporate	**57,483**	51,262	**56,374**	50,642
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
– Governments	**90,437**	79,664	**38,469**	30,508
– Public sector and quasi-governments	**45,429**	42,948	**17,615**	18,530
– Financial institutions	**174,496**	142,091	**53,173**	41,468
– Corporate	**23,988**	28,332	**12,298**	16,790
	632,560	608,209	**391,120**	406,508
Equity securities	**19,142**	12,381	**1,360**	1,348
Fund investments and other	**5,036**	1,717	**–**	–
Total investment securities available for sale [(1)]	**656,738**	622,307	**392,480**	407,856
Debt securities held to maturity				
Issuers in Chinese mainland				
– Government	**689,539**	418,925	**684,474**	418,855
– Public sector and quasi-governments	**13,672**	9,332	**13,672**	9,332
– Policy banks	**146,428**	111,943	**145,714**	111,020
– Financial institutions	**19,584**	19,874	**16,128**	17,413
– Corporate	**90,480**	58,103	**90,124**	57,754
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
– Governments	**32,744**	40,120	**28,066**	36,414
– Public sector and quasi-governments	**7,785**	20,610	**1,233**	16,039
– Financial institutions	**34,257**	58,304	**4,224**	6,663
– Corporate	**5,335**	8,016	**888**	1,807
	1,039,824	745,227	**984,523**	675,297
Allowance for impairment losses	**(438)**	(534)	**(396)**	(436)
Total debt securities held to maturity [(2)]	**1,039,386**	744,693	**984,127**	674,861

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities (Continued)

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Debt securities classified as loans and receivables				
Issuers in Chinese mainland				
– China Orient Bond [(3)]	**160,000**	160,000	**160,000**	160,000
– PBOC Special Bills [(4)]	**82**	82	**82**	82
– PBOC Target Bills [(5)]	**–**	113,484	**–**	113,484
– Special Purpose Treasury Bond [(6)]	**42,500**	42,500	**42,500**	42,500
– Financial institutions	**16,541**	14,560	**15,660**	14,560
– Certificate and Saving-type Treasury Bonds and other [(7)]	**43,639**	37,660	**43,639**	37,660
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
– Public sector and quasi-governments	**3,094**	6,372	**1,374**	3,907
– Financial institutions	**12,184**	13,232	**–**	2,047
	278,040	387,890	**263,255**	374,240
Allowance for impairment losses	**(77)**	(108)	**(77)**	(108)
Total securities classified as loans and receivables	**277,963**	387,782	**263,178**	374,132
Total investment securities [(8) (9)]	**1,974,087**	1,754,782	**1,639,785**	1,456,849

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities (Continued)

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Analysed as follows:				
Investment securities available for sale				
Debt securities				
– Listed in Hong Kong	**11,800**	12,214	**5,228**	4,812
– Listed outside Hong Kong	**405,093**	407,370	**308,776**	330,557
– Unlisted	**215,667**	188,625	**77,116**	71,139
Equity, fund and other				
– Listed in Hong Kong	**5,748**	5,368	**–**	–
– Listed outside Hong Kong	**274**	1,054	**–**	–
– Unlisted	**18,156**	7,676	**1,360**	1,348
Debt securities held to maturity				
– Listed in Hong Kong	**2,269**	2,636	**1,468**	929
– Listed outside Hong Kong	**971,645**	642,224	**954,533**	623,024
– Unlisted	**65,472**	99,833	**28,126**	50,908
Debt securities classified as loans and receivables				
– Unlisted	**277,963**	387,782	**263,178**	374,132
Total	**1,974,087**	1,754,782	**1,639,785**	1,456,849
Listed in Hong Kong	**19,817**	20,218	**6,696**	5,741
Listed outside Hong Kong	**1,377,012**	1,050,648	**1,263,309**	953,581
Unlisted	**577,258**	683,916	**369,780**	497,527
Total	**1,974,087**	1,754,782	**1,639,785**	1,456,849

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities (Continued)

Group

	As at 31 December			
	2010		2009	
	Carrying value	**Market value**	Carrying value	Market value
Debt securities held to maturity				
Listed in Hong Kong	**2,269**	**2,375**	2,636	2,722
Listed outside Hong Kong	**971,645**	**958,476**	642,224	641,993

Bank

	As at 31 December			
	2010		2009	
	Carrying value	**Market value**	Carrying value	Market value
Debt securities held to maturity				
Listed in Hong Kong	**1,468**	**1,528**	929	985
Listed outside Hong Kong	**954,533**	**941,193**	623,024	622,772

(1) The Group's accumulated impairment charge on debt and equity securities available for sale held as at 31 December 2010 amounted to RMB15,931 million and RMB3,480 million, respectively (31 December 2009: RMB24,326 million and RMB3,135 million, respectively).

(2) For the year ended 31 December 2010, the Group and the Bank disposed of securities classified as held to maturity with a total carrying value of RMB28,684 million prior to their maturity in response to a significant increase in the Chinese mainland deposit reserve requirement by the PBOC. In addition, the Group and the Bank reclassified held to maturity securities issued by or guaranteed by Freddie Mac and Fannie Mae with a total carrying value of RMB9,585 million to debt securities available for sale. The aggregate carrying value of these held to maturity securities sold or reclassified was insignificant relative to the total amount of the Group's and the Bank's held to maturity securities.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities (Continued)

(3) The Bank transferred certain non-performing assets to China Orient Asset Management Corporation ("China Orient") in 1999 and 2000. On 1 July 2000, China Orient issued a ten-year bond ("Orient Bond") with a par value of RMB160,000 million and interest rate of 2.25% to the Bank as consideration. During the year ended 31 December 2010, the maturity of this bond was extended to 30 June 2020 with the same terms. The MOF shall continue to provide funding support for the principal and interest of the Orient Bond held by the Bank pursuant to Caijin [2004] No. 87 "Notice of the MOF Regarding Relevant Issues Relating to the Principal and Interest of Debt Securities of Financial Asset Management Companies Held by Bank of China and China Construction Bank". There was no exchange of cash on the date of extension of the Orient Bond.

(4) As at 31 December 2010, the Bank held a special PBOC Bill amounting to RMB82 million, which was issued by PBOC on 22 June 2006 in exchange for certain non-performing loans, as previously approved by the State Council. The tenor of the bill is 5 years, with an interest rate of 1.89% per annum. Without the approval of the PBOC, the special PBOC Bill is non-transferable and may not be used as collateral for borrowings. The PBOC has the option to settle this bill in whole or in part before maturity.

(5) The Target Bills issued by the PBOC with a total par value of RMB114,000 million matured in 2010 and the Bank received the principal and interest amount in full.

(6) On 18 August 1998, a Special Purpose Treasury Bond was issued by the MOF with a par value of RMB42,500 million maturing on 18 August 2028. This bond was originally issued with an annual coupon interest rate of 7.2% and its coupon interest rate was restructured to 2.25% per annum from 1 December 2004.

(7) The Group underwrites certain Treasury bonds issued by the MOF and undertakes the role of a distributor of these Treasury bonds through its branch network earning commission income on bonds sold. The investors of these bonds have a right to redeem the bonds at any time prior to maturity and the Bank is committed to redeem these Treasury bonds. The balance of these bonds held by the Group and the Bank as at 31 December 2010 amounted to RMB43,562 million (31 December 2009: RMB37,552 million). During the year the total distribution of these Treasury bonds amounted to RMB39,600 million (2009: RMB39,640 million) and commission income amounted to RMB295 million (2009: RMB327 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities (Continued)

(8) As at 31 December 2010, the Group and the Bank held bonds issued by the MOF and bills issued by the PBOC included in investment securities with the carrying value and the related interest rate range on such bonds and bills as follows:

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Carrying value	**832,924**	704,974	**816,995**	702,881
Interest rate range	**1.38%-6.80%**	0.86%-6.80%	**1.38%-6.80%**	0.86%-6.80%

(9) Included in the Group's investment securities were certificates of deposit held amounting to RMB29,086 million as at 31 December 2010 (31 December 2009: RMB29,132 million).

18 Investment in subsidiaries

The carrying amounts by principal investees are as follows, and further details are disclosed in Note V.43.7. These principal subsidiaries are unlisted companies. All holdings are in the ordinary share capital of the undertaking concerned, and the ability of the investee to transfer funds to the Group and the Bank is not restricted.

	As at 31 December	
	2010	2009
BOC Hong Kong (Group) Limited	**36,915**	36,915
BOC Group Investment Limited	**28,281**	20,135
BOC Group Insurance Company Limited	**4,509**	4,509
BOC International Holdings Limited	**3,753**	3,753
BOC (UK) Limited	**2,126**	2,126
Tai Fung Bank Limited	**82**	82
Other	**4,267**	4,021
Total	**79,933**	71,541

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Investment in associates and joint ventures

	Year ended 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
As at 1 January	**10,668**	7,376	**18**	18
Additions	**1,834**	2,773	**–**	–
Disposals	**(343)**	(105)	**–**	–
Share of results net of tax	**1,029**	821	**28**	–
Share of reserve movement	**97**	(179)	**–**	–
Dividends received	**(302)**	(267)	**–**	–
Exchange differences and others	**(352)**	249	**(1)**	–
As at 31 December	**12,631**	10,668	**45**	18

The Investment in associates and joint ventures of the Group and the Bank are ordinary shares of unlisted companies, and the ability of associates and joint ventures to transfer funds to the Group and the Bank is not restricted. The carrying amount by principal investees was as follows:

	As at 31 December	
	2010	2009
Huaneng International Power Development Corporation	**4,524**	4,305
BOC International (China) Limited	**2,037**	1,829
AVIC International Holding Corporation	**1,466**	1,385
Ningxia Electric Power Group Company Limited	**981**	–
Hong Kong Bora Holdings Limited	**727**	367
Zhang Jiagang Special Glass Limited	**543**	498
Bank of Ningxia Company Limited	**425**	440
Guangdong Small and Middle Enterprises Equity Investment Fund Company Limited	**240**	–
Shanghai Yangtze Hotel Limited	**144**	–
United Glory Investment Limited	**137**	157
Other	**1,407**	1,687
Total	**12,631**	10,668

Further details are disclosed in Note V.43.4.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment

Group

	Year ended 31 December				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 1 January 2010	68,622	33,403	11,680	38,260	151,965
Additions	492	8,021	7,766	6,699	22,978
Transfer from/(to) investment property, net (Note V.21)	3,349	–	(4)	–	3,345
Reclassification	2,905	1,127	(6,452)	2,420	–
Disposals	(894)	(1,609)	(88)	(2,540)	(5,131)
Exchange differences	(416)	(190)	(96)	(1,132)	(1,834)
As at 31 December 2010	74,058	40,752	12,806	43,707	171,323
Accumulated depreciation					
As at 1 January 2010	(18,000)	(20,625)	–	(2,288)	(40,913)
Depreciation charge	(2,190)	(5,008)	–	(1,486)	(8,684)
Disposals	730	1,556	–	337	2,623
Exchange differences	82	135	–	66	283
As at 31 December 2010	(19,378)	(23,942)	–	(3,371)	(46,691)
Allowance for impairment losses					
As at 1 January 2010	(819)	–	(279)	–	(1,098)
Impairment losses	–	–	–	(9)	(9)
Disposals	21	–	22	–	43
Exchange differences	–	–	–	–	–
As at 31 December 2010	(798)	–	(257)	(9)	(1,064)
Net book value					
As at 1 January 2010	49,803	12,778	11,401	35,972	109,954
As at 31 December 2010	53,882	16,810	12,549	40,327	123,568

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

Group

	Year ended 31 December				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 1 January 2009	66,650	29,530	7,897	22,606	126,683
Additions	1,668	5,300	7,936	15,176	30,080
Transfer to investment property, net (Note V.21)	(139)	–	(13)	–	(152)
Reclassification	1,610	571	(3,936)	1,755	–
Disposals	(1,220)	(2,031)	(203)	(1,252)	(4,706)
Exchange differences	53	33	(1)	(25)	60
As at 31 December 2009	68,622	33,403	11,680	38,260	151,965
Accumulated depreciation					
As at 1 January 2009	(16,804)	(18,509)	–	(1,316)	(36,629)
Depreciation charge	(2,096)	(4,045)	–	(1,085)	(7,226)
Disposals	924	1,949	–	112	2,985
Exchange differences	(24)	(20)	–	1	(43)
As at 31 December 2009	(18,000)	(20,625)	–	(2,288)	(40,913)
Allowance for impairment losses					
As at 1 January 2009	(840)	–	(316)	–	(1,156)
Impairment losses	(4)	–	–	–	(4)
Disposals	25	–	37	–	62
Exchange differences	–	–	–	–	–
As at 31 December 2009	(819)	–	(279)	–	(1,098)
Net book value					
As at 1 January 2009	49,006	11,021	7,581	21,290	88,898
As at 31 December 2009	49,803	12,778	11,401	35,972	109,954

As at 31 December 2010, the net book amount of aircraft owned by the Group acquired under finance lease arrangements was RMB2,258 million (31 December 2009: RMB3,777 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

As at 31 December 2010, the net book amount of aircraft leased out by the Group under operating leases was RMB39,394 million (31 December 2009: RMB35,972 million).

As at 31 December 2010, the net book amount of aircraft owned by the Group that have been pledged for loan facilities was RMB34,813 million (31 December 2009: RMB14,095 million) (Note V.31 (2)).

Bank

	Year ended 31 December			
	Buildings	Equipment and motor vehicles	Construction in progress	Total
Cost				
As at 1 January 2010	55,111	28,813	8,595	92,519
Additions	378	7,651	5,064	13,093
Transfer from investment property, net (Note V.21)	217	–	–	217
Reclassification	2,814	1,011	(3,825)	–
Disposals	(809)	(1,414)	(91)	(2,314)
Exchange differences	16	(10)	–	6
As at 31 December 2010	57,727	36,051	9,743	103,521
Accumulated depreciation				
As at 1 January 2010	(15,094)	(17,588)	–	(32,682)
Depreciation charge	(1,865)	(4,454)	–	(6,319)
Disposals	649	1,371	–	2,020
Exchange differences	3	6	–	9
As at 31 December 2010	(16,307)	(20,665)	–	(36,972)
Allowance for impairment losses				
As at 1 January 2010	(819)	–	(279)	(1,098)
Impairment losses	–	–	–	–
Disposals	21	–	22	43
Exchange differences	–	–	–	–
As at 31 December 2010	(798)	–	(257)	(1,055)
Net book value				
As at 1 January 2010	39,198	11,225	8,316	58,739
As at 31 December 2010	40,622	15,386	9,486	65,494

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

Bank

	Year ended 31 December			
	Buildings	Equipment and motor vehicles	Construction in progress	Total
Cost				
As at 1 January 2009	53,065	25,218	5,081	83,364
Additions	1,467	5,016	5,752	12,235
Transfer to investment property, net (Note V.21)	–	–	–	–
Reclassification	1,713	457	(2,170)	–
Disposals	(1,210)	(1,908)	(68)	(3,186)
Exchange differences	76	30	–	106
As at 31 December 2009	55,111	28,813	8,595	92,519
Accumulated depreciation				
As at 1 January 2009	(14,035)	(15,946)	–	(29,981)
Depreciation charge	(1,851)	(3,504)	–	(5,355)
Disposals	820	1,885	–	2,705
Exchange differences	(28)	(23)	–	(51)
As at 31 December 2009	(15,094)	(17,588)	–	(32,682)
Allowance for impairment losses				
As at 1 January 2009	(840)	–	(316)	(1,156)
Impairment losses	(4)	–	–	(4)
Disposals	25	–	37	62
Exchange differences	–	–	–	–
As at 31 December 2009	(819)	–	(279)	(1,098)
Net book value				
As at 1 January 2009	38,190	9,272	4,765	52,227
As at 31 December 2009	39,198	11,225	8,316	58,739

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

According to relevant PRC laws and regulations, after conversion into a joint stock limited liability company, the Bank is required to re-register its property and equipment under the name of Bank of China Limited. As at 31 December 2010, the process of re-registration has not been completed. However, this registration process does not affect the rights of the Bank of China Limited to these assets.

The carrying value of buildings is analysed based on the remaining terms of the leases as follows:

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Held in Hong Kong				
on long-term lease (over 50 years)	**4,177**	3,589	**–**	–
on medium-term lease (10-50 years)	**7,960**	5,810	**–**	–
on short-term lease (less than 10 years)	**–**	350	**–**	–
Subtotal	**12,137**	9,749	**–**	–
Held outside Hong Kong				
on long-term lease (over 50 years)	**4,601**	4,385	**4,387**	4,259
on medium-term lease (10-50 years)	**36,471**	34,863	**35,839**	34,168
on short-term lease (less than 10 years)	**673**	806	**396**	771
Subtotal	**41,745**	40,054	**40,622**	39,198
Total	**53,882**	49,803	**40,622**	39,198

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Investment property

	Year ended 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
As at 1 January	**15,952**	9,637	**1,384**	1,239
Additions	**–**	4,267	**–**	–
Transfer (to)/from property and equipment, net (Note V.20)	**(3,345)**	152	**(217)**	–
Disposals	**(94)**	(48)	**–**	–
Fair value changes (Note V.4)	**1,649**	1,933	**88**	124
Exchange differences	**(323)**	11	**30**	21
As at 31 December	**13,839**	15,952	**1,285**	1,384

The Group's investment properties are located in active real estate markets, and external appraisers make reasonable estimation of fair value using market prices of the same or similar properties from the real estate market.

Investment properties are mainly held by BOCHK Holdings and BOCGI, subsidiaries of the Group. The carrying value of investment properties held by BOCHK Holdings and BOCGI as at 31 December 2010 amounted to RMB6,794 million and RMB5,745 million, respectively (31 December 2009: RMB8,245 million and RMB6,310 million). The current year valuation of these investment properties were principally performed as at 31 December 2010 by either Savills Valuation and Professional Services Limited or Knight Frank Petty Limited based on open market price.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Investment property (Continued)

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Held in Hong Kong				
on long-term lease (over 50 years)	**2,150**	2,097	**–**	–
on medium-term lease (10-50 years)	**5,498**	7,491	**–**	–
on short-term lease (less than 10 years)	**–**	20	**–**	–
Subtotal	**7,648**	9,608	**–**	–
Held outside Hong Kong				
on long-term lease (over 50 years)	**2,611**	2,886	**1,084**	1,176
on medium-term lease (10-50 years)	**3,379**	3,238	**–**	–
on short-term lease (less than 10 years)	**201**	220	**201**	208
Subtotal	**6,191**	6,344	**1,285**	1,384
Total	**13,839**	15,952	**1,285**	1,384

22 Other assets

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Interest receivable	**42,025**	34,390	**38,254**	31,258
Accounts receivable and prepayments (1)	**35,377**	28,776	**20,943**	14,412
Intangible assets (2)	**2,342**	2,411	**2,161**	1,758
Land use rights (3)	**9,023**	9,499	**8,889**	9,359
Repossessed assets (4)	**1,531**	1,950	**988**	1,274
Goodwill (5)	**1,851**	1,929	**–**	–
Other	**8,123**	5,395	**3,831**	3,392
Total	**100,272**	84,350	**75,066**	61,453

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(1) Accounts receivable and prepayments

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Accounts receivable and prepayments	**37,496**	31,094	**22,988**	16,658
Impairment allowance	**(2,119)**	(2,318)	**(2,045)**	(2,246)
Net value	**35,377**	28,776	**20,943**	14,412

Accounts receivable and prepayments mainly include items in the process of clearing and settlement. The analysis of the aging of accounts receivable and prepayments is as follows:

Group

	As at 31 December			
	2010		2009	
	Balance	**Impairment allowance**	Balance	Impairment allowance
Within 1 year	**33,632**	**(229)**	26,833	(151)
From 1 year to 3 years	**1,138**	**(901)**	1,505	(1,046)
Over 3 years	**2,726**	**(989)**	2,756	(1,121)
Total	**37,496**	**(2,119)**	31,094	(2,318)

Bank

	As at 31 December			
	2010		2009	
	Balance	**Impairment allowance**	Balance	Impairment allowance
Within 1 year	**19,489**	**(216)**	12,866	(138)
From 1 year to 3 years	**982**	**(877)**	1,290	(1,026)
Over 3 years	**2,517**	**(952)**	2,502	(1,082)
Total	**22,988**	**(2,045)**	16,658	(2,246)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(2) Intangible assets

Group

	Year ended 31 December					
	2010			2009		
	Aircraft firm orders and options	Computer software and other	Total	Aircraft firm orders and options	Computer software and other	Total
Cost						
As at 1 January	437	3,498	3,935	820	2,662	3,482
Additions	–	819	819	–	849	849
Disposals	(424)	(116)	(540)	(382)	(16)	(398)
Exchange differences	(13)	(29)	(42)	(1)	3	2
As at 31 December	–	4,172	4,172	437	3,498	3,935
Accumulated amortisation						
As at 1 January	–	(1,524)	(1,524)	–	(1,167)	(1,167)
Amortisation charge	–	(324)	(324)	–	(373)	(373)
Disposals	–	7	7	–	16	16
Exchange differences	–	11	11	–	–	–
As at 31 December	–	(1,830)	(1,830)	–	(1,524)	(1,524)
Allowance for impairment losses						
As at 1 January	–	–	–	–	–	–
Impairment losses	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
Exchange differences	–	–	–	–	–	–
As at 31 December	–	–	–	–	–	–
Net book value						
As at 1 January	437	1,974	2,411	820	1,495	2,315
As at 31 December	–	2,342	2,342	437	1,974	2,411

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(2) Intangible assets (Continued)

Bank

	Year ended 31 December					
	2010			2009		
	Aircraft firm orders and options	Computer software and other	Total	Aircraft firm orders and options	Computer software and other	Total
Cost						
As at 1 January	–	3,076	3,076	–	2,346	2,346
Additions	–	678	678	–	740	740
Disposals	–	(7)	(7)	–	(12)	(12)
Exchange differences	–	(6)	(6)	–	2	2
As at 31 December	–	3,741	3,741	–	3,076	3,076
Accumulated amortisation						
As at 1 January	–	(1,318)	(1,318)	–	(1,019)	(1,019)
Amortisation charge	–	(270)	(270)	–	(311)	(311)
Disposals	–	4	4	–	12	12
Exchange differences	–	4	4	–	–	–
As at 31 December	–	(1,580)	(1,580)	–	(1,318)	(1,318)
Allowance for impairment losses						
As at 1 January	–	–	–	–	–	–
Impairment losses	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
Exchange differences	–	–	–	–	–	–
As at 31 December	–	–	–	–	–	–
Net book value						
As at 1 January	–	1,758	1,758	–	1,327	1,327
As at 31 December	–	2,161	2,161	–	1,758	1,758

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(3) Land use rights

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

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Held outside Hong Kong				
on long-term lease (over 50 years)	**202**	280	**202**	280
on medium-term lease (10-50 years)	**8,767**	9,153	**8,633**	9,013
on short-term lease (less than 10 years)	**54**	66	**54**	66
	9,023	9,499	**8,889**	9,359

(4) Repossessed assets

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

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Commercial properties	**1,876**	2,476	**1,126**	1,438
Residential properties	**260**	497	**146**	388
Other	**1,115**	1,145	**943**	970
	3,251	4,118	**2,215**	2,796
Allowance for impairment	**(1,720)**	(2,168)	**(1,227)**	(1,522)
Repossessed assets, net	**1,531**	1,950	**988**	1,274

The total book value of repossessed assets disposed of during the year ended 2010 amounted to RMB1,339 million (2009: RMB1,325 million). The Group plans to dispose of the repossessed assets held at 31 December 2010 by auction, bidding or transfer.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(5) Goodwill

Group

	Year ended 31 December	
	2010	2009
As at 1 January	**1,929**	1,877
Addition through acquisition of subsidiaries	**39**	54
Decrease resulting from disposal of subsidiaries	**(63)**	–
Exchange differences	**(54)**	(2)
As at 31 December	**1,851**	1,929

The goodwill mainly arose from the acquisition of BOC Aviation Pte. Ltd. on 15 December 2006 amounting to USD241 million (equivalent to RMB1,594 million).

23 Impairment allowance

Group

	As at 1 January 2010	Additions	Decrease		Exchange differences	As at 31 December 2010
			Reversal	Write-off and transfer out		
Impairment allowance						
– Placements with and loans to banks and other financial institutions	366	–	(85)	(38)	–	243
– Loans and advances to customers [(1)]	112,950	45,580	(30,016)	(5,146)	(512)	122,856
– Investment securities						
– available for sale (Note V.17(1))	27,461	724	(3,140)	(4,975)	(659)	19,411
– held to maturity	534	61	(130)	(15)	(12)	438
– loans and receivables	108	–	(1)	(30)	–	77
– Property and equipment	1,098	9	–	(43)	–	1,064
– Repossessed assets	2,168	29	(91)	(375)	(11)	1,720
– Land use rights	46	–	–	(23)	–	23
– Accounts receivable and prepayments	2,318	749	(900)	(40)	(8)	2,119
– Other	281	204	–	(204)	(14)	267
Total	147,330	47,356	(34,363)	(10,889)	(1,216)	148,218

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Impairment allowance (Continued)

Group

	As at 1 January 2009	Additions	Decrease		Exchange differences	As at 31 December 2009
			Reversal	Write-off and transfer out		
Impairment allowance						
– Placements with and loans to banks and other financial institutions	399	–	(4)	(29)	–	366
– Loans and advances to customers [1]	106,494	41,768	(26,323)	(9,021)	32	112,950
– Investment securities						
– available for sale (Note V.17(1))	31,437	5,736	(6,007)	(3,657)	(48)	27,461
– held to maturity	4,327	1,489	(2,072)	(3,207)	(3)	534
– loans and receivables	126	–	–	(18)	–	108
– Property and equipment	1,156	4	–	(62)	–	1,098
– Repossessed assets	2,555	122	(35)	(474)	–	2,168
– Land use rights	56	1	–	(11)	–	46
– Accounts receivable and prepayments	2,515	630	(485)	(342)	–	2,318
– Other	119	163	–	(1)	–	281
Total	149,184	49,913	(34,926)	(16,822)	(19)	147,330

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Impairment allowance (Continued)

Bank

	As at 1 January 2010	Additions	Decrease: Reversal	Decrease: Write-off and transfer out	Exchange differences	As at 31 December 2010
Impairment allowance						
– Placements with and loans to banks and other financial institutions	365	–	(85)	(37)	–	243
– Loans and advances to customers [(1)]	110,366	44,999	(29,333)	(5,246)	(394)	120,392
– Investment securities						
– available for sale	23,683	149	(2,852)	(4,620)	(566)	15,794
– held to maturity	436	50	(79)	–	(11)	396
– loans and receivables	108	–	(1)	(30)	–	77
– Property and equipment	1,098	–	–	(43)	–	1,055
– Repossessed assets	1,522	3	(88)	(199)	(11)	1,227
– Land use rights	46	–	–	(23)	–	23
– Accounts receivable and prepayments	2,246	733	(877)	(32)	(25)	2,045
– Other	25	–	–	(6)	–	19
Total	139,895	45,934	(33,315)	(10,236)	(1,007)	141,271

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Impairment allowance (Continued)

Bank

	As at 1 January 2009	Additions	Decrease: Reversal	Decrease: Write-off and transfer out	Exchange differences	As at 31 December 2009
Impairment allowance						
– Placements with and loans to banks and other financial institutions	399	–	(4)	(30)	–	365
– Loans and advances to customers (1)	103,311	41,007	(25,463)	(8,519)	30	110,366
– Investment securities						
– available for sale	24,196	3,474	(3,185)	(802)	–	23,683
– held to maturity	411	148	(123)	–	–	436
– loans and receivables	126	–	–	(18)	–	108
– Property and equipment	1,156	4	–	(62)	–	1,098
– Repossessed assets	1,578	32	(25)	(63)	–	1,522
– Land use rights	56	1	–	(11)	–	46
– Accounts receivable and prepayments	2,209	586	(481)	(68)	–	2,246
– Other	25	–	–	–	–	25
Total	133,467	45,252	(29,281)	(9,573)	30	139,895

(1) Included within "Write-off and transfer out" on loans and advances to customers are amounts relating to loans and advances written-off, transferred out, recovery of loans and advances written-off in previous year, and unwind of discount on allowance.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24 Due to banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Due to:				
Banks in Chinese mainland	**578,990**	413,841	**545,442**	395,107
Other financial institutions in Chinese mainland	**496,755**	449,665	**497,015**	449,661
Banks in Hong Kong, Macau, Taiwan and other countries and regions	**197,297**	39,009	**47,149**	20,373
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	**2,772**	1,651	**8,731**	1,651
Total (1)	**1,275,814**	904,166	**1,098,337**	866,792

(1) Included in the Bank's due to banks and other financial institutions are balances with the Bank's subsidiaries (Note V.43.7).

25 Due to central banks

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Foreign exchange deposits	**62,513**	59,049	**62,513**	59,049
Other	**10,902**	2,566	**2,607**	40
Total	**73,415**	61,615	**65,120**	59,089

26 Government certificates of indebtedness for bank notes issued and bank notes in circulation

Bank of China (Hong Kong) Limited and Bank of China Macau Branch are note issuing banks for Hong Kong Dollar and Macau Pataca notes in Hong Kong and Macau, respectively. Under local regulations, these two entities are required to place deposits with the Hong Kong and Macau governments respectively to secure the currency notes in circulation.

