



中國銀行

BANK OF CHINA

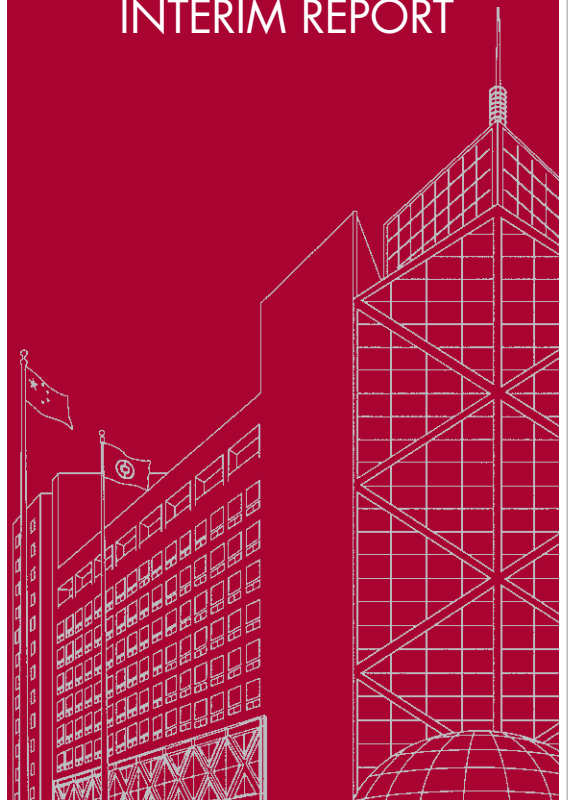
DELIVERING GROWTH AND
EXCELLENCE

Bank of China Limited

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

Stock Code: 3988

2011
INTERIM REPORT



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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	For the six month period ended 30 June 2011	For the six month period ended 30 June 2010
Results of operations			
Net interest income		110,215	91,864
Non-interest income	1	55,759	41,015
Operating income	2	165,974	132,879
Operating expenses		(63,256)	(53,094)
Impairment losses on assets		(12,287)	(9,951)
Operating profit		90,431	69,834
Profit before income tax		90,777	70,287
Profit for the period		70,133	54,375
Profit attributable to equity holders of the Bank		66,513	52,022
Basic earnings per share for profit attributable to equity holders of the Bank (RMB)	3	0.24	0.20
Key financial ratios			
Return on average total assets (%)	4	1.28	1.18
Return on average equity (%)	5	19.87	19.39
Net interest margin (%)	6	2.11	2.04
Non-interest income to operating income (%)	7	33.60	30.87
Cost to income (calculated under domestic regulations, %)	8	28.81	29.79
Credit cost (%)	9	0.43	0.44
Statement of financial position			
		As at 30 June 2011	As at 31 December 2010
Total assets		11,483,498	10,459,865
Loans, net		6,081,932	5,537,765
Investment securities	10	1,940,469	2,055,324
Total liabilities		10,780,373	9,783,715
Due to customers		8,048,186	7,483,254
Capital and reserves attributable to equity holders of the Bank		669,838	644,165
Share capital		279,147	279,147
Net assets per share (RMB)	11	2.40	2.31
Capital adequacy ratios			
Core capital adequacy ratio (%)		10.01	10.09
Capital adequacy ratio (%)		12.95	12.58
Asset quality			
Identified impaired loans to total loans (%)	12	1.01	1.13
Non-performing loans to total loans (%)	13	1.00	1.10
Allowance for loan impairment losses to non-performing loans (%)	14	217.29	196.67

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

Corporate Information

Registered Name in Chinese

中國銀行股份有限公司 (“中國銀行”)

Registered Name in English

BANK OF CHINA LIMITED (“Bank of China”)

Legal Representative and Chairman

XIAO Gang

Vice Chairman and President

LI Lihui

Secretary to the Board of Directors

ZHANG Bingxun

Office Address:

No. 1 Fuxingmen Nei Daijie, Beijing, China

Telephone: (86) 10-6659 2638

Facsimile: (86) 10-6659 4568

E-mail: bocir@bank-of-china.com

Company Secretary

YEUNG Cheung Ying

Listing Affairs Representative

LUO Nan

Office Address:

No. 1 Fuxingmen Nei Daijie, Beijing, China

Telephone: (86) 10-6659 2638

Facsimile: (86) 10-6659 4568

E-mail: bocir@bank-of-china.com

Registered Address of Head Office

No. 1 Fuxingmen Nei Daijie, Beijing, China

Office Address

No. 1 Fuxingmen Nei Daijie,

Beijing, China, 100818

Telephone: (86) 10-6659 6688

Facsimile: (86) 10-6601 6871

Website: <http://www.boc.cn>

E-mail: bocir@bank-of-china.com

Place of Business in Hong Kong

8/F, Bank of China Tower

1 Garden Road, Central

Hong Kong

Selected Newspapers for Information Disclosure (A Share)

China Securities, Shanghai Securities, Securities Times

Website Designated by CSRC to Publish the Interim Report

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

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

<http://www.hkexnews.hk>

Places Where the Interim Report can be Obtained

Major Business Locations

Securities Information A Share

Shanghai Stock Exchange

Stock Name: 中國銀行

Stock Code: 601988

H Share

The Stock Exchange of Hong Kong Limited

Stock Name: Bank of China

Stock Code: 3988

A-Share Convertible Bonds

Shanghai Stock Exchange

Securities Name: 中行轉債

Securities Code: 113001

A-Share Registrar

Shanghai Branch of China Securities Depository and Clearing Corporation Limited

36/F, China Insurance Building

166 East Lujiazui Road,

Pudong New Area, Shanghai

Telephone: (86) 21-3887 4800

H-Share Registrar

Computershare Hong Kong Investor Services Limited

Rooms 1712-1716, 17/F, Hopewell Centre

183 Queen's Road East, Wan Chai

Hong Kong

Telephone: (852) 2862 8555

Sponsors for A-Share Convertible Bonds

BOC International (China) Limited

CITIC Securities Co., Ltd.

Overview of Operating Performance

Continuous Enhancement in Key Financial Ratios

In the first half of 2011, the Bank continued to adopt the scientific outlook on development and earnestly implemented its strategic development plan. By adhering to the principles of “streamlining structure, scaling up, managing risks and sharpening competitiveness”, the Bank vigorously promoted innovation, transformation and cross-border development, achieving a steady improvement in operating performance. As at the end of June 2011, the Bank’s total assets and liabilities amounted to RMB11,483.498 billion and RMB10,780.373 billion, representing increases of 9.79% and 10.19% from the prior year-end, respectively. Capital and reserves attributable to equity holders of the Bank was RMB669.838 billion, an increase of 3.99% compared with the prior year-end. The Bank achieved a profit after tax of RMB70.133 billion, an increase of 28.98% compared with the corresponding period in 2010, and a profit attributable to equity holders of RMB66.513 billion, up 27.86% from the first half of 2010. Return on average total assets and return on average equity were 1.28% and 19.87%, increased by 0.10 percentage point and 0.48 percentage point, respectively, compared with the first half of 2010. The ratio of non-interest income to operating income was 33.60%, an increase of 2.73 percentage points compared with the same period of 2010, leading the Bank’s peers. The cost to income ratio calculated under domestic regulations was 28.81%, a decrease of 0.98 percentage point from the first half of 2010.

Fresh Progress in All Business Lines

In the first half of 2011, the Bank proactively responded to changes in the macro-economic environment, continuously improved its asset and liability management, and thus realised balanced growth in all business lines. As at the end of June 2011, the Group’s RMB deposits and loans increased by RMB496.847 billion and RMB419.553 billion, respectively, up 8.11% and 10.11%; and its foreign currency deposits and loans increased by USD15.308 billion and USD26.395 billion, respectively, up 7.47% and 11.57%. The RMB deposits and loans in Hong Kong, Macau, Taiwan and other countries and regions increased by RMB81.783 billion and RMB111.553 billion, respectively, up 55.11% and 498.09%. The average interest rates of newly added RMB and USD loans granted on the Chinese mainland were 6.22% and 3.42%, respectively, up 100 basis points and 71 basis points over 2010.

The Bank’s traditional businesses continued to lead the market, while its emerging businesses developed rapidly. The Bank consolidated its dominant position in the cross-border RMB settlement and diversified businesses. In the first half of 2011, domestic institutions realised a non-interest income of RMB38.091 billion, up 41.64% compared with the first half of 2010. It transacted cross-border RMB settlement of RMB344.1 billion, accounting for 31.53% of the overall market share, an increase of 2.8 percentage points compared with the prior year-end. The non-interest income in Hong Kong, Macau, Taiwan and other countries and regions totalled USD2.759 billion, a year-on-year increase of 31.13%. In Hong Kong, the Bank’s syndicated loans and residential mortgages businesses continued to lead the market, and the competitive advantage of the RMB businesses was further enhanced. The Bank’s diversified platforms realised an after-tax profit of RMB8.439 billion, a year-on-year increase of 85.07%.

Significant Achievements in Risk Control

In the first half of 2011, the Bank strived to advance its risk management and internal control efforts in a more systematic, effective and forward-looking manner, with a view to establishing an integrated, refined and professional risk management system. These efforts have resulted in a more effective and comprehensive risk management function and enhanced business development. The Bank achieved remarkable results in risk control of several key areas. In addition, loans extended to local government financing vehicles and overcapacity industries accounted for a smaller share of the Bank's overall credit portfolio, while growth in real estate loans dropped significantly compared to the same period of last year. Asset quality remained stable. As at the end of June 2011, identified impaired loans totalled RMB62.694 billion, while the ratio of identified impaired loans to total loans stood at 1.01%, decreases of RMB1.182 billion and 0.12 percentage point from the prior year-end, respectively. The allowance for loan impairment losses to non-performing loans was 217.29%, up 20.62 percentage points over the prior year-end. The Bank's credit cost was 0.43%, down 0.01 percentage point compared with the first half of 2010.

A New Level in Infrastructure

In the first half of 2011, the Bank's IT Blueprint was upgraded to Version 3.0 and launched in 6 domestic branches. By the end of June, the IT Blueprint project had been launched in 29 domestic branches. By monitoring front-line business demands in a timely manner, the Bank has been able to improve several major functions and enhance overall levels of customer service quality and efficiency. The Bank has also improved its service channels by building fully functional medium-to-large-sized outlets and accelerating the business process integration. In addition, the electronic banking business achieved substantial progress in its development. As at the end of June 2011, the number of domestic corporate online banking and personal online banking customers increased 102% and 64% respectively from the beginning of the year. The proportion of domestic corporate online banking customers to the overall corporate customers increased by 25 percentage points, and that of domestic personal online banking customers to the total personal customers also increased by 10 percentage points. Corporate online banking cross-border services were expanded to 27 countries and regions. The Bank's rural financial services model was further innovated, and demonstrated favourable momentum in development, with 8 BOC Fullerton village banks opened.

Management Discussion and Analysis

Financial Review

Economic and Financial Environment

In the first half of 2011, the global economic recovery slowed as multiple risk factors came to the fore. Levels of inflation continued to soar. The US real estate market remained in depression, and concerns over the creditworthiness of US government debt emerged. US domestic consumption growth slowed, and the US Federal Reserve maintained a monetary policy based on near zero interest rates and quantitative easing. The European economy underwent an unbalanced recovery as the Eurozone's sovereign debt crisis deteriorated and the European Central Bank raised interest rates in an effort to tackle inflation. In Japan, the March 11 earthquake and tsunami created an adverse impact on the global supply chain and caused the economy to sink into recession. Political unrest in the Middle East and North Africa pushed up international oil prices, while rapid Consumer Price Index (CPI) growth in Asian and Latin American emerging markets ensured that their monetary policies remained tight. This combination of a slowdown in economic growth and rising inflation caused international financial markets to return to a volatile state in the second quarter. Major share indices decreased, and government bond yields declined significantly. In addition, the US dollar index became unstable and began to slide, and commodity prices fell.

Faced with a complicated and volatile international environment and emerging domestic development challenges, the Chinese government firmly implemented a pro-active fiscal policy and prudent monetary policy, thus continuously strengthening and improving macro controls. As a result, the national economy continued to show strong development

momentum in line with macro expectations. The People's Bank of China (PBOC) raised benchmark interest rates of deposits and loans twice and increased the mandatory reserve ratio for RMB deposits six times. In the first half of 2011, compared with the same period of the previous year, Gross Domestic Product on the Chinese mainland grew by 9.6%, the CPI increased by 5.4%, investment in fixed assets (excluding rural households) grew by 25.6%, total retail sales of consumer goods rose by 16.8%, the total value of foreign trade increased by 25.8%, and the trade surplus dropped by 18.2%, indicating a better balance in the international balance of payments.

China's domestic financial system continued to operate stably. The RMB exchange rate regime was further improved, with the exchange rate of RMB against US dollar appreciating by 2.3%. The total volume of social financing amounted to RMB7.76 trillion. The broad measure of money supply (M2), RMB-denominated loan balance of financial institutions and outstanding RMB-denominated deposits rose by 15.9%, 16.9% and 17.6%, respectively, year on year. As at the end of June 2011, impacted by changes to the international financial environment, domestic real estate regulations and the tightening of liquidity, the Shanghai Stock Exchange composite index and the total market capitalisation of the Shanghai and Shenzhen exchanges dropped by 1.6% and 0.5%, respectively, compared with the end of last year. The value of share trading, however, rose by 9.1% compared with the first half of 2010. The volume of bond issuance expanded and bond markets experienced more active trading, with the market value of the outstanding bonds growing by 1.2% from the end of 2010.

Income Statement Analysis

In the first half of 2011, the Group earned an after-tax profit of RMB70.133 billion, and a profit attributable to equity holders of the Bank of RMB66.513 billion,

increased by 28.98% and 27.86%, respectively, compared with the first half of 2010. Return on average total assets and return on average equity stood at 1.28% and 19.87%, increased by 0.10 percentage point and 0.48 percentage point, respectively, compared with the same period of 2010.

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

Unit: RMB million

Items	For the six month period ended 30 June 2011	For the six month period ended 30 June 2010
Net interest income	110,215	91,864
Non-interest income	55,759	41,015
Including: net fee and commission income	34,974	28,306
Operating income	165,974	132,879
Operating expenses	(63,256)	(53,094)
Impairment losses on assets	(12,287)	(9,951)
Operating profit	90,431	69,834
Profit before income tax	90,777	70,287
Income tax expense	(20,644)	(15,912)
Profit for the period	70,133	54,375
Profit attributable to equity holders of the Bank	66,513	52,022

Net Interest Income and Net Interest Margin

In the first half of 2011, the Group earned a net interest income of RMB110.215 billion, an increase of RMB18.351 billion or 19.98%, compared with the first half of 2010. The average balances¹ and

average interest rates of the Group's major interest-earning assets and interest-bearing liabilities as well as analysis of the impact of changes in volume and interest rate² on the Group's interest income and expense are summarised in the following table:

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

² The impact of changes in volume on interest income and expense is calculated based on the changes in average balances of interest-earning assets and interest-bearing liabilities during the reporting period. The impact of changes in interest rate on interest income and expense is calculated based on the changes in the average interest rates of interest-earning assets and interest-bearing liabilities during the reporting period. Impacts relating to the combined changes in both volume and interest rate have been classified as changes in interest rates.