Bank notes in circulation represent the liabilities in respect of Hong Kong Dollar notes and Macau Pataca notes in circulation, issued respectively by Bank of China (Hong Kong) Limited and Bank of China Macau branch.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27 Placements from banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Placements from:				
Banks in Chinese mainland	**96,103**	79,590	**91,954**	79,590
Other financial institutions in Chinese mainland	**38,280**	23,264	**38,280**	23,264
Banks in Hong Kong, Macau, Taiwan and other countries and regions	**95,968**	80,084	**119,600**	114,202
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	**450**	3,705	**5,942**	17,995
Total (1) (2)	**230,801**	186,643	**255,776**	235,051

(1) Included in the Bank's Placements from banks and other financial institutions are balances with the Bank's subsidiaries (Note V.43.7).

(2) Included in Placements from banks and other financial institutions are amounts received from counterparties under repurchase agreements and collateral agreements as follows:

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Repurchase debt securities	**75,244**	81,847	**63,240**	81,847
Collateralised precious metals	**–**	27,392	**–**	27,392
Total (i)	**75,244**	109,239	**63,240**	109,239

(i) Debt securities used as collateral under repurchase agreement were principally government bonds and were included in the amount disclosed under Note V.41.2.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28 Financial liabilities at fair value through profit or loss

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Trading financial liabilities				
– short position in debt securities	**21,492**	12,464	**–**	–
Financial liabilities designated at fair value through profit or loss [(1)]				
– structured deposit	**194,382**	31,770	**191,720**	27,258
Total	**215,874**	44,234	**191,720**	27,258

(1) There were no significant changes in the Group's or Bank's credit risk and therefore there were no significant gains or losses attributed to changes in credit risk for those financial liabilities designated at fair value through profit or loss during the years ended 31 December 2010 and 2009.

29 Due to customers

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Demand deposits				
Corporate deposits	**2,244,807**	1,948,036	**2,053,060**	1,770,173
Personal deposits	**1,343,434**	1,194,533	**999,477**	853,294
Subtotal	**3,588,241**	3,142,569	**3,052,537**	2,623,467
Time deposits				
Corporate deposits	**1,739,924**	1,491,691	**1,516,181**	1,379,473
Personal deposits	**2,109,872**	1,986,292	**1,929,170**	1,821,339
Subtotal	**3,849,796**	3,477,983	**3,445,351**	3,200,812
Certificates of deposit	**45,217**	–	**48,775**	–
Total [(1)]	**7,483,254**	6,620,552	**6,546,663**	5,824,279

(1) Due to customers included margin deposits for security received by the Group and the Bank as at 31 December 2010 of RMB394,231 million and RMB379,518 million, respectively (31 December 2009: RMB367,144 and RMB356,886 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 Bonds issued

	Issue date	Maturity date	Annual interest rate	As at 31 December			
				Group		Bank	
				2010	2009	**2010**	2009
Subordinated bonds issued							
2005 RMB Debt Securities [(1)]							
First Tranche	18 February 2005	4 March 2015	4.83%	**–**	15,930	**–**	15,930
Second Tranche (fixed rate)	18 February 2005	4 March 2020	5.18%	**9,000**	9,000	**9,000**	9,000
Second Tranche (floating rate)	18 February 2005	4 March 2015	Floating interest rate	**–**	9,000	**–**	9,000
2009 RMB Debt Securities [(2)]							
First Tranche (fixed rate)	6 July 2009	8 July 2019	3.28%	**14,000**	14,000	**14,000**	14,000
	6 July 2009	8 July 2024	4.00%	**24,000**	24,000	**24,000**	24,000
First Tranche (floating rate)	6 July 2009	8 July 2019	Floating interest rate	**2,000**	2,000	**2,000**	2,000
2010 RMB Debt Securities [(3)]	9 March 2010	11 March 2025	4.68%	**24,930**	–	**24,930**	–
2010 US Dollar Subordinated notes issued by BOCHK	11 February 2010	11 February 2020	5.55%	**16,677**	–	**–**	–
Subtotal [(4)]				**90,607**	73,930	**73,930**	73,930
Convertible bonds issued							
2010 RMB Convertible Bond [(5)]	2 June 2010	2 June 2016	Step-up interest rate	**36,206**	–	**36,206**	–

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 Bonds issued (Continued)

			Annual interest rate	As at 31 December			
				Group		Bank	
	Issue date	Maturity date		**2010**	2009	**2010**	2009
Other bonds issued							
1994 US Dollar Debt Securities	10 March 1994	15 March 2014	8.25%	**147**	151	**147**	151
2007 RMB Debt Securities issued in Hong Kong							
Tranche B	28 September 2007	28 September 2010	3.35%	**–**	692	**–**	1,000
2008 RMB Debt Securities issued in Hong Kong							
Tranche A	22 September 2008	22 September 2010	3.25%	**–**	1,306	**–**	2,000
Tranche B	22 September 2008	22 September 2011	3.40%	**725**	719	**1,000**	1,000
2010 RMB Debt Securities issued in Hong Kong							
Tranche A	30 September 2010	28 September 2012	2.65%	**1,717**	–	**2,200**	–
Tranche B	30 September 2010	30 September 2013	2.90%	**2,485**	–	**2,800**	–
Subtotal				**5,074**	2,868	**6,147**	4,151
Total bonds issued (6)				**131,887**	76,798	**116,283**	78,081

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 Bonds issued (Continued)

(1) On 4 March 2010, the Bank exercised the option to early redeem at face value all of the first tranche and all of the floating rate portion of the second tranche of its subordinated bonds issued in 2005, amounting to RMB24,930 million.

The fixed rate portion of the second tranche of subordinated bonds issued on 18 February 2005 has a maturity of 15 years, with a fixed coupon rate of 5.18%, paid annually. The Bank has the option to redeem all or part of the bonds at face value on 4 March 2015. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3%, and shall remain fixed until the maturity date.

(2) The subordinated bonds issued on 6 July 2009 comprise two fixed rate portions and one floating rate portion.

The first portion of fixed rate bond has a maturity of 10 years, with a fixed coupon rate of 3.28%, paid annually. The Bank has the option to early redeem all of the bonds at face value on 8 July 2014. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3%, and shall remain fixed until the maturity date.

The second portion of fixed rate bond has a maturity of 15 years, with a fixed coupon rate of 4.00%, paid annually. The Bank has the option to early redeem all of the bonds at face value on 8 July 2019. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3%, and shall remain fixed until the maturity date.

The floating rate bond has a maturity of 10 years, with a floating rate based on the specified 1-year Chinese mainland deposit and withdrawal time deposit interest rate published by PBOC, paid annually. The Bank has the option to redeem all of the bonds at face value on 8 July 2014. If the Bank does not exercise this option, the floating rate for the remaining 5-year period shall be the original floating rate plus 3%.

(3) The subordinated bond issued on 9 March 2010 has a maturity of 15 years, with a fixed coupon rate of 4.68%, paid annually. The Bank has the option to redeem all of the bonds at face value on 11 March 2020. If the Bank does not exercise this option, the coupon rate of the bonds for the third 5-year period shall be the original coupon rate plus 3%, and shall remain fixed until the maturity date.

(4) These bonds are subordinated to all other claims on the assets of the Group, except those of the equity holders. In the calculation of the Group's capital adequacy ratio, these bonds are qualified for inclusion as supplementary capital in accordance with the relevant CBRC guidelines.

(5) Pursuant to approval by the relevant PRC authorities, on 2 June 2010, the Bank issued A-share convertible bonds with principal amount of RMB40 billion. The convertible bonds have a maturity of six years from 2 June 2010 till 2 June 2016 and bear a fixed interest rate of 0.5% for the first year, with an annual increase of 0.3% through the remaining term. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price during the period ("Conversion Period") beginning six months after the date of issuance until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 106% of par value, including interest for the sixth year.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 Bonds issued (Continued)

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

The conversion price of the convertible bonds will be adjusted, subject to terms and formulae provided for in the bond contracts, to adjust for the dilutive effects of distributions of cash dividends and specified increases in share capital. During the term of the convertible bonds, if the closing price of the A Shares in 15 trading days out of any 30 consecutive trading days is lower than 80% of the prevailing conversion price of the convertible bonds, the Board may also propose downward adjustments to the conversion price for the Shareholders' approval. During the period from the date of issuance to 31 December 2010, the conversion price was adjusted from RMB4.02 per share to RMB3.74 per share, as a result of a paid cash dividend and rights issue of A and H Share.

The details of convertible bonds are as follows:

Initial recognition:	
Face value of convertible bonds issued on 2 June 2010	40,000
Less: issuance cost	(224)
equity component	(4,148)
Liability component	35,628
Liability component upon initial recognition	35,628
Accretion	578
Amounts converted to shares (i)	–
Liability component at 31 December 2010	36,206

(i) Convertible bonds in the principal amount of RMB227,000 were converted into 60,464 ordinary A shares during the year ended 31 December 2010 as verified by PricewaterhouseCoopers Zhong Tian CPAs Limited Company in the Verification Report PwC ZT YZ [2011] No.007 (Notes V.37.1).

(6) During the years ended 31 December 2010 and 2009, the Group did not default on principal, interest or redemption amounts with respect to its bonds issued.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 Other borrowings

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Special purpose borrowings (1)				
Export credit loans	**5,203**	5,425	**5,203**	5,425
Foreign government loans	**11,494**	12,799	**11,494**	12,799
Other subsidised loans	**6,424**	7,705	**6,424**	7,705
	23,121	25,929	**23,121**	25,929
Term loans and other borrowings (2)	**19,499**	11,257	**–**	–
Total (3)	**42,620**	37,186	**23,121**	25,929

(1) Special purpose borrowings are long-term borrowings in multiple currencies from foreign governments and/or banks in the form of export credit loans, foreign government loans and other subsidised loans. These special purpose loans are normally used to finance projects with a special commercial purpose in the PRC and the Bank is obliged to repay these loans when they fall due.

As of 31 December 2010, the remaining maturity of special purpose borrowings ranges from within 1 month to 37 years. The interest bearing special purpose borrowings bear floating and fixed interest rates ranging from 0.15% to 7.59% (31 December 2009: 0.15% to 7.95%). These terms are consistent with those related development loans granted to customers.

(2) These term loans and other borrowings relate to the financing of the aircraft leasing business of BOC Aviation, a wholly owned subsidiary of the Bank.

As at 31 December 2010, these term loans and other borrowings have a maturity ranging from within 67 days to 12 years and bear floating and fixed interest rates ranging from 0.63% to 2.09% (31 December 2009: 0.76% to 7.56%). The term loans and other borrowings of RMB18,553 million (31 December 2009: RMB11,121 million) are secured by aircraft of the Group (Note V.20).

(3) During the years ended 31 December 2010 and 2009, the Group did not default on principal, interest or redemption amounts with respect to its other borrowings.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32 Current tax liabilities

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Corporate Income Tax	**18,068**	14,058	**15,648**	11,851
Business Tax	**3,759**	3,034	**3,656**	2,959
City Construction and Maintenance Tax	**254**	197	**252**	197
Education Surcharges	**143**	108	**142**	108
Other	**551**	404	**483**	359
Total	**22,775**	17,801	**20,181**	15,474

33 Retirement benefit obligations

As at 31 December 2010, the actuarial liabilities existing in relation to the retirement benefit obligation for employees who retired prior to 31 December 2003 and the early retirement obligation for employees who early retired were RMB2,495 million (31 December 2009: RMB2,475 million) and RMB3,945 million (31 December 2009: RMB4,392 million) respectively, which were assessed by Hewitt Associates LLC, using the projected unit credit method.

The movements of the net liabilities recognised in the statements of financial position are as follows:

Group and Bank

	Year ended 31 December	
	2010	2009
As at 1 January	**6,867**	7,363
Amounts recognised in the income statement		
Interest cost	**214**	179
Net actuarial loss recognised in the year	**357**	319
Benefits paid	**(998)**	(994)
As at 31 December	**6,440**	6,867

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 Retirement benefit obligations (Continued)

Primary assumptions used:

Group and Bank

	As at 31 December	
	2010	2009
Discount rate		
– Normal retiree	**4.09%**	4.01%
– Early retiree	**3.50%**	2.96%
Pension benefit inflation rate		
– Normal retiree	**6.0%~4.0%**	5.0%~4.0%
– Early retiree	**8.0%~4.0%**	6.5%~4.0%
Medical benefit inflation rate	**6.0%**	6.0%
Retiring age		
– Male	**60**	60
– Female	**50/55**	50/55

Assumptions regarding future mortality experience are based on the China Life Insurance Mortality Table (published historical statistics in China).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34 Share option schemes

34.1 Share Appreciation Rights Plan

In November 2005, the Bank's Board of Directors and equity holders approved and adopted a Share Appreciation Rights Plan under which eligible participants including directors, supervisors, management and other personnel designated by the Board, will be granted share appreciation rights, up to 25% of which will be exercisable each year beginning on the third anniversary date from the date of the grant. The share appreciation rights will be valid for seven years from the date of grant. Eligible participants will be entitled to receive an amount equal to the difference, if any, between the average closing market price of the Bank's H shares in the ten days prior to the date of grant and the average closing market price of the Bank's H shares in the 12 months prior to the date of exercise as adjusted for any change in the Bank's equity. The plan provides cash-settled share-based payment only and accordingly, no shares will be issued under the share appreciation rights plan.

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

34.2 Share Option Scheme and Sharesave Plan

On 10 July 2002, the equity holders of BOCHK Holdings approved adoption of two share option schemes, namely, the Share Option Scheme and the Sharesave Plan.

Since the establishment of the Share Option Scheme and the Sharesave Plan, no options were granted.

34.3 BOCHK Holdings Pre-listing Share Option Scheme

On 5 July 2002, certain of the Bank's directors, senior management personnel and employees of the Group were granted options by BOC Hong Kong (BVI) Limited ("BOCHK (BVI)"), the immediate holding company of BOCHK Holdings, pursuant to a Pre-listing Share Option Scheme to purchase from BOCHK (BVI) an aggregate of 31,132,600 previously issued and outstanding shares of BOCHK Holdings for HKD8.50 per share. These options, with a ten-year term, vest ratably over four years from 25 July 2002. No further offers to grant any options under the Pre-listing Share Option Scheme will be made. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The Group has taken advantage of the transitional provision of IFRS 2 under which the required recognition and measurements have not been applied to the options granted to employees of the Group on or before 7 November 2002.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34 Share option schemes (Continued)

34.3 BOCHK Holdings Pre-listing Share Option Scheme (Continued)

Details of the movement of share options outstanding are as follows:

Unit: Share

	Key management personnel	Other employees	Other [1]	Total number of share options
As at 1 January 2010	**3,976,500**	**1,074,300**	**–**	**5,050,800**
Transferred	**–**	**–**	**–**	**–**
Less: share options exercised during the year [2]	**–**	**(827,000)**	**–**	**(827,000)**
As at 31 December 2010	**3,976,500**	**247,300**	**–**	**4,223,800**
As at 1 January 2009	4,215,500	3,435,800	–	7,651,300
Transferred	–	(1,590,600)	1,590,600	–
Less: share options exercised during the year [2]	(239,000)	(770,900)	(1,590,600)	(2,600,500)
As at 31 December 2009	3,976,500	1,074,300	–	5,050,800

(1) These represent share options held by former directors or former employees of BOCHK Holdings.

(2) Regarding the share options exercised during the years ended 31 December 2010 and 2009 the weighted average share price of BOCHK Holdings' shares at the time of exercise was HKD22.73 (equivalent to RMB19.79), and HKD16.83 (equivalent to RMB14.83) respectively.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Deferred income taxes

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

Group

	As at 31 December			
	2010		2009	
	Temporary differences	**Deferred tax assets/ (liabilities)**	Temporary differences	Deferred tax assets/ (liabilities)
Deferred income tax assets	**92,416**	**24,041**	91,335	23,518
Deferred income tax liabilities	**(23,203)**	**(3,919)**	(20,727)	(3,386)
	69,213	**20,122**	70,608	20,132

Bank

	As at 31 December			
	2010		2009	
	Temporary differences	**Deferred tax assets/ (liabilities)**	Temporary differences	Deferred tax assets/ (liabilities)
Deferred income tax assets	**96,520**	**24,359**	95,845	24,126
Deferred income tax liabilities	**(769)**	**(177)**	(546)	(138)
	95,751	**24,182**	95,299	23,988

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Deferred income taxes (Continued)

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

Group

	As at 31 December			
	2010		2009	
	Temporary differences	Deferred tax assets/ (liabilities)	Temporary differences	Deferred tax assets/ (liabilities)
Deferred income tax assets				
Asset impairment allowances	**83,360**	**20,885**	85,626	21,391
Pension, retirement benefits and salary payable	**17,329**	**4,332**	15,024	3,756
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	**14,524**	**3,631**	9,406	2,351
Fair value changes of available for sale investment securities credited to equity	**832**	**209**	118	35
Other temporary differences	**2,395**	**628**	3,291	741
Subtotal	**118,440**	**29,685**	113,465	28,274
Deferred income tax liabilities				
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	**(16,796)**	**(4,209)**	(11,057)	(2,766)
Fair value changes of available for sale investment securities charged to equity	**(3,126)**	**(713)**	(3,736)	(901)
Depreciation of property and equipment	**(7,179)**	**(1,218)**	(7,433)	(1,204)
Revaluation of property and investment property	**(15,054)**	**(2,591)**	(14,262)	(2,300)
Other temporary differences	**(7,072)**	**(832)**	(6,369)	(971)
Subtotal	**(49,227)**	**(9,563)**	(42,857)	(8,142)
Net	**69,213**	**20,122**	70,608	20,132

As at 31 December 2010, deferred tax liabilities relating to temporary differences of RMB25,729 million associated with the Group's investments in subsidiaries have not been recognised (31 December 2009: RMB20,939 million). See Note II.21.2.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Deferred income taxes (Continued)

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

Bank

	As at 31 December			
	2010		2009	
	Temporary differences	Deferred tax assets/ (liabilities)	Temporary differences	Deferred tax assets/ (liabilities)
Deferred income tax assets				
Asset impairment allowances	**81,289**	**20,494**	84,173	21,134
Pension, retirement benefits and salary payable	**17,329**	**4,332**	15,024	3,756
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	**14,523**	**3,631**	9,234	2,309
Fair value changes of available for sale investment securities credited to equity	**813**	**203**	19	9
Other temporary differences	**640**	**161**	1,352	329
Subtotal	**114,594**	**28,821**	109,802	27,537
Deferred income tax liabilities				
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	**(16,790)**	**(4,208)**	(10,947)	(2,741)
Fair value changes of available for sale investment securities charged to equity	**(794)**	**(203)**	(2,304)	(558)
Other temporary differences	**(1,259)**	**(228)**	(1,252)	(250)
Subtotal	**(18,843)**	**(4,639)**	(14,503)	(3,549)
Net	**95,751**	**24,182**	95,299	23,988

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Deferred income taxes (Continued)

35.3 The movements of the deferred income tax account are as follows:

	Year ended 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
As at 1 January	**20,132**	13,974	**23,988**	16,371
Credited/(charged) to income statement (Note V.9)	**(464)**	5,198	**(386)**	5,554
Credited to equity	**362**	1,052	**549**	2,089
Acquisition of subsidiaries	**(36)**	–	**–**	–
Exchange differences	**128**	(92)	**31**	(26)
As at 31 December	**20,122**	20,132	**24,182**	23,988

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

	Year ended 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Asset impairment allowances	**(506)**	(912)	**(640)**	(931)
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	**(163)**	4,221	**(145)**	4,201
Pension, retirement benefits and salary payable	**576**	2,555	**576**	2,555
Other temporary differences	**(371)**	(666)	**(177)**	(271)
Total	**(464)**	5,198	**(386)**	5,554

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Items in the process of clearance and settlement	**66,241**	58,798	**64,745**	57,458
Interest payable	**58,665**	49,555	**57,758**	49,282
Insurance liabilities				
– Life insurance contract	**33,872**	29,416	**–**	–
– Non-life insurance contract	**4,376**	3,912	**–**	–
Salary and welfare payable (1)	**17,761**	14,139	**15,768**	12,513
Provision (2)	**1,372**	1,510	**1,109**	1,227
Other (3)	**36,407**	30,594	**15,306**	11,525
Total	**218,694**	187,924	**154,686**	132,005

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities (Continued)

(1) Salary and welfare payable

Group

	As at 1 January 2010	Accrual	Payment	As at 31 December 2010
Salary, bonus and subsidy	12,513	37,848	(34,590)	15,771
Staff welfare	–	2,967	(2,967)	–
Social insurance, including:				
Medical	248	1,583	(1,461)	370
Pension	76	3,553	(3,545)	84
Annuity	–	802	(799)	3
Unemployment	7	213	(212)	8
Injury at work	1	75	(75)	1
Maternity insurance	1	92	(92)	1
Housing funds	26	2,769	(2,769)	26
Labour union fee and staff education fee	1,088	1,343	(1,042)	1,389
Reimbursement for cancellation of labour contract	17	17	(19)	15
Other	162	1,587	(1,656)	93
Total (i)	14,139	52,849	(49,227)	17,761

	As at 1 January 2009	Accrual	Payment	As at 31 December 2009
Salary, bonus and subsidy	9,756	32,206	(29,449)	12,513
Staff welfare	–	2,613	(2,613)	–
Social insurance, including:				
Medical	176	1,271	(1,199)	248
Pension	49	2,986	(2,959)	76
Annuity	–	702	(702)	–
Unemployment	3	194	(190)	7
Injury at work	–	64	(63)	1
Maternity insurance	–	77	(76)	1
Housing funds	15	2,225	(2,214)	26
Labour union fee and staff education fee	854	1,125	(891)	1,088
Reimbursement for cancellation of labour contract	11	21	(15)	17
Other	167	1,492	(1,497)	162
Total (i)	11,031	44,976	(41,868)	14,139

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities (Continued)

(1) Salary and welfare payable (Continued)

Bank

	As at 1 January 2010	Accrual	Payment	As at 31 December 2010
Salary, bonus and subsidy	10,897	30,839	(27,946)	13,790
Staff welfare	–	2,785	(2,785)	–
Social insurance, including:				
Medical	248	1,582	(1,460)	370
Pension	76	3,549	(3,542)	83
Annuity	–	802	(799)	3
Unemployment	7	213	(212)	8
Injury at work	1	75	(75)	1
Maternity insurance	1	92	(92)	1
Housing funds	26	2,767	(2,767)	26
Labour union fee and staff education fee	1,088	1,343	(1,042)	1,389
Reimbursement for cancellation of labour contract	16	16	(17)	15
Other	153	667	(738)	82
Total (i)	12,513	44,730	(41,475)	15,768

	As at 1 January 2009	Accrual	Payment	As at 31 December 2009
Salary, bonus and subsidy	9,013	25,998	(24,114)	10,897
Staff welfare	–	2,447	(2,447)	–
Social insurance, including:				
Medical	176	1,270	(1,198)	248
Pension	49	2,983	(2,956)	76
Annuity	–	702	(702)	–
Unemployment	3	194	(190)	7
Injury at work	–	64	(63)	1
Maternity insurance	–	77	(76)	1
Housing funds	15	2,224	(2,213)	26
Labour union fee and staff education fee	854	1,125	(891)	1,088
Reimbursement for cancellation of labour contract	11	18	(13)	16
Other	158	606	(611)	153
Total (i)	10,279	37,708	(35,474)	12,513

(i) There was no overdue payment for staff salary and welfare payables as at 31 December 2010 and 2009.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities (Continued)

(2) Provision

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Allowance for litigation losses (Note V.41.1)	**750**	672	**656**	638
Other	**622**	838	**453**	589
Total	**1,372**	1,510	**1,109**	1,227

Provision movements

	Year ended 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
As at 1 January	**1,510**	2,503	**1,227**	1,961
Provision/(reversal) for the year, net (i)	**96**	3,100	**(69)**	239
Utilised during the year (i)	**(234)**	(4,093)	**(49)**	(973)
As at 31 December	**1,372**	1,510	**1,109**	1,227

(i) Provision for the year and utilisation during the year ended 31 December 2009 principally related to Minibonds (Note V.5).

(3) Other

Other includes finance lease payments which are principally related to finance leased aircraft by BOC Aviation Pte. Ltd. as disclosed below.

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Within 1 year (inclusive)	**188**	319	**1**	1
1 year to 2 years (inclusive)	**187**	317	**1**	–
2 years to 3 years (inclusive)	**186**	315	**–**	–
Over 3 years	**1,291**	2,555	**–**	–
Total minimum rental payments	**1,852**	3,506	**2**	1
Unrecognised finance charge	**(302)**	(768)	**–**	–
Finance lease payments, net	**1,550**	2,738	**2**	1

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Share capital, capital reserve and treasury shares

37.1 Share capital and capital reserve

For the year ended 31 December 2010, the movement of the Bank's share capital was as follows:

Unit: Share

	Domestic listed A shares, par value RMB1.00 per share	Overseas listed H shares, par value RMB1.00 per share	Total
As at 1 January 2010	**177,818,910,740**	**76,020,251,269**	**253,839,162,009**
Increase as a result of the rights issue	**17,705,975,596**	**7,602,025,126**	**25,308,000,722**
Increase as a result of conversion of convertible bonds (Note V.30)	**60,464**	**–**	**60,464**
As at 31 December 2010	**195,524,946,800**	**83,622,276,395**	**279,147,223,195**

All A shares and H shares rank pari passu with the same rights and benefits.

In accordance with the CBRC Yinjianfu [2010] No.424 "Approval of rights issue scheme of Bank of China Limited", China Securities Regulatory Commission (the "CSRC") Zhengjianxuke [2010] No.1492 "Approval of Bank of China Limited's issuance of A shares" and Zhengjianxuke [2010] No.1484 "Approval of Bank of China Limited's issuance of Overseas Listed Foreign Shares", the Bank offered rights issues to both A and H shareholders of the Bank in the proportion of up to 1.1 rights shares for every 10 existing A and H shares of the Bank, respectively.

On 18 November 2010 and 14 December 2010, as approved by the CBRC, the CSRC, the Shanghai Stock Exchange and the Stock Exchanges of Hong Kong Limited, 17,705,975,596 A shares and 7,602,025,126 H shares were issued by the Bank at a price of RMB2.36 per share and HK$2.74 per share, respectively under the rights issues offerings.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Share capital, capital reserve and treasury shares (Continued)

37.1 Share capital and capital reserve (Continued)

Details of these rights issues are as follows:

	A Share	H Share	Total
Total proceeds received from issuance of ordinary shares	**41,786**	**17,873**	**59,659**
Less: par value of issued ordinary shares	**(17,706)**	**(7,602)**	**(25,308)**
Less: issuance costs	**(147)**	**(213)**	**(360)**
Net capital surplus	**23,933**	**10,058**	**33,991**

As at 31 December 2010, capital reserve included capital surplus on issuance of ordinary shares of RMB110,524 million (31 December 2009: RMB76,533 million).

The payments from investors of the A share rights issues and H share rights issues were received by the Bank before 31 December 2010 and were verified by PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company in its "Verification Report on Rights Issue Offering of A Shares, Overseas Listed Foreign Shares (H Share) and the Conversion of A Share Convertible Bonds to Bank of China Limited" (PwC ZT YZ [2011] No.007) issued on 12 January 2011.

37.2 Treasury shares

A wholly owned subsidiary of the Group holds certain listed shares of the Bank in relation to its derivative and arbitrage business. These shares are treated as treasury shares, a deduction from equity holders' equity. Gains and losses on sale or redemption of the treasury shares are credited or charged to equity. The total number of treasury shares as at 31 December 2010 was approximately 39.57 million (31 December 2009: approximately 11.69 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38 Statutory reserves, general and regulatory reserves and undistributed profits

38.1 Statutory reserves

Under relevant PRC laws, the Bank is required to transfer 10% of its net profit to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of such reserves has reached 50% of the share capital. Subject to the approval of the equity holders, the statutory surplus reserve can be used for replenishing the accumulated losses or increasing the Bank's share capital. The statutory surplus reserve amount used to increase the share capital is limited to a level where the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the share capital.

In addition, some operations in Hong Kong, Macau, Taiwan and other countries and regions are required to transfer certain percentages of their net profit to the statutory surplus reserve as stipulated by local banking authorities.

In accordance with a resolution of the Board of Directors dated 24 March 2011, the Bank appropriated 10% of the net profit for the year ended 31 December 2010 to the statutory surplus reserves, amounting to RMB9,650 million (2009: RMB7,019 million).

38.2 General and regulatory reserves

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

In accordance with a resolution dated 24 March 2011 and on the basis of the Bank's profit for the year ended 31 December 2010, the Board of Directors of the Bank approved the appropriation of RMB10,207 million (2009: RMB19,566 million) to the general reserve for the year ended 31 December 2010. As at 31 December 2010, the general reserve of the Bank amounted to RMB67,604 million (2009: RMB57,402 million), which complied with the regulatory requirement detailed above.

The regulatory reserve mainly refers to the reserve amount set aside by BOC Hong Kong (Group) Limited, a subsidiary of the Group, for general banking risks, including future losses or other unforeseeable risks. As at 31 December 2010 and 2009, the reserve amount set aside by BOC Hong Kong (Group) Limited was RMB3,464 million and RMB2,860 million, respectively.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38 Statutory reserves, general and regulatory reserves and undistributed profits (Continued)

38.3 Dividends

A dividend of RMB35,537 million in respect of profits for the year ended 31 December 2009 was approved by the equity holders of the Bank at the Annual General Meeting held on 27 May 2010 and was distributed during the year.

A dividend of RMB0.146 per share in respect of profit for the year ended 31 December 2010, amounting to a total dividend of RMB40,755 million based on the number of shares issued as at 31 December 2010 will be proposed for approval at the Annual General Meeting to be held on 27 May 2011. The actual amount of dividend payable will factor in ordinary shares issued in respect of conversion of convertible bonds after 31 December 2010 to the ex-dividend day. These financial statements do not reflect this dividend payable in liabilities.

38.4 Profit attributable to the equity holders of the Bank

The profit attributable to equity holders of the Bank for the year ended 31 December 2010 was recognised in the financial statements of the Bank to the extent of RMB96,504 million (2009: RMB70,194 million).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 Reserve for fair value changes of available for sale securities

	Year ended 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
As at 1 January	**4,750**	6,811	**1,069**	7,448
Net changes in fair value	**4,125**	(1,589)	**1,508**	(7,868)
Share of associates' reserve for fair value changes of available for sale securities	**62**	(185)	**–**	–
Net impairment (reversal)/ charge transferred to income statement	**(2,355)**	(89)	**(2,703)**	289
Net fair value changes transferred to income statement on derecognition	**(3,551)**	(1,517)	**(1,003)**	(889)
Deferred income taxes	**406**	1,332	**549**	2,089
Other	**578**	(13)	**578**	–
As at 31 December	**4,015**	4,750	**(2)**	1,069

40 Non-controlling interests

Non-controlling interests of the subsidiaries of the Group are as follows:

	As at 31 December	
	2010	2009
BOC Hong Kong (Group) Limited	**29,745**	28,568
Tai Fung Bank Limited	**1,681**	1,583
Other	**559**	251
Total	**31,985**	30,402

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Contingent liabilities and commitments

41.1 Legal proceedings and claims

As at 31 December 2010, the Group was involved in certain legal proceedings and claims arising from its normal business operations. As at 31 December 2010, provisions of RMB750 million (31 December 2009: RMB672 million) were made based on court judgements or the advice of counsel (Note V.36 (2)). After consulting legal professionals, management of the Group believes that the ultimate outcome of these lawsuits and claims will not have a material impact on the financial position or operations of the Group.

41.2 Assets pledged

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

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Debt securities	**114,180**	107,089	**81,295**	94,865
Precious metals	**–**	27,371	**–**	27,371
Total	**114,180**	134,460	**81,295**	122,236

41.3 Collateral accepted

The Group and the Bank accept securities collateral and precious metals collateral that are permitted to sell or re-pledge in connection with their placements and reverse repurchase agreements with banks and other financial institutions. As at 31 December 2010, the fair value of collateral received from banks and financial institutions accepted by the Group and the Bank amounted to RMB13,647 million and RMB12,941 million respectively (31 December 2009: RMB17,131 million for both the Group and the Bank). As at 31 December 2010, both the Group and the Bank had not sold or re-pledged such collateral accepted (31 December 2009: Nil for both the Group and the Bank). These transactions are conducted under standard terms in the normal course of business.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Contingent liabilities and commitments (Continued)

41.4 Capital commitments

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Property and equipment				
contracted but not provided for	**52,265**	31,031	**3,248**	979
authorised but not contracted for	**5,167**	3,491	**5,112**	3,413
Intangible assets				
contracted but not provided for	**443**	334	**351**	304
authorised but not contracted for	**5**	1	**5**	1
Total	**57,880**	34,857	**8,716**	4,697

41.5 Operating leases

(1) Operating lease commitments – As lessee

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

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Within one year	**3,560**	2,903	**2,990**	2,379
One to two years	**2,847**	2,309	**2,474**	1,987
Two to three years	**2,262**	2,342	**2,074**	2,164
Over three years	**5,570**	4,651	**5,447**	4,587
Total	**14,239**	12,205	**12,985**	11,117

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Contingent liabilities and commitments (Continued)

41.5 Operating leases (Continued)

(2) Operating lease commitments – As lessor

The Group acts as lessor in operating leases principally through aircraft leasing undertaken by its subsidiary BOC Aviation. Under irrevocable operating lease contracts, as at 31 December 2010, the minimum lease payments which will be received by the Group under the operating leases for existing aircraft and aircraft yet to be delivered amounted to RMB3,905 million not later than one year (31 December 2009: RMB3,591million), RMB17,609 million later than one year and not later than five years (31 December 2009: RMB16,335 million) and RMB24,720 million later than five years (31 December 2009: RMB19,094 million).

41.6 Treasury bond redemption commitments

The Bank is entrusted by the MOF to underwrite certain Treasury bonds. The investors of these Treasury bonds have a right to redeem the bonds at any time prior to maturity and the Bank is committed to redeem these Treasury bonds. The MOF will not provide funding for the early redemption of these Treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 31 December 2010, the outstanding principal value of the Treasury bonds sold by the Bank amounted to RMB57,153 million (31 December 2009: RMB55,193 million). The original maturities of these Treasury bonds vary from 1 to 5 years and management expects the amount of redemption before the maturity dates of these bonds through the Bank will not be material.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Contingent liabilities and commitments (Continued)

41.7 Credit commitments

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Loan commitments [1]				
with an original maturity of under one year	**75,740**	200,205	**59,882**	38,283
with an original maturity of one year or over	**660,970**	620,645	**607,939**	562,883
Letters of guarantee issued [2]	**646,098**	574,090	**665,743**	579,649
Bank bill acceptance	**352,252**	283,927	**350,443**	283,927
Letters of credit issued	**184,061**	147,726	**154,611**	126,116
Accepted bill of exchange under letter of credit	**100,511**	45,708	**94,038**	40,063
Other	**7,803**	3,098	**9,332**	2,950
Total	**2,027,435**	1,875,399	**1,941,988**	1,633,871

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

(2) Letters of guarantee issued include financial guarantees and performance guarantees. These obligations on the Group to make payment are dependent on the outcome of a future event.

Credit risk weighted amounts of credit commitments

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Credit commitments	**684,723**	664,183	**674,914**	642,707

The credit risk weighted amounts are the amounts calculated in accordance with the guidelines issued by the CBRC and are dependent on, among other factors, the creditworthiness of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for commitments.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41 Contingent liabilities and commitments (Continued)

41.8 Underwriting obligations

The unexpired underwriting obligations of securities of the Group and the Bank are as follows:

	As at 31 December	
	2010	2009
Underwriting obligations	**81,298**	45,502

42 Note to consolidated statement of cash flows

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

Group

	As at 31 December	
	2010	2009
Cash and due from banks and other financial institutions	**127,308**	146,046
Balances with central banks	**450,426**	247,006
Placements with and loans to banks and other financial institutions	**112,597**	165,553
Short term bills and notes	**79,040**	27,714
Total	**769,371**	586,319

43 Related party transactions

Related parties are those parties that have the ability to control, joint control or exercise significant influence over the other party in making financial or operational decisions. Parties are also considered to be related if they are subject to common control, joint control or significant influence. Related parties may be individuals or other entities.

43.1 CIC was established on 29 September 2007 with a registered capital of USD200 billion. CIC is a wholly State-owned company engaging in foreign currency investment management. The Group is subject to the control of the State Council of the PRC Government through CIC and its wholly owned subsidiary Huijin.

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

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.2 Transactions with the Huijin and companies under Huijin

(1) General information of Huijin

Central Huijin Investment Ltd.

Legal representative	Lou Jiwei
Registered Capital	RMB552,117 million
Location of registration	Beijing
Capital shares in the Bank	67.55%
Voting rights in the Bank	67.55%
Nature	Wholly State-owned company
Principal activities	Investment in major State-owned financial institutions on behalf of the State
National organisation code	71093296-1

(2) Transactions with Huijin

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

Due to Huijin

	Year ended 31 December	
	2010	2009
As at 1 January	**10,107**	44,668
Received during the year	**57,298**	33,938
Repaid during the year	**(46,379)**	(68,499)
As at 31 December	**21,026**	10,107

Bonds issued by Huijin

As at 31 December 2010, the Bank held Available for sale and Held to maturity government backed bonds issued by Huijin in the carrying value of RMB2,329 million and RMB3,400 million, respectively (Note V.17). These bonds have maturity of not more than 30 years and bear fixed interest rates, payable annually. The Group entered into purchasing of these bonds in the ordinary course of business, complying with requirements of relating regulations and relating corporate governance documents within the Group.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.2 Transactions with the Huijin and companies under Huijin (Continued)

(3) Transactions with companies under Huijin

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

The Group's outstanding balances and related interest rate range with these companies as of 31 December 2010 were as follows:

	As at 31 December 2010
Due from banks and other financial institutions	61,371
Placements with and loans to banks and other financial institutions	26,891
Financial assets at fair value through profit or loss and Investment securities	201,102
Derivative financial assets	669
Due to banks and other financial institutions	(146,291)
Placements from banks and other financial institutions	(24,435)
Derivative financial liabilities	(1,080)
Interest rate ranges at the end of the year	
Due from banks and other financial institutions	0.01%-5.70%
Placements with and loans to banks and other financial institutions	0.04%-5.50%
Financial assets at fair value through profit or loss and Investment securities	0.43%-5.42%
Due to banks and other financial institutions	0.00%-5.00%
Placements from banks and other financial institutions	0.22%-6.32%

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

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

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

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

43.4 Transactions with associates and joint ventures

The Group enters into banking transactions with associates and joint ventures in the normal course of business at commercial terms. These include loans and advances, deposit taking and other normal banking businesses. The outstanding balances with associates and joint ventures as of the respective year end dates are stated below:

	As at 31 December	
	2010	2009
Placements with and loans to banks and other financial institutions	**–**	1,328
Loans and advances to customers	**527**	580
Due to customers, banks and other financial institutions	**(6,944)**	(9,526)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.4 Transactions with associates and joint ventures (Continued)

The general information of principal associates and joint ventures is as follows:

Name	Place of incorporation/ establishment	National organisation code	Effective equity held (%)	Voting right (%)	Paid-in capital (in millions)	Principal business
Huaneng International Power Development Corporation	PRC	1100600003248	20.00	20.00	USD450	Power plant operations
BOC International (China) Limited	PRC	73665036-4	49.00	49.00	RMB1,500	Securities underwriting, investment advisory, and brokerage services
AVIC International Holding Corporation	PRC	100000000000991	16.31	Note (1)	RMB6,211	International aviation, trade and logistics, real estate, industrial investment
Ningxia Electric Power Group Company Limited	PRC	640000000000893	23.42	23.42	RMB3,573	Thermal power, wind power, solar power, coal mining, fan equipment manufacturing, polysilicon production
Hong Kong Bora Holdings Limited	Hong Kong	NA	19.50	Note (1)	HKD0.01	Investment holding
Zhangjiagang Special Glass Limited	PRC	320582400000204	11.30	Note (1)	USD30.40	Special glass production
Bank of Ningxia Company Limited	PRC	640000000002384	10.90	Note (1)	RMB1,460	Commercial banking
Guangdong Small and Middle Enterprises Equity Investment Fund Company Limited	PRC	56456896-1	40.00	40.00	RMB600	Investment
Shanghai Yangtze Hotel Limited	PRC	60722576-7	24.00	24.00	USD5.3	Hotel
United Glory Investments Limited	Hong Kong	NA	37.50	37.50	HKD0.1	Investment holding

(1) In accordance with the respective articles of association, the Group has significant influence over these companies.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.5 Transactions with the Annuity Plan

The Annuity Plan placed deposit with the Bank amounted to RMB1,282 million as at 31 December 2010 (31 December 2009: RMB2,484 million).

43.6 Transactions with key management personnel

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

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

The key management compensation for the years ended 31 December 2010 and 2009 comprises:

	Year ended 31 December	
	2010	2009
Compensation for short-term employment benefits (1)	**19**	31
Compensation for post-employment benefits	**1**	1
Total	**20**	32

(1) The total compensation package for these key management personnel for the year ended 31 December 2010 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have a 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.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.7 Balances with subsidiaries

Included in the following captions of the Bank's statement of financial position are balances with subsidiaries:

	As at 31 December	
	2010	2009
Due from banks and other financial institutions	**4,492**	9,035
Placements with and loans to banks and other financial institutions [1]	**63,311**	98,423
Due to banks and other financial institutions	**(31,034)**	(9,887)
Placements from banks and other financial institutions	**(44,967)**	(50,620)

(1) Includes subordinated loans to Bank of China (Hong Kong) Limited of RMB5,812 million as at 31 December 2010 (31 December 2009: RMB23,537 million) which were provided in the normal course of business and on commercial terms. The claim to the subordinated loans of the Bank is inferior to other liabilities, and prior to equity capital of the subsidiary.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.7 Balances with subsidiaries (Continued)

The general information of principal subsidiaries is as follows:

Name	Place of incorporation and operation	Date of incorporation/ establishment	Paid-in capital (in millions)	Effective equity held (%)	Voting right (%)	Principal business
Directly held						
BOC Hong Kong (Group) Limited	Hong Kong	12 September 2001	HKD34,806	100.00	100.00	Holding company
BOC International Holdings Limited [(4)]	Hong Kong	10 July 1998	HKD3,539	100.00	100.00	Investment banking
Bank of China Group Insurance Company Limited	Hong Kong	23 July 1992	HKD3,749	100.00	100.00	Insurance services
Bank of China Group Investment Limited	Hong Kong	18 May 1993	HKD32,387	100.00	100.00	Investment holding
Tai Fung Bank Limited	Macau	1942	MOP1,000	50.31	50.31	Commercial banking
Bank of China (UK) Limited	United Kingdom	24 September 2007	GBP140	100.00	100.00	Commercial banking
Indirectly held						
BOC Hong Kong (Holdings) Limited [(2)]	Hong Kong	12 September 2001	HKD52,864	66.06	66.06	Holding company
Bank of China (Hong Kong) Limited [(3)(4)]	Hong Kong	16 October 1964	HKD43,043	66.06	100.00	Commercial banking
Nanyang Commercial Bank, Limited [(4)]	Hong Kong	2 February 1948	HKD700	66.06	100.00	Commercial banking
Chiyu Banking Corporation Limited [(3)(4)]	Hong Kong	24 April 1947	HKD300	46.57	70.49	Commercial banking
BOC Credit Card (International) Limited	Hong Kong	9 September 1980	HKD480	66.06	100.00	Credit card services
BOC Group Trustee Company, Limited [(4)]	Hong Kong	1 December 1997	HKD200	76.43	100.00	Provision of trustee services
BOC Aviation Pte. Ltd.	Singapore	25 November 1993	USD608	100.00	100.00	Aircraft leasing

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Related party transactions (Continued)

43.7 Balances with subsidiaries (Continued)

(2) BOC Hong Kong (Holdings) Limited is listed on the Stock Exchanges of Hong Kong Limited.

(3) Bank of China (Hong Kong) Limited, in which the Group holds a 66.06% equity interest, holds 70.49% of the equity interest of Chiyu Banking Corporation Limited.

(4) Bank of China (Hong Kong) Limited, Nanyang Commercial Bank, Limited, Chiyu Banking Corporation Limited and BOC International Holdings Limited, in which the Group holds 66.06%, 66.06%, 46.57% and 100% of their equity interests, respectively, hold 54%, 6%, 6% and 34% equity interest of BOC Group Trustee Company, Limited, respectively.

For the year ended 31 December 2010, the financial statements of the principal subsidiaries stated above, except for BOC Aviation Pte. Ltd., were audited by PricewaterhouseCoopers.

For some investees listed above, the voting rights ratio is not equal to the effective equity held ratio, mainly due to the impact of the indirect holdings.

44 Segment reporting

The Group manages the business from both a geographic and business perspective. From the geographic perspective, the Group operates in three principal regions: Chinese mainland, Hong Kong, Macau and Taiwan, and other countries and regions. From the business perspective, the Group provides services through six main business segments: corporate banking, personal banking, treasury operations, investment banking, insurance and other operations.

Measurement of segment assets, liabilities, income, expenses, results and capital expenditure is based on the Group's accounting policies. The segment information presented includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Funding is provided to and from individual business segments through treasury operations as part of the asset and liability management process. The pricing of these transactions is based on market rates. The transfer price takes into account the specific features and maturities of the product. Internal transactions are eliminated on consolidation.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment reporting (Continued)

Geographical segments

Chinese mainland – Corporate banking, personal banking and treasury operations are performed in the Chinese mainland.

Hong Kong, Macau and Taiwan – Corporate banking, personal banking, treasury operations, investment banking and insurance services are performed in Hong Kong, Macau and Taiwan. The business of this segment is centralised in BOC Hong Kong (Group) Limited.

Other countries and regions – Corporate and personal banking services are provided in other countries and regions. Significant such locations include New York, London, Singapore and Tokyo.

Business segments

Corporate banking – Services to corporate customers, government authorities and financial institutions including current accounts, deposits, overdrafts, loans, custody, trade related products and other credit facilities, foreign currency and derivative products.

Personal banking – Services to retail customers including current accounts, savings, deposits, investment savings products, credit and debit cards, consumer loans and mortgages.

Treasury operations – Consisting of foreign exchange transactions, customer-based interest rate and foreign exchange derivative transactions, money market transactions, proprietary trading and asset and liability management. The results of this segment include the inter-segment funding income and expenses, results from interest bearing assets and liabilities; and foreign currency translation gains and losses.

Investment banking – Consisting of debt and equity underwriting and financial advisory, sales and trading of securities, stock brokerage, investment research and asset management services, and private equity investment services.

Insurance – Underwriting of general and life insurance business and insurance agency services.

Other operations of the Group comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment reporting (Continued)

As at and for the year ended 31 December 2010

	Chinese mainland	Hong Kong, Macau and Taiwan: BOC Hong Kong Group	Hong Kong, Macau and Taiwan: Other	Hong Kong, Macau and Taiwan: Subtotal	Other countries and regions	Elimination	Total
Interest income	284,786	21,317	3,684	25,001	7,203	(3,457)	313,533
Interest expense	(113,625)	(4,528)	(1,896)	(6,424)	(2,979)	3,457	(119,571)
Net interest income	171,161	16,789	1,788	18,577	4,224	–	193,962
Fee and commission income	45,360	8,287	4,035	12,322	2,525	(993)	59,214
Fee and commission expense	(1,332)	(2,119)	(1,337)	(3,456)	(524)	581	(4,731)
Net fee and commission income	44,028	6,168	2,698	8,866	2,001	(412)	54,483
Net trading gains	1,063	1,282	815	2,097	331	–	3,491
Net gains on investment securities	751	572	2,022	2,594	35	–	3,380
Other operating income (1)	5,129	7,395	8,664	16,059	236	(222)	21,202
Operating income	222,132	32,206	15,987	48,193	6,827	(634)	276,518
Operating expenses (1)	(96,596)	(15,135)	(8,896)	(24,031)	(2,416)	634	(122,409)
Impairment (losses)/reversal on assets	(11,669)	274	(746)	(472)	(852)	–	(12,993)
Operating profit	113,867	17,345	6,345	23,690	3,559	–	141,116
Share of results of associates and joint ventures	–	2	1,027	1,029	–	–	1,029
Profit before income tax	113,867	17,347	7,372	24,719	3,559	–	142,145
Income tax expense	(28,047)	(2,807)	(811)	(3,618)	(789)	–	(32,454)
Profit for the year	85,820	14,540	6,561	21,101	2,770	–	109,691
Segment assets	8,520,945	1,397,345	370,358	1,767,703	547,954	(389,368)	10,447,234
Investment in associates and joint ventures	–	48	12,583	12,631	–	–	12,631
Total assets	8,520,945	1,397,393	382,941	1,780,334	547,954	(389,368)	10,459,865
Include: non-current assets (2)	75,680	20,158	53,599	73,757	7,555	(161)	156,831
Segment liabilities	8,004,925	1,310,583	328,263	1,638,846	529,152	(389,208)	9,783,715
Other segment items:							
Intersegment Net interest income	193	208	5	213	(406)	–	–
Intersegment Net fee and commission income	285	115	287	402	(275)	(412)	–
Capital expenditure	14,229	588	8,656	9,244	518	–	23,991
Depreciation and amortisation	7,591	745	1,835	2,580	148	–	10,319
Credit commitments	1,909,129	100,949	32,325	133,274	121,384	(136,352)	2,027,435

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment reporting (Continued)

As at and for the year ended 31 December 2009

		Hong Kong, Macau and Taiwan					
	Chinese mainland	BOC Hong Kong Group	Other	Subtotal	Other countries and regions	Elimination	Total
Interest income	235,665	19,739	2,689	22,428	6,803	(3,472)	261,424
Interest expense	(98,558)	(3,319)	(1,473)	(4,792)	(2,665)	3,472	(102,543)
Net interest income	137,107	16,420	1,216	17,636	4,138	–	158,881
Fee and commission income	37,346	7,558	3,776	11,334	2,476	(922)	50,234
Fee and commission expense	(1,099)	(1,789)	(1,322)	(3,111)	(695)	684	(4,221)
Net fee and commission income	36,247	5,769	2,454	8,223	1,781	(238)	46,013
Net trading gains/(losses)	4,619	(45)	951	906	324	–	5,849
Net gains/(losses) on investment securities	865	(116)	544	428	44	–	1,337
Other operating income (1)	4,085	8,727	7,565	16,292	306	(193)	20,490
Operating income	182,923	30,755	12,730	43,485	6,593	(431)	232,570
Operating expenses (1)	(81,283)	(16,846)	(7,538)	(24,384)	(2,071)	431	(107,307)
Impairment (losses)/reversal on assets	(15,545)	1,048	(34)	1,014	(456)	–	(14,987)
Operating profit	86,095	14,957	5,158	20,115	4,066	–	110,276
Share of results of associates and joint ventures	–	3	818	821	–	–	821
Profit before income tax	86,095	14,960	5,976	20,936	4,066	–	111,097
Income tax expense	(21,713)	(2,378)	(663)	(3,041)	(994)	–	(25,748)
Profit for the year	64,382	12,582	5,313	17,895	3,072	–	85,349
Segment assets	7,364,064	1,056,048	263,288	1,319,336	426,799	(368,924)	8,741,275
Investment in associates and joint ventures	–	51	10,617	10,668	–	–	10,668
Total assets	7,364,064	1,056,099	273,905	1,330,004	426,799	(368,924)	8,751,943
Include: non-current assets (2)	68,872	19,751	49,811	69,562	5,224	(161)	143,497
Segment liabilities	6,960,958	973,250	230,274	1,203,524	410,830	(368,763)	8,206,549
Other segment items:							
Intersegment Net interest income	1,675	(642)	18	(624)	(1,051)	–	–
Intersegment Net fee and commission income	103	108	(119)	(11)	146	(238)	–
Capital expenditure	12,592	496	21,276	21,772	1,260	–	35,624
Depreciation and amortisation	6,459	729	1,380	2,109	123	–	8,691
Credit commitments	1,565,265	243,367	28,634	272,001	111,848	(73,715)	1,875,399

(1) Other operating income includes insurance premium income earned, and Operating expenses include insurance benefits and claims.

(2) Non-current assets include property and equipment, investment property and other long-term assets.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment reporting (Continued)

As at and for the year ended 31 December 2010

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	188,298	104,454	75,349	682	1,405	334	(56,989)	313,533
Interest expense	(64,681)	(45,563)	(65,037)	(149)	–	(1,130)	56,989	(119,571)
Net interest income/(expense)	123,617	58,891	10,312	533	1,405	(796)	–	193,962
Fee and commission income	31,296	19,490	5,363	3,191	194	404	(724)	59,214
Fee and commission expense	(1,598)	(1,595)	(310)	(712)	(1,020)	(68)	572	(4,731)
Net fee and commission income	29,698	17,895	5,053	2,479	(826)	336	(152)	54,483
Net trading gains	431	507	1,382	351	731	90	(1)	3,491
Net gains on investment securities	15	5	1,223	–	110	2,027	–	3,380
Other operating income	290	3,819	645	62	8,962	8,966	(1,542)	21,202
Operating income	154,051	81,117	18,615	3,425	10,382	10,623	(1,695)	276,518
Operating expenses	(50,698)	(46,703)	(10,552)	(2,045)	(9,909)	(4,197)	1,695	(122,409)
Impairment (losses)/reversal on assets	(14,183)	(1,434)	2,942	–	(50)	(268)	–	(12,993)
Operating profit	89,170	32,980	11,005	1,380	423	6,158	–	141,116
Share of results of associates and joint ventures	–	–	–	435	3	595	(4)	1,029
Profit before income tax	89,170	32,980	11,005	1,815	426	6,753	(4)	142,145
Income tax expense								(32,454)
Profit for the year								109,691
Segment assets	4,708,324	1,503,781	4,044,648	40,519	49,756	195,700	(95,494)	10,447,234
Investment in associates and joint ventures	–	–	–	2,169	–	10,507	(45)	12,631
Total assets	4,708,324	1,503,781	4,044,648	42,688	49,756	206,207	(95,539)	10,459,865
Segment liabilities	5,014,927	3,542,866	1,119,033	36,894	44,875	120,454	(95,334)	9,783,715
Other segment items:								
Intersegment Net interest income	9,567	46,745	(55,866)	17	32	(495)	–	–
Intersegment Net fee and commission income	3	87	–	–	(531)	593	(152)	–
Capital expenditure	4,339	4,786	230	129	32	14,475	–	23,991
Depreciation and amortisation	3,423	4,242	700	91	49	1,814	–	10,319

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Segment reporting (Continued)

As at and for the year ended 31 December 2009

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	146,346	98,500	71,444	679	1,229	280	(57,054)	261,424
Interest expense	(46,450)	(49,828)	(62,226)	(281)	(25)	(787)	57,054	(102,543)
Net interest income/ (expense)	99,896	48,672	9,218	398	1,204	(507)	–	158,881
Fee and commission income	26,842	16,658	3,710	3,055	2	506	(539)	50,234
Fee and commission expense	(1,337)	(1,542)	(49)	(791)	(897)	(95)	490	(4,221)
Net fee and commission income	25,505	15,116	3,661	2,264	(895)	411	(49)	46,013
Net trading gains/(losses)	401	466	5,177	597	(803)	11	–	5,849
Net gains on investment securities	18	4	769	–	4	542	–	1,337
Other operating income	516	3,358	564	39	9,662	7,854	(1,503)	20,490
Operating income	126,336	67,616	19,389	3,298	9,172	8,311	(1,552)	232,570
Operating expenses	(42,245)	(40,144)	(9,601)	(1,689)	(9,024)	(6,156)	1,552	(107,307)
Impairment (losses)/reversal on assets	(14,654)	(1,095)	880	17	(9)	(126)	–	(14,987)
Operating profit	69,437	26,377	10,668	1,626	139	2,029	–	110,276
Share of results of associates and joint ventures	–	–	–	508	(3)	318	(2)	821
Profit before income tax	69,437	26,377	10,668	2,134	136	2,347	(2)	111,097
Income tax expense								(25,748)
Profit for the year								85,349
Segment assets	3,994,300	1,208,265	3,377,731	38,321	40,232	173,842	(91,416)	8,741,275
Investment in associates and joint ventures	–	–	–	1,962	281	8,467	(42)	10,668
Total assets	3,994,300	1,208,265	3,377,731	40,283	40,513	182,309	(91,458)	8,751,943
Segment liabilities	4,318,184	3,192,090	628,337	34,486	35,754	88,953	(91,255)	8,206,549
Other segment items:								
Intersegment Net interest income	3,467	52,808	(56,057)	(20)	36	(234)	–	–
Intersegment Net fee and commission income	4	35	–	–	(423)	433	(49)	–
Capital expenditure	4,085	4,500	216	102	32	26,689	–	35,624
Depreciation and amortisation	2,979	3,521	687	75	22	1,407	–	8,691

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Events after the financial reporting date

At the First Extraordinary General Meeting of the Bank on 28 January 2011, the shareholders have approved the resolution to issue RMB denominated bonds in Hong Kong for an aggregate amount of not exceeding RMB20 billion by the end of 2012.

VI FINANCIAL RISK MANAGEMENT

1 Overview

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group's depositors and other stakeholders for the Group's prudent and stable development.

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

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

2 Financial risk management framework

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

Within this framework, the Group's senior management has overall responsibility for managing all aspects of risks, including implementing risk management strategies, initiatives and credit policies and approving internal policies, measures and procedures related to risk management. The Risk Management Unit, the Financial Management Department and other relevant functional units are responsible for monitoring financial risks.

VI FINANCIAL RISK MANAGEMENT (Continued)

2 Financial risk management framework (Continued)

The Group manages the risks at the branch level through direct reporting from the branches to the relevant departments responsible for risk management at the Head Office. Business line related risks are monitored through establishing specific risk management teams within the business departments. The Group monitors and controls risk management at subsidiaries by appointing members of their boards of directors and risk management committees.

3 Credit risk

The Group takes on exposure to credit risk, which is the risk that a customer or counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is one of the most significant risks for the Group's business.

Credit risk exposures arise principally in lending activities and debt securities investment activities. There is also credit risk in off-balance sheet financial instruments, such as derivatives, loan commitments, letters of guarantee, bill acceptance and letters of credit.

3.1 Credit risk measurement

(1) Loans and advances and off-balance sheet commitments

Monitoring and measurement of credit risk over loans and advances and off-balance sheet credit related exposures are performed by the Risk Management Unit, and reported to the senior management and the Board of Directors regularly.

In measuring the credit risk of loans and advances to corporate customers, the Group mainly reflects the "probability of default" by the customer on its contractual obligations and considers the current financial position of the customer and the exposures to the customer and its likely future development. For retail customers, the Group measures credit risk through the use of standard approval procedures for personal loans and credit score-card models, which are based on historical default data for credit cards.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(1) Loans and advances and off-balance sheet commitments (Continued)

For credit risk arising from off-balance sheet commitments, the Group manages the risks according to the characteristics of the products. These mainly include loan commitments, guarantees, bill acceptances and letters of credit. Loan commitments, guarantees, bill acceptances and standby letters of credit carry similar credit risk to loans and the Group takes a similar approach on risk management. Documentary and commercial letters of credit are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions and are collateralised by the underlying shipment documents of goods to which they relate or deposits and are therefore assessed to have less credit risk than a direct loan. Besides, The Group monitors the term to maturity of off-balance sheet commitments and those with longer-terms are assessed to have greater credit risk than shorter-term commitments.