Unit: RMB million, except percentages

Items	For the six month period ended 30 June 2011			For the six month period ended 30 June 2010			Analysis of interest income/expense variances		
	Average balance	Interest income/ expense	Average interest rate	Average balance	Interest income/ expense	Average interest rate	Volume	Interest rate	Total
Group									
Interest-earning assets									
Loans	5,942,765	135,468	4.60%	5,265,040	107,676	4.12%	13,846	13,946	27,792
Investment debt securities ¹	1,950,729	27,761	2.87%	1,930,793	26,115	2.73%	270	1,376	1,646
Balances with central banks ²	1,774,423	12,107	1.38%	1,255,668	8,797	1.41%	3,627	(317)	3,310
Due from banks and other financial institutions	872,225	15,438	3.57%	651,381	5,437	1.68%	1,840	8,161	10,001
Total	10,540,142	190,774	3.65%	9,102,882	148,025	3.28%	19,583	23,166	42,749
Interest-bearing liabilities									
Due to customers ³	8,000,932	60,994	1.54%	7,041,850	44,549	1.28%	6,088	10,357	16,445
Due to banks and other financial institutions and due to central banks	1,709,033	16,238	1.92%	1,363,261	9,198	1.36%	2,332	4,708	7,040
Other borrowed funds ⁴	185,741	3,327	3.61%	128,751	2,414	3.78%	1,068	(155)	913
Total	9,895,706	80,559	1.64%	8,533,862	56,161	1.33%	9,488	14,910	24,398
Net interest income		110,215			91,864		10,095	8,256	18,351
Net interest margin			2.11%			2.04%			
Domestic RMB businesses									
Interest-earning assets									
Loans	4,295,980	116,747	5.48%	3,757,689	93,952	5.04%	13,453	9,342	22,795
Investment debt securities	1,400,840	20,707	2.98%	1,391,783	19,087	2.77%	124	1,496	1,620
Balances with central banks	1,323,835	10,397	1.58%	1,129,245	8,388	1.50%	1,447	562	2,009
Due from banks and other financial institutions	737,494	13,720	3.75%	494,216	4,846	1.98%	2,389	6,485	8,874
Total	7,758,149	161,571	4.20%	6,772,933	126,273	3.76%	17,413	17,885	35,298
Interest-bearing liabilities									
Due to customers	6,417,553	56,104	1.76%	5,712,592	42,180	1.49%	5,209	8,715	13,924
Due to banks and other financial institutions and due to central banks	801,814	12,626	3.18%	746,395	7,495	2.02%	555	4,576	5,131
Other borrowed funds	124,300	2,439	3.96%	82,675	1,655	4.04%	834	(50)	784
Total	7,343,667	71,169	1.95%	6,541,662	51,330	1.58%	6,598	13,241	19,839
Net interest income		90,402			74,943		10,815	4,644	15,459
Net interest margin			2.35%			2.23%			
Domestic foreign currency businesses							Unit: USD million, except percentages		
Interest-earning assets									
Loans	97,822	1,223	2.52%	100,117	815	1.64%	(19)	427	408
Investment debt securities	23,610	263	2.25%	24,999	332	2.68%	(18)	(51)	(69)
Due from banks and other financial institutions ⁵	20,364	145	1.44%	26,467	96	0.73%	(22)	71	49
Total	141,796	1,631	2.32%	151,583	1,243	1.65%	(59)	447	388
Interest-bearing liabilities									
Due to customers	57,137	181	0.64%	55,771	134	0.48%	3	44	47
Due to banks and other financial institutions and due to central banks	55,924	288	1.04%	61,450	199	0.65%	(18)	107	89
Other borrowed funds	3,704	43	2.34%	3,616	43	2.40%	1	(1)	-
Total	116,765	512	0.88%	120,837	376	0.63%	(14)	150	136
Net interest income		1,119			867		(45)	297	252
Net interest margin			1.59%			1.15%			

Notes:

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

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

Unit: RMB million, except percentages

Items	For the six month period ended 30 June 2011		For the six month period ended 30 June 2010		Change	
	Average balance	Average interest rate	Average balance	Average interest rate	Average balance	Average interest rate
	Domestic RMB businesses					
Loans						
Corporate loans	2,938,660	5.67%	2,522,690	5.33%	415,970	34 BPs
Personal loans	1,278,776	5.01%	1,070,527	4.72%	208,249	29 BPs
Trade bills	78,544	6.19%	164,472	2.69%	(85,928)	350 BPs
Total	4,295,980	5.48%	3,757,689	5.04%	538,291	44 BPs
Including:						
Medium and long term loans	3,111,717	5.45%	2,675,170	5.16%	436,547	29 BPs
1-year short term loans and others	1,184,263	5.55%	1,082,519	4.75%	101,744	80 BPs
Due to customers						
Corporate demand deposits	1,871,420	0.84%	1,676,471	0.70%	194,949	14 BPs
Corporate time deposits	1,101,292	2.56%	1,048,773	2.16%	52,519	40 BPs
Personal demand deposits	911,090	0.49%	775,366	0.37%	135,724	12 BPs
Personal time deposits	1,833,244	2.51%	1,758,768	2.29%	74,476	22 BPs
Other	700,507	2.67%	453,214	1.70%	247,293	97 BPs
Total	6,417,553	1.76%	5,712,592	1.49%	704,961	27 BPs
Domestic foreign currency businesses						
Loans	97,822	2.52%	100,117	1.64%	(2,295)	88 BPs
Due to customers						
Corporate demand deposits	21,640	0.16%	19,876	0.13%	1,764	3 BPs
Corporate time deposits	5,723	1.93%	5,171	0.94%	552	99 BPs
Personal demand deposits	9,215	0.08%	9,654	0.09%	(439)	(1) BP
Personal time deposits	16,356	0.73%	18,338	0.83%	(1,982)	(10) BPs
Other	4,203	2.19%	2,732	1.29%	1,471	90 BPs
Total	57,137	0.64%	55,771	0.48%	1,366	16 BPs

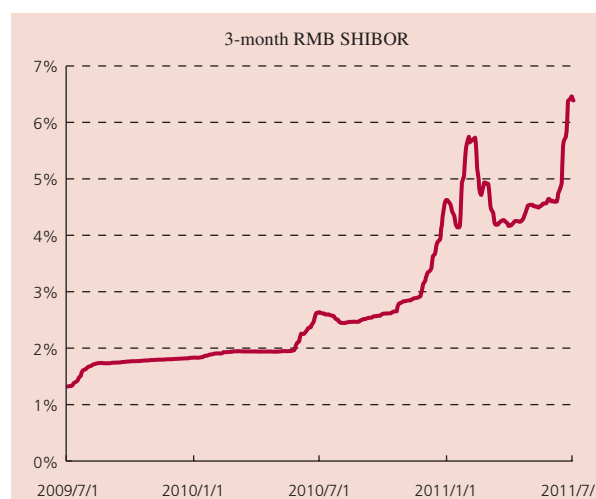
Notes: "Due to customers-other" item includes security and margin deposits and structured deposits.

In the first half of 2011, the Group's net interest margin was 2.11%, an increase of 0.07 percentage point compared with the first half of 2010. Net interest margin of the Bank's domestic RMB businesses and net interest margin of its foreign currency businesses stood at 2.35% and 1.59%, increased by 0.12 percentage point and 0.44 percentage point, respectively, compared with the same period of 2010. Major factors impacting the Group's net interest margin included:

- (1) Significant progress in business structure realignment. Since the start of 2011, in response to changes in the external business environment, the Bank took comprehensive measures to strengthen its asset and liability management and adjust and optimise its portfolio while performing efficient allocation on an incremental basis. This led to further optimisation of its asset and liability structure. As at the end of June 2011, total assets of the Group stood at RMB11.48 trillion, an increase of 9.79% compared with the prior year-end. The RMB-denominated assets of the Group were RMB8.80 trillion, increased by 10.92% compared with the prior year-end, and represented 76.63% of the Group's total assets, an increase of 0.78 percentage point from the prior year-end. Loans represented 54.13% of total assets, an increase of 0.01 percentage point compared with the prior year-end. Domestic demand deposits accounted for 47.08%, an increase of 0.12 percentage point compared with 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 strengthened interest rate management

in order to provide comprehensive and quality financial services to its customers. In the first half of 2011, the interest rates of newly added RMB and USD loans granted on the Chinese mainland increased by 1.00 percentage point and 0.71 percentage point, respectively, compared with the prior year.

- (3) Increases in RMB benchmark interest rates and market interest rates. In the second half of 2010 and the first half of 2011, PBOC raised interest rates four times and the mandatory reserve ratio for deposits nine times. The benchmark interest rates for one-year RMB deposits and loans increased by a total of 1.0 percentage point, and the reserve ratio for RMB deposits increased by 4.5 percentage points from 17.0% at the end of June 2010 to 21.5%. RMB liquidity moved gradually from an ample towards a more appropriate level, and RMB market interest rates increased. In the first half of 2011, the average of 3-month RMB SHIBOR was 4.73%, an increase of 2.72 percentage points compared with the first half of 2010.



Source: Wind Info

Non-interest Income

In the first half of 2011, the Group reported a non-interest income of RMB55.759 billion, an increase of RMB14.744 billion or 35.95% compared with the first half of 2010. This represented 33.60% of total operating income, up 2.73 percentage points compared with the same period of 2010.

Net Fee and Commission Income

In the first half of 2011, the Group earned a net fee and commission income of RMB34.974 billion, an increase of RMB6.668 billion or 23.56% compared with the same period of 2010. Since the beginning of the year, faced with changes in market conditions and customer demands, the Bank has leveraged the Group's strength as a provider of diversified financial services and focused on product innovation and cross-selling. As a result, strong growth was achieved in the Bank's major business lines. Income from settlement and clearing, agency, and credit commitment fees each increased by more than 30%. These have further solidified foundations for the development of the Bank's fee-based businesses. Please refer to Note III.2 to the Condensed Consolidated Interim Financial Information for detailed information.

Other Non-interest Income

In the first half of 2011, the Group realised other non-interest income of RMB20.785 billion, an increase of RMB8.076 billion or 63.55% compared with the same period of 2010. The major factors driving this growth included: (1) expanding interest rate spread between RMB and major foreign currencies as the result of four times interest rate increases made by PBOC in the

second half of 2010 and the first half of 2011, which resulted in an increase of gains. (2) gains realised on disposal of a portion of the portfolio of financial assets classified as available-for-sale. (3) a significant increase in revenues from the Bank's precious metal product sales and real estate investments. Please refer to Note III.3, 4 to the Condensed Consolidated Interim Financial Information for detailed information.

Operating Expenses

In the first half of 2011, the Group recorded operating expenses of RMB63.256 billion, an increase of RMB10.162 billion or 19.14% compared with the same period of 2010. This is the result of further human resources investment in the Bank's outlets, key regions and key business lines, which increased staff costs. The Bank also devoted significant resources to the rapid development of key regions, businesses, products and projects, contributing to an increase in general operating and administrative expenses. The Bank continued to increase investment in infrastructure construction, including the development of outlets, channels and the launch of the IT Blueprint, which increased depreciation and amortisation costs. The rapid development of the precious metal businesses increased related expenses. Finally, growth in operating income in turn drove growth in related operating taxes.

The Group's cost to income ratio (calculated under domestic regulations) was 28.81%, a decrease of 0.98 percentage point compared with the first half of 2010. The operating efficiency of the Group has been steadily enhanced. Please refer to Note III.5, 6 to the Condensed Consolidated Interim Financial Information for detailed information.

Impairment Losses on Assets

Impairment Losses on Loans and Advances

In the first half of 2011, the Group further improved the quality of its loans and advances. As a result, both the amount of identified impaired loans and the ratio of identified impaired loans to total loans decreased. The Group's impairment losses on loans and advances amounted to RMB12.833 billion, an increase of RMB1.392 billion compared with the same period of 2010. Credit cost was 0.43%, a decrease of 0.01 percentage point compared with the same period of 2010. Please refer to the "Risk Management – Credit Risk Management" section and Notes III.7, 15 and IV.1 to the Condensed Consolidated Interim Financial Information for detailed information on loan quality and allowance for loan impairment losses.

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

Unit: RMB million

Items	As at 30 June 2011	As at 31 December 2010
Assets		
Total loans and advances to customers	6,216,524	5,660,621
Allowance for impairment losses	(134,592)	(122,856)
Investment securities ¹	1,940,469	2,055,324
Balances with central banks	1,838,767	1,573,922
Due from banks and other financial institutions	1,090,968	800,620
Other assets	531,362	492,234
Total	11,483,498	10,459,865
Liabilities		
Due to customers	8,048,186	7,483,254
Due to banks and other financial institutions and due to central banks	1,742,272	1,580,030
Other borrowed funds ²	210,251	174,507
Other liabilities	779,664	545,924
Total	10,780,373	9,783,715

Notes:

- Investment securities include available for sale securities, held to maturity securities, securities classified as loans and receivables, and financial assets at fair value through profit or loss.
- Other borrowed funds include bonds issued and other borrowings.

Impairment Losses on Other Assets

In the first half of 2011, net reversal of impairment on other assets amounted to RMB0.546 billion, largely attributable to a reversal of impairment losses on debt securities amounting to RMB0.611 billion. Please refer to Note III.7 and IV.1 to the Condensed Consolidated Interim Financial Information for detailed information.

Financial Position Analysis

As at the end of June 2011, the Group's total assets amounted to RMB11,483.498 billion, an increase of RMB1,023.633 billion or 9.79% from the prior year-end. The Group's total liabilities amounted to RMB10,780.373 billion, an increase of RMB996.658 billion or 10.19% from the prior year-end.

Loans and Advances to Customers

As at the end of June 2011, the Group's loans and advances to customers amounted to RMB6,216.524 billion, an increase of RMB555.903 billion or 9.82% compared with the prior year-end. Since the beginning of 2011, the Bank has continued to earnestly implement the government's prudent monetary policy and macro-control requirements and ensured that credit is extended in a rational and well-timed manner. These measures have promoted the balanced and moderate development of the Bank's lending scale. As at the end of June 2011, the volume of RMB-denominated loans granted by domestic branches increased by RMB308.000 billion or 7.46% from the prior year-end.

Asset quality has continued to improve in 2011 as the Bank has further intensified its proactive risk management activities. As at the end of June, the ratio of the Group's identified impaired loans to total

loans was 1.01%, a decrease of 0.12 percentage point from the prior year-end. The ratio of non-performing loans to total loans was 1.00%, a decrease of 0.10 percentage point from the prior year-end. The ratio of allowance for loan impairment losses to non-performing loans was 217.29%, up 20.62 percentage points from the prior year-end. Please refer to "Risk Management-Credit Risk Management" section for detailed information on loan quality.