The Group measures and manages the credit quality of loans and advances to corporate and personal customers based on the "Guideline for Loan Credit Risk Classification" (the "Guideline") issued by the CBRC, which requires commercial banks to classify their corporate and personal loans into five categories: pass, special-mention, substandard, doubtful and loss, among which loans classified in the substandard, doubtful and loss categories are regarded as non-performing loans. Off-balance sheet commitments with credit exposures are also assessed and categorised with reference to the Guideline. For operations in Hong Kong, Macau, Taiwan and other countries and regions, where local regulations and requirements are more prudent than the Guideline, the credit assets are classified according to local regulations and requirements.

The five categories are defined as follows:

Pass: loans for which borrowers can honour the terms of the contracts, and there is no reason to doubt their ability to repay principal and interest of loans in full and on a timely basis.

Special-mention: loans for which borrowers are still able to service the loans currently, although the repayment of loans might be adversely affected by some factors.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(1) Loans and advances and off-balance sheet commitments (Continued)

Substandard: loans for which borrowers' ability to service loans is apparently in question, and borrowers cannot depend on their normal business revenues to pay back the principal and interest of loans. Certain losses might be incurred by the Group even when guarantees are executed.

Doubtful: loans for which borrowers cannot pay back principal and interest of loans in full and significant losses will be incurred by the Group even when guarantees are executed.

Loss: principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and resorting to necessary legal procedures.

The Group has developed an internal customer credit rating system, using measurements of the probability of default within one year based, on regression analysis. These probability of default measurements are then mapped to internal credit ratings. The Group performs back testing to actual default rates and refines the model according to the results.

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into fifteen grades as AAA, AA, A, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B-, CCC, CC, C, and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Five-category loan classifications and customer credit ratings are determined by Head Office and tier-one branch management under approved delegated authorities. The Bank performs centralised review on customer credit ratings and five-category loan classifications on an annual basis. Further, five-category loan classifications are re-examined on a quarterly basis. Adjustments are made to these classifications and ratings as necessary according to customers' operational and financial position.

The Group identifies credit risk collectively based on industry, geography and customer type. This information is monitored regularly by management.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(1) Loans and advances and off-balance sheet commitments (Continued)

The size of the Group's loan portfolio increased significantly in 2010 and 2009, in particular retail mortgages, real estate loans and infrastructure related loans. Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry quotas and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position. The actions may include obtaining additional guarantors or collateral.

(2) Due from, placements with and loans to banks and other financial institutions

The Group manages the credit quality of due from, placements with and loans to banks and other financial institutions considering the size, financial position and the internal and external credit rating of banks and financial institutions. In response to adverse credit market conditions, various initiatives were implemented since 2008 to better manage and report credit risk, including establishing a special committee which meets periodically and on an ad hoc basis to discuss actions in response to market changes impacting the Group's exposure to credit risk, and formulating a watch list process over counterparty names at risk.

(3) Debt securities and derivatives

Credit risk within debt securities arises from exposure to movements in credit spreads, default rates and loss given default, as well as changes in the credit of underlying assets.

The Group manages the credit risk within debt securities by monitoring the external credit rating, such as Standard & Poor's ratings or their equivalents, of the security, the internal credit rating of the issuers of debt securities and the credit quality of underlying assets of securitisation products, including review of default rates, prepayment rates, industry and sector performance, loss coverage ratios and counterparty risk, to identify exposure to credit risk.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(3) Debt securities and derivatives (Continued)

The Group has policies to maintain strict control limits on net open derivative positions based on notional amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets for which fair value is positive). The derivative credit risk exposure is managed as part of the overall exposure lending limits set for customers and financial institutions. Collateral or other security is not usually obtained for credit risk exposures on these financial instruments.

3.2 Credit risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk in particular, to individual customers and to industries.

(1) Credit risk limits and controls

(i) Loans and advances and off-balance sheet commitments

In order to manage the exposure to credit risk, the Group has adopted credit approval policies and procedures that are reviewed and updated by the Risk Management Unit at Head Office. The credit approval process for both corporate loans and personal loans can be broadly divided into three stages: (1) credit origination and assessment; (2) credit review and approval; and (3) fund disbursement and post-disbursement management.

Corporate loans in the Chinese mainland are originated by the Corporate Banking Unit at Head Office and Corporate Banking Department at branch level and submitted to the Risk Management Unit for due diligence and approval. All credit applications for corporate lending must be approved by authorised credit application approvers at Head Office and tier-one branches level in Chinese mainland, except for credit applications that are identified as low risk, such as loans sufficiently secured by PRC treasury bonds, bills or pledged funds or loans supported by the credit of financial institutions that are within pre-approved credit limits. The exposure to any one borrower, including banks, is restricted by credit limits covering on and off-balance sheet exposures.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies (Continued)

(1) Credit risk limits and controls (Continued)

(i) Loans and advances and off-balance sheet commitments (Continued)

Personal loans in the Chinese mainland are originated by the Personal Banking Departments at branch level and must be approved by authorised approvers at tier-one branches level in Chinese mainland, except for individual pledged loans and government-sponsored student loans, which may be approved by authorised approvers at sub-branches below tier-one level. High risk personal loans such as personal loans for business purposes in excess of certain limits must also be reviewed by the Risk Management Department.

The Head Office also oversees the risk management of the branches in Hong Kong, Macau, Taiwan and other countries and regions. In particular, any credit application at the above branches exceeding the authorisation limits is required to be submitted to the Head Office for approval.

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

(ii) Debt securities and derivatives

The Group is also exposed to credit risk through investment activities and trading activities. Credit limits are established based on type of instruments and the credit quality of counterparties, securities issuers and securities and set limits are actively monitored.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies (Continued)

(2) Credit risk mitigation policies

(i) Collateral and guarantees

The Group has a range of policies and practices intended to mitigate credit risk. The most prevalent of these is the taking of security for funds advances (collateral) and guarantees, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral. The amount of acceptable collateral at the time of loan origination is determined by the Risk Management Unit and is subject to loan-to-value ratio limits based on type and is monitored on an ongoing basis by the Risk Management Unit. The principal collateral types for corporate loans and advances are:

Collateral	Maximum loan-to-value ratio
Cash deposits with the Group	90%
PRC Treasury bonds	90%
PRC financial institution bonds	85%
Publicly traded stocks	50%
Property	70%
Land use rights	60%
Automobiles	40%

Mortgage loans to retail customers are generally collateralised by mortgages over residential properties. Other loans are collateralised dependant on the nature of the loan.

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

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

Collateral is also held as part of reverse repurchase agreements. Under such agreements, the Group is permitted to sell or repledge collateral in the absence of default by the owner of the collateral. Details of collateral accepted and which the Group is obligated to return are disclosed in Note V.41.3.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies (Continued)

(2) Credit risk mitigation policies (Continued)

(ii) Master netting arrangements

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

3.3 Impairment and provisioning policies

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(1) Loans and advances

Management determines whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group including consideration of:

- significant financial difficulty incurred by the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payment;
- for economic or legal reasons related to the borrower's financial difficulty, whether the Group has granted to the borrower a concession that it would not otherwise consider;
- probability that the borrower will become bankrupt or will undergo other financial re-organisation;
- deterioration in the value of collateral;
- deterioration in credit rating; or
- other observable data indicating that there is a measurable decrease in the estimated future cash flows from such loans and advances.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.3 Impairment and provisioning policies (Continued)

(1) Loans and advances (Continued)

The Group's policy requires the review of individual financial assets that are above certain thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at financial reporting date on a case-by-case basis using discounted cash flow analysis. The assessment normally encompasses guarantees and collateral held and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been specifically identified, by using the available historical data, experience, professional judgement and statistical techniques.

(2) Debt securities

Debt securities are assessed for individual impairment using similar criteria as loans and advances. Management determines whether objective evidence of debt securities impairment exists under IAS 39 based on criteria set out by the Group including consideration of:

- a breach of contract or a trigger event, such as a default or delinquency in interest or principal payment;
- significant financial difficulty of issuers or underlying asset holders;
- probable that the issuer or underlying asset holders will become bankrupt or will undergo other financial re-organisation;
- deterioration in credit rating; or
- other observable data indicating that there is a measurable decrease in the estimated future cash flows from such debt securities.

Impairment allowances on individually assessed securities are determined by an evaluation of the incurred loss at financial reporting date on a case-by-case basis using available data, including default rates, loss given default and assessment of the quality of the underlying assets of securitisation products, industry and sector performance, loss coverage ratios and counterparty risk.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.4 Maximum exposure to credit risk before collateral held or other credit enhancements

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Credit risk exposures relating to on-balance sheet financial assets are as follows:				
Due from banks and other financial institutions	**586,904**	394,755	**576,168**	398,703
Balances with central banks	**1,573,922**	1,111,351	**1,282,532**	1,034,085
Placements with and loans to banks and other financial institutions	**213,716**	223,444	**245,333**	237,813
Government certificates of indebtedness for bank notes issued	**42,469**	36,099	**2,486**	2,367
Financial assets at fair value through profit or loss	**72,732**	56,670	**17,814**	20,134
Derivative financial assets	**39,974**	28,514	**19,157**	12,512
Loans and advances to customers, net	**5,537,765**	4,797,408	**4,951,171**	4,297,885
Investment securities				
– available for sale	**634,666**	608,672	**391,120**	406,508
– held to maturity	**1,039,386**	744,693	**984,127**	674,861
– loans and receivables	**277,963**	387,782	**263,178**	374,132
Other assets	**77,418**	63,290	**59,213**	45,794
Subtotal	**10,096,915**	8,452,678	**8,792,299**	7,504,794
Credit risk exposures relating to off-balance sheet items are as follows:				
Letters of guarantee issued	**646,098**	574,090	**665,743**	579,649
Loan commitments and other credit commitments	**1,381,337**	1,301,309	**1,276,245**	1,054,222
Subtotal	**2,027,435**	1,875,399	**1,941,988**	1,633,871
Total	**12,124,350**	10,328,077	**10,734,287**	9,138,665

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.4 Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

The table above represents a worst case scenario of credit risk exposure of the Group and the Bank as at 31 December 2010 and 2009, without taking account of any collateral held, master netting agreements or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As at 31 December 2010, 45.67% of the Group's total maximum credit exposure is derived from loans and advances to customers (31 December 2009: 46.45%) and 16.67% represents investments in debt securities (31 December 2009: 17.40%).

3.5 Loans and advances

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

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

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

Group

	As at 31 December			
	2010		2009	
	Amount	% of total	Amount	% of total
Chinese mainland	**4,758,585**	**84.06%**	4,165,713	84.84%
Hong Kong, Macau and Taiwan	**646,432**	**11.42%**	536,097	10.92%
Other countries and regions	**255,604**	**4.52%**	208,548	4.24%
Total loans and advances to customers	**5,660,621**	**100.00%**	4,910,358	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

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

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

Bank

	As at 31 December			
	2010		2009	
	Amount	**% of total**	Amount	% of total
Chinese mainland	**4,758,583**	**93.83%**	4,165,713	94.50%
Hong Kong, Macau and Taiwan	**69,953**	**1.38%**	50,431	1.14%
Other countries and regions	**243,027**	**4.79%**	192,107	4.36%
Total loans and advances to customers	**5,071,563**	**100.00%**	4,408,251	100.00%

Chinese mainland

	As at 31 December			
	2010		2009	
	Amount	**% of total**	Amount	% of total
Northern China	**784,066**	**16.48%**	709,698	17.03%
Northeastern China	**333,481**	**7.01%**	279,162	6.70%
Eastern China	**1,948,756**	**40.95%**	1,673,645	40.18%
Central and Southern China	**1,163,384**	**24.45%**	1,065,836	25.59%
Western China	**528,898**	**11.11%**	437,372	10.50%
Total loans and advances to customers	**4,758,585**	**100.00%**	4,165,713	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

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

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

Group

	As at 31 December							
	2010				2009			
	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total
Corporate loans								
– Trade bills	571,425	76,361	68,943	716,729	611,260	36,767	39,974	688,001
– Other	2,969,260	377,556	180,838	3,527,654	2,574,988	335,813	164,074	3,074,875
Personal loans	1,217,900	192,515	5,823	1,416,238	979,465	163,517	4,500	1,147,482
Total loans and advances to customers	4,758,585	646,432	255,604	5,660,621	4,165,713	536,097	208,548	4,910,358

Bank

	As at 31 December							
	2010				2009			
	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total
Corporate loans								
– Trade bills	571,425	5,506	66,895	643,826	611,260	1,089	33,783	646,132
– Other	2,969,260	43,766	174,925	3,187,951	2,574,988	35,101	157,045	2,767,134
Personal loans	1,217,898	20,681	1,207	1,239,786	979,465	14,241	1,279	994,985
Total loans and advances to customers	4,758,583	69,953	243,027	5,071,563	4,165,713	50,431	192,107	4,408,251

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

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

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

Group

	As at 31 December			
	2010		2009	
	Amount	**% of total**	Amount	% of total
Corporate loans and advances				
Manufacturing	**1,176,535**	**20.78%**	1,059,185	21.57%
Commerce and services	**813,590**	**14.37%**	725,227	14.77%
Transportation and logistics	**579,582**	**10.24%**	489,527	9.97%
Real estate	**438,991**	**7.76%**	366,630	7.47%
Production and supply of electric power, gas and water	**413,004**	**7.30%**	353,284	7.19%
Water, environment and public utility management	**257,535**	**4.55%**	251,154	5.11%
Mining	**211,717**	**3.74%**	197,414	4.02%
Financial services	**94,598**	**1.67%**	111,515	2.27%
Public utilities	**91,197**	**1.61%**	84,329	1.72%
Construction	**86,102**	**1.52%**	60,558	1.23%
Other	**81,532**	**1.44%**	64,053	1.31%
Subtotal	**4,244,383**	**74.98%**	3,762,876	76.63%
Personal loans				
Mortgages	**1,089,006**	**19.24%**	907,912	18.49%
Credit cards	**60,833**	**1.07%**	31,336	0.64%
Other	**266,399**	**4.71%**	208,234	4.24%
Subtotal	**1,416,238**	**25.02%**	1,147,482	23.37%
Total loans and advances to customers	**5,660,621**	**100.00%**	4,910,358	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

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

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

Bank

	As at 31 December			
	2010		2009	
	Amount	**% of total**	Amount	% of total
Corporate loans and advances				
Manufacturing	**1,130,622**	**22.29%**	1,019,711	23.13%
Commerce and services	**681,421**	**13.44%**	640,561	14.53%
Transportation and logistics	**537,688**	**10.60%**	449,142	10.19%
Real estate	**330,061**	**6.51%**	271,990	6.17%
Production and supply of electric power, gas and water	**393,824**	**7.77%**	339,938	7.71%
Water, environment and public utility management	**257,514**	**5.08%**	250,235	5.68%
Mining	**204,868**	**4.04%**	185,161	4.20%
Financial services	**83,532**	**1.65%**	99,986	2.27%
Public utilities	**89,675**	**1.77%**	82,446	1.87%
Construction	**79,365**	**1.56%**	53,270	1.21%
Other	**43,207**	**0.84%**	20,826	0.47%
Subtotal	**3,831,777**	**75.55%**	3,413,266	77.43%
Personal loans				
Mortgages	**940,226**	**18.54%**	777,329	17.63%
Credit cards	**53,827**	**1.06%**	24,968	0.57%
Other	**245,733**	**4.85%**	192,688	4.37%
Subtotal	**1,239,786**	**24.45%**	994,985	22.57%
Total loans and advances to customers	**5,071,563**	**100.00%**	4,408,251	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

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

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

Chinese mainland

	As at 31 December			
	2010		2009	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	1,092,465	22.95%	996,856	23.92%
Commerce and services	614,713	12.92%	598,411	14.37%
Transportation and logistics	501,202	10.53%	416,844	10.01%
Real estate	296,747	6.24%	241,824	5.81%
Production and supply of electric power, gas and water	393,824	8.28%	339,938	8.16%
Water, environment and public utility management	257,514	5.41%	250,235	6.01%
Mining	133,811	2.81%	113,885	2.73%
Financial services	68,068	1.43%	86,449	2.08%
Public utilities	87,588	1.84%	81,606	1.96%
Construction	74,954	1.58%	49,704	1.19%
Other	19,799	0.42%	10,496	0.25%
Subtotal	3,540,685	74.41%	3,186,248	76.49%
Personal loans				
Mortgages	921,373	19.36%	764,362	18.35%
Credit cards	53,487	1.12%	24,702	0.59%
Other	243,040	5.11%	190,401	4.57%
Subtotal	1,217,900	25.59%	979,465	23.51%
Total loans and advances to customers	4,758,585	100.00%	4,165,713	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

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

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

Group

	As at 31 December			
	2010		2009	
	Amount	**% of total**	Amount	% of total
Unsecured loans	**1,695,362**	**29.95%**	1,431,414	29.15%
Guaranteed loans	**1,409,744**	**24.90%**	1,186,715	24.17%
Collateralised and other secured loans				
– loans secured by property and other immovable assets	**1,892,354**	**33.43%**	1,596,514	32.51%
– other pledged loans	**663,161**	**11.72%**	695,715	14.17%
Total loans and advances to customers	**5,660,621**	**100.00%**	4,910,358	100.00%

Bank

	As at 31 December			
	2010		2009	
	Amount	**% of total**	Amount	% of total
Unsecured loans	**1,462,489**	**28.84%**	1,224,358	27.77%
Guaranteed loans	**1,364,418**	**26.90%**	1,162,125	26.36%
Collateralised and other secured loans				
– loans secured by property and other immovable assets	**1,697,468**	**33.47%**	1,413,995	32.08%
– other pledged loans	**547,188**	**10.79%**	607,773	13.79%
Total loans and advances to customers	**5,071,563**	**100.00%**	4,408,251	100.00%

Chinese mainland

	As at 31 December			
	2010		2009	
	Amount	**% of total**	Amount	% of total
Unsecured loans	**1,377,702**	**28.95%**	1,152,167	27.66%
Guaranteed loans	**1,230,833**	**25.87%**	1,048,895	25.18%
Collateralised and other secured loans				
– loans secured by property and other immovable assets	**1,617,363**	**33.99%**	1,361,253	32.68%
– other pledged loans	**532,687**	**11.19%**	603,398	14.48%
Total loans and advances to customers	**4,758,585**	**100.00%**	4,165,713	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) *Analysis of loans and advances to customers by overdue and impaired status*

	As at 31 December					
	Group		Bank		Chinese mainland	
	2010	2009	**2010**	2009	**2010**	2009
Corporate loans and advances						
– neither past due nor impaired	**4,184,768**	3,691,161	**3,773,176**	3,343,737	**3,483,927**	3,118,067
– past due but not impaired	**4,791**	5,893	**4,263**	5,019	**3,498**	4,555
– impaired	**54,824**	65,822	**54,338**	64,510	**53,260**	63,626
Subtotal	**4,244,383**	3,762,876	**3,831,777**	3,413,266	**3,540,685**	3,186,248
Personal loans						
– neither past due nor impaired	**1,388,191**	1,116,738	**1,213,656**	966,455	**1,192,304**	951,540
– past due but not impaired	**18,995**	20,560	**17,150**	18,447	**16,645**	17,871
– impaired	**9,052**	10,184	**8,980**	10,083	**8,951**	10,054
Subtotal	**1,416,238**	1,147,482	**1,239,786**	994,985	**1,217,900**	979,465
Total	**5,660,621**	4,910,358	**5,071,563**	4,408,251	**4,758,585**	4,165,713

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(i) Loans and advances neither past due nor impaired

The Group classifies loans and advances based on regulatory guidance including the "Guiding Principles on Classification of Loan Risk Management" issued by the CBRC as set out in Note VI.3.1 (1). The loans and advances neither past due nor impaired are classified under these principles and guidelines as set out in the table below:

Group

	As at 31 December					
	2010			2009		
	Pass	**Special-mention**	**Total**	Pass	Special-mention	Total
Corporate loans and advances	**4,057,594**	**127,174**	**4,184,768**	3,574,849	116,312	3,691,161
Personal loans	**1,387,369**	**822**	**1,388,191**	1,115,852	886	1,116,738
Total	**5,444,963**	**127,996**	**5,572,959**	4,690,701	117,198	4,807,899

Bank

	As at 31 December					
	2010			2009		
	Pass	**Special-mention**	**Total**	Pass	Special-mention	Total
Corporate loans and advances	**3,647,937**	**125,239**	**3,773,176**	3,230,737	113,000	3,343,737
Personal loans	**1,213,059**	**597**	**1,213,656**	965,852	603	966,455
Total	**4,860,996**	**125,836**	**4,986,832**	4,196,589	113,603	4,310,192

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

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

Chinese mainland

	As at 31 December					
	2010			2009		
	Pass	**Special-mention**	**Total**	Pass	Special-mention	Total
Corporate loans and advances	**3,362,204**	**121,723**	**3,483,927**	3,011,079	106,988	3,118,067
Personal loans	**1,192,005**	**299**	**1,192,304**	951,239	301	951,540
Total	**4,554,209**	**122,022**	**4,676,231**	3,962,318	107,289	4,069,607

Collectively assessed impairment allowances are provided on loans and advances neither past due nor impaired to estimate losses that have been incurred but not yet specifically identified. As part of this assessment, the Group considers information collected as part of the process to classify loans and advances under the CBRC regulatory guidelines, as well as additional information on industry and portfolio exposure.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(ii) Loans and advances past due but not impaired

The total amount of loans and advances to customers that were past due but not impaired is as follows:

Group

	As at 31 December 2010			
	Within 1 month	1-3 months	More than 3 months	Total
Corporate loans and advances	4,602	115	74	4,791
Personal loans	13,246	5,710	39	18,995
Total	17,848	5,825	113	23,786

	As at 31 December 2009			
	Within 1 month	1-3 months	More than 3 months	Total
Corporate loans and advances	5,008	723	162	5,893
Personal loans	13,885	6,594	81	20,560
Total	18,893	7,317	243	26,453

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

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

Bank

	As at 31 December 2010			
	Within 1 month	1-3 months	More than 3 months	Total
Corporate loans and advances	**4,128**	**90**	**45**	**4,263**
Personal loans	**11,584**	**5,566**	**–**	**17,150**
Total	**15,712**	**5,656**	**45**	**21,413**

	As at 31 December 2009			
	Within 1 month	1-3 months	More than 3 months	Total
Corporate loans and advances	4,338	665	16	5,019
Personal loans	12,093	6,354	–	18,447
Total	16,431	7,019	16	23,466

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

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

Chinese mainland

	As at 31 December 2010			
	Within 1 month	1-3 months	More than 3 months	Total
Corporate loans and advances	**3,416**	**75**	**7**	**3,498**
Personal loans	**11,161**	**5,484**	**–**	**16,645**
Total	**14,577**	**5,559**	**7**	**20,143**

	As at 31 December 2009			
	Within 1 month	1-3 months	More than 3 months	Total
Corporate loans and advances	3,942	601	12	4,555
Personal loans	11,589	6,282	–	17,871
Total	15,531	6,883	12	22,426

Collateral held against loans and advances to customers which have been overdue for more than 3 months principally includes cash deposits and mortgages over properties.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances

(a) Impaired loans and advances by geographical area

Group

	As at 31 December					
	2010			2009		
	Amount	**% of total**	**Impaired loan ratio**	Amount	% of total	Impaired loan ratio
Chinese mainland	**62,211**	**97.39%**	**1.31%**	73,680	96.94%	1.77%
Hong Kong, Macau and Taiwan	**792**	**1.24%**	**0.12%**	1,561	2.05%	0.29%
Other countries and regions	**873**	**1.37%**	**0.34%**	765	1.01%	0.37%
Total	**63,876**	**100.00%**	**1.13%**	76,006	100.00%	1.55%

Bank

	As at 31 December					
	2010			2009		
	Amount	**% of total**	**Impaired loan ratio**	Amount	% of total	Impaired loan ratio
Chinese mainland	**62,211**	**98.25%**	**1.31%**	73,680	98.78%	1.77%
Hong Kong, Macau and Taiwan	**257**	**0.41%**	**0.37%**	201	0.27%	0.40%
Other countries and regions	**850**	**1.34%**	**0.35%**	712	0.95%	0.37%
Total	**63,318**	**100.00%**	**1.25%**	74,593	100.00%	1.69%

Chinese mainland

	As at 31 December					
	2010			2009		
	Amount	**% of total**	**Impaired loan ratio**	Amount	% of total	Impaired loan ratio
Northern China	**11,535**	**18.54%**	**1.47%**	16,636	22.58%	2.34%
Northeastern China	**3,941**	**6.33%**	**1.18%**	6,352	8.62%	2.28%
Eastern China	**15,904**	**25.56%**	**0.82%**	18,708	25.39%	1.12%
Central and Southern China	**23,045**	**37.04%**	**1.98%**	22,462	30.49%	2.11%
Western China	**7,786**	**12.53%**	**1.47%**	9,522	12.92%	2.18%
Total	**62,211**	**100.00%**	**1.31%**	73,680	100.00%	1.77%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances (Continued)

(b) Impaired loans and advances by customer type

Group

	As at 31 December					
	2010			2009		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	54,824	85.83%	1.29%	65,822	86.60%	1.75%
Personal loans	9,052	14.17%	0.64%	10,184	13.40%	0.89%
Total	63,876	100.00%	1.13%	76,006	100.00%	1.55%

Bank

	As at 31 December					
	2010			2009		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	54,338	85.82%	1.42%	64,510	86.48%	1.89%
Personal loans	8,980	14.18%	0.72%	10,083	13.52%	1.01%
Total	63,318	100.00%	1.25%	74,593	100.00%	1.69%

Chinese mainland

	As at 31 December					
	2010			2009		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	53,260	85.61%	1.50%	63,626	86.35%	2.00%
Personal loans	8,951	14.39%	0.73%	10,054	13.65%	1.03%
Total	62,211	100.00%	1.31%	73,680	100.00%	1.77%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances (Continued)

(c) Impaired loans and advances by geography and industry

	As at 31 December					
	2010			2009		
	Amount	**% of total**	**Impaired loan ratio**	Amount	% of total	Impaired loan ratio
Chinese mainland						
Corporate loans and advances						
Manufacturing	**20,889**	**32.70%**	**1.91%**	26,163	34.42%	2.62%
Commerce and services	**8,761**	**13.72%**	**1.43%**	13,530	17.80%	2.26%
Transportation and logistics	**12,638**	**19.79%**	**2.52%**	11,957	15.73%	2.87%
Real estate	**2,989**	**4.68%**	**1.01%**	3,591	4.72%	1.48%
Production and supply of electric power, gas and water	**4,594**	**7.19%**	**1.17%**	4,712	6.20%	1.39%
Water, environment and public utility management	**1,081**	**1.69%**	**0.42%**	844	1.11%	0.34%
Mining	**165**	**0.26%**	**0.12%**	276	0.36%	0.24%
Financial services	**3**	**0.00%**	**0.00%**	23	0.03%	0.03%
Public utilities	**1,419**	**2.22%**	**1.62%**	1,773	2.33%	2.17%
Construction	**573**	**0.90%**	**0.76%**	443	0.58%	0.89%
Other	**148**	**0.23%**	**0.75%**	314	0.43%	2.99%
Subtotal	**53,260**	**83.38%**	**1.50%**	63,626	83.71%	2.00%
Personal loans						
Mortgage loans	**4,088**	**6.40%**	**0.44%**	4,824	6.35%	0.63%
Credit cards	**1,180**	**1.85%**	**2.21%**	801	1.05%	3.24%
Other	**3,683**	**5.76%**	**1.52%**	4,429	5.83%	2.33%
Subtotal	**8,951**	**14.01%**	**0.73%**	10,054	13.23%	1.03%
Total for Chinese mainland	**62,211**	**97.39%**	**1.31%**	73,680	96.94%	1.77%
Hong Kong, Macau, Taiwan and other countries and regions	**1,665**	**2.61%**	**0.18%**	2,326	3.06%	0.31%
Total	**63,876**	**100.00%**	**1.13%**	76,006	100.00%	1.55%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances (Continued)

(d) Impaired loans and advances and related allowance by geographical area

	As at 31 December 2010			
	Impaired loans	**Individually assessed allowance**	**Collectively assessed allowance**	**Net**
Chinese mainland	**62,211**	**(35,985)**	**(8,530)**	**17,696**
Hong Kong, Macau and Taiwan	**792**	**(596)**	**(30)**	**166**
Other countries and regions	**873**	**(253)**	**(15)**	**605**
Total	**63,876**	**(36,834)**	**(8,575)**	**18,467**

	As at 31 December 2009			
	Impaired loans	Individually assessed allowance	Collectively assessed allowance	Net
Chinese mainland	73,680	(41,311)	(10,335)	22,034
Hong Kong, Macau and Taiwan	1,561	(917)	(47)	597
Other countries and regions	765	(187)	(25)	553
Total	76,006	(42,415)	(10,407)	23,184

For description of allowances on identified impaired loans, refer to Note V 16.3 (2).

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(3) Loans and advances rescheduled

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

All rescheduled loans are classified as "substandard" or below. All rescheduled loans are subject to a surveillance period for six months. During the surveillance period, rescheduled loans remain as non-performing loans and the Group monitors the borrower's business operations and loan repayment patterns. After the surveillance period, rescheduled loans may be upgraded to "special-mention" upon review if certain criteria are met. If the rescheduled loans fall overdue or if the borrower is unable to demonstrate its repayment ability, these loans will be reclassified to "doubtful" or below. All rescheduled loans are determined to be impaired, therefore, there were no rescheduled loans that were not past due or impaired as at 31 December 2010 and 2009.

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

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers

(i) Analysis of overdue loans and advances to customers by collateral type and overdue days

Group

	As at 31 December 2010				
	Past due up to 90 days (inclusive)	Past due 91-360 days (inclusive)	Past due 361 days-3 year (inclusive)	Past due over 3 years	Total
Unsecured loans	3,420	1,212	1,057	2,861	8,550
Guaranteed loans	4,271	3,638	6,479	7,060	21,448
Collateralised and other secured loans					
– loans secured by property and other immovable assets	17,323	2,589	5,436	4,501	29,849
– other pledged loans	652	771	325	1,113	2,861
Total	25,666	8,210	13,297	15,535	62,708

	As at 31 December 2009				
	Past due up to 90 days (inclusive)	Past due 91-360 days (inclusive)	Past due 361 days-3 year (inclusive)	Past due over 3 years	Total
Unsecured loans	4,024	1,244	921	2,991	9,180
Guaranteed loans	4,451	3,634	9,161	9,738	26,984
Collateralised and other secured loans					
– loans secured by property and other immovable assets	19,114	5,388	5,976	6,779	37,257
– other pledged loans	739	586	912	1,613	3,850
Total	28,328	10,852	16,970	21,121	77,271

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) *Overdue loans and advances to customers (Continued)*

(i) Analysis of overdue loans and advances to customers by collateral type and overdue days (Continued)

Bank

	As at 31 December 2010				
	Past due up to 90 days (inclusive)	Past due 91-360 days (inclusive)	Past due 361 days-3 year (inclusive)	Past due over 3 years	Total
Unsecured loans	3,050	1,178	1,018	2,680	7,926
Guaranteed loans	4,236	3,632	6,449	7,006	21,323
Collateralised and other secured loans					
– loans secured by property and other immovable assets	15,715	2,550	5,418	4,482	28,165
– other pledged loans	335	763	314	1,080	2,492
Total	23,336	8,123	13,199	15,248	59,906

	As at 31 December 2009				
	Past due up to 90 days (inclusive)	Past due 91-360 days (inclusive)	Past due 361 days-3 year (inclusive)	Past due over 3 years	Total
Unsecured loans	3,710	1,123	662	2,981	8,476
Guaranteed loans	4,451	3,571	8,995	9,738	26,755
Collateralised and other secured loans					
– loans secured by property and other immovable assets	17,155	5,323	5,779	6,764	35,021
– other pledged loans	153	557	860	1,470	3,040
Total	25,469	10,574	16,296	20,953	73,292

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

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

(i) Analysis of overdue loans and advances to customers by collateral type and overdue days (Continued)

Chinese mainland

	As at 31 December 2010				
	Past due up to 90 days (inclusive)	Past due 91-360 days (inclusive)	Past due 361 days-3 year (inclusive)	Past due over 3 years	Total
Unsecured loans	2,978	1,153	969	2,676	7,776
Guaranteed loans	3,902	3,596	6,369	7,006	20,873
Collateralised and other secured loans					
– loans secured by property and other immovable assets	15,084	2,506	5,406	4,478	27,474
– other pledged loans	82	763	314	1,079	2,238
Total	22,046	8,018	13,058	15,239	58,361

	As at 31 December 2009				
	Past due up to 90 days (inclusive)	Past due 91-360 days (inclusive)	Past due 361 days-3 year (inclusive)	Past due over 3 years	Total
Unsecured loans	3,629	1,116	639	2,976	8,360
Guaranteed loans	4,185	3,539	8,928	9,735	26,387
Collateralised and other secured loans					
– loans secured by property and other immovable assets	16,454	5,314	5,775	6,754	34,297
– other pledged loans	150	557	860	1,470	3,037
Total	24,418	10,526	16,202	20,935	72,081

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

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

(ii) Analysis of overdue loans and advances by geographical area

	As at 31 December	
	2010	2009
Chinese mainland	**58,361**	72,081
Hong Kong, Macau and Taiwan	**4,105**	4,978
Other countries and regions	**242**	212
Subtotal	**62,708**	77,271
Less: total loans and advances to customers which have been overdue for less than 3 months	**(25,666)**	(28,328)
Total loans and advances to customers which have been overdue for more than 3 months	**37,042**	48,943
Individually assessed impairment allowance – for loans and advances to customers which have been overdue for more than 3 months	**(23,579)**	(29,406)

3.6 Due from and placements with and loans to banks and other financial institutions

Banks and other financial institutions comprise those institutions in Chinese mainland, Hong Kong, Macau, Taiwan and other countries and regions.

The Group monitors the credit risk of counterparties by collecting and analysing counterparty information and establishing credit limits taking into account the nature, size and credit rating of counterparties.

As at 31 December 2010, majority balances of due from and placements with and loans to banks and other financial institutions were with banks in Chinese mainland, including policy banks, large- and mid-sized commercial banks (Note V.11 and Note V.13). As at 31 December 2010, the majority of the credit ratings of the banks in Hong Kong, Macau, Taiwan and other countries and regions were above A.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities

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

Group

	As at 31 December 2010					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
– Government	898,122	–	3,298	2,113	–	903,533
– Public sector and quasi-governments	16,462	–	–	–	–	16,462
– Policy banks	249,828	–	3,311	5,012	–	258,151
– Financial institutions	42,096	–	–	1,049	1,277	44,422
– Corporate	147,164	–	533	–	1,625	149,322
– China Orient	160,000	–	–	–	–	160,000
Subtotal	1,513,672	–	7,142	8,174	2,902	1,531,890
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
– Governments	130,254	11,324	6,338	4,772	207	152,895
– Public sector and quasi-governments	16,954	31,018	8,128	607	222	56,929
– Financial institutions	34,069	80,154	66,369	53,138	8,579	242,309
– Corporate	3,433	5,201	4,236	13,230	11,346	37,446
Subtotal (1)	184,710	127,697	85,071	71,747	20,354	489,579
Total (2)	1,698,382	127,697	92,213	79,921	23,256	2,021,469

(1) Included mortgage backed securities as follows:

	As at 31 December 2010					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	48	1,432	1,871	861	7,000	11,212
US Alt-A mortgage-backed securities	–	202	184	369	2,400	3,155
US Non-Agency mortgage-backed securities	–	594	240	318	4,173	5,325
Total	48	2,228	2,295	1,548	13,573	19,692

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

Group

	As at 31 December 2009					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
– Government	739,959	–	–	3,762	–	743,721
– Public sector and quasi-governments	15,021	–	–	–	–	15,021
– Policy banks	233,056	–	–	7,828	–	240,884
– Financial institutions	39,296	–	–	1,632	1,311	42,239
– Corporate	108,644	–	–	558	278	109,480
– China Orient	160,000	–	–	–	–	160,000
Subtotal	1,295,976	–	–	13,780	1,589	1,311,345
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
– Governments	111,015	14,519	7,807	4,367	322	138,030
– Public sector and quasi-governments	25,082	34,970	10,160	1,431	–	71,643
– Financial institutions	38,855	67,284	69,833	46,649	9,132	231,753
– Corporate	1,308	7,822	6,663	11,156	16,386	43,335
Subtotal (1)	176,260	124,595	94,463	63,603	25,840	484,761
Total (2)	1,472,236	124,595	94,463	77,383	27,429	1,796,106

(1) Included mortgage backed securities as follows:

	As at 31 December 2009					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	53	2,221	2,991	873	7,146	13,284
US Alt-A mortgage-backed securities	–	473	325	446	3,705	4,949
US Non-Agency mortgage-backed securities	–	1,275	1,003	1,061	6,468	9,807
Total	53	3,969	4,319	2,380	17,319	28,040

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

Bank

	As at 31 December 2010					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
– Government	885,495	–	–	1,900	–	887,395
– Public sector and quasi-governments	16,444	–	–	–	–	16,444
– Policy banks	247,288	–	–	4,942	–	252,230
– Financial institutions	27,085	–	–	–	–	27,085
– Corporate	146,846	–	–	–	–	146,846
– China Orient	160,000	–	–	–	–	160,000
Subtotal	1,483,158	–	–	6,842	–	1,490,000
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
– Governments	57,409	5,291	3,195	448	192	66,535
– Public sector and quasi-governments	8,473	10,098	1,206	595	222	20,594
– Financial institutions	9,230	23,529	9,394	15,857	5,540	63,550
– Corporate	104	1,392	1,805	2,638	8,449	14,388
Subtotal (1)	75,216	40,310	15,600	19,538	14,403	165,067
Total (2)	1,558,374	40,310	15,600	26,380	14,403	1,655,067

(1) Included mortgage backed securities as follows:

	As at 31 December 2010					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	48	1,134	1,871	857	7,000	10,910
US Alt-A mortgage-backed securities	–	126	89	335	2,400	2,950
US Non-Agency mortgage-backed securities	–	263	186	244	4,128	4,821
Total	48	1,523	2,146	1,436	13,528	18,681

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

Bank

	As at 31 December 2009					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
– Government	739,356	–	–	2,007	–	741,363
– Public sector and quasi-governments	14,982	–	–	–	–	14,982
– Policy banks	231,343	–	–	5,195	–	236,538
– Financial institutions	29,187	–	–	–	–	29,187
– Corporate	108,436	–	–	–	–	108,436
– China Orient	160,000	–	–	–	–	160,000
Subtotal	1,283,304	–	–	7,202	–	1,290,506
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
– Governments	54,656	9,829	4,188	2,436	289	71,398
– Public sector and quasi-governments	19,070	15,521	3,801	630	–	39,022
– Financial institutions	7,739	15,121	9,300	13,474	6,713	52,347
– Corporate	214	2,620	3,118	4,328	10,834	21,114
Subtotal (1)	81,679	43,091	20,407	20,868	17,836	183,881
Total (2)	1,364,983	43,091	20,407	28,070	17,836	1,474,387

(1) Included mortgage backed securities as follows:

	As at 31 December 2009					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	53	1,778	2,964	862	7,146	12,803
US Alt-A mortgage-backed securities	–	352	158	407	3,696	4,613
US Non-Agency mortgage-backed securities	–	718	791	507	5,292	7,308
Total	53	2,848	3,913	1,776	16,134	24,724

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

(2) The Group's Available for sale and Held to maturity debt securities are individually assessed for impairment. The Group's accumulated impairment charges on Available for sale and Held to maturity debt securities at 31 December 2010 amounted to RMB15,931 million and RMB438 million, respectively (31 December 2009: RMB24,326 million and RMB534 million). The carrying value of the available for sale and held to maturity debt securities considered impaired as at 31 December 2010 were RMB17,823 million and RMB1,317 million, respectively (31 December 2009: RMB24,568 million and RMB1,899 million).

3.8 Derivatives

The credit risk weighted amounts represent the counterparty credit risk associated with derivative transactions and are calculated with reference to the guidelines issued by the CBRC or HKMA as appropriate and are dependent on, among other factors, the creditworthiness of the customer and the maturity characteristics of each type of contract. In 2010, according to the latest calculation guidance issued by CBRC for the credit risk weighted amounts of off-balance sheet items, the following off-balance sheet credit risk weighted amounts included back-to-back client driven derivatives transactions, but excluded the derivatives included in the market risk calculation. The amounts disclosed below differ from the carrying amount at fair value and the maximum exposure to credit risk disclosed in Note VI.3.4.

Credit risk weighted amounts

	As at 31 December			
	Group		Bank	
	2010	2009	**2010**	2009
Exchange rate derivatives				
Currency forwards and swaps, and cross-currency interest rate swaps	**12,723**	11,461	**10,100**	9,426
Currency options	**–**	11	**–**	10
Interest rate derivatives				
Interest rate swaps	**6,187**	4,575	**5,021**	3,860
Interest rate options	**–**	–	**–**	–
Interest rate futures	**–**	2	**–**	–
Equity derivatives	**–**	45	**–**	–
Commodity derivatives	**18**	489	**17**	489
Credit derivatives	**5**	32	**5**	5
	18,933	16,615	**15,143**	13,790

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

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.9 Repossessed assets

The Group obtained assets by taking possession of collateral held as security. Detailed information of such repossessed assets of the Group is disclosed in Note V.22 (4).

4 Market risk

4.1 Overview

The Group is exposed to market risks that may cause losses to the Group as a result of adverse changes in market prices. Market risk arises from open positions in the trading and banking books in interest rate, exchange rate, equities and commodities. Both the Group's trading book and banking book face market risks. The trading book consists of positions in financial instruments and commodities that are held with trading intent or in order to hedge other elements of the trading book. The banking book consists of financial instruments not included in the trading book (including those financial instruments purchased with surplus funds and managed in the investment book).

The Board of Directors of the Group takes the ultimate responsibility for the oversight of market risk management, including the approval of market risk management policies and procedures and the determination of market risk tolerance. Senior management is responsible for execution of such policies and ensuring that the level of market risk is within the risk appetite determined by the Board, while meeting the Group's business objectives.

The Risk Management Unit is responsible for the identification, measurement, monitoring, control and reporting of market risks on a Group basis. Business units are responsible for monitoring and reporting of market risk within their respective business lines.

4.2 Market risk measurement techniques and limits

(1) Trading book

Market risk in trading books is managed by establishing Value at Risk (VaR) limits. Total exposures, stress testing and utilisation of VaR are monitored on a daily basis for each trading desk and dealer.

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

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

VaR is performed separately by the Bank and its major subsidiaries that are exposed to market risk, BOC Hong Kong (Holdings) Limited ("BOCHK") and BOC International Holdings Limited ("BOCI"). The Bank, BOCHK and BOCI used a 99% level of confidence (therefore 1% statistical probability that actual losses could be greater than the VaR) and a historical simulation model to calculate the VaR. The holding period of the VaR calculations is one day. To enhance the Group's market risk management, on 28 November 2010, the Group established the market risk data mart which enabled Group level trading book VaR calculation on a daily basis.

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

Stress testing is performed based on the characteristics of trading transactions to simulate and estimate losses in adverse and exceptional market conditions. The Group sets stress testing limits, adjusts and enhances the scenarios for stress testing taking into account financial market fluctuations in order to capture the potential impact of market price fluctuations and volatility on the trading book, enhancing the Group's market risk management capabilities.

The table below shows the VaR of the trading book by types of risk during the years ended 31 December 2010 and 2009:

Unit: USD million

	Year ended 31 December					
	2010			2009		
	Average	High	Low	Average	High	Low
Bank trading VaR						
Interest rate risk	**3.93**	**9.88**	**0.57**	5.64	16.03	1.25
Foreign exchange risk	**0.90**	**2.78**	**0.14**	0.97	7.02	0.20
Volatility risk	**0.12**	**0.61**	**0.01**	0.27	2.82	0.02
Total Bank trading VaR	**3.80**	**10.29**	**0.70**	5.81	15.76	1.43

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

The Bank's VaR for years ended 31 December 2010 and 31 December 2009 was calculated on Head Office and branch in Chinese mainland trading positions, excluding foreign currency against RMB transactions.

The reporting of risk in relation to bullion is included in foreign exchange risk above. The exposure of the Bank to potential price movement in other commodity financial instruments and the related potential impact to the Bank's income statement are considered to be insignificant.

Unit: USD million

	Year ended 31 December					
	2010			2009		
	Average	**High**	**Low**	Average	High	Low
BOCHK trading VaR						
Interest rate risk	**1.01**	**1.75**	**0.47**	0.73	1.65	0.28
Foreign exchange risk	**0.68**	**1.44**	**0.17**	1.46	2.04	0.95
Equity risk	**0.02**	**0.22**	**0.00**	0.04	0.32	0.01
Commodity risk	**0.00**	**0.03**	**0.00**	0.00	0.01	0.00
Total BOCHK trading VaR	**1.23**	**2.01**	**0.74**	1.62	2.11	1.16
BOCI trading VaR*						
Equity derivatives unit	**1.31**	**2.16**	**0.79**	1.61	2.74	0.63
Fixed income unit	**0.91**	**1.98**	**0.51**	1.60	2.46	0.62

* BOCI monitors its trading VaR for equity derivatives unit and fixed income unit separately, which include interest rate risk, foreign exchange risk and equity risk.

VaR for each risk factor is the independently derived largest potential loss in a specific holding period and within a certain confidence level due to fluctuations solely in that risk factor. The individual VaRs did not add up to the total VaR as there was diversification effect due to correlation amongst the risk factors.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(2) Banking book

The banking book is exposed to interest rate risk arising from mismatches in maturities, repricing periods and inconsistent adjustments between the benchmark interest rates of assets and liabilities.

The Group takes on exposure to interest rate risk and fluctuations in market interest rates will impact the Group's financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses. Currently, benchmark interest rates for RMB loans and deposits in the Chinese mainland are set by the PBOC and the Group's operations in Chinese mainland are subject to an interest rate scheme regulated by the PBOC. It is normal practice for the interest rates of both interest-earning assets and interest-bearing liabilities to move in tandem, although the timing and extent of such movements may not be synchronised. This significantly mitigates the exposure of the Group to RMB interest rate risk. However, there is no guarantee that the PBOC will continue this practice in future.

The Group manages interest rate risk in the banking book primarily through interest rate repricing gap analysis. Interest rate repricing gap analysis measures the difference between the amount of interest-earning assets and interest-bearing liabilities that mature or must be repriced within certain periods and is used to generate indicators of interest rate risk sensitivity of earnings to changing interest rates. The interest rate gap analysis is set out in Note VI.4.3 and also covers the trading book.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(2) Banking book (Continued)

Sensitivity analysis on Net interest income

The Group performs sensitivity analysis by measuring the impact of a change in interest rates on Net interest income. This analysis assumes that yield curves change in parallel while the structure of assets and liabilities remains unchanged, and does not take changes in customer behaviour, basis risk or any prepayment options on debt securities into consideration. The Group calculates the change in Net interest income during the year due to a parallel move in the RMB, USD and Hong Kong dollar, and monitors this as a percentage of the Net interest income budget for the year. Limits of the Net interest income change are set as a percentage of Net interest income budget for operations in Chinese mainland and are approved by the Board and monitored by the Risk Management Unit on a monthly basis.

The table below illustrates the potential impact of a 25 basis point interest rate move on the Net interest income of the Group. The actual situation may be different from the assumptions used and it is possible that actual outcomes could differ from the estimated impact on Net interest income of the Group.

	(Decrease)/increase in Net interest income	
	As at 31 December	
	2010	2009
+ 25 basis points parallel move in all yield curves	**(3,352)**	(2,541)
– 25 basis points parallel move in all yield curves	**3,352**	2,541

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis

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

Group

	As at 31 December 2010						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	67,676	192,995	325,357	126	–	49,972	636,126
Balances with central banks	1,532,969	235	18	–	–	40,700	1,573,922
Placements with and loans to banks and other financial institutions	109,408	32,231	68,671	3,406	–	–	213,716
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	42,469	42,469
Precious metals	–	–	–	–	–	86,218	86,218
Financial assets at fair value through profit or loss	4,536	25,939	7,173	21,800	13,166	8,623	81,237
Derivative financial assets	–	–	–	–	–	39,974	39,974
Loans and advances to customers, net	1,190,442	1,180,334	3,015,587	67,962	41,428	42,012	5,537,765
Investment securities							
– available for sale	68,649	77,421	139,329	245,909	101,252	24,178	656,738
– held to maturity	92,586	147,178	286,746	334,148	178,728	–	1,039,386
– loans and receivables	5,679	6,498	32,328	28,398	205,060	–	277,963
Investment in associates and joint ventures	–	–	–	–	–	12,631	12,631
Property and equipment	–	–	–	–	–	123,568	123,568
Investment property	–	–	–	–	–	13,839	13,839
Deferred income tax assets	–	–	–	–	–	24,041	24,041
Other assets	2,961	7,175	2,104	–	–	88,032	100,272
Total assets	3,074,906	1,670,006	3,877,313	701,749	539,634	596,257	10,459,865

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Group

	As at 31 December 2010						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to banks and other financial institutions	832,443	179,601	138,297	45,861	2,000	77,612	1,275,814
Due to central banks	30,598	8,780	34,037	–	–	–	73,415
Bank notes in circulation	–	–	–	–	–	42,511	42,511
Placements from banks and other financial institutions	158,115	62,632	10,054	–	–	–	230,801
Financial liabilities at fair value through profit or loss	171,242	27,777	13,978	142	17	2,718	215,874
Derivative financial liabilities	–	–	–	–	–	35,711	35,711
Due to customers	4,539,233	776,972	1,738,089	350,196	11,472	67,292	7,483,254
Bonds issued	–	–	2,725	27,349	101,813	–	131,887
Other borrowings	6,220	9,413	10,537	6,537	7,345	2,568	42,620
Current tax liabilities	–	–	–	–	–	22,775	22,775
Retirement benefit obligations	–	–	–	–	–	6,440	6,440
Deferred income tax liabilities	–	–	–	–	–	3,919	3,919
Other liabilities	4,079	–	–	–	–	214,615	218,694
Total liabilities	5,741,930	1,065,175	1,947,717	430,085	122,647	476,161	9,783,715
Total interest repricing gap	(2,667,024)	604,831	1,929,596	271,664	416,987	120,096	676,150

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Group

	As at 31 December 2009						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	138,348	65,657	140,549	50,030	–	39,767	434,351
Balances with central banks	993,053	194	60,000	–	–	58,104	1,111,351
Placements with and loans to banks and other financial institutions	136,098	36,385	47,721	3,240	–	–	223,444
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	36,099	36,099
Precious metals	–	–	–	–	–	59,655	59,655
Financial assets at fair value through profit or loss	12,297	3,972	5,276	17,739	17,293	5,320	61,897
Derivative financial assets	–	–	–	–	–	28,514	28,514
Loans and advances to customers, net	1,156,544	956,396	2,630,854	21,976	10,819	20,819	4,797,408
Investment securities							
– available for sale	63,405	94,715	120,401	243,524	86,164	14,098	622,307
– held to maturity	54,710	63,720	164,432	321,973	139,858	–	744,693
– loans and receivables	2,843	23,603	285,589	32,087	43,660	–	387,782
Investment in associates and joint ventures	–	–	–	–	–	10,668	10,668
Property and equipment	–	–	–	–	–	109,954	109,954
Investment property	–	–	–	–	–	15,952	15,952
Deferred income tax assets	–	–	–	–	–	23,518	23,518
Other assets	161	–	–	–	–	84,189	84,350
Total assets	2,557,459	1,244,642	3,454,822	690,569	297,794	506,657	8,751,943

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Group

	As at 31 December 2009						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to banks and other financial institutions	509,832	51,863	155,118	62,516	60,000	64,837	904,166
Due to central banks	19,886	7,345	34,384	–	–	–	61,615
Bank notes in circulation	–	–	–	–	–	36,154	36,154
Placements from banks and other financial institutions	146,261	28,443	11,651	–	–	288	186,643
Financial liabilities at fair value through profit or loss	31,422	6,419	3,673	82	–	2,638	44,234
Derivative financial liabilities	–	–	–	–	–	23,223	23,223
Due to customers	3,966,073	622,994	1,614,885	357,913	3,565	55,122	6,620,552
Bonds issued	–	24,930	3,997	14,871	33,000	–	76,798
Other borrowings	3,090	5,328	10,854	7,672	7,496	2,746	37,186
Current tax liabilities	–	–	–	–	–	17,801	17,801
Retirement benefit obligations	–	–	–	–	–	6,867	6,867
Deferred income tax liabilities	–	–	–	–	–	3,386	3,386
Other liabilities	4,681	–	–	–	–	183,243	187,924
Total liabilities	4,681,245	747,322	1,834,562	443,054	104,061	396,305	8,206,549
Total interest repricing gap	(2,123,786)	497,320	1,620,260	247,515	193,733	110,352	545,394

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Bank

	As at 31 December 2010						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	61,448	190,811	323,897	–	–	44,823	620,979
Balances with central banks	1,245,753	235	18	–	–	36,526	1,282,532
Placements with and loans to banks and other financial institutions	128,606	39,401	73,920	3,406	–	–	245,333
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	2,486	2,486
Precious metals	–	–	–	–	–	83,100	83,100
Financial assets at fair value through profit or loss	1,532	456	5,354	8,935	1,419	118	17,814
Derivative financial assets	–	–	–	–	–	19,157	19,157
Loans and advances to customers, net	719,747	1,099,870	2,991,556	60,727	41,295	37,976	4,951,171
Investment securities							
– available for sale	38,314	40,431	98,963	139,845	73,567	1,360	392,480
– held to maturity	84,424	130,001	277,830	320,515	171,357	–	984,127
– loans and receivables	25	2,686	27,009	28,398	205,060	–	263,178
Investment in subsidiaries	–	–	–	–	–	79,933	79,933
Investment in associates and joint ventures	–	–	–	–	–	45	45
Property and equipment	–	–	–	–	–	65,494	65,494
Investment property	–	–	–	–	–	1,285	1,285
Deferred income tax assets	–	–	–	–	–	24,359	24,359
Other assets	2,912	7,175	2,104	–	–	62,875	75,066
Total assets	2,282,761	1,511,066	3,800,651	561,826	492,698	459,537	9,108,539

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Bank

	As at 31 December 2010						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to banks and other financial institutions	644,719	185,889	145,465	45,861	2,000	74,403	1,098,337
Due to central banks	22,702	8,384	34,034	–	–	–	65,120
Bank notes in circulation	–	–	–	–	–	2,527	2,527
Placements from banks and other financial institutions	162,480	74,325	18,971	–	–	–	255,776
Financial liabilities at fair value through profit or loss	167,161	13,402	11,157	–	–	–	191,720
Derivative financial assets	–	–	–	–	–	17,232	17,232
Due to customers	3,822,890	679,527	1,664,809	344,245	11,470	23,722	6,546,663
Bonds issued	–	–	3,000	28,147	85,136	–	116,283
Other borrowings	626	652	6,117	5,974	7,345	2,407	23,121
Current tax liabilities	–	–	–	–	–	20,181	20,181
Retirement benefit obligations	–	–	–	–	–	6,440	6,440
Deferred income tax liabilities	–	–	–	–	–	177	177
Other liabilities	5,319	–	–	–	–	149,367	154,686
Total liabilities	4,825,897	962,179	1,883,553	424,227	105,951	296,456	8,498,263
Total interest repricing gap	(2,543,136)	548,887	1,917,098	137,599	386,747	163,081	610,276

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Bank

	As at 31 December 2009						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	143,696	63,791	141,204	50,000	–	36,019	434,710
Balances with central banks	941,033	123	60,000	–	–	32,929	1,034,085
Placements with and loans to banks and other financial institutions	147,940	36,128	50,284	3,434	27	–	237,813
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	2,367	2,367
Precious metals	–	–	–	–	–	57,514	57,514
Financial assets at fair value through profit or loss	2,511	1,553	3,033	7,489	5,455	93	20,134
Derivative financial assets	–	–	–	–	–	12,512	12,512
Loans and advances to customers, net	743,258	893,426	2,613,051	20,284	10,571	17,295	4,297,885
Investment securities	–	–	–	–	–	–	–
– available for sale	40,853	56,114	106,754	138,492	64,295	1,348	407,856
– held to maturity	37,908	35,520	153,319	312,129	135,985	–	674,861
– loans and receivables	1,623	20,845	275,917	32,087	43,660	–	374,132
Investment in subsidiaries	–	–	–	–	–	71,541	71,541
Investment in associates and joint ventures	–	–	–	–	–	18	18
Property and equipment	–	–	–	–	–	58,739	58,739
Investment property	–	–	–	–	–	1,384	1,384
Deferred income tax assets	–	–	–	–	–	24,126	24,126
Other assets	161	–	–	–	–	61,292	61,453
Total assets	2,058,983	1,107,500	3,403,562	563,915	259,993	377,177	7,771,130

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Bank

	As at 31 December 2009						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to banks and other financial institutions	486,008	52,002	155,277	62,516	60,000	50,989	866,792
Due to central banks	17,364	7,345	34,380	–	–	–	59,089
Bank notes in circulation	–	–	–	–	–	2,422	2,422
Placements from banks and other financial institutions	169,506	45,599	19,946	–	–	–	235,051
Financial liabilities at fair value through profit or loss	19,645	4,683	2,930	–	–	–	27,258
Derivative financial liabilities	–	–	–	–	–	10,573	10,573
Due to customers	3,322,669	549,252	1,580,256	356,574	3,565	11,963	5,824,279
Bonds issued	–	24,930	5,000	15,151	33,000	–	78,081
Other borrowings	1,026	531	6,599	7,672	7,496	2,605	25,929
Current tax liabilities	–	–	–	–	–	15,474	15,474
Retirement benefit obligations	–	–	–	–	–	6,867	6,867
Deferred income tax liabilities	–	–	–	–	–	138	138
Other liabilities	6,191	–	–	–	–	125,814	132,005
Total liabilities	4,022,409	684,342	1,804,388	441,913	104,061	226,845	7,283,958
Total interest repricing gap	(1,963,426)	423,158	1,599,174	122,002	155,932	150,332	487,172

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk

The Group manages its exposure to currency exchange risk through management of its net foreign currency position and monitors its foreign currency risk on trading books using VaR (Note VI 4.2(1)).

The Group conducts the substantial portion of its business in RMB, with certain transactions denominated in USD, Hong Kong dollars ("HKD") and, to a much lesser extent, other currencies. The major subsidiary, Bank of China Hong Kong (Group) Limited, conducts the majority of its business in HKD. The Group conducts the majority of its foreign currency transactions in USD.

In 2005, the PRC Government introduced a managed floating exchange rate system to allow the value of the RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies.

The Group endeavours to manage its sources and uses of foreign currencies to minimise potential mismatches in accordance with management directives. However, the Group's ability to manage its foreign currency positions in relation to the RMB is limited as the RMB is not a freely convertible currency. The PRC government's current foreign currency regulations require the conversion of foreign currency to be approved by relevant PRC government authorities.