Investment Securities

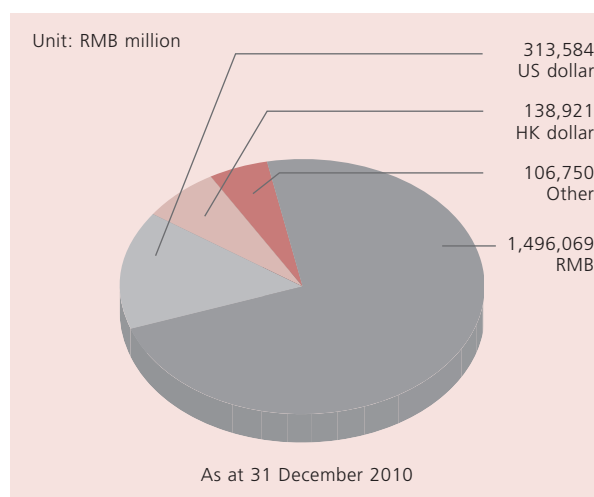
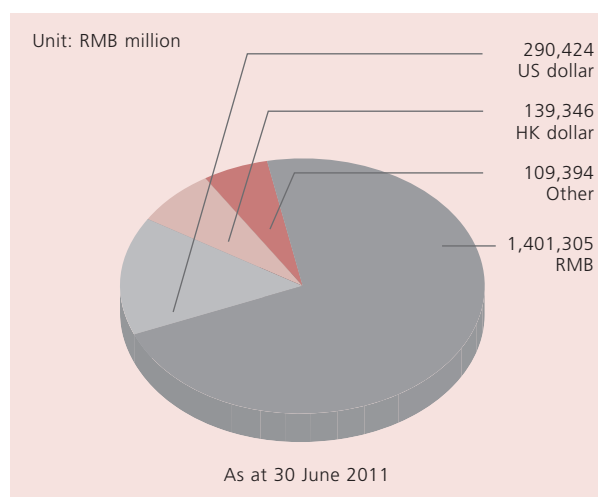
As at the end of June 2011, the Group held investment securities of RMB1,940.469 billion, a decrease of RMB114.855 billion or 5.59% from the prior year-end. RMB-denominated investment securities amounted to RMB1,401.305 billion, a decrease of RMB94.764 billion or 6.33% from the prior year-end. Foreign currency-denominated investment securities amounted to USD83.312 billion, a decrease of USD1.133 billion or 1.34% from the prior year-end.

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

Unit: RMB million, except percentages

Items	As at 30 June 2011		As at 31 December 2010	
	Amount	% of total	Amount	% of total
Financial assets at fair value through profit or loss	71,564	3.69	81,237	3.95
Securities available for sale	506,250	26.09	656,738	31.95
Securities held to maturity	1,090,748	56.21	1,039,386	50.57
Securities classified as loans and receivables	271,907	14.01	277,963	13.53
Total	1,940,469	100.00	2,055,324	100.00

Investment Securities by Currency



As at the end of June 2011, 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 USD2.313 billion (RMB14.966 billion), and the related impairment allowance was USD1.922 billion (RMB12.439 billion).

As at the end of June 2011, the carrying value of debt securities issued by US Freddie Mac and Fannie Mae held by the Group was USD0.010 billion (RMB0.065 billion). The carrying value of mortgage-backed securities guaranteed by these two agencies was USD0.064 billion (RMB0.413 billion). The principal and interest payments on these securities are currently on schedule.

As at the end of June 2011, the total carrying value of debt securities issued by Portugal, Ireland, Italy, and Spain held by the Group was RMB1.136 billion, a decrease of RMB1.030 billion from the prior year-end, and the related impairment allowance was RMB0.026 billion. 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

Since the beginning of 2011, the Bank has strengthened the marketing of its deposits offerings, accelerated the construction of its outlets and e-channels, upgraded the service functions of its 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 sustainable and stable growth. As at the end of June 2011, the Group's deposits from customers amounted to RMB8,048.186 billion, an increase of RMB564.932 billion or 7.55% from the prior year-end. This included RMB-denominated deposits of RMB6,622.321 billion, an increase of RMB496.847 billion or 8.11% compared with the prior year-end, and foreign currency-denominated deposits of USD220.327 billion, an increase of USD15.308 billion or 7.47% compared with the prior year-end.

Equity

As at the end of June 2011, the Group's total equity was RMB703.125 billion, an increase of RMB26.975 billion or 3.99% from the prior year-end. This change was primarily attributable to: (1) an after-tax profit of RMB70.133 billion, with profit attributable to equity holders of the Bank of RMB66.513 billion in the first half of 2011; (2) a cash dividend of RMB40.756 billion paid in respect of the 2010 profit approved by the equity holders of the Bank at the Annual General Meeting. Please refer to the Condensed Consolidated Statement of Changes in Equity in the Condensed Consolidated Interim Financial Information for detailed information on equity movements.

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

Business Review

In the first half of 2011, the Group continued to implement its strategic development plan and achieved healthy growth across all business lines. The following table sets forth the profit before income tax for each line of business:

Unit: RMB million, except percentages

Items	For the six month period ended 30 June 2011		For the six month period ended 30 June 2010	
	Amount	% of total	Amount	% of total
Commercial banking business				
Including:				
Corporate banking business	50,997	56.18	42,632	60.65
Personal banking business	22,084	24.33	19,049	27.10
Treasury operations	9,257	10.20	4,046	5.76
Investment banking and insurance	1,432	1.57	1,231	1.75
Others and elimination	7,007	7.72	3,329	4.74
Total	90,777	100.00	70,287	100.00

A detailed review of the Group's principal deposits and loans as at the end of June 2011 is summarised in the following table:

Unit: RMB million

Items	As at 30 June 2011	As at 31 December 2010	As at 31 December 2009
Corporate deposits			
Domestic: RMB	3,577,666	3,301,778	2,903,326
Foreign currency	188,145	177,517	171,947
Hong Kong, Macau, Taiwan, and other countries and regions	614,540	505,436	364,454
Sub-total	4,380,351	3,984,731	3,439,727
Personal deposits			
Domestic: RMB	2,814,477	2,675,301	2,408,075
Foreign currency	159,154	181,818	198,325
Hong Kong, Macau, Taiwan, and other countries and regions	587,067	596,187	574,425
Sub-total	3,560,698	3,453,306	3,180,825
Corporate loans			
Domestic: RMB	3,110,341	2,910,239	2,531,164
Foreign currency	626,362	630,446	655,084
Hong Kong, Macau, Taiwan, and other countries and regions	929,671	703,698	576,628
Sub-total	4,666,374	4,244,383	3,762,876
Personal loans			
Domestic: RMB	1,325,069	1,217,171	979,072
Foreign currency	785	729	393
Hong Kong, Macau, Taiwan, and other countries and regions	224,296	198,338	168,017
Sub-total	1,550,150	1,416,238	1,147,482

Commercial Banking Business

Domestic Commercial Banking Business

In the first half of 2011, the Bank's domestic commercial banking business recorded a profit before income tax of RMB72.254 billion, an increase of RMB15.622 billion or 27.59% compared with the first half of 2010. The principal components are set forth below:

Unit: RMB million, except percentages

Items	For the six month period ended 30 June 2011		For the six month period ended 30 June 2010	
	Amount	% of total	Amount	% of total
Corporate banking business	47,089	65.17	38,436	67.87
Personal banking business	20,092	27.81	16,536	29.20
Treasury operations	5,073	7.02	1,660	2.93
Total profit before income tax	72,254	100.00	56,632	100.00

Corporate Banking Business

In the first half of 2011, the domestic corporate banking business recorded a profit before income tax of RMB47.089 billion, an increase of RMB8.653 billion or 22.51%, compared with the first half of 2010.

Corporate Loans

The Bank continued to optimise credit orientation and stepped up credit support for strategic emerging industries such as energy saving, environmental protection, new energy and new materials. It also intensified efforts to enlarge its key customer base in these emerging industries, and made plans for the future development of its industrial portfolio. The Bank strengthened the management of loans granted to government financing platforms, optimised its credit portfolio of the real estate industry, and strictly controlled loans to industries with overcapacity. It pushed forward the expansion of its corporate

customer base and developed its large, medium and small-sized customer base in a co-ordinated manner. At the same time, the Bank fully leveraged the competitive advantage that arose from the integrated development of its domestic and overseas operations in order to support the "Going Global" Chinese enterprises, and achieved encouraging progress in its cross-border RMB loan business. It also proactively enhanced risk management and internal controls, leading to a constant improvement in the asset quality of its corporate loans business.

As at the end of June 2011, RMB-denominated corporate loans of the Bank's domestic operations increased by RMB200.102 billion or 6.88%, while foreign currency-denominated corporate loans increased by USD1.591 billion compared with the prior year-end. The percentage of the balance of loans extended to the industries with overcapacity decreased by 0.21 percentage point compared with the prior year-end. The Bank completed 9 large

overseas M&A loan projects and 6 export buyer's credit projects. The balance of non-performing corporate loans and non-performing corporate loan ratio of domestic operations both decreased continuously.

Corporate Deposits

The Bank leveraged its strong relationships with key customers so as to vigorously extend its services to other enterprises in the industrial chain, upstream and downstream, which expanded fund circulation within the Bank. It exploited opportunities to provide direct financing to enterprises and stepped up efforts to attract more deposits from the funds of major projects. The Bank also reinforced product innovation and improved processes in its corporate deposits business, and leveraged its cash management to further boost constant growth in corporate deposits. As at the end of June 2011, RMB-denominated corporate deposits in the Bank's domestic operations increased by RMB275.888 billion or 8.36% compared with the prior year-end, and its foreign currency-denominated corporate deposits increased by USD2.268 billion.

Domestic Settlement and Cash Management Business

The Bank continued to innovate and promote its domestic settlement and cash management business. It began researching and developing new products such as "Credit on Checks", "Settlement Card for Corporations", "Pool of Bills" etc. Meanwhile, the Bank promoted key products on a large scale, such as "Capital Verification Online", "Agency Payment Service for Central Government", and "Banking Service Plan for the Retail Industry". The Bank gradually improved the BOC Global Cash Management System and product functions. This is now a comprehensive product system with six

function modules, namely account management, collection and payment management, liquidity management, investment and financing management, risk management and cross-border cash management. Together, these products meet customers' various business requirements and help them to enhance their financial control and make their financial management more efficient.

International Settlement and Trade Finance Business

The Bank continued to expand its customer base through the promotion of products such as letters of guarantee, factoring, cross-border RMB settlement and supply chain financing. Moreover, it accelerated the development of new products related to commodity financing, accounts receivable pool financing, ECA factoring (bank policy), ECA forfeiting (bank policy) and financing under entrepot trade, which drove the steady growth of its international settlement and trade finance business, consolidating its leading position in the market. In the first half of 2011, the transaction volume of the Group's international settlement business totalled USD1.18 trillion, continuing to maintain its leading position in the global banking industry. The volume of two-factor export factoring was USD1.885 billion, also ranking first among its global peers. Thanks to its excellent innovation capabilities and strong market performance, the Bank was recognised as the "Best Trade Finance Bank in China" by *The Asset* and *Trade Finance*, among others, demonstrating its rising brand influence across the world.

By fully leveraging the Group's overall advantages, the Bank achieved rapid development in its cross-border RMB settlement business, securing its leading position in the market. In the first half of 2011, the transaction volume of cross-border RMB settlement by domestic pilot branches of the Bank amounted

to RMB344.1 billion, surpassing total volumes for all of last year. The Bank completed over 10,000 transactions for thousands of customers from over 100 countries and regions, in industries such as the electrics, communication equipment, electronic products, transport, chemical, manufacturing, wholesale and retail industries. The Bank also opened more than 400 cross-border RMB clearing accounts for overseas participating banks, covering Asia, Europe, America, Oceania and Africa. As a result, the Bank led its peers in terms of its global clearing network. Building on the success of its cross-border RMB settlement business, the Bank brought into play the competitive advantage of its diversified services offering by establishing an integrated cross-border and overseas RMB product system covering deposit, loan, international settlement, cash distribution, clearing, treasury operations, credit card, insurance and funds, thus delivering comprehensive and quality financial services to facilitate the customers' cross-border business.

Financial Institutions Business

The Bank has pushed forward with the innovation-led development of its financial institutions business, continuously expanding its customer base of financial institutions business and optimising customer structure in pursuit of efficiency and quality. In the first half of 2011, the Bank's RMB deposits from financial institutions gradually increased, while its foreign currency deposits led its peers with rapid growth. The Bank's market share of bancassurance and third-party custodian business continued to rise, and its business volume of B-share clearing led the market. The Bank also broke new ground in its cross-border businesses, ranking first in the

domestic market in terms of incoming international settlement business volume directed to the Bank by its overseas correspondent banks. In addition, overseas correspondent banks from a total of 50 countries and regions have opened cross-border RMB-denominated clearing accounts with BOC, consolidating the Bank's leading position. The "China Desk" model was also vigorously promoted, with a new China Desk established in UAE in addition to those already in operation in Oman, Peru and Ghana, providing tailor-made services to "Going Global" Chinese enterprises in areas where the Bank has no physical presence.

Small-sized Enterprises Business

The Bank further promoted the "BOC Credit Factory", a credit approval model designed for the small-sized enterprises. It endeavored to optimise the credit process and improve service efficiency. The Bank is also committed to pushing forward product innovation and enhancing its services. It developed tailored financial products to small and medium-sized enterprises, and promoted products such as the "Zhongguancun Model", "Ying Shi Tong Bao", and "Mian Dai Tong Bao" to support small businesses in the high-tech, cultural and agricultural sectors, gaining the social-wide recognition. By the end of June, the number of small-sized enterprise customers reached 29.9 thousand, an increase of 48.02% from the prior year-end. The Bank's outstanding loans extended to small-sized enterprises increased by 35.35% from the prior year-end to RMB323.970 billion. The ratio of non-performing loans to total loans within this segment was 2.01%, a decrease of 0.78 percentage point compared with the prior year-end.

Investment Banking Business

The Bank has stepped up its efforts to improve its product innovation capabilities and promote new investment banking products, including bond issuance consultancy, loans with embedded options, asset-backed structured financing and M&A financial advisory. It also developed its wealth management business in a prudent and stable manner and actively promoted innovation in wealth management products, thus continuously enhancing profitability. Furthermore, the Bank strengthened cooperation between domestic and overseas branches, and achieved significant progress in the coordination between the commercial banking arm and its subsidiaries. These efforts have resulted in the continuous improvement of the Bank's reputation within the investment banking industry. In the first half of 2011, the Bank was awarded the "Best Financial Advisory Bank", "Best M&A Project", and "Best Innovation Bank" by *Securities Times*.

Pension Business

The Bank constantly enriched its pension products and gradually expanded its pension business scope, resulting in an increased market share. The pension business has been progressively extended from corporate annuities to occupational annuities, social security, employee benefits planning and other fields. In 2011, the pension business has played an increasingly important role in expanding customer base and absorbing low-cost deposits. By the end of June, the number of pension accounts reached 2.421 million, investments under custody were RMB29.750 billion and the number of customers stood over

9,300. Newly opened individual pension accounts reached 0.8117 million and new capital in custody reached RMB4.623 billion, increased by 50.44% and 18.40%, respectively, over the end of 2010.

Personal Banking Business

In the first half of 2011, the Bank's domestic personal banking business realised a profit before income tax of RMB20.092 billion, an increase of RMB3.556 billion or 21.50% compared with the same period of 2010.