The Group entered into certain foreign exchange transactions as part of asset and liability management and funding requirements including foreign currency deposit taking, placements, foreign currency bond issuance and derivatives.

The Group conducts sensitivity analysis on the net foreign currency position, to identify the impact to the income statement of potential movements in foreign currency exchange rates against the RMB and against functional currencies of its foreign operations that are not in RMB (in relation to which the principal exposure is to foreign currency movements against the HKD). The impact of fluctuations (e.g. 1 percent fluctuation) in exchange rates is not considered by management to be significant to the income statement. Such analysis does not take into account the correlation effect of changes in different foreign currencies, any further actions that may have been or could be taken by management after the financial reporting date, subject to the approval by the PRC government, to mitigate the effect of exchange differences, nor for any consequential changes in the foreign currency positions.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

The tables below summarise the Group's and the Bank's exposure to foreign currency exchange rate risk as at 31 December 2010 and 31 December 2009. The Group's and the Bank's exposure to RMB is provided in the tables below for comparison purposes. Included in the table are the carrying amounts of the assets and liabilities of the Group and the Bank along with off-balance sheet positions and credit commitments in RMB equivalent, categorised by the original currency. Derivative financial instruments are included in the net off-balance sheet position using notional amounts.

Group

	As at 31 December 2010							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	580,101	30,114	7,476	7,097	2,990	821	7,527	636,126
Balances with central banks	1,483,074	53,923	3,367	20,658	4,030	1	8,869	1,573,922
Placements with and loans to banks and other financial institutions	156,105	21,186	12,424	10,285	415	5,581	7,720	213,716
Government certificates of indebtedness for bank notes issued	–	–	39,983	–	–	–	2,486	42,469
Precious metals	–	–	3,118	–	–	–	83,100	86,218
Financial assets at fair value through profit or loss	8,586	22,641	48,328	1,558	40	34	50	81,237
Derivative financial assets	5,242	10,851	17,467	1,746	583	1,827	2,258	39,974
Loans and advances to customers, net	4,043,771	928,196	428,010	41,667	28,103	4,579	63,439	5,537,765
Investment securities								
– available for sale	270,944	231,121	66,150	32,328	7,337	1,466	47,392	656,738
– held to maturity	954,736	54,230	16,304	3,981	2,697	13	7,425	1,039,386
– loans and receivables	261,803	5,592	8,139	–	–	–	2,429	277,963
Investment in associates and joint ventures	5,584	1,648	5,399	–	–	–	–	12,631
Property and equipment	62,522	42,857	13,596	151	1,296	1,489	1,657	123,568
Investment property	4,607	–	7,776	–	–	–	1,456	13,839
Deferred income tax assets	23,377	318	169	–	–	–	177	24,041
Other assets	72,836	11,999	11,266	1,215	464	582	1,910	100,272
Total assets	7,933,288	1,414,676	688,972	120,686	47,955	16,393	237,895	10,459,865

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Group

	As at 31 December 2010							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Liabilities								
Due to banks and other financial institutions	920,748	246,452	12,182	10,603	5,460	2,464	77,905	1,275,814
Due to central banks	–	62,081	8,732	2,598	–	–	4	73,415
Bank notes in circulation	–	–	39,984	–	–	–	2,527	42,511
Placements from banks and other financial institutions	86,325	110,736	4,616	26,017	609	511	1,987	230,801
Financial liabilities at fair value through profit or loss	173,479	8,591	24,897	3,833	30	258	4,786	215,874
Derivative financial liabilities	2,477	12,914	14,933	2,077	45	1,907	1,358	35,711
Due to customers	6,125,474	465,248	632,975	87,696	13,307	33,844	124,710	7,483,254
Bonds issued	115,063	16,824	–	–	–	–	–	131,887
Other borrowings	–	30,333	–	8,957	1,906	71	1,353	42,620
Current tax liabilities	19,599	166	1,805	133	103	446	523	22,775
Retirement benefit obligations	6,440	–	–	–	–	–	–	6,440
Deferred income tax liabilities	585	716	2,446	8	7	–	157	3,919
Other liabilities	129,651	37,127	44,769	2,325	1,736	1,102	1,984	218,694
Total liabilities	7,579,841	991,188	787,339	144,247	23,203	40,603	217,294	9,783,715
Net on-balance sheet position	353,447	423,488	(98,367)	(23,561)	24,752	(24,210)	20,601	676,150
Net off-balance sheet position	186,796	(380,417)	187,684	27,387	(21,889)	24,906	(15,215)	9,252
Credit commitments	1,243,877	591,541	64,012	74,318	15,229	10,131	28,327	2,027,435

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Group

	As at 31 December 2009							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	360,703	56,383	6,748	4,318	1,629	537	4,033	434,351
Balances with central banks	1,015,454	43,881	24,096	14,229	7,042	–	6,649	1,111,351
Placements with and loans to banks and other financial institutions	107,449	59,111	34,773	5,990	106	6,901	9,114	223,444
Government certificates of indebtedness for bank notes issued	–	–	33,732	–	–	–	2,367	36,099
Precious metals	–	–	2,141	–	–	–	57,514	59,655
Financial assets at fair value through profit or loss	7,973	22,915	30,205	419	–	–	385	61,897
Derivative financial assets	997	9,250	13,956	984	391	1,390	1,546	28,514
Loans and advances to customers, net	3,429,448	819,204	413,146	49,325	24,353	3,903	58,029	4,797,408
Investment securities								
– available for sale	289,956	187,138	46,800	37,396	15,662	1,624	43,731	622,307
– held to maturity	614,230	74,846	30,472	12,333	3,275	306	9,231	744,693
– loans and receivables	368,178	7,218	5,865	–	–	–	6,521	387,782
Investment in associates and joint ventures	4,128	1,568	4,951	–	–	–	21	10,668
Property and equipment	55,787	38,909	11,183	171	1,182	1,449	1,273	109,954
Investment property	4,692	–	9,687	–	–	–	1,573	15,952
Deferred income tax assets	23,102	206	152	1	–	1	56	23,518
Other assets	58,952	10,358	11,093	1,193	338	734	1,682	84,350
Total assets	6,341,049	1,330,987	679,000	126,359	53,978	16,845	203,725	8,751,943

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Group

	As at 31 December 2009							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Liabilities								
Due to banks and other financial institutions	543,968	263,186	23,998	8,126	3,845	5,761	55,282	904,166
Due to central banks	–	54,796	6,776	–	–	–	43	61,615
Bank notes in circulation	–	–	33,732	–	–	–	2,422	36,154
Placements from banks and other financial institutions	70,435	101,700	2,543	6,144	2,066	1,469	2,286	186,643
Financial liabilities at fair value through profit or loss	19,414	4,232	16,133	1,385	–	122	2,948	44,234
Derivative financial liabilities	490	9,702	9,665	1,566	36	993	771	23,223
Due to customers	5,347,679	432,503	592,170	74,258	16,042	30,452	127,448	6,620,552
Bonds issued	76,647	151	–	–	–	–	–	76,798
Other borrowings	–	24,185	–	9,126	2,338	84	1,453	37,186
Current tax liabilities	14,865	155	1,896	96	44	275	470	17,801
Retirement benefit obligations	6,867	–	–	–	–	–	–	6,867
Deferred income tax liabilities	400	639	2,224	12	14	–	97	3,386
Other liabilities	111,261	26,930	42,083	3,376	760	1,297	2,217	187,924
Total liabilities	6,192,026	918,179	731,220	104,089	25,145	40,453	195,437	8,206,549
Net on-balance sheet position	149,023	412,808	(52,220)	22,270	28,833	(23,608)	8,288	545,394
Net off-balance sheet position	254,097	(354,647)	118,109	(13,580)	(27,110)	24,317	6,056	7,242
Credit commitments	1,024,279	536,776	181,014	88,468	11,828	9,613	23,421	1,875,399

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Bank

	As at 31 December 2010							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	569,219	28,158	6,054	6,859	2,893	730	7,066	620,979
Balances with central banks	1,199,141	52,147	1,954	20,646	4,030	1	4,613	1,282,532
Placements with and loans to banks and other financial institutions	155,692	30,974	20,279	14,445	253	4,433	19,257	245,333
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	–	2,486	2,486
Precious metals	–	–	–	–	–	–	83,100	83,100
Financial assets at fair value through profit or loss	6,794	9,671	–	1,349	–	–	–	17,814
Derivative financial assets	5,242	8,329	7	1,724	580	1,826	1,449	19,157
Loans and advances to customers, net	4,022,343	764,761	53,262	36,332	26,989	3,148	44,336	4,951,171
Investment securities								
– available for sale	258,279	98,229	8,133	12,000	3,420	–	12,419	392,480
– held to maturity	949,410	29,723	1,395	2,504	974	–	121	984,127
– loans and receivables	261,803	659	–	–	–	–	716	263,178
Investment in subsidiaries	553	2,296	73,536	584	–	2,126	838	79,933
Investment in associates and joint ventures	–	–	–	–	–	–	45	45
Property and equipment	61,400	158	–	146	1,296	1,482	1,012	65,494
Investment property	–	–	–	–	–	–	1,285	1,285
Deferred income tax assets	23,892	318	–	–	–	–	149	24,359
Other assets	65,433	6,791	615	723	379	458	667	75,066
Total assets	7,579,201	1,032,214	165,235	97,312	40,814	14,204	179,559	9,108,539

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Bank

	As at 31 December 2010							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Liabilities								
Due to banks and other financial institutions	748,322	244,655	8,577	11,312	5,674	2,618	77,179	1,098,337
Due to central banks	–	54,446	8,066	2,598	–	–	10	65,120
Bank notes in circulation	–	–	–	–	–	–	2,527	2,527
Placements from banks and other financial institutions	87,425	119,444	18,989	26,240	447	1,784	1,447	255,776
Financial liabilities at fair value through profit or loss	173,284	8,397	1,282	3,833	30	222	4,672	191,720
Derivative financial liabilities	2,477	9,599	740	1,456	39	1,902	1,019	17,232
Due to customers	5,988,008	290,748	91,976	72,930	11,588	17,431	73,982	6,546,663
Bonds issued	116,136	147	–	–	–	–	–	116,283
Other borrowings	–	10,834	–	8,957	1,906	71	1,353	23,121
Current tax liabilities	19,071	157	1	119	103	287	443	20,181
Retirement benefit obligations	6,440	–	–	–	–	–	–	6,440
Deferred income tax liabilities	–	28	–	2	7	–	140	177
Other liabilities	122,909	23,738	1,980	2,069	1,634	898	1,458	154,686
Total Liabilities	7,264,072	762,193	131,611	129,516	21,428	25,213	164,230	8,498,263
Net on-balance sheet position	315,129	270,021	33,624	(32,204)	19,386	(11,009)	15,329	610,276
Net off-balance sheet position	201,745	(238,041)	23,530	35,164	(15,826)	12,148	(13,103)	5,617
Credit commitments	1,240,059	562,185	21,117	73,033	14,640	9,145	21,809	1,941,988

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Bank

	As at 31 December 2009							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	359,910	55,075	9,784	4,075	1,561	462	3,843	434,710
Balances with central banks	965,772	41,760	1,934	14,222	7,042	–	3,355	1,034,085
Placements with and loans to banks and other financial institutions	109,165	76,238	25,052	14,435	649	6,460	5,814	237,813
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	–	2,367	2,367
Precious metals	–	–	–	–	–	–	57,514	57,514
Financial assets at fair value through profit or loss	6,889	12,642	–	323	–	–	280	20,134
Derivative financial assets	997	8,032	–	934	390	1,383	776	12,512
Loans and advances to customers, net	3,415,067	712,791	57,094	44,206	23,010	2,913	42,804	4,297,885
Investment securities								
– available for sale	287,783	84,509	5,922	14,157	3,778	20	11,687	407,856
– held to maturity	613,645	51,293	2,121	6,433	884	–	485	674,861
– loans and receivables	368,178	2,047	–	–	–	–	3,907	374,132
Investment in subsidiaries	298	2,306	65,389	584	–	2,126	838	71,541
Investment in associates and joint ventures	–	–	–	–	–	–	18	18
Property and equipment	54,968	164	–	169	1,182	1,437	819	58,739
Investment property	–	–	–	–	–	–	1,384	1,384
Deferred income tax assets	23,883	206	–	–	–	–	37	24,126
Other assets	53,645	5,427	626	696	227	283	549	61,453
Total assets	6,260,200	1,052,490	167,922	100,234	38,723	15,084	136,477	7,771,130

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Bank

	As at 31 December 2009							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Liabilities								
Due to banks and other financial institutions	516,221	258,180	18,855	8,359	3,979	5,866	55,332	866,792
Due to central banks	–	52,972	6,077	–	–	–	40	59,089
Bank notes in circulation	–	–	–	–	–	–	2,422	2,422
Placements from banks and other financial institutions	71,445	138,214	7,152	11,589	2,274	1,613	2,764	235,051
Financial liabilities at fair value through profit or loss	19,414	3,417	387	1,385	–	122	2,533	27,258
Derivative financial liabilities	490	7,600	314	755	33	992	389	10,573
Due to customers	5,312,515	275,721	78,010	59,258	13,997	15,397	69,381	5,824,279
Bonds issued	77,930	151	–	–	–	–	–	78,081
Other borrowings	–	12,928	–	9,126	2,338	84	1,453	25,929
Current tax liabilities	14,592	154	–	81	44	197	406	15,474
Retirement benefit obligations	6,867	–	–	–	–	–	–	6,867
Deferred income tax liabilities	–	32	–	12	14	–	80	138
Other liabilities	110,023	14,430	1,957	2,958	644	740	1,253	132,005
Total liabilities	6,129,497	763,799	112,752	93,523	23,323	25,011	136,053	7,283,958
Net on-balance sheet position	130,703	288,691	55,170	6,711	15,400	(9,927)	424	487,172
Net off-balance sheet position	253,670	(247,013)	(15,239)	1,925	(13,216)	11,231	10,397	1,755
Credit commitments	1,019,279	478,936	16,609	83,964	11,019	7,508	16,556	1,633,871

4.5 Price Risk

The Group is exposed to equity risk on its available for sale listed equity securities. As at 31 December 2010, a 5 per cent variance in listed equity prices from the year end price would impact the fair value of available for sale listed equity positions by RMB301 million (31 December 2009: RMB321 million). For those available for sale equities considered impaired, the impact would be taken to the income statement. The Group is also exposed to commodity risk, mainly related to bullion. The Group manages such risk together with foreign exchange risk (Note VI.4.2).

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk

Liquidity risk is the risk that the Group is unable to obtain funds at a reasonable cost when required to meet a repayment obligation and fund its asset portfolio within a certain time. The Group's objective in liquidity risk management is to maintain liquidity at a reasonable level, to ensure the due debt repayment and the demand of business growth pursuant to development strategy, as well as to acquire adequate readily convertible assets and funding in order to respond to emergencies.

5.1 Liquidity risk management policy and process

The Group adopts centralised liquidity risk management through development of a centralised pool of liquid assets.

The Group has policies to maintain a proactive liquidity management strategy. The asset liquidity management strategies encourage careful use of funding, diversified sources of funding, asset and liability matching and an appropriate level of highly liquid assets. The strategies relating to liabilities are intended to increase the proportion of core deposits and to maintain the stability of liabilities and financing ability. The Group manages and monitors RMB and foreign exchange liquidity separately, and develops the RMB and foreign exchange liquidity portfolios to ensure that sources of different currencies and the usage are in accordance with its liquidity management requirements.

Sources of liquidity risk are regularly reviewed by a separate team in the Financial Management Department to maintain a wide diversification by currency, geography, provider, product and term. A liquidity maturity analysis is performed by the Financial Management Department on a monthly basis. The forecast net liquidity position is estimated and managed on a daily basis. The Group also performs stress testing for liquidity risk on a quarterly basis.

Assets available to meet all of the liabilities and to cover outstanding loan commitments include Cash and due from banks and other financial institutions, Balances with central banks, Placements with and loans to banks and other financial institutions and Loans and advances to customers, net. In the normal course of business, a proportion of short-term customer loans contractually repayable will be extended and a portion of short-term customer deposits will not be withdrawn upon maturity. The Group would also be able to meet unexpected net cash outflows by entering into repurchase and reverse repurchase transactions, and by selling securities and accessing additional funding sources.

For purposes of the tables set forth, Loans and advances to customers, net are considered overdue only if principal payments are overdue. In addition, for Loans and advances to customers that are repayable by installments, only the portion of the loan that is actually overdue is reported as overdue. Any part of the loan that is not due is reported according to residual maturity.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis

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

Group

	As at 31 December 2010							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	77,800	39,782	182,995	255,423	80,126	–	636,126
Balances with central banks	–	390,439	1,183,332	133	18	–	–	1,573,922
Placements with and loans to banks and other financial institutions	–	–	109,408	31,965	68,472	3,871	–	213,716
Government certificates of indebtedness for bank notes issued	–	42,469	–	–	–	–	–	42,469
Precious metals	–	86,218	–	–	–	–	–	86,218
Financial assets at fair value through profit or loss	–	4,177	3,056	24,006	8,495	23,070	18,433	81,237
Derivative financial assets	–	16,626	3,203	4,290	7,719	4,353	3,783	39,974
Loans and advances to customers, net	10,419	64,831	243,365	543,778	1,321,400	1,571,182	1,782,790	5,537,765
Investment securities								
– available for sale	–	–	21,446	35,683	127,193	326,092	146,324	656,738
– held to maturity	–	–	75,503	117,582	252,113	373,851	220,337	1,039,386
– loans and receivables	–	–	5,679	5,839	27,328	29,057	210,060	277,963
Investment in associates and joint ventures	–	–	–	–	–	6,004	6,627	12,631
Property and equipment	–	–	–	–	–	–	123,568	123,568
Investment property	–	–	–	–	–	–	13,839	13,839
Deferred income tax assets	–	–	–	–	116	23,925	–	24,041
Other assets	717	6,353	18,880	24,227	24,584	7,150	18,361	100,272
Total assets	11,136	688,913	1,703,654	970,498	2,092,861	2,448,681	2,544,122	10,459,865

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Group

	As at 31 December 2010							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Liabilities								
Due to banks and other financial institutions	–	670,259	122,153	108,775	103,516	220,111	51,000	1,275,814
Due to central banks	–	22,164	8,830	8,384	34,037	–	–	73,415
Bank notes in circulation	–	42,511	–	–	–	–	–	42,511
Placements from banks and other financial institutions	–	–	158,115	62,631	10,055	–	–	230,801
Financial liabilities at fair value through profit or loss	–	–	171,599	28,310	14,180	1,768	17	215,874
Derivative financial liabilities	–	12,513	3,540	3,931	5,609	6,551	3,567	35,711
Due to customers	–	3,625,837	930,307	839,283	1,729,368	342,372	16,087	7,483,254
Bonds issued	–	–	–	–	725	4,349	126,813	131,887
Other borrowings	–	–	295	528	3,726	14,302	23,769	42,620
Current tax liabilities	–	–	606	30	21,729	410	–	22,775
Retirement benefit obligations	–	–	76	152	686	2,701	2,825	6,440
Deferred income tax liabilities	–	–	–	–	70	3,849	–	3,919
Other liabilities	–	86,592	14,702	25,530	41,432	42,898	7,540	218,694
Total liabilities	–	4,459,876	1,410,223	1,077,554	1,965,133	639,311	231,618	9,783,715
Net Liquidity Gap	11,136	(3,770,963)	293,431	(107,056)	127,728	1,809,370	2,312,504	676,150

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Group

	As at 31 December 2009							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	94,415	83,700	65,657	140,549	50,030	–	434,351
Balances with central banks	–	218,980	832,177	194	60,000	–	–	1,111,351
Placements with and loans to banks and other financial institutions	–	–	136,098	36,385	47,721	3,240	–	223,444
Government certificates of indebtedness for bank notes issued	–	36,099	–	–	–	–	–	36,099
Precious metals	–	59,655	–	–	–	–	–	59,655
Financial assets at fair value through profit or loss	–	1,472	11,029	3,345	5,204	18,498	22,349	61,897
Derivative financial assets	–	12,173	2,090	1,814	5,739	3,639	3,059	28,514
Loans and advances to customers, net	14,788	39,576	205,597	439,638	1,263,176	1,415,028	1,419,605	4,797,408
Investment securities								
– available for sale	–	–	19,557	58,046	97,731	315,180	131,793	622,307
– held to maturity	–	–	38,054	32,431	143,435	363,180	167,593	744,693
– loans and receivables	–	–	2,843	23,603	280,589	32,087	48,660	387,782
Investment in associates and joint ventures	–	–	–	–	–	4,045	6,623	10,668
Property and equipment	–	–	–	–	–	–	109,954	109,954
Investment property	–	–	–	–	–	–	15,952	15,952
Deferred income tax assets	–	–	–	–	12	23,506	–	23,518
Other assets	124	12,335	15,594	14,125	19,815	4,656	17,701	84,350
Total assets	14,912	474,705	1,346,739	675,238	2,063,971	2,233,089	1,943,289	8,751,943

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Group

	As at 31 December 2009							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Liabilities								
Due to banks and other financial institutions	–	518,965	56,215	51,663	154,797	62,516	60,010	904,166
Due to central banks	–	16,031	3,855	7,345	34,384	–	–	61,615
Bank notes in circulation	–	36,154	–	–	–	–	–	36,154
Placements from banks and other financial institutions	–	550	145,919	28,542	11,627	5	–	186,643
Financial liabilities at fair value through profit or loss	–	–	31,713	5,897	5,047	1,577	–	44,234
Derivative financial liabilities	–	8,266	1,150	821	3,838	5,412	3,736	23,223
Due to customers	–	3,179,651	779,448	632,566	1,664,340	361,906	2,641	6,620,552
Bonds issued	–	–	–	–	1,998	870	73,930	76,798
Other borrowings	–	–	589	369	3,581	15,231	17,416	37,186
Current tax liabilities	–	8	151	3	17,639	–	–	17,801
Retirement benefit obligations	–	–	77	153	691	2,859	3,087	6,867
Deferred income tax liabilities	–	–	–	–	27	3,359	–	3,386
Other liabilities	–	72,892	20,019	17,923	33,243	34,816	9,031	187,924
Total liabilities	–	3,832,517	1,039,136	745,282	1,931,212	488,551	169,851	8,206,549
Net liquidity gap	14,912	(3,357,812)	307,603	(70,044)	132,759	1,744,538	1,773,438	545,394

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Bank

	As at 31 December 2010							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	67,719	38,486	180,811	253,963	80,000	–	620,979
Balances with central banks	–	102,218	1,180,163	133	18	–	–	1,282,532
Placements with and loans to banks and other financial institutions	–	–	128,375	38,016	64,806	6,242	7,894	245,333
Government certificates of indebtedness for bank notes issued	–	2,486	–	–	–	–	–	2,486
Precious metals	–	83,100	–	–	–	–	–	83,100
Financial assets at fair value through profit or loss	–	–	289	244	5,383	9,736	2,162	17,814
Derivative financial assets	–	–	2,702	3,845	6,610	3,184	2,816	19,157
Loans and advances to customers, net	9,409	20,671	219,096	489,972	1,221,073	1,359,186	1,631,764	4,951,171
Investment securities								
– available for sale	–	–	5,641	24,794	77,699	173,930	110,416	392,480
– held to maturity	–	–	73,979	114,365	239,667	345,232	210,884	984,127
– loans and receivables	–	–	25	2,027	22,009	29,057	210,060	263,178
Investment in subsidiaries	–	–	–	–	–	290	79,643	79,933
Investment in associates and joint ventures	–	–	–	–	–	–	45	45
Property and equipment	–	–	–	–	–	–	65,494	65,494
Investment property	–	–	–	–	–	–	1,285	1,285
Deferred income tax assets	–	–	–	–	–	24,359	–	24,359
Other assets	595	3,927	10,852	22,507	22,372	1,245	13,568	75,066
Total assets	10,004	280,121	1,659,608	876,714	1,913,600	2,032,461	2,336,031	9,108,539

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Bank

	As at 31 December 2010							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Liabilities								
Due to banks and other financial institutions	–	471,386	130,091	114,987	110,762	220,111	51,000	1,098,337
Due to central banks	–	17,179	5,523	8,384	34,034	–	–	65,120
Bank notes in circulation	–	2,527	–	–	–	–	–	2,527
Placements from banks and other financial institutions	–	–	162,397	74,408	18,971	–	–	255,776
Financial liabilities at fair value through profit or loss	–	–	167,161	13,389	11,163	7	–	191,720
Derivative financial liabilities	–	–	2,602	3,525	4,419	3,804	2,882	17,232
Due to customers	–	3,080,581	713,455	737,306	1,663,125	336,779	15,417	6,546,663
Bonds issued	–	–	–	–	1,000	5,147	110,136	116,283
Other borrowings	–	–	295	277	2,898	9,033	10,618	23,121
Current tax liabilities	–	–	169	–	20,012	–	–	20,181
Retirement benefit obligations	–	–	76	152	686	2,701	2,825	6,440
Deferred income tax liabilities	–	–	–	–	–	177	–	177
Other liabilities	–	70,893	8,084	23,547	36,067	15,771	324	154,686
Total liabilities	–	3,642,566	1,189,853	975,975	1,903,137	593,530	193,202	8,498,263
Net liquidity gap	10,004	(3,362,445)	469,755	(99,261)	10,463	1,438,931	2,142,829	610,276

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Bank

	As at 31 December 2009							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	96,905	82,810	63,791	141,204	50,000	–	434,710
Balances with central banks	–	144,559	829,403	123	60,000	–	–	1,034,085
Placements with and loans to banks and other financial institutions	–	–	147,309	34,666	23,645	3,481	28,712	237,813
Government certificates of indebtedness for bank notes issued	–	2,367	–	–	–	–	–	2,367
Precious metals	–	57,514	–	–	–	–	–	57,514
Financial assets at fair value through profit or loss	–	–	1,452	1,445	3,141	7,839	6,257	20,134
Derivative financial assets	–	–	1,528	851	4,997	2,307	2,829	12,512
Loans and advances to customers, net	12,276	10,295	190,073	404,105	1,182,581	1,214,182	1,284,373	4,297,885
Investment securities								
– available for sale	–	–	9,454	42,982	79,041	176,304	100,075	407,856
– held to maturity	–	–	33,880	28,290	120,460	331,913	160,318	674,861
– loans and receivables	–	–	1,622	20,845	270,918	32,087	48,660	374,132
Investment in subsidiaries	–	–	–	–	–	299	71,242	71,541
Investment in associates and joint ventures	–	–	–	–	–	–	18	18
Property and equipment	–	–	–	–	–	–	58,739	58,739
Investment property	–	–	–	–	–	–	1,384	1,384
Deferred income tax assets	–	–	–	–	–	24,126	–	24,126
Other assets	120	9,650	5,511	13,340	16,971	1,711	14,150	61,453
Total assets	12,396	321,290	1,303,042	610,438	1,902,958	1,844,249	1,776,757	7,771,130

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Bank

	As at 31 December 2009							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Liabilities								
Due to banks and other financial institutions	–	479,284	57,756	52,002	155,224	62,516	60,010	866,792
Due to central banks	–	13,509	3,855	7,345	34,380	–	–	59,089
Bank notes in circulation	–	2,422	–	–	–	–	–	2,422
Placements from banks and other financial institutions	–	–	169,360	45,599	20,092	–	–	235,051
Financial liabilities at fair value through profit or loss	–	–	19,646	4,658	2,937	17	–	27,258
Derivative financial liabilities	–	–	623	686	3,400	2,872	2,992	10,573
Due to customers	–	2,650,787	622,971	558,977	1,628,570	360,396	2,578	5,824,279
Bonds issued	–	–	–	–	3,000	1,151	73,930	78,081
Other borrowings	–	–	316	369	3,255	10,706	11,283	25,929
Current tax liabilities	–	–	124	–	15,350	–	–	15,474
Retirement benefit obligations	–	–	77	153	691	2,859	3,087	6,867
Deferred income tax liabilities	–	–	–	–	–	138	–	138
Other liabilities	–	62,694	9,695	16,970	29,812	12,551	283	132,005
Total liabilities	–	3,208,696	884,423	686,759	1,896,711	453,206	154,163	7,283,958
Net liquidity gap	12,396	(2,887,406)	418,619	(76,321)	6,247	1,391,043	1,622,594	487,172

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities

The tables below present the cash flows of the Group and the Bank of non-derivative financial assets and financial liabilities and derivative financial instruments that will be settled on a net basis and on a gross basis by remaining contractual maturities at the financial reporting date. The amounts disclosed in the table are the contractual undiscounted cash flow, whereas the Group manages its short-term inherent liquidity risk based on expected undiscounted cash inflows except for certain customer driven derivatives which are disclosed at fair value (i.e. discounted cash flows basis).

Group

	As at 31 December 2010							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	77,816	40,394	186,112	263,894	84,627	–	652,843
Balances with central banks	–	391,072	1,183,341	133	18	–	–	1,574,564
Placements with and loans to banks and other financial institutions	–	–	109,703	32,421	70,199	4,715	–	217,038
Financial assets at fair value through profit or loss	–	4,327	3,024	24,230	9,731	27,086	21,183	89,581
Loans and advances to customers, net	11,826	65,221	266,736	588,956	1,463,095	2,015,101	2,335,268	6,746,203
Investment securities								
– available for sale	–	–	22,780	38,750	139,930	360,233	202,340	764,033
– held to maturity	–	–	76,394	123,470	268,539	418,284	264,617	1,151,304
– loans and receivables	–	–	6,580	5,844	29,595	38,613	253,811	334,443
Other assets	19	859	9,094	1,617	4,245	682	2,208	18,724
Total financial assets	11,845	539,295	1,718,046	1,001,533	2,249,246	2,949,341	3,079,427	11,548,733
Due to banks and other financial institutions	–	670,259	123,021	111,852	110,980	249,887	55,047	1,321,046
Due to central banks	–	22,164	8,830	8,385	34,037	–	–	73,416
Placements from banks and other financial institutions	–	–	158,321	62,869	10,194	–	–	231,384
Financial liabilities at fair value through profit or loss	–	–	172,711	28,564	14,431	1,751	19	217,476
Due to customers	–	3,627,671	938,110	851,662	1,773,823	365,547	16,637	7,573,450
Bonds issued	–	–	–	2,169	2,937	23,157	156,454	184,717
Other borrowings	–	–	351	622	4,294	16,458	25,103	46,828
Other liabilities	–	62,413	5,700	2,350	2,955	13,217	181	86,816
Total financial liabilities	–	4,382,507	1,407,044	1,068,473	1,953,651	670,017	253,441	9,735,133
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	4,112	98	293	(739)	(467)	2,402	5,699
Derivative financial instruments settled on a gross basis								
Total inflow	–	14,440	524,817	281,041	474,398	44,288	970	1,339,954
Total outflow	–	(14,438)	(528,548)	(281,815)	(472,637)	(44,130)	(976)	(1,342,544)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

Group

	As at 31 December 2009							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	94,467	83,873	65,787	140,833	50,129	–	435,089
Balances with central banks	–	219,380	832,195	194	60,121	–	–	1,111,890
Placements with and loans to banks and other financial institutions	–	–	136,431	36,483	47,976	3,254	–	224,144
Financial assets at fair value through profit or loss	–	1,242	11,103	3,578	6,838	23,703	28,933	75,397
Loans and advances to customers, net	18,347	39,778	223,663	474,580	1,373,424	1,756,674	1,801,312	5,687,778
Investment securities								
– available for sale	–	–	20,665	61,487	110,390	359,492	193,010	745,044
– held to maturity	–	–	38,704	37,965	160,321	407,896	205,303	850,189
– loans and receivables	–	–	2,858	24,681	286,620	38,749	62,565	415,473
Other assets	–	10,003	10,148	1,223	4,069	20	1,064	26,527
Total financial assets	18,347	364,870	1,359,640	705,978	2,190,592	2,639,917	2,292,187	9,571,531
Due to banks and other financial institutions	–	519,206	56,344	51,781	155,152	62,660	60,148	905,291
Due to central banks	–	16,032	3,857	7,353	34,778	–	–	62,020
Placements from banks and other financial institutions	–	552	146,293	28,638	11,708	5	–	187,196
Financial liabilities at fair value through profit or loss	–	–	31,971	5,963	5,180	1,602	–	44,716
Due to customers	–	3,177,955	788,933	642,286	1,710,132	393,259	2,933	6,715,498
Bonds issued	–	–	–	1,420	3,658	12,849	89,811	107,738
Other borrowings	–	–	697	443	4,183	17,004	18,378	40,705
Other liabilities	–	60,611	8,396	1,090	1,436	7,572	2,906	82,011
Total financial liabilities	–	3,774,356	1,036,491	738,974	1,926,227	494,951	174,176	8,145,175
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	3,897	(166)	(406)	(1,032)	(4,694)	(750)	(3,151)
Derivative financial instruments settled on a gross basis								
Total inflow	–	–	348,813	158,024	700,162	5,718	75	1,212,792
Total outflow	–	–	(348,288)	(157,059)	(698,285)	(5,750)	(75)	(1,209,457)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

Bank

	As at 31 December 2010							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	67,719	39,098	183,922	262,424	84,480	–	637,643
Balances with central banks	–	102,771	1,180,172	133	18	–	–	1,283,094
Placements with and loans to banks and other financial institutions	–	–	128,649	38,525	66,432	7,314	8,136	249,056
Financial assets at fair value through profit or loss	–	–	218	312	5,862	10,807	2,459	19,658
Loans and advances to customers, net	10,708	21,051	241,003	533,827	1,359,124	1,799,975	2,176,369	6,142,057
Investment securities								
– available for sale	–	–	6,465	26,643	86,283	199,470	157,496	476,357
– held to maturity	–	–	74,746	119,937	255,390	387,329	253,260	1,090,662
– loans and receivables	–	–	925	2,030	24,252	38,613	253,811	319,631
Other assets	–	–	2,333	1,163	3,904	8	–	7,408
Total financial assets	10,708	191,541	1,673,609	906,492	2,063,689	2,527,996	2,851,531	10,225,566
Due to banks and other financial institutions	–	471,386	130,959	118,068	118,225	249,887	55,047	1,143,572
Due to central banks	–	17,179	5,523	8,385	34,034	–	–	65,121
Placements from banks and other financial institutions	–	–	162,621	74,677	19,198	–	–	256,496
Financial liabilities at fair value through profit or loss	–	–	168,106	13,549	11,358	8	–	193,021
Due to customers	–	3,082,312	721,005	749,313	1,706,762	359,505	15,910	6,634,807
Bonds issued	–	–	–	1,726	3,969	20,314	135,639	161,648
Other borrowings	–	–	331	331	3,292	10,408	11,440	25,802
Other liabilities	–	54,912	355	1,945	2,611	9,826	178	69,827
Total financial liabilities	–	3,625,789	1,188,900	967,994	1,899,449	649,948	218,214	8,550,294
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	–	137	105	(189)	(475)	278	(144)
Derivative financial instruments settled on a gross basis								
Total inflow	–	–	367,323	210,549	430,098	35,733	109	1,043,812
Total outflow	–	–	(368,022)	(210,570)	(428,331)	(35,497)	(110)	(1,042,530)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

Bank

	As at 31 December 2009							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	96,937	82,958	63,901	141,447	50,084	–	435,327
Balances with central banks	–	144,959	829,419	123	60,103	–	–	1,034,604
Placements with and loans to banks and other financial institutions	–	–	147,588	34,740	23,710	3,494	28,773	238,305
Financial assets at fair value through profit or loss	–	–	1,445	1,549	3,762	9,709	9,962	26,427
Loans and advances to customers, net	15,799	10,432	208,035	438,783	1,293,555	1,553,441	1,663,018	5,183,063
Investment securities								
– available for sale	–	–	10,167	45,540	87,292	199,708	147,708	490,415
– held to maturity	–	–	34,393	33,537	135,666	374,317	196,150	774,063
– loans and receivables	–	–	1,636	21,922	276,947	38,749	62,565	401,819
Other assets	–	8,685	950	860	2,844	7	891	14,237
Total financial assets	15,799	261,013	1,316,591	640,955	2,025,326	2,229,509	2,109,067	8,598,260
Due to banks and other financial institutions	–	479,525	57,877	52,111	155,550	62,647	60,136	867,846
Due to central banks	–	13,510	3,857	7,353	34,775	–	–	59,495
Placements from banks and other financial institutions	–	–	169,729	45,705	20,139	–	–	235,573
Financial liabilities at fair value through profit or loss	–	–	19,904	4,708	2,997	18	–	27,627
Due to customers	–	2,652,153	632,351	568,553	1,674,052	391,626	2,864	5,921,599
Bonds issued	–	–	–	1,441	4,682	13,140	89,811	109,074
Other borrowings	–	–	411	418	3,747	12,024	12,047	28,647
Other liabilities	–	59,711	318	583	1,295	5,747	60	67,714
Total financial liabilities	–	3,204,899	884,447	680,872	1,897,237	485,202	164,918	7,317,575
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	–	(27)	(109)	152	(802)	64	(722)
Derivative financial instruments settled on a gross basis								
Total inflow	–	–	232,477	89,880	635,645	4,520	75	962,597
Total outflow	–	–	(231,976)	(89,766)	(633,975)	(4,489)	(75)	(960,281)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.4 Off-balance sheet items

The Group's and the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are summarised in the table below at the remaining period to the contractual maturity date. Financial guarantees are also included below at notional amounts and based on the earliest contractual maturity date. Where the Group and the Bank are the lessee under operating lease commitments, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note V.41.5, are summarised in the table below.

Group

	As at 31 December 2010			
	Less than 1 year	Between 1 to 5 years	Over 5 years	Total
Loan commitments	495,351	185,029	56,330	736,710
Guarantees, acceptances and other financial facilities	913,969	222,836	153,920	1,290,725
Subtotal	1,409,320	407,865	210,250	2,027,435
Operating lease commitments	3,560	8,265	2,414	14,239
Capital commitments	15,556	42,244	80	57,880
Total	1,428,436	458,374	212,744	2,099,554

	As at 31 December 2009			
	Less than 1 year	Between 1 to 5 years	Over 5 years	Total
Loan commitments	634,108	155,693	31,049	820,850
Guarantees, acceptances and other financial facilities	738,600	201,512	114,437	1,054,549
Subtotal	1,372,708	357,205	145,486	1,875,399
Operating lease commitments	2,903	7,250	2,052	12,205
Capital commitments	14,797	20,060	–	34,857
Total	1,390,408	384,515	147,538	1,922,461

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.4 Off-balance sheet items (Continued)

Bank

	As at 31 December 2010			
	Less than 1 year	Between 1 to 5 years	Over 5 years	Total
Loan commitments	426,462	185,029	56,330	667,821
Guarantees, acceptances and other financial facilities	892,501	227,383	154,283	1,274,167
Subtotal	1,318,963	412,412	210,613	1,941,988
Operating lease commitments	2,990	7,605	2,390	12,985
Capital commitments	5,019	3,617	80	8,716
Total	1,326,972	423,634	213,083	1,963,689

	As at 31 December 2009			
	Less than 1 year	Between 1 to 5 years	Over 5 years	Total
Loan commitments	414,442	155,689	31,035	601,166
Guarantees, acceptances and other financial facilities	711,528	206,170	115,007	1,032,705
Subtotal	1,125,970	361,859	146,042	1,633,871
Operating lease commitments	2,379	6,705	2,033	11,117
Capital commitments	2,735	1,962	–	4,697
Total	1,131,084	370,526	148,075	1,649,685

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities

6.1 *Financial instruments not measured at fair value*

Financial assets and liabilities not presented at their fair value on the statement of financial position mainly represent Balances with central banks, due from banks and other financial institutions, Placements with and loans to banks and other financial institutions, Loans and advances to customers, net, Investment securities classified as held to maturity and loans and receivables, Due to central banks, Due to banks and other financial institutions, Placements from banks and other financial institutions, Due to customers and Bonds issued.

The tables below summarise the carrying amounts and fair values of Investment securities classified as held to maturity and loans and receivables, and Bonds issued not presented at fair value on the statement of financial position.

Group

	As at 31 December			
	Carrying value		Fair value	
	2010	2009	**2010**	2009
Financial assets				
Investment securities (1)				
– Held to maturity	**1,039,386**	744,693	**1,026,519**	744,835
– Loans and receivables	**277,963**	387,782	**277,965**	387,786
Financial liabilities				
Bonds issued (2)	**131,887**	76,798	**133,168**	74,606

Bank

	As at 31 December			
	Carrying value		Fair value	
	2010	2009	**2010**	2009
Financial assets				
Investment securities (1)				
– Held to maturity	**984,127**	674,861	**971,188**	675,174
– Loans and receivables	**263,178**	374,132	**263,178**	374,132
Financial liabilities				
Bonds issued (2)	**116,283**	78,081	**116,825**	75,897

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities (Continued)

6.1 Financial instruments not measured at fair value (Continued)

(1) Investment securities classified as held to maturity and loans and receivables

Fair value of held to maturity securities is based on market prices or broker/dealer price quotations. Where this information for held to maturity securities and loans and receivables is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(2) Bonds issued

The aggregate fair values are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity. The fair value for the convertible bonds (including the conversion option value) is based on the quoted market price on Shanghai Stock Exchange.

Other than above, those financial assets and liabilities not presented at their value on the statement of financial position are measured using a discounted cash flow model. The differences between their carrying amounts and their fair value are insignificant.

6.2 Financial instruments measured at fair value

Financial instruments measured at fair value are classified into following three levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities, including listed equity securities on exchange or debt instrument issued by certain governments.

- Level 2: Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. This level includes the majority of the over-the-counter derivative contracts, debt securities for which quotations are available from pricing services providers, traded loans and issued structured deposits.

- Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

The Group uses valuation techniques or counterparty quotations to determine the fair value of financial instruments when unable to obtain open market quotation in active markets.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities (Continued)

6.2 Financial instruments measured at fair value (Continued)

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 certain illiquid debt securities (mainly asset-backed securities), unlisted equity (private equity) and over-the-counter structured derivatives transactions held by the Group, management obtains valuation quotations from counterparties. The fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and therefore, these instruments have been classified by the Group as level 3. Management assesses the impact of changes in macro-economic factors, engaged external valuer and other inputs, including loss coverage ratios, to determine the fair value for the Group's level 3 financial instruments. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

	As at 31 December 2010			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
– Debt securities	–	71,252	308	71,560
– Fund investments	3,006	–	–	3,006
– Loans	–	1,172	–	1,172
– Equity securities	5,416	83	–	5,499
Derivative financial assets	16,634	23,336	4	39,974
Investment securities available for sale				
– Debt securities	66,241	559,365	6,954	632,560
– Fund investments and other	66	–	4,970	5,036
– Equity securities	5,767	1,049	12,326	19,142
Financial liabilities				
Financial liabilities at fair value through profit or loss	–	(215,874)	–	(215,874)
Derivative financial liabilities	(12,526)	(23,185)	–	(35,711)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities (Continued)

6.2 Financial instruments measured at fair value (Continued)

	As at 31 December 2009			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
– Debt securities	4,452	50,851	119	55,422
– Fund investments	2,995	–	–	2,995
– Loans	–	1,248	–	1,248
– Equity securities	2,135	97	–	2,232
Derivative financial assets	12,166	16,205	143	28,514
Investment securities available for sale				
– Debt securities	60,762	538,701	8,746	608,209
– Fund investments and other	62	–	1,655	1,717
– Equity securities	6,294	1,233	4,854	12,381
Financial liabilities				
Financial liabilities at fair value through profit or loss	–	(44,234)	–	(44,234)
Derivative financial liabilities	(8,266)	(14,515)	(442)	(23,223)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities (Continued)

6.2 Financial instruments measured at fair value (Continued)

Reconciliation of Level 3 Items

	Financial assets at fair value through profit or loss	Investment securities available for sale			Derivative financial assets less liabilities
	Debt securities	Debt securities	Fund investments and other	Equity securities	
As at 1 January 2010	**119**	**8,746**	**1,655**	**4,854**	**(299)**
Total gains and losses					
– profit or loss	**(6)**	**874**	**(206)**	**72**	**(1)**
– other comprehensive income	**–**	**(149)**	**(47)**	**427**	**–**
Sales	**(6)**	**(4,961)**	**(1,461)**	**(59)**	**–**
Purchases	**201**	**2,878**	**5,029**	**7,032**	**–**
Settlements	**–**	**–**	**–**	**–**	**304**
Transfers out of Level 3, net	**–**	**(434)**	**–**	**–**	**–**
As at 31 December 2010	**308**	**6,954**	**4,970**	**12,326**	**4**
Total gains or losses for the year included in the income statement for assets/liabilities held as at 31 December 2010	**(6)**	**255**	**(23)**	**27**	**(1)**
As at 1 January 2009	1,903	13,115	1,044	4,397	(296)
Total gains and losses					
– profit or loss	(161)	1,019	1	65	6
– other comprehensive income	–	(67)	(127)	(192)	–
Sales	(704)	(5,445)	(168)	(146)	–
Purchases	–	2,999	905	730	–
Settlements	–	–	–	–	(9)
Transfers out of Level 3, net	(919)	(2,875)	–	–	–
As at 31 December 2009	119	8,746	1,655	4,854	(299)
Total gains or losses for the year included in the income statement for assets/liabilities held as at 31 December 2009	(49)	94	–	–	6

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities (Continued)

6.2 Financial instruments measured at fair value (Continued)

Total gains or losses for the years ended 31 December 2010 and 2009 included in profit or loss as well as total gains or losses relating to financial instruments held at 31 December 2010 and 2009 are presented in "Net trading gains", "Net gains on investment securities" or "Impairment losses on assets" depending on the nature or category of the related financial instruments.

There have been no significant transfers between levels 1 and 2 during 2010.

7 Capital management

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

- maintain levels of asset quality consistent with the Group's business strategy and adequate capital to support the implementation of the Group's strategic development plan and meet the regulatory requirements;

- effectively identify, quantify, monitor, mitigate and control the major risks to which the Group is exposed, and maintain capital appropriate to the Group's risk exposure and risk management needs;

- optimise asset structure and allocate economic capital in a reasonable manner to ensure the sustainable development of the Group.

Capital adequacy and regulatory capital are monitored 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 its risk-weighted assets at or above the agreed minimum of 8%, and a core capital ratio of above 4%. The board of directors approved the "Capital Management Plans for Bank of China Limited (for the years from 2010 to 2012)" at the beginning of 2010, and strategically sets the Group's capital adequacy ratio at 11.5% for the years from 2010 to 2012.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

The Group's regulatory capital as managed by its Financial Management Department is divided into two tiers:

- Core capital: share capital, capital reserve, specified reserves, retained earnings, minority interests; and

- Supplementary: long-term subordinated bonds issued, convertible bonds issued, collective impairment allowances and others.

Goodwill, investments in entities engaged in banking and other financial activities which are not consolidated in the financial statements, investment properties, investments in commercial corporations and other deductible items are deducted from core and supplementary capital to arrive at the regulatory capital.

The on-balance sheet risk weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of, and reflecting an estimate of, credit and other risks associated with each asset and customer, and taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure with adjustments to reflect the contingent nature of the potential losses. The market risk capital adjustment is measured by means of a standardised approach.

During 2010, the Group replenished its capital through the issuance of subordinated bonds, convertible bonds and rights issues in the A share and H share markets. The Group also took various measures to manage level of risk weighted assets including adjusting the composition of its on- and off- balance sheet assets.

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

	As at 31 December	
	2010	2009
Capital adequacy ratio	**12.58%**	11.14%
Core capital adequacy ratio	**10.09%**	9.07%

The capital adequacy ratios above are calculated in accordance with the rules and regulations promulgated by the CBRC, and the generally accepted accounting principles of PRC ("CAS").

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

Group

	As at 31 December	
	2010	2009
Components of capital base		
Core capital:		
Share capital	**279,009**	253,796
Reserves [(1)]	**315,377**	218,813
Minority interests	**31,985**	30,402
Total core capital	**626,371**	503,011
Supplementary capital:		
Collective impairment allowances	**56,606**	60,128
Long-term subordinated bonds issued	**90,607**	73,930
Convertible bonds issued (Note V.30)	**39,776**	–
Other [(1)]	**4,001**	5,587
Total supplementary capital	**190,990**	139,645
Total capital base before deductions	**817,361**	642,656
Deductions:		
Goodwill	**(1,851)**	(1,929)
Investments in entities engaged in banking and financial activities which are not consolidated	**(11,048)**	(9,260)
Investment properties	**(13,839)**	(15,952)
Investments in commercial corporations	**(26,224)**	(16,021)
Other deductible items [(2)]	**(23,695)**	(24,470)
Total capital base after deductions	**740,704**	575,024
Core capital base after deductions [(3)]	**593,787**	468,231
Risk weighted assets and market risk capital adjustment	**5,887,170**	5,163,848

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

(1) Pursuant to regulations released by CBRC in November 2007, all net unrealised fair value gains after tax consideration are removed from the core capital calculation. The fair value gains on trading activities recognised in profit and loss are included in the supplementary capital. Only a certain percentage of fair value gains recognised in equity can be included in the supplementary capital.

(2) Pursuant to the relevant regulations, other deductible items include investments in asset backed securities, long-term subordinated debts issued by other banks and acquired by the Group after 1 July 2009.

(3) Pursuant to the relevant regulations, 100% of goodwill and 50% of certain other deductions were applied in deriving the core capital base.

8 Insurance risk

Insurance contracts are mainly sold in Chinese mainland and Hong Kong denominated in Renminbi and Hong Kong Dollars. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. This risk is inherently random and, therefore, unpredictable. The Group manages its portfolio of insurance risks through its underwriting strategy and policies, portfolio management techniques, adequate reinsurance arrangements and proactive claims handling and processing. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk and industry.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of the claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term life insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. In order to assess the uncertainty due to the mortality assumption and lapse assumption, the Group conducted mortality rate studies and policy lapse studies in order to determine the appropriate assumptions.

Unaudited Supplementary Financial Information

(Amount in millions of Renminbi, unless otherwise stated)

According to Hong Kong Listing Rule and disclosure regulations of banking industry, the Group discloses the following supplementary financial information:

1 LIQUIDITY RATIOS

	As at 31 December	
	2010	2009
RMB current assets to RMB current liabilities	**43.18%**	45.31%
Foreign currency current assets to foreign currency current liabilities	**52.20%**	55.58%

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

2 CURRENCY CONCENTRATIONS

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

	Equivalent in millions of Renminbi			
	USD	HKD	Other	Total
As at 31 December 2010				
Spot assets	**974,958**	**30,655**	**167,724**	**1,173,337**
Spot liabilities	**(573,792)**	**(199,852)**	**(198,682)**	**(972,326)**
Forward purchases	**794,301**	**234,349**	**257,962**	**1,286,612**
Forward sales	**(1,177,847)**	**(46,082)**	**(244,001)**	**(1,467,930)**
Net options position*	**181**	**(218)**	**36**	**(1)**
Net long/(short) position	**17,801**	**18,852**	**(16,961)**	**19,692**
Net structural position	**12,504**	**90,104**	**20,199**	**122,807**
As at 31 December 2009				
Spot assets	1,023,289	54,283	242,096	1,319,668
Spot liabilities	(623,249)	(190,378)	(229,463)	(1,043,090)
Forward purchases	817,830	334,862	225,336	1,378,028
Forward sales	(1,173,293)	(216,442)	(235,151)	(1,624,886)
Net options position*	375	(311)	(70)	(6)
Net long/(short) position	44,952	(17,986)	2,748	29,714
Net structural position	3,531	101,635	17,281	122,447

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

(Amount in millions of Renminbi, unless otherwise stated)

3 CROSS-BORDER CLAIMS

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

Cross-border claims include Balances with central banks, Placements with and loans to banks and other financial institutions, Government certificates of indebtedness for bank notes issued, Financial assets at fair value through profit or loss, Loans and advances to customers, net and Investment securities.

Cross-border claims have been disclosed by country or geographical area. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	Banks and other financial institutions	Public sector entities	Other	Total
As at 31 December 2010				
Asia Pacific excluding Chinese mainland				
Hong Kong	23,386	8,375	528,533	560,294
Other Asia Pacific locations	71,120	16,193	142,881	230,194
Subtotal	94,506	24,568	671,414	790,488
North and South America	48,690	34,464	186,348	269,502
Europe	115,769	12,695	55,411	183,875
Middle East and Africa	3,274	67	12,964	16,305
Total	262,239	71,794	926,137	1,260,170

3 CROSS-BORDER CLAIMS (Continued)

	Banks and other financial institutions	Public sector entities	Other	Total
As at 31 December 2009				
Asia Pacific excluding Chinese mainland				
Hong Kong	34,593	58,480	420,697	513,770
Other Asia Pacific locations	85,392	26,240	102,569	214,201
Subtotal	119,985	84,720	523,266	727,971
North and South America	75,484	64,341	138,856	278,681
Europe	165,661	15,103	55,695	236,459
Middle East and Africa	4,300	–	15,115	19,415
Total	365,430	164,164	732,932	1,262,526

(Amount in millions of Renminbi, unless otherwise stated)

4 OVERDUE ASSETS

For the purposes of the table below, the entire outstanding balance of Loans and advances to customers and Placements with and loans to banks and other financial institutions are considered overdue if either principal or interest payment is overdue.

(1) Total amount of overdue loans and advances to customers

	As at 31 December	
	2010	2009
Total loans and advances to customers which have been overdue for		
below 3 months	**25,666**	28,328
between 3 and 6 months	**3,113**	3,193
between 6 and 12 months	**5,097**	7,659
over 12 months	**28,832**	38,091
Total	**62,708**	77,271
Percentage		
below 3 months	**0.46%**	0.57%
between 3 and 6 months	**0.05%**	0.07%
between 6 and 12 months	**0.09%**	0.16%
over 12 months	**0.51%**	0.77%
Total	**1.11%**	1.57%

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

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

5 CONTINUING CONNECTED TRANSACTIONS

In late November 2007, the Bank and BOCHK Holdings established BOC Services Co., Ltd, which is indirectly held 55% by the Bank and 45% by BOCHK Holdings. During the period commencing from the establishment date of BOC Services Co., Ltd. and until the effective date of the amendments to the Hong Kong Listing Rules on 3 June 2010, BOCHK Holdings became a connected person of the Bank by reason of its being a substantial shareholder of BOC Services Co., Ltd, an indirect subsidiary of the Bank.

5 CONTINUING CONNECTED TRANSACTIONS (Continued)

Under the Listing Rules on the Stock Exchanges of Hong Kong Limited, the on-going transactions pursuant to the Services and Relationship Agreement between the Bank and BOCHK Holdings and its associates in the ordinary and usual course of its business constitute continuing connected transactions of the Bank. Such transactions include General Connected Transactions, Investment Connected Transactions and Inter-bank Connected Transactions.

On 2 January 2008, the Bank made an announcement to set out annual caps in respect of each continuing connected transaction for the years from 2008 to 2010. The Bank's independent shareholders approved the annual caps of the Investment Connected Transactions and the Inter-bank Connected Transactions at its annual general meeting held on 19 June 2008.

The annual caps and amounts of these continuing connected transactions occurring in 2010 are set out below:

Type of Transactions*	2010 Annual Caps		For the period from 1 January to 30 June 2010 Actual Amount**	
	HKD million	RMB million equivalent	HKD million	RMB million equivalent
General Connected Transactions				
Information Technology Services	1,100	936	17	15
Property Transactions	1,100	936	48	41
Bank-note Delivery	1,100	936	30	25
Provision of Insurance Cover	1,100	936	84	72
Credit Card Services	1,100	936	20	17
Investment Connected Transactions				
Securities Transactions	6,000	5,105	174	148
Fund Distribution Transactions	6,000	5,105	23	20
Insurance Agency	6,000	5,105	89	76
Inter-bank Connected Transactions				
Foreign Exchange Transactions	6,000	5,105	38	32
Trading of Financial Assets	110,000	93,599	12,582	10,706
Inter-Bank Capital Markets	110,000	93,599	270	229

* The definition of each type of the transactions is the same as the definition set out in the Bank's announcement "Continuing Connected Transactions" dated 2 January 2008.

** BOCHK and its associates are no longer considered a continuing connected person to the Bank after 3 June 2010. Based on the Bank's statistic and information gathering process, the above disclosure includes the actual amount of transactions between the Group (excluding BOCHK Holdings and its associates) and BOCHK Holdings and its associates from 1 January 2010 to 30 June 2010.

Supplementary Information – Financial Statements Prepared In Accordance With CAS

(Amount in millions of Renminbi, unless otherwise stated)

DIFFERENCES BETWEEN CAS AND IFRS CONSOLIDATED FINANCIAL STATEMENTS

There are no differences in the Group's operating results for the year ended 31 December 2010 and 31 December 2009 or total equity as at 31 December 2010 and as at 31 December 2009 presented in the Group's consolidated financial statements prepared under IFRS and those prepared under CAS.

Reference for Shareholders

Financial Calendar for 2011

Announcement of 2010 annual results	24 March 2011
Annual report of 2010	To be printed and dispatched to H-Share Holders in late April 2011
Annual General Meeting of 2010	To be held on 27 May 2011
Announcement of 2011 interim results	To be announced not later than 31 August 2011

Annual General Meeting

The 2010 Annual General Meeting of the Bank will be held at Central Garden Hotel, No.18 Gaoliangqiaoxiejie, Xizhimenwai Ave., Haidian District, Beijing, the People's Republic of China and at Four Seasons Hotel Hong Kong, 8 Finance Street, Central, Hong Kong at 9:30 a.m. on Friday, 27 May 2011.

Dividends

The Board has recommended a final dividend of RMB0.146 per share (before tax) subject to the approval of shareholders at the Annual General Meeting of 2010.

Securities Information

Listing

The Bank's ordinary shares were listed on the Hong Kong Stock Exchange and SSE on 1 June and 5 July 2006 respectively. The RMB40 billion A-Share Convertible Bonds of the Bank were listed on the SSE on 18 June 2010.

Ordinary Shares

Issued shares:	279,147,223,195 shares
Including:	
A Share:	195,524,946,800 shares
H Share:	83,622,276,395 shares

A-Share Convertible Bonds

Total amount of the issued Convertible Bonds: RMB40 billion

Market Capitalisation

As of the last trading day in 2010 (31 December 2010 for both H Shares and A Shares), the Bank's market capitalisation was RMB923.288 billion (based on the closing price of H Shares and A Shares on 31 December 2010, and exchange rate HKD100 = RMB85.093 as published by the SAFE on 31 December 2010).