Personal Deposits

The Bank improved its business development model, accelerated the optimisation of outlet distribution and transformation, and enhanced the service ability. The Bank vigorously promoted the personal services, such as payroll services, and also engaged in the cross-selling so as to expand the number of personal customers. It strengthened its third-party custody offering and launched more high-quality funds, diversifying the sources of personal deposits and promoting beneficial exchange between personal deposits and other financial assets. The Bank introduced automatic fund transfer from demand deposit to time deposit, improved personal deposit account functions, and promoted the MoneyGram and Great Wall Shang-Hu-Tong products. This resulted in steady and continuous growth in the Bank's personal deposits business. As at the end of June 2011, the balance of domestic RMB-denominated personal deposits was RMB2,814.477 billion, an increase of RMB139.176 billion or 5.20% over the prior year-end.

Personal Loan Business

The Bank further optimised the structure of its personal loan business and thus realised a substantial rise in profits. The Bank continued to develop its core personal housing loan business while also looking to enhance other areas, such as personal housing loans for businesses, personal business loans and personal foreign exchange loans for overseas students, among others. In the first half of 2011, personal non-housing loans reached RMB104.589 billion, accounting for 42.34% of all newly-granted personal loans. The proportion of personal housing loans to total personal loans reduced to 78.91%, down by 0.19 percentage point compared with the beginning of the year. The number of new personal loan customers reached 0.28 million, increased by 5.05% from the prior year-end.

Wealth Management and Private Banking

The Bank pushed forward a rapid rise in the number of middle and high-end customers, and continuously optimised the structure of its personal banking customer base. The Bank continued to improve its product innovation framework, and took the lead in introducing investment securities portfolio products for privately placed funds. Wealth management products such as “BOC Stable Return”, “BOC Wen Fu” and “BOC Wealth-Chuang Fu” were becoming increasingly competitive. Thus, the sales volumes of both RMB and foreign currency wealth management products showed stable growth. The Bank has continued to improve its customer service model and to develop its value-added service system for middle and high-end customers, which now includes such added services as the airport VIP service, health management, and sports and entertainment services. Meanwhile, the Bank formed an investment advisory information platform, offering investment advisory

services to customers through various channels. An investment emigration service was launched in Hong Kong, Singapore, Canada and other regions, enhancing the Bank’s professional service ability for middle and high-end customers. The Bank accelerated the establishment of its three-tier wealth management channel, completing the rollout of such channels in key domestic and overseas regions. The Bank strengthened the development of its core systems, updating its product sales system and wealth management system. It also successfully expanded its trading channels, diversified its product offering and enhanced the management of customer information. As at the end of June 2011, the middle and high-end customers’ financial assets under management grew by 18.63% compared with the prior year-end. In the first half of 2011, the sales volume of RMB and foreign currency wealth management products exceeded RMB2.66 trillion. The numbers of the wealth management centres, prestigious wealth management centres and private banking branches reached 2,912, 138 and 17 respectively. The Bank was honoured as one of the “Best Private Banks in China” for four consecutive years by *Euromoney*, and was awarded the “Best Product Innovation Award in China’s Banking Industry” by UK’s *Financial Times*.

Bank Cards Business

The Bank made constant innovation in products and functions, and offered diversified, differentiated and globalised services to its customers, promoting rapid growth in its bank cards business. With “Great Wall Globe-in-One” as the primary brand, the Bank enhanced its bank card brand building and product marketing. It also accelerated research and development into credit card products and launched a high-end credit card product called the “Great Wall American Express Card” for private banking

customers. The Bank updated product features by integrating new technologies, and launched IC card products in line with PBOC2.0 standard. Meantime, the Bank diversified its customer service function and widened its network of reward programme affiliates. It optimised its operating system to add more functions to the BOC credit card, such as agency payment, reward points POS and payment for online purchasing. The Bank also integrated its credit card platform and formed a customer service system and product R&D mechanism for its credit card business. The Bank strengthened the management of existing cardholder relationships through a series of initiatives related to card activation and usage, cardholder retention, credit limit management and others, thus enhancing customer loyalty. The Bank also continuously advanced its social security card business. The Bank issued more than 60 kinds of co-branded debit cards (including themed cards). As at the end of June 2011, outstanding effective cards issued by the Bank's domestic branches amounted to 28.056 million, a year-on-year increase of 73.26%. In the first half of 2011, the volume of RMB card merchant acquiring transactions reached RMB800.995 billion, a year-on-year increase of 62.35%. The volume of foreign currency card merchant acquiring transactions amounted to RMB11.186 billion, a year-on-year increase of 22.14%.

Financial Markets Business

The Bank continued to promote the strategic transformation of its financial markets business, consolidated its core business strengths by developing its key product lines, and boosted its differentiated competitiveness with product and service innovation. It accelerated its globalisation efforts via the expansion of overseas RMB business, and optimised

its business structure by virtue of the Group's global network. Through all of these efforts, the Bank has achieved steady and sound development of its financial markets business.

Investments

The Bank worked constantly to optimise the structure of its investments and strengthen the dynamic management of its investment portfolios. Specifically, the Bank sensibly controlled and properly expanded the duration of its RMB-denominated bond portfolio, moderately increase its investments in China's government bonds and debenture bonds, sustained its investments in floating rate bonds, and improved portfolio yields within its established risk appetite. With respect to foreign currency-denominated bond investment, the Bank appropriately increased exposure to the government bonds of developed countries/regions, as well as supranational bonds and large-scale financial institution bonds. At the same time, the Bank actively reduced the scale and portfolio proportion of high-risk structured bonds, resulting in a further decrease in the overall risk of its foreign currency bond portfolios. The Bank made full use of the domestic inter-bank bond market investment quota of overseas institutions approved by PBOC to broaden the application channel for overseas RMB funds and enhance yield level. In line with its commitment to enhancing bond investment management, the Bank established a due diligence mechanism for debenture bonds investment and reinforced support for studying investment strategy and post-investment management. The Bank also strengthened communication, coordination and integrated management of bond investment across all institutions within the Group to guarantee a consistent investment risk appetite.

Trading

Relying on its abundant market experience and understanding of customer needs, the Bank consolidated its traditional advantages with a focus on the domestic market. The Bank also made great efforts to expand its core customer base and develop its core businesses. Furthermore, it strived to perfect its proprietary trading and quotation business system. It developed proprietary trading businesses for products including the Russian Rouble, South African Rand and the South Korean Won non deliverable forwards (NDF), launched a public quotation business for the purchase and sale of non-USD currencies in the inter-bank market, opened a customer-based RMB against foreign currency options business, and successfully completed its first transaction in the inter-bank market. The Bank continued to promote a trial programme of emerging market currencies quotation and became the first bank in China to launch the purchase and sale business for spot exchange of RMB against the Kazakhstan Tenge. In addition, the Bank seized opportunities to push forward its RMB purchase and sales business in cross-border trade settlement and comprehensively developing transaction services on RMB-denominated bonds for overseas institutions. In the first half of 2011, the Bank obtained the largest market share in transaction volumes for customer-based purchase and sale of spot exchange and forward delivery, and ranked top among peers for transaction volumes on the Shanghai Gold Exchange.

Client business

The Bank made constant innovations to its products and services so as to satisfy customers' increasing demands in wealth management. The Bank made full use of its experience and strength in financial market investment performance, intensified product research and development, optimised product functions and launched key products. Meanwhile, it actively seized opportunities to improve sales mechanisms, with a view to increasing the competitiveness and market share of its wealth management business. In particular, the Bank researched and developed "RI JI YUE LEI", a monthly closed-end RMB liquidity management product, to enrich product term structure. It also implemented a business strategy for the comprehensive development of its debt underwriting business, vigorously expanded the customer base of its financial markets business. It worked hard to promote innovative products such as super-short term commercial paper ("SCP") and private placement notes ("PPN"). Moreover, the Bank optimised the financial markets business model for corporate customers and promoted its derivatives products, wealth management, debt distribution and other businesses. The Bank provided risk mitigation and integrated solutions for customers, as well as integrated financial markets products, traditional credit products and export credit products. It also successfully completed multiple cross-border interest rate swap transactions. In the first half of 2011, the Bank registered and issued first three SCPs for customers, involving a total amount of RMB23 billion, and issued private placement notes of RMB1.5 billion for the first batch of trial enterprises. The debt underwriting business of the Bank as the lead manager amounted to RMB104.08 billion, up 114.60% compared with the same period of last year.

Custody business

The Bank responded to market trends by improving the coverage of its custody products and enhancing cooperative relationships with fund management companies, the National Council for Social Security Fund, insurance companies and other large financial institutional customers. The Bank strived to develop custody services for global funds, off-shore private equity funds, artwork investment funds, banks' collective investment plans linked with securities companies' pooling accounts, and enterprise annuity performance measurement. In addition, the Bank successfully launched its Global Custody System (GCS) at its New York Branch, and intensified the cross-border custody service capability. As at the end of June 2011, the number of the custody products offered by the Bank increased by 44% to 1,825 compared with the prior year-end. The Bank's assets under custody by its domestic offices amounted to RMB1.26 trillion, maintaining its leading position among peers.

Village Bank

The Bank has actively explored how large commercial banks can serve agriculture, rural areas and farmers more effectively. The Bank initiated the first domestic village bank in Qichun, Hubei Province, which was founded on March 4, 2011 in partnership with strategic investor Fullerton Financial, a wholly owned subsidiary of Temasek Holdings (Private) Limited. The Bank has received approval from the China Banking Regulatory Commission to initiate plans for the founding of a further 18 village banks. As at the end of June 2011, 8 village banks were opened for business, half of which were in Hubei Province and the other half in Shandong Province. These banks have been operated in good condition since opened.

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

Under the guidelines of "specialised operation, intensive management and the integrated development of domestic and overseas businesses", the Bank seized the historic opportunities of the government's "Going Global" strategy and cross-border RMB business to continuously promote the integrated development of its domestic and overseas operations by leveraging the Group's consolidated strengths, quickening the pace of its global network expansion, further enhanced cross-border financial services, and strengthened its capacity for sustainable development. In the first half of 2011, as the business kept expanding, the commercial banking operations of the Bank in Hong Kong, Macau, Taiwan and other countries and regions created higher comprehensive benefits and further promoted their market status.

Deposits and loans increased rapidly and the financial results grew steadily. As at the end of June 2011, the total assets of the Bank's commercial banking operations in Hong Kong, Macau, Taiwan and other countries and regions amounted to USD412.821 billion, an increase of USD61.259 billion or 17.42% from the prior year-end, and represented 22.38% of the Group's total assets, an increase of 0.92 percentage point from the prior year-end. Due to customers reached USD202.229 billion, an increase of USD29.061 billion or 16.78% over the prior year-end, and accounted for 16.26% of the Group's total deposits, up 0.93 percentage point over the end of 2010. The loans amounted to USD178.312 billion, up USD42.108 billion or 30.92% over the end of 2010, accounting for 18.57% of the Group's total loans, an increase of 2.63 percentage points over the prior year-end. Profit before income tax was USD2.823 billion, an increase of USD0.848 billion or 42.94% compared

with the same period of 2010, and accounted for 20.31%³ of the Group's profit before income tax, up 1.15 percentage points compared with the first half of 2010.

The Bank greatly expanded the overseas corporate customer base, established an integrated personal banking service platform covering domestic and overseas operations, and accelerated the development of financial markets business. Through deepened cooperation between domestic and overseas branches, the Bank provided all-around services to "Going Global" Chinese enterprises, Fortune 500 enterprises and overseas local enterprises. The Bank proactively expanded its international M&A loan projects and export buyers' credit projects. Meanwhile, the Bank actively promoted its overseas bank cards business. Bank card issuance and card merchant acquiring were offered in the UK and Bangkok Thailand. By integrating the quality product and service resources in and out of the Bank, the Bank delivered all-round and one-stop financial services for five categories of cross-border customers, namely people studying abroad, people on business travel, emigrants, overseas labors and people coming to China. Seizing the favorable opportunities in the market, the Bank strengthened its fund-raising business in overseas markets, launching fund-raising products such as CD, brokered CD, ECP and RMB CD to enhance the Bank's overseas fund-raising capability and propel the overseas business development. The Bank also actively pushed forward the development of custody services of overseas institutions.

The Bank further enhanced the cross-border RMB businesses and continued to speed up the expansion of its overseas network. In the first half of 2011, the Bank seized the historic opportunities arising from RMB internationalisation and pilot cross-border RMB settlement, and gave full play to the Group's overall advantages. It kept good momentum in cross-border RMB business and maintained its leading position in the market, with business scale expanded, products and services enriched, and clearing channels broadened. The Bank of China Limited Phnom Penh Branch and Bank of China Kazakhstan, Aktobe Branch have opened. In addition, the "China Desk" in Dubai began operation in the headquarters of Mashreq Bank of UAE. The Bank has made steady progress in network expansion across many other countries and regions.

BOCHK

In the first half of 2011, BOCHK's profit after tax amounted to RMB10.040 billion, an increase of 55.39% from the same period of 2010.

BOCHK continued to adopt a balanced growth strategy and focused on enhancing its overall profitability. For its loan business, BOCHK improved pricing on new loans riding on the strong market demand for financing. It achieved satisfactory growth across its traditional businesses, including syndicated loan and residential mortgages businesses. It was awarded "SME's Best Partner Award" for four consecutive years. Meanwhile, it remained vigilant

³ The proportion of segment profit before income tax is prior to intragroup elimination.

with regard to risk management. For its deposit business, BOCHK embarked on a number of deposit-taking initiatives, including product improvement and marketing campaigns, in view of intensified market competition. In addition, BOCHK broadened its high net-worth customer base by offering differentiated services to wealth management customers. BOCHK continues to implement the 'Global Relationship Manager Program' and 'Global Unified Facilities Arrangement', offering total solutions to its core corporate customers through close collaboration with other BOC Group entities. RMB banking business continued to be the priority of BOCHK. The RMB Fiduciary Account Scheme was launched to mitigate the participating banks' counterparty risk exposure to the clearing bank. Meanwhile, BOCHK introduced RMB repurchase services to facilitate RMB intraday liquidity management of participating banks. It also diversified the uses of RMB funds and broadened its RMB product offering in order to enhance its profitability and service capability.

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

Diversified Business Platform

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. Financial business platforms such as the investment banking, insurance and direct investment consistently provided diversified income sources to the Bank. The contribution of non-commercial banking business's profit before tax to the overall Group further increased.

BOCI continued to enhance its marketing and project execution functions and reinforced its risk

and compliance management. It has achieved stable growth in its corporate finance and financial advisory business, maintained good momentum in the securities business development, continued to lead other Chinese investment banks in debt underwriting business, achieved stable and steady development in direct equity investment business and recorded breakthrough growth in asset management business, and achieved stable growth in private banking business. BOCI was the first Asian organisation to become the clearing member of major global commodities exchanges. It has completed the first RMB-denominated IPO in Hong Kong, and has provided a number of enterprises with pre-IPO financing, equity financing, red-chipping restructuring, merger and acquisition financing, large project financing and other leveraged and structured financing services. BOCI Prudential maintained its top-ranked position in Hong Kong's Mandatory Provident Fund market and in the Macau pension market. In the first half of 2011, BOCI achieved an after-tax profit of RMB0.970 billion, an increase of 28.65% compared with the same period of 2010.

In line with the Group's business diversification development strategy, BOCG Investment further intensified its cooperation with other Group members, enriched its investment categories, and increased the overall profitability of the Group. BOCG Investment proactively adapted to the changing business environment, explored new business models and products for its direct investment business and further diversified its funding sources. BOCG Investment further optimised its existing investment portfolio, increased the weighting of quality assets with higher investment returns, realised sustainable business development and thus improved the company's overall profitability. BOCG Investment enhanced its project management capabilities and exploited its own-

brand asset management businesses. In the first half of 2011, the total investments of BOCG Investment reached HKD3.4 billion, and the company realised an after-tax profit of HKD3.817 billion, an increase of 54.66% compared with the same period of 2010.

BOCG Insurance further developed cooperation with agent banks, promoted insurance products to fit the needs of customers, and actively leveraged the Bank's networks to promote sales. It developed its large-scale Chinese enterprise business, actively engaged in insurance renewal management, innovated new products and improved existing products. BOCG Life focused on the expansion of RMB products, continuously optimised its product mix and promoted the development of its regular payment business. BOC Insurance accelerated the transformation of its development strategy and made innovations in its bancassurance marketing mechanism, thus maintaining steady business growth. In the first half of 2011, BOCG Insurance recorded a gross premium income of HKD1.040 billion in casualty and property insurance business, an increase of 16.42% compared with the same period of 2010. Gross premium income of BOCG Life amounted to HKD6.531 billion, increased by 132.15% year on year. BOC Insurance recorded a gross premium income of RMB1.335 billion, a year-on-year increase of 9.61%.

BOC Aviation took advantage of changes in the economic environment and continued to expand its fleet of aircraft. In the first half of 2011, BOC Aviation delivered 13 aircraft to its customers. By the end of June, BOC Aviation had a portfolio of 174 aircraft comprising 150 owned and 24 managed aircraft which were leased to 43 airlines in 25 countries. It has one of the youngest portfolios in the industry with an average aircraft age of 3.5 years.

BOCIM made consistent efforts to enhance its capabilities in investment research, product development, sales service, and customer relationships. Despite weak capital markets and shrinking assets under management throughout the industry, BOCIM successfully launched three new funds in the first half of 2011. It also adopted effective measures to exploit Discretionary Account Management business opportunities, supported by excellent investment performance. As at the end of June 2011, BOCIM's total fund units reached 39.6 billion. BOCIM was recognised as one of the "Top 10 Golden Bull Fund Management Companies" by *China Securities Journal*.

Channel Development

Since the beginning of 2011, guided by its strategic development plan, the Bank has accelerated its 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 Bank continued to strengthen its business outlet distribution planning and accelerated the improvement of outlet functions. It promoted outlet transformation, focusing on building high quality, high efficiency, high output, and highly competitive outlets. The Bank increased the number of self-service facilities and self-service banks, improving its self-service functions. The Bank accelerated the building of overseas channels and improved overseas outlet standardisation. In addition, the Bank continued to improve the sales and service capabilities of outlets for corporate customers. As at the end of June 2011, the average RMB deposits per outlet reached RMB696 million, an increase of 9.09% compared with the prior year-end. Compared with the prior year-end,

the number of functioning ATMs increased 3,429, and that of the self-service terminals and self-service banks increased 772 and 251, respectively.

The Bank actively expanded and improved its e-banking channels, enriched its e-banking product system and employed innovative e-banking marketing methods. As a result, the scale of the Bank's e-banking business was expanded rapidly. In the first half of 2011, the Bank upgraded its online banking system three times, further enriching online banking functions. RMB overseas online banking service was successfully launched by the Manila Branch and would be extended to other overseas branches and institutions. The Bank also created innovative mobile banking services and launched several different client software systems so as to ensure compatibility with a variety of mobile phone operating systems and wireless telecommunication networks. The Bank developed innovative value-added services that helped customers to locate and search for the outlets via their mobile phones. The home banking service was extended to more areas and its functions were further expanded. In order to provide more convenient and efficient wealth management service channel and payment product, the Bank also launched wealth management direct payment service and contract-based payment service through personal online banking channel. The Bank participated in the pilot running of the comprehensive system of online payments for the General Administration of Customs, and took the lead in supporting IT application for the ticketing system of the Ministry of Railways, to allow customers to pay for train tickets via online banking. In addition, the Bank intensified e-banking operational security and enhanced customers' security awareness, ensuring stable and healthy business development. As at the end of June 2011, the number of e-banking customers exceeded 94 million, up 25.13% compared

with the prior year-end, while the number of transactions conducted through e-banking channels accounted for 62.43% of the total transactions, up 11.12 percentage points compared with the same period of last year. The amount of transactions conducted through e-banking channels reached RMB29.33 trillion. The number of personal online banking customers exceeded 40 million, up 63.97% compared with the end of 2010, while the number of corporate online banking customers exceeded 0.8 million, up 101.65% compared with the end of 2010. The number of mobile banking customers exceeded 7 million, up 1081.12% compared with the prior year-end.

The Bank continued to commit resources to its telephone banking system and the construction of its Group Customer Service Centre. The Bank expanded the unified telephone banking system to 31 branches. In addition, the Bank's Beijing-based call centre, serving the customers of 19 branches, operated in an increasingly integrated and efficient manner. The domestic customer service hotline received 66.84 million incoming calls in the first half of 2011. The Bank provided 24-hour and multi-lingual support to improve its service quality.

IT Blueprint Implementation

Since the beginning of 2011, the Bank has continued to firmly implement its IT Blueprint project across the Fujian Branch and other five branches. As at the end of June 2011, the IT Blueprint was successfully implemented in 29 domestic branches and upgraded to Version 3.0 in batches. The new systems has been operating smoothly, supporting more effective business development and receiving a positive customer response. The Bank plans to implement the IT Blueprint in all 34 domestic branches and headquarters by the end of 2011.

The implementation of the IT Blueprint laid a good foundation for strengthening the Bank's core competences, raising the level of operational management, promoting customer service quality, and improving risk control. The main characteristics of the IT Blueprint included:

- 1 Customer information was centralised and processed in a unified manner to deliver customer-centric service;
- 2 Efficient product innovation: parameter-driven management led to faster product development and more flexible product allocation;
- 3 Stricter internal controls: the IT Blueprint separated transactions from accounting, realised the automatic auditing of business lines, promoted the coordination of business operation and risk control, and concentrated control of operational risk, authorisation processes and clerk operations;

- 4 Continuous business process optimisation: the IT Blueprint facilitated real-time and efficient fund transfer and processing, simplified front-office operations and centralised, professional back-office processing;
- 5 Comprehensive promotion of information quality: the IT Blueprint exploited historical error data so as to greatly improve information quality. It also provided convincing data to support management decision-making and external reporting.

With the fully implementation of IT Blueprint project by the end of 2011, the Bank are expected to gain strong support to seize market opportunities in the "age of information".

Risk Management

The Bank is committed to making its risk management and internal control function more systematic, effective and forward-looking. In 2011, the Bank has taken proactive steps to comprehensively improve its risk management system with a focus on integration, detail and professionalism, thus making the Group's overall risk control function more effective. This included proactively managing and mitigating risks and promoting structural optimisation, all of which strongly supported business development.

Credit Risk Management

In the first half of 2011, the Bank maintained a close watch on changes in the macro economic and financial environment, as well as changes to regulatory requirements. It further optimised its credit risk management policies, deepened structural adjustments, tightened management of the credit process and strengthened the monitoring and analysis of credit risk so as to become more proactive and pre-emptive with regard to risk management.

Credit structure adjustments were deepened. The Bank formulated its Guidelines for Industry Credit Granting of 2011, based on the state's macro regulatory and industry policy. It improved the credit portfolio management, monitored and analysed the performance monthly, which actively guided the optimisation of its credit structure. The Bank increased its support for China's key fundamental industries and strategic emerging industries. It further strengthened the management and control of problematic industries. In addition, the management of loans extended to local government financing vehicles was

also enhanced, which involved strictly controlling the total amount and allocation of loans through limit management and strictly carrying out regulatory requirements. The Bank regulated standards and procedures for the clearance and transformation of outstanding local government financing vehicles loans, took steps to identify any risks arising from such loans and adopted various measures to mitigate such risks. The Bank managed and controlled its real estate credit exposure effectively. It implemented the state's real estate regulatory policies and requirements, made an in-depth study of credits granted to the construction of government-subsidized housing for the Comfortable Housing Project, specifying management requirements, and organised stress testing on real estate loans to identify risks in a timely manner.

Risk management in personal banking was strengthened. The Bank strictly implemented the state's policies and regulatory requirements, and rigorously executed dynamic and differentiated policies for personal housing loans, so as to promote the sound development of its real estate mortgage business. The Bank enhanced its policies on personal credit products and strengthened the analysis and monitoring of credit risk in its personal loans and bank cards businesses.

Credit process and asset quality management were enhanced. The Bank implemented the latest regulatory loan requirements and intensified its focus on managing loan payments based on actual consumption or investment needs. The Bank reinforced the monitoring of its credit risk, enhanced

post-lending control and the monitoring of asset quality. It also strengthened its risk-warning system and active risk management capabilities based on the changing situation. The Bank implemented management-level controls on concentration risk for group customers and list-based controls to monitor key customers. The Bank also strengthened the detail-oriented management of non-performing assets and improved the professional standards of its collateral management.

The Bank strengthened the consolidated risk management of the Group. It continued to push forward country risk management, enhanced the

risk evaluation framework of its overseas businesses and further strengthened the risk management of its credit businesses in the socially turbulent regions.

The Bank measured and managed the quality of its credit risk-bearing assets in accordance with the *Guidelines for Loan Credit Risk Classification* issued by CBRC. As at the end of June 2011, the Group's non-performing loans totalled RMB61.942 billion, a decrease of RMB0.528 billion from the prior year-end. The ratio of non-performing loans to total loans stood at 1.00%, down by 0.10 percentage point compared with the prior year-end.

Five-category loan classification

Unit: RMB million, except percentages

Items	As at 30 June 2011		As at 31 December 2010	
	Amount	% of total	Amount	% of total
Group				
Pass	6,009,018	96.66%	5,450,106	96.28%
Special-mention	145,564	2.34%	148,045	2.62%
Substandard	30,576	0.49%	28,603	0.50%
Doubtful	18,684	0.30%	20,784	0.37%
Loss	12,682	0.21%	13,083	0.23%
Total	6,216,524	100.00%	5,660,621	100.00%
NPLs	61,942	1.00%	62,470	1.10%
Domestic				
Pass	4,863,933	96.08%	4,556,215	95.76%
Special-mention	138,391	2.73%	141,862	2.97%
Substandard	29,563	0.58%	27,142	0.57%
Doubtful	18,207	0.36%	20,531	0.43%
Loss	12,463	0.25%	12,835	0.27%
Total	5,062,557	100.00%	4,758,585	100.00%
NPLs	60,233	1.19%	60,508	1.27%

Migration ratio

Unit: %

Items	For the six month period ended		
	30 June 2011	2010	2009
Pass	0.65	2.02	2.40
Special-mention	4.96	5.13	10.07
Substandard	6.15	23.05	25.60
Doubtful	2.32	15.66	9.76

Note: Migration ratios for the six month period ended 30 June 2011 are not annualised.

In accordance with IAS 39, loans and advances to customers are considered impaired, and allowances are made accordingly, if there is objective evidence of impairment resulting in a measurable decrease in estimated future cash flows from loans and advances. As at 30 June 2011, the Group reported identified impaired loans totalling RMB62.694 billion, a decrease of RMB1.182 billion from the prior year-end; and the ratio of impaired loans to total loans decreased to 1.01%, down by 0.12 percentage point compared with the prior year-end.

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

Unit: %

Main regulatory ratios	Regulatory Standard	As at		
		30 June 2011	31 December 2010	31 December 2009
Loan concentration ratio of the largest single borrower (%)	≤10	3.1	2.9	3.8
Loan concentration ratio of the ten largest borrowers (%)	≤50	16.1	20.2	28.0

Notes:

- 1 Loan concentration ratio of the largest single borrower = total outstanding loans to the largest single borrower/net regulatory capital
- 2 Loan concentration ratio of the ten largest borrowers = total outstanding loans to the top ten borrowers/net regulatory capital

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

Market Risk

The Bank continued to strengthen its market risk monitoring and early warning systems at the Group level, adjusted the structure of its investment portfolios, enhanced its banking book interest rate and exchange rate risk management and continuously optimised its limit structure and risk monitoring procedures through the implementation of the Basel II programme, so as to further improve market risk management. In terms of market risk management of the trading book, the Bank strengthened the centrally-managed risk monitoring and analysis of the Group's trading business, improved stress testing at the Group level and enhanced market risk limit setting for its overseas branches and market risk monitoring for its non-commercial banking subsidiaries. In terms of banking book interest rate risk management, the Bank assessed interest rate risk mainly through re-pricing gap analysis, adjusted the structure of assets and liabilities according to the market situation and controlled fluctuations in net interest income at an acceptable level. The Bank further strengthened centralisation management of the Group's bond portfolio and convened meetings of the Securities Investment and Management Committee on a regular basis to review and adjust

its bond investment strategies. In terms of exchange rate risk management, the Bank controlled its foreign exchange exposure effectively by ensuring currency matching of sources and uses of funds while also employing economic hedging and other transactions as appropriate. Please refer to Note IV.2 to the Condensed Consolidated Interim Financial Information for detailed information on market risk.

Liquidity Risk

In the first half of 2011, PBOC adjusted liquidity by raising the statutory reserve ratio six times and using open market operations and other monetary policy instruments, and RMB liquidity moved gradually from ample towards a more appropriate level. The Bank remained positive and forward-looking in its approach to liquidity management, and strived to expand core deposits so as to maintain fund stability. The Bank also optimised its asset and liability structure, both to increase its overall income and to ensure the balanced business development of its loan and bond activities.

Anticipation of RMB appreciation caused foreign currency liquidity in the domestic market to become constrained. The Bank actively raised foreign capital through various channels. It also strengthened the balanced management of foreign currency assets and liabilities, exerted a guiding role on price by adjusting internal and external pricing, and improved capital utilisation efficiency so as to ensure coordinated development of its RMB and foreign currency businesses as well as its domestic and overseas businesses.