Securities Price

	Closing price on 31 December 2010	Highest trading price in 2010	Lowest trading price in 2010
A Share	RMB3.23	RMB4.35	RMB3.11
H Share	HKD4.10	HKD4.88	HKD3.41
A-Share Convertible Bond	RMB109.54	RMB116.81	RMB99.88

Securities Code

Stock Name

H Share:
Bank of China

Hong Kong Stock Exchange	3988
Reuters	3988.HK
Bloomberg	3988 HK

A Share:
中國銀行

Shanghai Stock Exchange	601988
Reuters	601988.SS
Bloomberg	601988 CH

Securities Name: **中行轉債**

A-Share Convertible Bond

Shanghai Stock Exchange	113001
Reuters	113001.SS
Bloomberg	113001 CH

Shareholder Enquiry

If a shareholder wishes to enquire about share transfers, changes of name or address, or loss of share certificates, or to receive other information concerning the shares held, he/she may write to the Bank at the following address:

H-Share Holders:

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong
Telephone: (852) 2862 8555
Facsimile: (852) 2865 0990

A-Share Holders:

Shanghai Branch of China Securities Depository and Clearing Corporation Limited
36F, China Insurance Building
166 East Lujiazui Road
Pudong New Area
Shanghai
Telephone: (86) 21-3887 4800

Credit Rating (Long Term, Foreign Currency)

Moody's Investors Services:	A1
Standard & Poor's:	A-
Fitch Ratings:	A
Rating and Investment Information, Inc.:	A
Dagong International Credit Rating Co., Ltd. (RMB):	AAA

Index Constituents

Hang Seng Index
Hang Seng China H-Financial Index
Hang Seng China Enterprises Index
Hang Seng China A Industry Top Index
Hang Seng Composite Index (HSCI) Series
MSCI China Index Series
Shanghai Stock Exchange Index Series
FTSE/Xinhua China 25 Index
FTSE/Xinhua Hong Kong Index
FTSE Index Series

Investor Enquiry

Investor Relations Team (Beijing) of Bank of China Limited
8/F, Bank of China Building
1 Fuxingmen Nei Dajie, Beijing, China
Telephone: (86) 10-6659 2638
Facsimile: (86) 10-6659 4568
E-mail: bocir@bank-of-china.com

Other Information

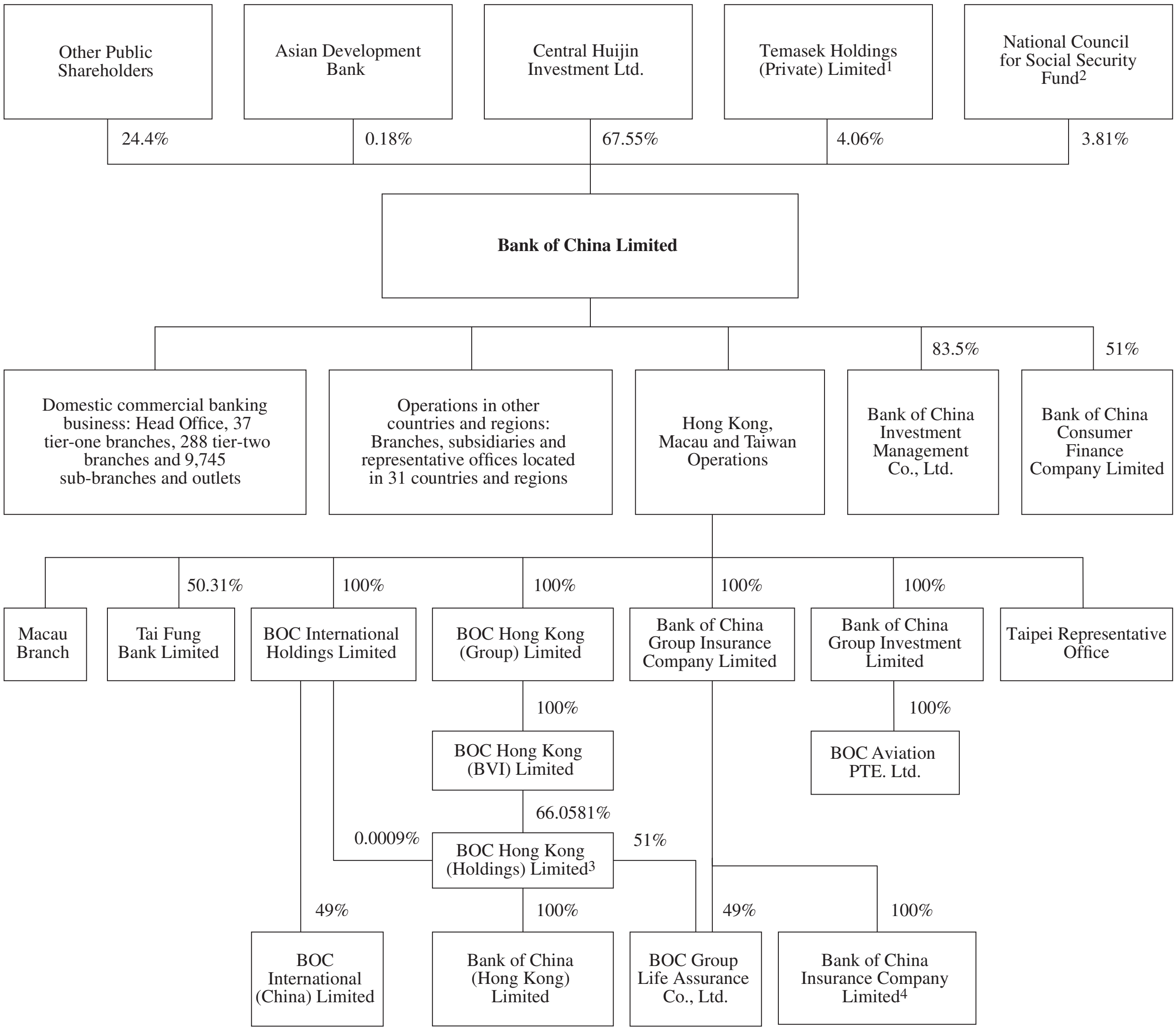
You may obtain a copy of the annual report, prepared in accordance with International Financial Reporting Standards, by writing to the Bank's H-Share Registrar, Computershare Hong Kong Investor Services Limited (address: 17M, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong), and the annual report prepared in accordance with Chinese Accounting Standards from any of the Bank's major places of business.

The Chinese and/or English versions of the annual report for 2010 are also available on the following websites: www.boc.cn, www.sse.com.cn and www.hkexnews.hk.

If you have any queries about how to obtain copies of the annual report or how to access the document on the Bank's website, please dial the Bank's Registrar at (852) 2862 8688 or the Bank's hotlines at (86) 10-6659 2638.

Organisational Chart

The organisational chart of the Group as of 31 December 2010 is as follows:



Notes:

1. Temasek has an interest in the H Shares of the Bank through its wholly-owned subsidiary Fullerton Financial and other corporations controlled by it. For details, please refer to the section "Changes in Share Capital and Shareholding of Substantial Shareholders".

2. The proportion of H Shares held by NCSSF is based on the interest recorded in the register maintained by the Bank pursuant to section 336 of the SFO.

3. Listed on the Hong Kong Stock Exchange.

4. In July 2011, with the approval of China Insurance Regulatory Commission ("CIRC"), BOC Insurance (Incorporated in the PRC) will become a direct wholly-owned subsidiary of the Bank through the transfer of its 100% share rights to the Bank. The relevant industrial and commercial registration processes for the changes in shareholders and amendments of Articles of Associations are now in progress.

List of Operations

MAJOR OPERATIONS IN CHINESE MAINLAND

HEAD OFFICE

1 FUXINGMEN NEI DAJIE,
BEIJING,
CHINA
SWIFT: BKCH CN BJ
TLX: 22254 BCHO CN
TEL: (86) 010-66596688
FAX: (86) 010-66016871
POST CODE: 100818
WEBSITE: www.boc.cn

BEIJING BRANCH

A.C.E KAIHENG CENTER,
2 CHAOYANGMEN NEI DAJIE,
DONGCHENG DISTRICT,
BEIJING,
CHINA
SWIFT: BKCH CN BJ 110
TEL: (86) 010-85122288
FAX: (86) 010-85121739
POST CODE: 100010

TIANJIN BRANCH

80 JIEFANG NORTH ROAD,
HEPING DISTRICT,
TIANJIN,
CHINA
SWIFT: BKCH CN BJ 200
TEL: (86) 022-27102335
022-27102329
FAX: (86) 022-23312809
022-27102349
POST CODE: 300040

HEBEI BRANCH

78-80 XINHUA ROAD,
SHIJIAZHUANG,
HEBEI PROV.,
CHINA
SWIFT: BKCH CN BJ 220
TEL: (86) 0311-87866357
FAX: (86) 0311-87866403
POST CODE: 050000

SHANXI BRANCH

288 YINGZE DAJIE,
TAIYUAN,
SHANXI PROV.,
CHINA
SWIFT: BKCH CN BJ 680
TEL: (86) 0351-8266282
FAX: (86) 0351-4040364
POST CODE: 030001

INNER MONGOLIA BRANCH

12 XINHUA DAJIE,
XIN CHENG DISTRICT,
HUHHOT,
INNER MONGOLIA
AUTONOMOUS REGION,
CHINA
SWIFT: BKCH CN BJ 880
TEL: (86) 0471-4690088
FAX: (86) 0471-4690039
POST CODE: 010010

LIAONING BRANCH

9 ZHONGSHAN SQUARE,
ZHONGSHAN DISTRICT,
DALIAN,
LIAONING PROV.,
CHINA
SWIFT: BKCH CN BJ 810
TEL: (86) 0411-82586666
FAX: (86) 0411-82586366
POST CODE: 116001

JILIN BRANCH

699 XI AN DA LU,
CHANGCHUN,
JILIN PROV.,
CHINA
SWIFT: BKCH CN BJ 840
TLX: 83006 CCBOC CN
TEL: (86) 0431-8409055
FAX: (86) 0431-8409054
POST CODE: 130061

HEILONGJIANG BRANCH

19 HONGJUN STREET,
NANGANG DISTRICT,
HARBIN,
HEILONGJIANG PROV.,
CHINA
SWIFT: BKCH CN BJ 860
TLX: 87009 BCHB CN
TEL: (86) 0451-53626785
FAX: (86) 0451-53624147
POST CODE: 150001

SHANGHAI BRANCH

200 MID. YINCHENG RD.,
PUDONG NEW DISTRICT,
SHANGHAI,
CHINA
SWIFT: BKCH CN BJ 300
TLX: 33062 BOCSH CN
TEL: (86) 021-50372274
FAX: (86) 021-50372601
POST CODE: 200120

JIANGSU BRANCH

148 ZHONG SHAN NAN LU,
NANJING,
JIANGSU PROV.,
CHINA
SWIFT: BKCH CN BJ 940
TLX: 34116 BOCJS CN
TEL: (86) 025-84207888
FAX: (86) 025-84207888-60340
POST CODE: 210005

ZHEJIANG BRANCH

321 FENG QI ROAD,
HANGZHOU,
ZHEJIANG PROV.,
CHINA
SWIFT: BKCH CN BJ 910
TLX: 35019 BOCHZ CN
TEL: (86) 0571-85011888
FAX: (86) 0571-87918371
POST CODE: 310003

ANHUI BRANCH

313 MID. CHANGJIANG ROAD,
HEFEI,
ANHUI PROV.,
CHINA
SWIFT: BKCH CN BJ 780
TEL: (86) 0551-2926835
FAX: (86) 0551-2926834
POST CODE: 230061

FUJIAN BRANCH

BOC BLDG., 136 WUSI ROAD,
FUZHOU,
FUJIAN PROV.,
CHINA
SWIFT: BKCH CN BJ 720
TLX: 92109 BOCFJ CN
TEL: (86) 0591-87090999
FAX: (86) 0591-87848741
POST CODE: 350003

JIANGXI BRANCH

1 ZHANQIAN WEST ROAD,
NANCHANG,
JIANGXI PROV.,
CHINA
SWIFT: BKCH CN BJ 550
TLX: 95013 BOCNC CN
TEL: (86) 0791-6471519
FAX: (86) 0791-6471515
POST CODE: 330002

SHANDONG BRANCH

59 MID. XIANGGANG ZHONG LU,
QINGDAO,
SHANDONG PROV.,
CHINA
SWIFT: BKCH CN BJ 500
TEL: (86) 0532-81858888
FAX: (86) 0532-81858185
POST CODE: 266071

HENAN BRANCH

40 HUA YUAN ROAD,
ZHENGZHOU,
HENAN PROV.,
CHINA
SWIFT: BKCH CN BJ 530
TEL: (86) 0371-65779966
FAX: (86) 0371-65779200
POST CODE: 450008

HUBEI BRANCH

677 JIANSHE ROAD,
WUHAN,
HUBEI PROV.,
CHINA
SWIFT: BKCH CN BJ 600
TEL: (86) 027-82813723
027-82811707
FAX: (86) 027-82838479
POST CODE: 430022

HUNAN BRANCH

593 MID. FURONG ROAD (1 DUAN),
CHANGSHA,
HUNAN PROV.,
CHINA
SWIFT: BKCH CN BJ 970
TEL: (86) 0731-82580888
FAX: (86) 0731-82580873
POST CODE: 410005

GUANGDONG BRANCH

197-199 DONGFENG XI LU,
GUANGZHOU,
GUANGDONG PROV.,
CHINA
SWIFT: BKCH CN BJ 400
TLX: 441042 GZBOC CN
TEL: (86) 020-83338080
FAX: (86) 020-83363822
POST CODE: 510180

GUANGXI BRANCH

39 GUCHENG ROAD,
NANNING,
GUANGXI ZHUANG
AUTONOMOUS REGION,
CHINA
SWIFT: BKCH CN BJ 480
TLX: 48122 BOCGX CN
TEL: (86) 0771-2879607
FAX: (86) 0771-2811267
POST CODE: 530022

HAINAN BRANCH

33 DATONG ROAD,
HAIKOU,
HAINAN PROV.,
CHINA
SWIFT: BKCH CN BJ 740
TLX: 490172 HABOC CN
TEL: (86) 0898-66778001
FAX: (86) 0898-66562375
POST CODE: 570102

SICHUAN BRANCH

35 MID. RENMIN ROAD (2 DUAN),
CHENGDU,
SICHUAN PROV.,
CHINA
SWIFT: BKCH CN BJ 570
TLX: 60306 BOCCD CN
TEL: (86) 028-86403213
028-86403248
FAX: (86) 028-86403212
POST CODE: 610015

GUIZHOU BRANCH

69 SHENQI ROAD,
GUIYANG,
GUIZHOU PROV.,
CHINA
SWIFT: BKCH CN BJ 240
TEL: (86) 0851-5822419
0851-5812690
FAX: (86) 0851-5825770
POST CODE: 550002

YUNNAN BRANCH

515 BEIJING ROAD,
KUNMING,
YUNNAN PROV.,
CHINA
SWIFT: BKCH CN BJ 640
TLX: 64034 KMBNK CN
TEL: (86) 0871-3192915
FAX: (86) 0871-3175553
POST CODE: 650051

TIBET BRANCH

7 LINKUO XI LU,
LHASA,
TIBET AUTONOMOUS REGION,
CHINA
SWIFT: BKCH CN BJ 900
TEL: (86) 0891-6813333
FAX: (86) 0891-6835078
POST CODE: 850000

SHAANXI BRANCH

246 DONGXIN JIE,
XINCHENG DISTRICT,
XI'AN,
SHAANXI PROV.,
CHINA
SWIFT: BKCH CN BJ 620
TEL: (86) 029-87509999
FAX: (86) 029-87509922
POST CODE: 710005

GANSU BRANCH

525 TIANSHUI SOUTH ROAD,
LANZHOU,
GANSU PROV.,
CHINA
SWIFT: BKCH CN BJ 660
TEL: (86) 0931-8831988
FAX: (86) 0931-8831988-80308
POST CODE: 730000

QINGHAI BRANCH

218 DONGGUAN STREET,
XINING,
QINGHAI PROV.,
CHINA
SWIFT: BKCH CN BJ 280
TEL: (86) 0971-8178888
FAX: (86) 0971-8174971
POST CODE: 810000

NINGXIA BRANCH

39 XINCHANG EAST ROAD,
JINFENG DISTRICT,
YINCHUAN,
NINGXIA HUI
AUTONOMOUS REGION,
CHINA
SWIFT: BKCH CN BJ 260
TEL: (86) 0951-5681593
FAX: (86) 0951-5681593
POST CODE: 750002

XINJIANG BRANCH

BANK OF CHINA BUILDING,
1 DONGFENG ROAD,
URUMQI,
XINJIANG UYGUR
AUTONOMOUS REGION,
CHINA
SWIFT: BKCH CN BJ 760
TEL: (86) 0991-2328888
FAX: (86) 0991-2828619
POST CODE: 830002

CHONGQING BRANCH

218 ZHONG SHAN YI ROAD,
YU ZHONG DISTRICT,
CHONGQING,
CHINA
SWIFT: BKCH CN BJ 59A
TEL: (86) 023-63889234
023-63889461
FAX: (86) 023-63889585
POST CODE: 400013

SHENZHEN BRANCH

INTERNATIONAL FINANCE
BUILDING,
2022 JIANSHE ROAD,
LUOHU DISTRICT,
SHENZHEN,
GUANGDONG PROV.,
CHINA
SWIFT: BKCH CN BJ 45A
TLX: 420309 BOCSZ CN
420243 BOCSZ CN
TEL: (86) 0755-22338888
FAX: (86) 0755-82259209
POST CODE: 518005

SUZHOU BRANCH

188 GANJIANG WEST ROAD,
SUZHOU,
JIANGSU PROV.,
CHINA
SWIFT: BKCH CN BJ 95B
TEL: (86) 0512-65113558
FAX: (86) 0512-65112043
POST CODE: 215002

NINGBO BRANCH

139 YAOHANG JIE,
NINGBO,
ZHEJIANG PROV.,
CHINA
SWIFT: BKCH CN BJ 92A
TLX: 37039 NBBOC CN
TEL: (86) 0574-87196666
FAX: (86) 0574-87198889
POST CODE: 315000

BANK OF CHINA INSURANCE COMPANY LIMITED

8-9F EXCEL CENTER
NO.6 WUDINGHOU STREET,
BEIJING,
CHINA
TEL: (86) 010-66538000
FAX: (86) 010-66538001
POST CODE: 100033
WEBSITE: www.bocins.com

BANK OF CHINA INVESTMENT MANAGEMENT CO., LTD

45/F, BOC BUILDING
200 MID. YINCHENG ROAD,
PUDONG NEW DISTRICT,
SHANGHAI,
CHINA
TEL: (86) 021-38834999
FAX: (86) 021-68873488
POST CODE: 200120
WEBSITE: www.bocim.com

BANK OF CHINA CONSUMER FINANCE COMPANY LIMITED

1409#, BOC BUILDING
200 MID. YINCHENG ROAD,
PUDONG NEW DISTRICT,
SHANGHAI,
CHINA
TEL: (86) 021-50375880
FAX: (86) 021-50375890
POST CODE: 200120
WEBSITE: www.boccfc.cn
EMAIL: boccfcadmin@boccfc.cn

BOC INTERNATIONAL (CHINA) LIMITED

39/F, BOC BUILDING
200 MID. YINCHENG ROAD,
PUDONG NEW DISTRICT,
SHANGHAI,
CHINA
TEL: (86) 021-68604866
FAX: (86) 021-50375890
POST CODE: 200120
WEBSITE: www.bocichina.com
EMAIL: admindiv.china@bocigroup.com

MAJOR OPERATIONS IN HONG KONG, MACAU AND TAIWAN

BOC HONG KONG (HOLDINGS) LIMITED

52/F, BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG
TEL: (852) 28462700
FAX: (852) 28105830
WEBSITE: www.bochk.com

BOC INTERNATIONAL HOLDINGS LIMITED

26/F, BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG
TEL: (852) 39886000
FAX: (852) 21479065
WEBSITE: www.bocigroup.com
EMAIL: Info@bocigroup.com

HONG KONG BRANCH

8/F, BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG
TEL: (852) 25370106
FAX: (852) 25377609

BANK OF CHINA GROUP INSURANCE COMPANY LIMITED

9/F, WING ON HOUSE,
71 DES VOEUX ROAD CENTRAL,
HONG KONG
TEL: (852) 28670888
FAX: (852) 25221705
WEBSITE: www.bocgroup.com/bocg-ins/
EMAIL: info_ins@bocgroup.com

BANK OF CHINA GROUP INVESTMENT LIMITED

23/F, BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG
TEL: (852) 22007500
FAX: (852) 28772629
WEBSITE: www.bocgi.com
EMAIL: Bocginv_bgi@bocgroup.com

BOC GROUP LIFE ASSURANCE CO., LTD.

13-21/F, BOC GROUP LIFE
ASSURANCE TOWER,
136 DES VOEUX ROAD CENTRAL,
HONG KONG
TEL: (852) 28629898
FAX: (852) 28660938
WEBSITE: www.bocgroup.com/bocg-life
EMAIL: boc_life@bocgroup.com

MACAU BRANCH

BANK OF CHINA BUILDING,
AVENIDA DOUTOR MARIO
SOARES,
MACAU
SWIFT: BKCHMOMX
TEL: (853) 28781828
FAX: (853) 28781833
WEBSITE: www.bocmacau.com

TAI FUNG BANK LIMITED

418, ALAMEDA DR. CARLOS,
d'ASSUMPCAO,
MACAU
TEL: (853) 28322323
FAX: (853) 28570737
WEBSITE: www.taifungbank.com
EMAIL: tfbsecr@taifungbank.com

TAIPEI REPRESENTATIVE OFFICE

ROOM 1814, 18F,
333 KEELUNG RD., SEC.1.
TAIPEI, TAIWAN 11012
TEL: (886) 2-27576988
FAX: (886) 2-27576685
EMAIL: boc_taipei@bank-of-china.com

MAJOR OPERATIONS IN OTHER COUNTRIES AND REGIONS

ASIA-PACIFIC AREA

SINGAPORE BRANCH

4 BATTERY ROAD,
BANK OF CHINA BUILDING,
SINGAPORE 049908
SWIFT: BKCHSGSG
TEL: (65) 65352411
FAX: (65) 65343401
EMAIL: Service_SG@bank-of-china.com

TOKYO BRANCH

BOC BLDG, 3-4-1 AKASAKA
MINATO-KU, TOKYO
107-0052,
JAPAN
SWIFT: BKCHJPJT
TEL: (813) 35058818
FAX: (813) 35058433
EMAIL: Service_JP@bank-of-china.com

SEOUL BRANCH

1/2F, YOUNG POONG BLDG,
33 SEOLIN-DONG, CHONGRO-GU
SEOUL 110-752,
KOREA
SWIFT: BKCHKRSEXXX
TEL: (822) 3996268/3996272
FAX: (822) 3996265/3995938
EMAIL: Service_KR@bank-of-china.com

BANGKOK BRANCH

179/4 BANGKOK CITY TOWER
SOUTH SATHORN RD.,
TUNGMAHAMEK
SATHORN DISTRICT,
BANGKOK 10120,
THAILAND
SWIFT: BKCHTHBK
TLX: 81091 BOCBKK TH
TEL: (662) 2861010
FAX: (662) 2861020
EMAIL: Service_TH@bank-of-china.com

BANK OF CHINA (MALAYSIA) BERHAD

GROUND, MEZZANINE, &
1st FLOOR
PLAZA OSK, 25 JALAN AMPANG
50450 KUALA LUMPUR,
MALAYSIA
SWIFT: BKCHMYKL
TEL: (603) 21626633
FAX: (603) 21615150
EMAIL: Service_MY@bank-of-china.com

HO CHI MINH CITY BRANCH

19/F, SUN WAH TOWER
115 NGUYEN HUE BLVD.,
DISTRICT 1
HO CHI MINH CITY,
VIETNAM
SWIFT: BKCHVNVX
TEL: (848) 38219949
FAX: (848) 38219948
EMAIL: Service_VN@bank-of-china.com

MANILA BRANCH

G/F & 36/F PHILAMLIFE TOWER
8767 PASEO DE ROXAS,
MAKATI CITY
MANILA,
PHILIPPINES
SWIFT: BKCHPHMM
TEL: (632) 8850111
FAX: (632) 8850532
EMAIL: Service_PH@bank-of-china.com

JAKARTA BRANCH

TAMARA CENTER SUITE 101&201
JALAN JEND. SUDIRMAN KAV. 24
JAKARTA 12920,
INDONESIA
SWIFT: BKCHIDJA
TEL: (6221) 5205502
FAX: (6221) 5201113
EMAIL: Service_ID@bank-of-china.com

SYDNEY BRANCH

39-41 YORK STREET,
SYDNEY NSW 2000,
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Definitions

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

Our Bank/the Bank/ the Group/we/us	Bank of China Limited or its predecessors and, except where the context otherwise requires, all of the subsidiaries of Bank of China Limited
Articles of Association	The performing Articles of Association of our Bank
Basis Point	0.01 of a percentage point
BOC Aviation	BOC Aviation PTE. Ltd.
BOC Insurance	Bank of China Insurance Company Limited
BOCG Insurance	Bank of China Group Insurance Company Limited
BOCG Investment	Bank of China Group Investment Limited
BOCG Life	BOC Group Life Assurance Co., Ltd.
BOCHK	Bank of China (Hong Kong) Limited, an authorised financial institution incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK (Holdings)
BOCHK (BVI)	BOC Hong Kong (BVI) Limited
BOCHK (Group)	BOC Hong Kong (Group) Limited
BOCHK (Holdings)	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong and the ordinary shares of which are listed on the Hong Kong Stock Exchange
BOCI	BOC International Holdings Limited
BOCIM	Bank of China Investment Management Co., Ltd.
BOCI China	BOC International (China) Limited
BOCI Group	BOC International Holdings Limited and its subsidiaries and associated companies

BOCI-Prudential	BOCI-Prudential Asset Management Ltd.
BOCI-Prudential Trustee	BOCI-Prudential Trustee Ltd.
CBRC	China Banking Regulatory Commission
Central and Southern China	The area including, for the purpose of this report, the branches of Henan, Hubei, Hunan, Guangdong, Shenzhen, Guangxi and Hainan
Company Law	The Company Law of the People's Republic of China
Convertible Bonds	Corporate bonds that are vested for conversion to the A-Share stock of the Bank
CSRC	China Securities Regulatory Commission
Dagong International	Dagong International Credit Rating Co., Ltd.
Eastern China	The area including, for the purpose of this report, the branches of Shanghai, Jiangsu, Suzhou, Zhejiang, Ningbo, Anhui, Fujian, Jiangxi and Shandong
Fullerton Financial	Fullerton Financial Holdings Pte. Ltd.
Fullerton Management	Fullerton Management Pte. Ltd.
HKEx	Hong Kong Exchanges and Clearing Limited
Hong Kong Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Huijin	Central Huijin Investment Ltd.
Information Disclosure Policy	The current applicable version of the Information Disclosure Policy of Bank of China Limited
LIBOR	London Inter-bank Offered Rate

MOF	Ministry of Finance, PRC
NCSSF	National Council for Social Security Fund
Northeastern China	The area including, for the purpose of this report, the branches of Heilongjiang, Jilin and Liaoning
Northern China	The area including, for the purpose of this report, the branches of Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia and our Head Office
PBOC	People's Bank of China, PRC
Prudential Corporation	Prudential Corporation Holdings Limited
RMB or Renminbi	Renminbi, the lawful currency of the PRC
SAFE	State Administration of Foreign Exchange, PRC
SAT	State Administration of Taxation, PRC
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
SHIBOR	Shanghai Inter-Bank Offered Rate
SSE	The Shanghai Stock Exchange
Temasek	Temasek Holdings (Private) Limited
UBS	UBS AG
Western China	The area including, for the purpose of this report, the branches of Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Ningxia, Qinghai, Tibet and Xinjiang

Notes to Financial Highlights

1. Non-interest income = net fee and commission income + net trading gains/(losses) + net gains/(losses) on investment securities + other operating income

2. Operating income = net interest income + non-interest income

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

4. In accordance with IFRS, due to the influence of rights issue, basic earnings per share of the previous years were recalculated.

5. Dividend per share = total dividend ÷ number of ordinary shares in issue at the year-end

6. Net assets per share = capital and reserves attributable to equity holders of the Bank at the year-end ÷ number of ordinary shares in issue at the year-end

7. Return on average total assets = profit for the year ÷ average total assets. Average total assets = (total assets at the beginning of the year + total assets at the year-end) ÷ 2

8. Return on average equity = profit after tax attributable to equity holders of the Bank ÷ average owner's equity. It is calculated according to *No. 9 Preparation and Reporting Rules of Information Disclosure of Public Offering Companies – Calculation and Disclosure of Return on Average Equity and Earnings per Share (Revised in 2010)* (CSRC Announcement [2010] No. 2) issued by the CSRC.

9. Net interest margin = net interest income ÷ average balance of interest-earning assets; Average balance is average daily balance derived from the Bank's management accounts.

10. Non-interest income to operating income = non-interest income ÷ operating income

11. Cost to income ratio is calculated according to the *Interim Measures of the Performance Evaluation of State-owned and State Holding Financial Enterprises* (Cai Jin [2009] No.3) formulated by the MOF.

12. Identified impaired loans to total loans = identified impaired loans at the year-end ÷ total loans at the year-end

13. Non-performing loans to total loans = non-performing loans at the year-end ÷ total loans at the year-end. It is calculated according to the *Guidelines on the Corporate Governance and Supervision of State-owned Commercial Banks* (Y.J.F [2006] No.22).

14. Allowance for loan impairment losses to non-performing loans = allowance for loan impairment losses at the year-end ÷ non-performing loans at the year-end. It is calculated according to the *Guidelines on the Corporate Governance and Supervision of State-owned Commercial Banks* (Y.J.F [2006] No.22).

15. Credit cost = impairment losses on loans ÷ average balance of loans. Average balance of loans = (balance of loans at the beginning of the year + balance of loans at the year-end) ÷ 2

16. Number of employees of the Group includes temporary and contract staff.

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