As at 30 June 2011, the Bank's liquidity position met regulatory requirements, as shown in the table below: (the liquidity ratio is the primary indicator of the Group's liquidity, while the loan to deposit ratio, excess reserve ratio and inter-bank ratios are the main indicators of liquidity for the Bank's domestic operations):

Unit: %

		Regulatory standard	As at 30 June 2011	As at 31 December 2010	As at 31 December 2009
Liquidity ratio	RMB	≥25	45.3	43.2	45.3
	Foreign currency	≥25	56.6	52.2	55.6
Loan to deposit ratio	RMB & Foreign currency	≤75	68.5	70.2	70.3
Excess reserve ratio	RMB	–	2.0	2.1	2.7
	Foreign currency	–	25.2	14.6	10.3
Inter-bank ratio	Inter-bank borrowings ratio	≤4	0.84	1.00	1.04
	Inter-bank loans ratio	≤8	1.91	1.08	2.82

Notes:

- Liquidity ratio = current assets/current liabilities. Liquidity ratio is calculated in accordance with the relevant provisions of PBOC and CBRC.
- Loan to deposit ratio = outstanding loans/balance of deposits, and the loan to deposit ratio is calculated under the regulations of PBOC. The balance of deposits includes due to customers, structured deposits, deposits from insurance corporations and financial holding corporations.
- RMB excess reserve ratio = (reserve in excess of the mandatory requirements + cash)/(balance of deposits + remittance payables)
- Foreign currency excess reserve ratio = (reserve in excess of the mandatory requirements + cash + due from banks and due from overseas branches and subsidiaries)/balance of deposits
- Inter-bank borrowings ratio = total RMB inter-bank borrowings from other banks and financial institutions/total RMB deposits
- Inter-bank loans ratio = total RMB inter-bank loans to other banks and financial institutions/total RMB deposits

Internal Control and Operational Risk Management

In the first half of 2011, the Bank emphasised the role of the three internal control defence lines, and further enhanced the effectiveness of its internal control function. The Bank consolidated the internal control awareness and capacity at the first line of defence, which formed by the branches, business

departments and staff at various levels. By improving the mechanism for transmitting rules and regulations, intensifying efforts on supervising the implementation of rules, it also enhanced the effectiveness of the second line of defence. As to the third line of defence, the Bank introduced innovative working concepts with regard to internal audit, continuously monitored and assessed the implementation of its development strategy and business transformation,

and of the development and improvement of the Bank's risk management and internal control systems. In addition, the Bank organised a large number of special audit inspections, closely tracked new risks arising from the implementation of the IT Blueprint, and took countermeasures accordingly. It intensified audit supervision of the Group's diversified operations and enhanced risk control of its overseas businesses.

The Bank continued to fully implement operational risk management projects in line 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, deepened the "embedded" management mode, and assigned operational risk management functions within business lines and domestic and overseas institutions. The Bank continuously strengthened the application of its operational risk management tools, unified its operational risk management language and promoted case prevention and system security. The Bank integrated its methods of managing institutions at the grass-roots level and increased internal control efficiency. The Bank optimised business flow control and enhanced and refined the level of business process control and management. The Bank implemented an operational risk management information system and studied and set up an integrated group-wide risk monitoring platform, thus realising a comprehensive and dynamic risk monitoring system.

The Bank improved group-wide anti-money laundering control, as well as standardised and strengthened the regular reporting and communication mechanisms for its domestic and overseas institutions. The Bank continuously optimised the functions of its anti-money laundering system, steadily pushed forward the implementation of its domestic anti-money laundering monitoring and analysis system, and upgraded the anti-money laundering functions of its overseas systems. The Bank strengthened its monitoring of the quality of its suspicious transactions reporting, established an off-site monitoring mechanism for reporting data of domestic suspicious transactions, and further promoted the risk-based manual identification of suspicious transactions.

Basel II Implementation

The Bank achieved significant progress with preparation work for the implementation of Basel II, in line with the principles of "adaptability and applicability".

The Bank essentially completed the implementation of the Pillar I measurement system of Basel II. The credit risk measurement model covers the Bank's corporate risk, financial institution risk, retail risk, and sovereign risk exposures. The Bank completed the validation of the major models and relevant supporting systems. With regard to market risk, the Bank built a regulatory capital system based on the internal model approach. With regard to operational risk, the Bank enhanced the efficiency and effectiveness of its embedded management model via thorough

application of the three tools. The Bank developed a material risk assessment model and an internal capital adequacy assessment model, enhanced the timeliness and accuracy of information disclosure and made significant progress in its preparations for Pillar I, Pillar II and Pillar III. The Bank continuously improved its internal rating system, governance mechanism and risk measurement support system. In addition, its corporate credit management system won the “First Prize for Banking Technology Development”, granted by PBOC.

The Bank continued to apply the results of its Basel II programme ever more widely and deeply. It promoted the optimisation of its asset structure as well as capital saving. The Bank continuously enhanced its ability to conduct comprehensive, proactive and quantitative risk management by fully utilising the three major functions of Basel II. These functions served as the platform integrating the management of various risks, the link connecting capital and risk, and the bridge between business operation and strategy management.

The Bank paid close attention to international and domestic regulatory reforms, studied the effects of Basel III implementation in depth, devised a scheme for the coordinated implementation of Basel II and Basel III, accelerated the implementation of an advanced approach to Basel II, and strengthened the cultivation of risk measurement expertise and specialised technical research.

Capital Management

In the first half of 2011, pursuant to its medium and long-term capital management plan, the Bank strengthened internal capital management and solidified its capital base by replenishing capital in a prudent manner. As at the end of June 2011, the Group’s capital adequacy ratio and core capital adequacy ratio stood at 12.95% and 10.01%, respectively, remaining within the planned range and satisfying regulatory requirements.

The Bank continued to intensify its capital budget evaluation management. First, it formulated rules and regulations and specified responsibilities and processes, according to regulatory requirements and based on best management practices. Second, it improved its budget preparation methods. The capital budget covered the whole Group, realising optimised distribution among institutions and business lines. Through capital limit management, the Bank controlled its risk assets at a reasonable scale and utilised capital return indicators to guide business departments in the optimisation of asset structures and the improvement of capital utilisation efficiency. Third, the Bank increased the relative weight of capital management indicators within its performance evaluation matrix, strengthened budgeting control and ensured budget implementation.

Upon the approval of CBRC and PBOC, the Bank issued RMB32 billion of RMB subordinated bonds in the national inter-bank bond market on 17 May 2011, further improving capital support for the Bank.

Social Responsibilities

Since the beginning of 2011, the Bank has continued to devote itself to serving and repaying society, and has earnestly performed its corporate social responsibilities. It made positive contributions to poverty alleviation and provided support for educational, artistic and cultural initiatives, thus playing an active role in the building of a harmonious society.

The Bank carried out poverty alleviation programmes with the aim of narrowing the economic development gap and boosting harmonious socioeconomic development. It provided financial support to education, and continued the work of government-sponsored student loan programme. In cooperation with the National Centre for the Performing Arts, it carried out another round of "Classic Art Lectures – Bringing Arts to Everyone" programme, and gave ongoing support to "Show the World: the Culture-Based Development Goodwill Action for Ethnic Minorities in China", a programme launched by Ms. ZHU Zheqin (a.k.a. Dadawa), a famous musician. In addition, it promoted cultural exchange and cooperation between the West and China through its seat on the Board of Directors of the Lincoln Centre for the Performing Arts, and by supporting the celebration of the Chinese Spring Festival in London's Trafalgar Square. In the first half of 2011, the Bank's domestic branches and institutions at all levels sponsored 36 poverty alleviation programmes, donating a total of RMB1.2 million. The Bank has granted RMB16.43 billion of government-sponsored student loans since the start of the programme, which has helped 1.48 million students to complete their studies. The Bank's performance in the field of corporate social responsibility has achieved recognition from all sectors of society. The Bank received the most recognition among all banks in the First Social Responsibility Report Competition of the Chinese Banking Industry hosted by the China

Banking Association, winning the "2010 Best Green Finance Award", "2010 Best Social Responsibility Innovation Award" and "2010 Best Social Responsibility Report Award".

Outlook

In the second half of 2011, the global economy will continue to recover at a slow pace while facing various risk factors. Due to the influence of international financial crisis, the recovery of global economy became more difficult than expected. China's economic and financial development, while in line with macro expectations, will nevertheless be confronted with a complex environment. Uncertainties and risk factors that have a negative impact on the economy still remain. The government will continue to maintain the continuity and stability of its macro-economic policy and make it ever more directional, flexible and effective. It will strike the right balance between rapid and stable economic development, economic structural adjustment and the management of inflationary expectations, and thus prevent price hikes and consolidate China's strong economic development momentum.

The Bank will continue to adopt the scientific outlook on development, implement the government's macroeconomic policies and push forward its own development strategy in the spirit of innovation, transformation and cross-border development. It will promote structural adjustment, business transformation and the building of its core capabilities, and step up efforts to balance its assets and liabilities in a prudent manner. The Bank will enhance overall management across the Group, accelerate cross-border development, and ensure high-quality growth by intensifying comprehensive risk management. It will strengthen its corporate culture, strive to sharpen its competitive edge and realise rapid and sustainable development, so as to welcome the Bank's 100th anniversary with remarkable achievements.

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 2011		Increase/decrease during the reporting period					30 June 2011	
	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									
4. Shares held by foreign investors									
II. Shares not subject to selling restrictions	279,147,223,195	100.00%	-	-	-	99,800	99,800	279,147,322,995	100.00%
1. RMB-denominated ordinary shares	195,524,946,800	70.04%	-	-	-	99,800	99,800	195,525,046,600	70.04%
2. Domestically listed foreign shares									
3. Overseas listed foreign shares	83,622,276,395	29.96%	-	-	-	-	-	83,622,276,395	29.96%
4. Others									
III. Total	279,147,223,195	100.00%	-	-	-	99,800	99,800	279,147,322,995	100.00%

Notes:

- As at 30 June 2011, the Bank had issued a total of 279,147,322,995 shares, including 195,525,046,600 A Shares and 83,622,276,395 H Shares.
- As at 30 June 2011, none of the Bank's A Shares and H Shares was subject to selling restrictions.
- During the reporting period, 99,800 shares were converted from the A-Share Convertible Bonds of the Bank.
- "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.

Number of Shareholders and Shareholdings

Number of shareholders: 1,127,478 (including 892,832 A-Share Holders and 234,646 H-Share Holders)

Top ten shareholders as at 30 June 2011

Unit: Share

No.	Name of shareholder	Number of shares held	Percentage of 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	78,726,983,453	28.20%	-	Unknown	Foreign legal person	H
3	Li Ka Shing (Canada) Foundation	1,485,887,125	0.53%	-	Unknown	Foreign legal person	H
4	Li Ka Shing Foundation Limited	990,103,857	0.35%	-	Unknown	Foreign legal person	H
5	The Bank of Tokyo-Mitsubishi UFJ Ltd.	520,357,200	0.19%	-	Unknown	Foreign legal person	H
6	China Life Insurance Company Limited - dividend - personal dividend - 005L-FH002Shanghai	402,146,053	0.14%	-	None	State-owned legal person	A
7	Asian Development Bank	304,007,461	0.11%	-	Unknown	Foreign legal person	H
8	PICC Property and Casualty Company Limited - traditional - ordinary insurance products - 008C-CT001Shanghai	196,759,432	0.07%	-	None	State-owned legal person	A
9	Li Ka Shing (Overseas) Foundation	152,979,105	0.05%	-	Unknown	Foreign legal person	H
10	China Life Insurance Company Limited - traditional - ordinary insurance products - 005L-CT001Shanghai	129,201,524	0.05%	-	None	State-owned legal person	A

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

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

“China Life Insurance Company Limited – dividend – personal dividend – 005L-FH002Shanghai” and “China Life Insurance Company Limited – traditional – ordinary insurance products – 005L-CT001Shanghai” are both products of China Life Insurance Company Limited.

Each of Li Ka Shing Foundation Limited, Li Ka Shing (Overseas) Foundation and Li Ka Shing (Canada) Foundation is a charitable organization established by Mr. Li Ka Shing. There is no shareholding relationship among Li Ka Shing Foundation Limited, Li Ka Shing (Overseas) Foundation and Li Ka Shing (Canada) Foundation.

Other than these, the Bank is not aware of any connected relations or concerted action among the aforementioned shareholders.

HKSCC Nominees Limited acted as the nominee for all institutional and individual investors that maintain an account with it as at 30 June 2011. The aggregate number of H Shares held by HKSCC Nominees Limited included the shares held by National Council for Social Security Fund and Temasek Holdings (Private) Limited.

Convertible Bonds

Overview of Convertible Bonds Issuance

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

Convertible Bondholders and Guarantors

Number of Convertible Bondholders as at 30 June 2011	16,909
Guarantor of the Bank's Convertible Bonds	None

Top ten convertible bondholders as at 30 June 2011

No.	Name of convertible bondholders	Amount of Convertible Bonds held as at the end of the reporting period (in RMB)	Percentage of total issued Convertible Bond
1	New China Life Insurance Company Limited – dividend – group dividend – 018L-FH001Shanghai	1,989,059,000	4.97%
2	China Credit Trust Co., Ltd. – BoComm Fixed Income Paper – Trust	1,414,912,000	3.54%
3	China Life Insurance Company Limited – dividend – personal dividend – 005L-FH002Shanghai	1,100,000,000	2.75%
4	ICBC Credit Suisse Credit Value-added Debt Securities Investment Fund	1,093,766,000	2.73%
5	Fullgoal Convertible Bond Securities Investment Fund	863,871,000	2.16%
6	Bosera Convertible Bond Enhanced Debt Securities Investment Fund	760,792,000	1.90%
7	CITIC Securities Co., Ltd.	706,310,000	1.77%
8	ICBC Credit Suisse Asset Management Co., Ltd. – ICBC – Specific Client Asset Management	681,757,000	1.70%
9	China Pacific Life Insurance Co., Ltd. – dividend – personal dividend	632,406,000	1.58%
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 Bonds	Before the change	Increase/decrease				After the change
		Conversion	Redemption	Back-sell	Others	
Bank of China A-Share Convertible Bonds	39,999,773,000	373,000	-	-	-	39,999,400,000

Accumulated Conversion of Convertible Bonds during the Reporting Period

Amount of conversion during the reporting period (RMB)	373,000
Shares converted during the reporting period (share)	99,800
Accumulated converted shares (share)	160,264
Proportion of accumulated converted shares to total shares before conversion (%)	0.000059%
Amount of remaining Convertible Bonds not converted (RMB)	39,999,400,000
Proportion of amount of remaining Convertible Bonds to total issued Convertible Bonds (%)	99.9985%

Historical 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 published its announcement on A Share dividend distribution on 31 May 2010. The Bank adjusted the conversion price from RMB4.02 to RMB3.88 per share in accordance with the "Determination and Adjustment of Conversion Price" provision in the Prospectus of Public Offering of Convertible Bonds of the Bank, effective after 3 June 2010 (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.

On 27 May 2011, the Bank's 2010 Annual General Meeting approved the Bank's 2010 profit distribution plan and published its announcement on A Share dividend distribution on 3 June 2011. The Bank adjusted the conversion price from RMB3.74 to RMB3.59 per share in accordance with the "Determination and Adjustment of Conversion Price" provision in the Prospectus of Public Offering of Convertible Bonds of the Bank, effective after 9 June 2011 (share registration day for dividend distribution).

For details of the adjustments of the conversion price, please refer to the related announcements on the websites of 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 an updated credit rating report (Da Gong Bao SD [2011] No.53) which assigned an AAA counterparty credit rating to the Bank and an AAA credit rating to its Convertible Bonds. Dagong International believes that the Bank has a significantly strong ability to repay its issued bonds.

The Bank is one of China's large-scale state-owned commercial banks. The Bank's business covers commercial banking, investment banking, insurance and funds, etc, providing comprehensive and quality financial services to corporate and personal customers worldwide. The Bank's risk management capacity is continually improving along with its increasingly enhanced capital base and overall operational sophistication. The Bank's adequate capital, stable structure 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 finances, 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, develop business in the future and repay 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 30 June 2011, the following corporations were substantial shareholders (as defined in the SFO) having the following interests in the Bank:

Name of shareholder	Capacity	Number of shares held/ Number of underlying shares (Unit: Share)	Type of shares	Percentage of total issued A Shares	Percentage of total issued H Shares	Percentage of total issued share capital
Central Huijin Investment Ltd.	Beneficial owner	188,553,352,005	A	96.43%	–	67.55%
National Council for Social Security Fund	Beneficial owner	10,028,419,141	H	–	11.99%	3.59%
Temasek Holdings (Private) Limited	Attributable interest	10,481,591,118 ¹	H	–	13.79% ¹	4.06% ²

Notes:

- 1 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.
- 2 Including the rights shares subscribed for by Temasek, Temasek held an interest in 11,335,743,932 H Shares of the Bank on 31 December 2010, equivalent to 4.06% of the Bank's total issued share capital.
- 3 According to Temasek's disclosure of its interest in the Bank as at 7 July 2011, it held an interest in 5,823,079,996 H Shares of the Bank, equivalent to 2.09% of the Bank's total issued share capital.

All the interests stated above represented long positions. Save as disclosed above, as at 30 June 2011, no other interests or short positions were recorded in the register maintained by the Bank under section 336 of the SFO.

Directors, Supervisors, Senior Management and Staff

Directors, Supervisors and Senior Management

Honorary Director

Name	Position
CHEN Muhua	Honorary Chairperson

Note: Ms. CHEN Muhua, Honorary Chairperson of the Bank, passed away on 12 May 2011 in Beijing.

Board of Directors

Name	Position	Name	Position
XIAO Gang	Chairman	ZHANG Qi	Non-executive Director
LI Lihui	Vice Chairman and President	Anthony Francis NEOH	Independent Non-executive Director
LI Zaohang	Executive Director and Executive Vice President	Alberto TOGNI	Independent Non-executive Director
CAI Haoyi	Non-executive Director	HUANG Shizhong	Independent Non-executive Director
SUN Zhijun	Non-executive Director	HUANG Danhan	Independent Non-executive Director
LIU Lina	Non-executive Director	CHOW Man Yiu, Paul	Independent Non-executive Director
JIANG Yansong	Non-executive Director	Jackson P. TAI	Independent Non-executive Director
ZHANG Xiangdong	Non-executive Director		

Notes:

- 1 Mr. Jackson P. TAI began to serve as an Independent Non-executive Director of the Bank on 11 March 2011.
- 2 Mr. ZHANG Xiangdong and Mr. ZHANG Qi began to serve as Non-executive Directors of the Bank on 8 July 2011.
- 3 Mr. ZHOU Zaiqun ceased to serve as an Executive Director of the Bank, and Ms. HONG Zihua and Ms. HUANG Haibo ceased to serve as Non-executive Directors of the Bank on 28 May 2011.
- 4 During the reporting period, no Director held any share or Convertible Bond of the Bank.
- 5 The information listed in the above table pertains to the incumbent Directors.

Board of Supervisors

Name	Position	Name	Position
LI Jun	Chairman of the Board of Supervisors	LI Chunyu	Employee Supervisor
WANG Xueqiang	Supervisor	JIANG Kuiwei	Employee Supervisor
LIU Wanming	Supervisor	MEI Xingbao	External Supervisor
DENG Zhiying	Employee Supervisor	BAO Guoming	External Supervisor

Notes:

- 1 According to the government regulations, Mr. QIN Rongsheng and Mr. BAI Jingming ceased to serve as External Supervisors of the Bank on 28 May 2011.
- 2 Mr. MEI Xingbao and Ms. BAO Guoming began to serve as External Supervisors of the Bank on 27 May 2011.
- 3 During the reporting period, no Supervisor held any share or Convertible Bond of the Bank.
- 4 The information listed in the above table pertains to the incumbent Supervisors.

Senior Management

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

Notes:

- 1 Mr. ZHOU Zaiqun ceased to serve as the Executive Vice President of the Bank on 28 May 2011.
- 2 Mr. NG Peng Khian ceased to serve as the Chief Audit Officer of the Bank on 17 August 2011. The Board of Directors of the Bank has approved Ms. LIU Yanfen as the Chief Audit Officer, which has yet to be approved by CBRC.
- 3 During the reporting period, no senior management member held any share or Convertible Bond of the Bank.
- 4 The information listed in the above table pertains to the incumbent senior management members.

Organisational Information, Human Resources Management and Development

Organisational Information

In the first half of 2011, the Bank had a total of 11,118 domestic and overseas branches, subsidiaries and outlets, 60 more than the end of 2010, including 10,147 branches, subsidiaries and outlets in Chinese mainland and 971 branches, subsidiaries and representative offices in Hong Kong, Macau, Taiwan, and other countries and regions. For the commercial banking business in Chinese mainland, there were 37 tier-one and direct affiliated branches, 289 tier-two branches and 9,808 outlets. Hong Kong, Macau,

Taiwan, and other countries and regions' branches and subsidiaries accounted for 713 operating outlets (including 168 business operations in Chinese mainland) and 258 non-operating outlets.

In the first half of 2011, the Bank further restructured and optimised the organisational structure of its major Business Units of the Corporate Banking, Personal Banking, Financial Markets, Risk Management and Operation Service by streamlining the relationship between the customer relation and the product function and integrating relevant functions of the Business Units in a more logical manner. The organisational framework of the Bank's subsidiaries was optimised to support the comprehensive business reform and development.

Geographic Distribution of Organisations and Employees

Unit: RMB million/unit/person, except percentages

Items	Assets		Organisations		Employees	
	Total assets (RMB million)	% of total	Number of branches and outlets	% of total	Number of employees	% of total
Northern China	4,604,370	38.43%	1,464	13.17%	45,195	16.04%
Northeastern China	432,955	3.62%	913	8.21%	24,463	8.68%
Eastern China	2,254,276	18.82%	3,446	30.99%	84,260	29.91%
Central and Southern China	1,375,662	11.48%	2,717	24.44%	64,182	22.78%
Western China	641,246	5.35%	1,607	14.45%	33,135	11.76%
Hong Kong, Macau and Taiwan	1,951,502	16.29%	849	7.64%	27,902	9.90%
Other countries and regions	720,108	6.01%	122	1.10%	2,625	0.93%
Elimination	(496,621)					
Total	11,483,498	100.00%	11,118	100.00%	281,762	100.00%

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

Human Resources Management and Development

In the first half of 2011, the Bank had 281,762 employees. There were 251,235 employees in the operations of Chinese mainland, which included 250,505 (containing 61,767 external contractual staff) in the domestic commercial banks; there were 30,527 employees in operations of Hong Kong, Macau, Taiwan, and other countries and regions (including 11,581 staff in business operations set up in Chinese mainland). In the first half year of 2011, the Bank was paying retirement expenses for a total of 6,730 retirees.

In the first half of 2011, under the guidance of the scientific outlook on development and talent and in line with the Group's development strategy and the Bank's priorities, the Bank stepped up efforts in talent cultivation and enhanced the quality of its human resources. The Bank also put emphasis on optimizing resource allocation to support its innovation, transformation and cross-border development. By accelerating the transformation of human resources management and improving the Group's human resources management system, the Bank kept reforming and innovating, intensified strategy implementation and hence improved the human resources management. In terms of talent development, the Bank conducted planning

and researches on medium and long-term talent development, launched the "Golden Collar Project" and the "Superior Professional Project" aiming to develop international financial talents and high-caliber professionals respectively. The Bank also continued to strengthen the development of business management talents, professionals and technicians, international talents, comprehensive business talents, succession talents, young talents and talents in the front line and grass-roots level. Regarding resource allocation, the Bank first met demands for institutions, personnel and human resource expenses of development in key regions and of key businesses to optimise the human resources management system of the Group. The Bank further guided overseas branches and affiliated companies to optimise their human resources management mode, so as to boost their business development.

In the first half of 2011, the Bank continued to implement the *Training and Development Plan for 2009-2012*. With the requirements of the strategic plan of the Group, the Bank strengthened its training programs for employees at various levels and positions and promoted qualification training programs for managers at key posts, such as customer relations and risk management. During the first half of 2011, 24,752 training sessions were offered with 846,578 class participants in the domestic commercial banks.

Corporate Governance

During the reporting period, the Bank further improved its corporate governance, including the amendment to the Articles of Association, the delegation of the approval authority for issue of ordinary financial bonds by the Shareholders' Meeting, as well as the formulation and implementation of the *Working Rules of the Board Secretary of Bank of China Limited (2011 Edition)* and the *Management Measures on Responsibility Investigation on Material Information Disclosure Errors of Regular Reports of Bank of China Limited*. Subsequent to the resignation of several directors and supervisors, the Bank elected and appointed two Non-executive Directors and two External Supervisors in a timely manner, which ensured the sound performance of the duty and responsibilities of the Board of Directors and Board of Supervisors. One Independent Non-executive Director was elected and the proportion of Independent Non-executive Directors in the Board was therefore increased. The Board of Supervisors 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 strengthened the supervision of duty performance of the Board of Directors, senior management and its members.

The Bank endeavoured to foster sound corporate governance culture and explore corporate governance practices catering to Chinese circumstances. It developed an efficient and smooth communication mechanism. The Bank also intensified efforts to offer training and organise research visits for the Directors. The Board of Directors focused on making key decisions, developing core strategies and monitoring risks, which promoted greater efficiency and better outcome of the decision-making process. As a result, the Bank saw its businesses developing

in a healthy manner and steady improvement of its business results. When working hard to maximise the shareholder interest, the Bank also paid attention to its various stakeholders and was keen on performing social responsibilities.

The strength of the Bank's corporate governance received fully recognition from the public. The Bank was awarded "Best Board of Directors" award from *Directors & Boards*, the only corporate governance magazine in China and "2011 Top 10 Corporate Governance Excellences among China's Listed Companies (Financial Industry)" from China Academy of Social Sciences, etc.

Shareholders' Meeting

The Bank held the 2011 First Extraordinary General Meeting in Beijing on 18 January 2011, in which it reviewed and approved the proposals on the election of Mr. Jackson P. TAI as an Independent Non-executive Director of the Bank and the issuance of RMB-denominated bonds by the Bank in Hong Kong for an aggregate amount of not more than RMB20 billion by the end of 2012.

On 27 May 2011, the Bank held the 2010 Annual General Meeting in Beijing and Hong Kong by way of video conference, in which it reviewed and approved the proposals including the 2010 Work Report of the Board of Directors, the 2010 Work Report of the Board of Supervisors, the 2010 annual financial statements, the 2010 profit distribution plan, the 2011 annual budget, the re-appointment of the Bank's external auditors for 2011, the election of Non-executive Directors, the election of External Supervisors of the Bank, and the delegation of authority for the issue of ordinary financial bonds by Shareholders' Meeting to the Board of Directors.

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

Directors and the Board of Directors

Elected by the 2011 First Extraordinary General Meeting of the Bank and approved by CBRC, Mr. Jackson P. TAI commenced serving as an Independent Non-executive Director of the Bank on 11 March 2011. Elected by the 2010 Annual General Meeting of the Bank and approved by CBRC, Mr. ZHANG Xiangdong and Mr. ZHANG Qi commenced serving as Non-executive Directors of the Bank on 8 July 2011. Mr. Jackson P. TAI, Mr. ZHANG Xiangdong and Mr. ZHANG Qi assume a term of office of three years until the date of the Bank's Annual General Meeting in 2014. Mr. ZHOU Zaiqun ceased to serve as an Executive Director, a member of the Board's special committees and the Executive Vice President of the Bank on 28 May 2011. Ms. HONG Zhihua and Ms. HUANG Haibo ceased to serve as Non-executive

Directors and special committee members of the Board on 28 May 2011.

During the reporting period, the Board of Directors held three on-site meetings, which reviewed the proposals such as the 2010 Annual Report, the 2011 First Quarter Report, the 2010 profit distribution plan, the nomination and appointment of Directors, the 2010 Corporate Social Responsibility Report and the delegation of authority for issuance of ordinary financial bonds. Moreover, during the reporting period, the Board of Directors also approved eight proposals by means of written resolutions, including the announcement on the approval of issuance of Subordinated Bonds, and the announcement regarding the surveillance credit rating results on the Bank's Convertible Bonds, etc.

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 work performance of each special committee during the reporting period is as follows:

Committee	Work Performance
Strategic Development Committee	The Committee held one meeting, in which it mainly reviewed the proposals covering the Bank's amended dividend distribution policy, the 2010 profit distribution plan and <i>Regulations Governing Internal Capital Adequacy Assessment Process of Bank of China Limited (Trial, 2011 Edition)</i>
Audit Committee	The Committee held two formal meetings and one ad hoc meeting held jointly with the Risk Policy Committee, in which it mainly reviewed the 2010 Financial Report, the 2011 First Quarter Report, the 2010 self-evaluation report on internal control, the engagement of external auditors of the Bank, the external auditor's internal control recommendations of 2010 and the report on the pilot implementation of the internal control assessment standards of the Bank. It also approved the internal audit work report for 2010, the work plan and budget for 2011, etc.

Committee	Work Performance
Risk Policy Committee	The Committee held three meetings, including two formal meetings and one ad hoc meeting held jointly with the Audit Committee. The two formal meetings mainly reviewed the progress report of risk management of the Bank, key risk indicators' report, risk appetite indicators and the report of implementation progress of Basel II of the Bank. The Committee also examined and approved the application for the Bank's market risk limits of 2011 as well as the credit proposals whose amounts exceeded the approval authority of senior management. The ad hoc meeting held in June mainly discussed the issues concerning Basel II implementation of the Bank.
Personnel and Remuneration Committee	The Committee held five meetings, including one meeting via written resolution. At these meetings, the Committee reviewed proposals, including the performance evaluation and remuneration distribution plan for the Chairman of the Board of Directors, Executive Directors and senior management members for 2010, the remuneration distribution plan of 2010 for the Chairman of the Board of Supervisors and supervisors, 2011 performance targets for the Group, and 2011 performance targets for the Chairman of the Board of Directors, the President and the senior management, nomination and appointment of Non-executive Directors of the Bank and the report of reappointment of Chief Credit Officer, etc.
Connected Transactions Control Committee	The Committee held one meeting, in which it mainly reviewed the 2010 representation letter on continuing connected transactions and the statement of funds provided to controlling shareholder and its related parties for the year ended 31 December 2010.

Supervisors and Board of Supervisors

The Bank's Board of Supervisors is composed of eight supervisors, including three supervisors assumed by representatives of shareholders (including Chairman of the Board of Supervisors), three supervisors assumed by staff representatives and two external supervisors. According to the relevant government regulations, Mr. QIN Rongsheng and Mr. BAI Jingming ceased to serve as External Supervisors and the special committee members of the Bank on 28 May 2011. Mr. MEI Xingbao and Ms. BAO Guoming were approved to be External Supervisors of the Bank at the Bank's 2010 Annual General Meeting held on 27 May 2011 and

they serve a term of office of three years from 27 May 2011 until the date of the Bank's Annual General Meeting in 2014.

The Bank's Board of Supervisors performed its supervision duties legally and reviewed proposals seriously. During the reporting period, the Duty Performance and Due Diligence Supervision Committee of the Board of Supervisors held one meeting and the Finance and Internal Control Supervision Committee of the Board of Supervisors held two meetings, in which they reviewed related proposals prior to submission to the Board of Supervisors. The Bank's Board of Supervisors held

three meetings, in which it reviewed proposals such as the assessment opinions of the Board of Supervisors over the duty performance of the Board of Directors, the senior management and its members in 2010, the 2010 Annual Report and the 2011 First Quarter Report etc.

During the reporting period, the Bank's Board of Supervisors carried out an assessment of the 2010 duty performance and due diligence of the Board of Directors, and senior management members in 2010, continually strengthened the communication with the Bank's related departments and external auditors, regularly heard reports on financial and risk management and made timely suggestions. Moreover, taking into account the Bank's business development, risk and internal control management, the Board of Supervisors carried out special investigations on subjects such as the Bank's precious metals business, the implementation of a substitution system for persons in charge of front line business units, the management of loans granted to local government financing vehicles and the management of real estate sector loans.

Senior Management

In the first half of 2011, the senior management of the Bank, in accordance with the powers bestowed on them by the Articles of Association of the Bank and the rights delegated to them by the Board of Directors, drove forward the Bank's various businesses in line with the performance goals set by the Board of Directors for 2011, pushed forward its development strategy according to the guidelines of "optimising structure, scaling up, managing risk and sharpening competitiveness", and promoted innovation, transformation and cross-border business developments of the Bank. Thanks to these efforts, the senior management has led the Bank to achieve sound results.

During the reporting period, the Group Executive Committee held 13 regular meetings in which it discussed and decided upon a series of significant operational and management matters regarding business development, risk management, the construction of the IT Blueprint and other IT systems, and product innovation etc. It also held 65 special meetings to discuss and decide upon matters related to its corporate banking business, personal banking business, financial markets business, risk management and internal control, overseas development and comprehensive management.

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

Investor Relations and Information Disclosure

During the reporting period, the Bank actively carried out investor relations and information disclosure while releasing its periodic results and other significant issues in line with the principles of timeliness, proactivity, openness and fairness.

In the first half of 2011, conscious of market changes, competitive developments and market focuses, the Bank kept a close eye on the capital market and banking industry and continued its

proactive communication with the domestic and overseas investors and analysts based on the Bank's development strategy. According to market practice, the Bank organised 2010 annual results announcement and a global road-show in the Chinese Mainland, Hong Kong, Europe and North America from late March to mid-April. The senior management visited over 110 institutional investors, introducing them to the latest developments in the Bank's strategic focus and the performance of its various businesses and listening to the market's feedbacks and concerns. The proactive approach of investor communication was warmly welcomed by the investors.

The Bank took further steps to communicate with the investors in an interactive and multi-layered manner. In the first half of this year, the Bank presented its day-to-day operation and the strength of its business in diversified ways including inviting our banking experts to exchange views with investors on the market major concerns as well as participating investor forums to proactively communicate with our investors.

During the reporting period, senior management and representatives from major business departments of the Bank attended nearly a hundred meetings with domestic and overseas institutional investors and analysts, effectively promoting the investment proposition of the Bank to the investment community. At the same time, the Bank also continued to improve the investor relations webpage on its website and enhance the effectiveness of its telephone hotlines and email communication. It also explored different means of communication to enable institutional and retail investors to readily access information on the Bank's latest developments.

The Bank further improved the information disclosure system and pushed it forward. During the reporting period, the Bank strengthened the implementation of the *Rules Governing Persons with Knowledge of Inside Information of Bank of China Limited (Trial, 2010 Edition)* to prevent inside trading by enhancing the registration mechanism for the persons with knowledge of inside information. To strengthen the truthfulness, accuracy, completeness and timeliness of information disclosure of the Bank and step up the investigation of the persons responsible for information disclosure of regular reports, the Bank formulated the *Management Measures on Responsibility Investigation on Material Information Disclosure Errors of Regular Reports of Bank of China Limited (Trial, 2011 Edition)* in accordance with the regulatory requirements, which was reviewed by the Board of Directors and formally implemented.

During the reporting period, the Bank's 2010 Annual Report won Gold Award in the overall category of the LACP (League of American Communications Professionals) annual report competition. It was also awarded "Top 20 Chinese Annual Reports of 2010" and "Top 50 Annual Reports in the Asia-Pacific Region". Since its IPO in 2006, the Bank's Annual Reports has won Platinum Award twice and Gold Award three times, which is the best among the domestic listed banks.

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 to better serve the needs of investors and analysts.

Significant Events

Dividend Distribution Policy and Profit Distribution during the Reporting Period

During the reporting period, the Board of the Directors of the Bank reviewed and approved the *Dividend Distribution Plan of Bank of China Limited (2011 version)*, according to which the dividends will be distributed at a ratio of 35%~45% of the Group's current net profit for year 2010 to 2013. The profit distribution plan for each particular year will be decided in accordance with the *Capital Management Plan of Bank of China Limited* as well as the laws, rules and regulatory requirements applicable to the Bank. It is also subject to the final approval of the shareholders' meeting before its implementation.

The 2010 Annual General Meeting approved the Bank's profit distribution plan as follows: RMB9.650 billion is appropriated to the statutory surplus reserve. Some overseas entities are required by local authorities to appropriate or reverse statutory reserve and regulatory reserves, which together with other matters, resulted in a net decrease of RMB1.427 billion on undistributed profits for the year ended 31 December 2010. RMB10.207 billion is appropriated to the general reserve. No appropriation shall be made to the discretionary reserve. Considering the Bank's business performance, financial position and the capital requirements for the future development of the Bank, a dividend of RMB0.146 per share (before tax) is to be distributed to the Bank's shareholders, amounting to approximately RMB40.756 billion in total. The dividend distribution was completed by 8 July 2011. The Bank did not distribute an interim dividend for the period ended 30 June 2011, nor did it propose any capitalisation of the capital reserve into share capital during the reporting period.

Corporate Governance

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

Purchase and Sale, Merger and Acquisition of Assets

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

Material Litigation and Arbitration Cases

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

Significant Related Party Transactions

The Bank undertook no significant related party transactions during the reporting period. For related party transactions as defined by the relevant accounting standards by the end of the reporting period, please refer to Note III.30 to the Condensed Consolidated Interim Financial Information for details.

Major Contracts and Enforcement thereof

Material Custody, Sub-contracts and Leases

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

Material Guarantee Business

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

Material Cash Assets of the Bank Entrusted to Others for Management

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

Undertakings

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

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

Not applicable.

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

Not applicable.

Disciplinary Action Regarding the Bank and Its Directors, Supervisors and Senior Management Members

During the reporting period, neither the Bank nor 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 operations.

Alteration of Business Plan

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

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

Not applicable.

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

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

Use of Raised Funds

All proceeds raised from the initial public offerings, the Rights Issuances of A Shares and H Shares, the issuances of Subordinated Bonds and Convertible Bonds of the Bank have been fully used to replenish the Bank's capital and step up the level of capital adequacy of the Bank. The use of raised funds in the recent three years is as follows:

With the approval of CBRC and PBOC, the Bank issued RMB40 billion of RMB-denominated Subordinated Bonds and RMB24.93 billion of RMB-denominated Subordinated Bonds in China's inter-bank bond market on 6 July 2009 and 9 March 2010, respectively. The RMB24.93 billion of RMB-denominated Subordinated Bonds issued on 9 March 2010 was within the approved Subordinated Bonds quota by CBRC, and replaced the redeemed part of RMB33.93 billion Subordinated Bonds issued in 2005.

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

With the approval of domestic and overseas regulatory authorities, the Bank issued A Shares and H Shares during the period from November 2010 to December 2010. The total proceeds raised from these rights issues after the deduction of administrative expenses were approximately RMB59,298,812,357. The proceeds have been used solely for the replenishment of the Bank's core capital.

With the approval of CBRC and PBOC, the Bank issued RMB32 billion of RMB-denominated Subordinated Bonds in China's inter-bank bond market on 17 May 2011, to replenish the Bank's supplementary capital.

For details, please refer to the related announcements or publications on the websites of SSE, HKEx and the Bank and the Notes to the Condensed Consolidated Interim Financial Information.

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

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

Purchase, Sale or Redemption of the Bank's Shares

As of 30 June 2011, the total number of the Bank's treasury shares was approximately 32.88 million.

Implementation of Stock Incentive Plan during the Reporting Period

The Bank approved a long-term incentive policy, including the management stock appreciation rights plan and the employee stock ownership plan, at the Board of Directors' meeting and the Extraordinary General Meeting held in November 2005. To date, the management stock appreciation rights plan and the employee stock ownership plan have not been implemented.

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

Investment Securities

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

No.	Type of securities	Securities code	Company/ securities name	Initial investment cost (unit: RMB)	Securities held	Carrying value at period end (unit: RMB)	Proportion of the total investment securities at period end	Gains/(losses) during the reporting period (unit: RMB)
1	Fund	-	Fortis-Flex III China Fund I	1,347,480,839	160,500	1,393,793,633	18%	23,665,454
2	Stock	823 HK	Link REIT	331,822,229	22,812,447	504,624,103	7%	46,479,909
3	Stock	939 HK	CCB	343,804,717	61,803,712	332,117,179	4%	(2,397,946)
4	Fund	2823 HK	i Share FTSE Xinhua A50 China Index EFF	294,282,728	26,601,981	286,261,364	4%	(2,904,434)
5	Stock	HBC UN	HSBC Holdings PLC-Spons ADR	281,067,456	852,373	273,078,062	4%	7,185,726
6	Fund	-	BOCHK RMB Bond Fund	260,344,323	2,600,000	259,094,671	3%	(1,249,653)
7	Fund	2800 HK	Tracker Fund of Hong Kong	244,961,648	13,119,939	248,863,576	3%	(3,582,816)
8	Fund	2828 HK	Hang Seng Investment Index Funds Series	233,583,604	2,146,000	225,932,082	3%	(2,906,461)
9	Stock	1398 HK	ICBC	189,333,054	38,141,439	187,310,789	2%	1,927,357
10	Stock	13 HK	Hutchison Hamboa Limited	180,981,593	2,527,044	176,525,142	2%	5,257,493
Other investment securities held at period end				3,587,390,845	-	3,735,171,870	50%	194,589,010
Gains/(losses) of investment securities sold during the reporting period				-	-	-	-	(132,204,059)
Total				7,295,053,036	-	7,622,772,471	100%	133,859,580

Notes:

- The table lists the top ten investment securities held by the Group in descending order according to their carrying value at period end.
- Investment securities listed in this table include stocks, warrants, convertible bonds and open-ended and close-ended funds which are classified under financial assets at fair value through profit or loss.
- "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.
- The unit for stocks and funds is a share.

Stocks of Other Listed Companies Held by the Group

Stock code	Company name	Initial investment cost (unit: RMB)	Proportion of total capital of the invested company	Carrying value at period end (unit: RMB)	Gains during the reporting period (unit: RMB)	Increase/ (decrease) of equity during the reporting period (unit: RMB)	Accounting classification	Source of shares
2008 HK	Phoenix Satellite Television Holdings Ltd.	324,117,377	8.30%	1,048,414,752	2,939,673	150,752,448	Available for sale equity investment	Joint-stock reform
549 HK	Jilin Qifeng Chemical Fiber Co., Ltd.	57,488,052	10.95%	48,978,506	-	(10,647,501)	Available for sale equity investment	Joint-stock reform
Total	-	381,605,429	-	1,097,393,258	2,939,673	140,104,947	-	-

Notes:

- The table lists stocks of listed companies in which the Group had a shareholding of 5% or above, which are classified as long-term equity investments or available for sale equity securities.
- "Gains during the reporting period" refers to the relevant investment's contribution to the Group's consolidated profits for the period.

Equity Investments in Unlisted Financial Companies Held by the Group

Company name	Initial investment cost (unit: RMB)	Equity held (unit: share)	Proportion of total capital of the invested company	Carrying value at period end (unit: RMB)	Gains during the reporting period (unit: RMB)	Increase of the equity during the reporting period (unit: RMB)	Accounting classification	Source of shares
JCC Financial Co., Ltd.	48,502,563	-	20%	105,320,377	16,678,786	-	Investment in associates and joint ventures	Investment
China Debt Credit Enhancement Investment Co., Ltd.	991,892,563	-	14%	1,052,568,335	-	12,919,990	Available for sale equity investment	Investment
The Debt Management Company Limited	13,805	1,660	11%	13,805	-	-	Available for sale equity investment	Investment
Bank of Ningxia Co., Ltd.	415,573,324	-	11%	415,573,324	-	-	Investment in associates and joint ventures	Investment
Hunan Hualing Financial Co., Ltd.	59,857,239	-	10%	74,816,732	2,034,539	-	Investment in associates and joint ventures	Investment
Total	1,515,839,494	-	-	1,648,292,573	18,713,325	12,919,990	-	-

Notes:

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

The Audit Committee

The Audit Committee of the Bank is composed of non-executive directors only, including two non-executive director and six independent non-executive directors. Mr. HUANG Shizhong, an Independent Non-executive Director, is the Chairman. Ms. SUN Zhijun, Mr. ZHANG Xiangdong, Mr. Anthony Francis NEOH, Mr. Alberto TOGNI, Ms. HUANG Danhan, Mr. CHOW Man Yiu, Paul and Mr. Jackson P. TAI are members of the Committee. Acting in line with the principle of independence, the Committee assists the Board of Directors in supervising the Group's financial reporting, internal control, and internal and external audit.

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

Particulars of the outstanding options granted to the Director of the Bank under the Pre-listing Share Option Scheme as of 30 June 2011 are set out below:

Name	Date of grant	Exercise price per share (HKD)	Exercisable period	Number of share options					
				Granted on 5 July 2002	Balance as of 1 January 2011	Exercised during the period	Surrendered during the period	Lapsed during the period	Balance as of 30 June 2011
Li Zaohang	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	-	-	-	1,446,000

On 28 May 2011, Mr. ZHOU Zaiqun ceased to serve as Executive Director of the Bank. The outstanding options which Mr. ZHOU Zaiqun held as of 28 May 2011 are 1,084,500.

Appointment or Termination of External Auditors

The Bank has appointed PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers Hong Kong as its domestic and international external auditors respectively for the year 2011.

Directors and Supervisors' Rights to Acquire Shares

On 5 July 2002, the following Director was granted options by BOCHK (BVI), the immediate holding company of BOCHK (Holdings), pursuant to the Pre-listing Share Option Scheme, which allows for the purchase of existing issued ordinary shares of BOCHK (Holdings) from BOCHK (BVI) at a price of HKD8.50 per share. BOCHK (Holdings) is a subsidiary of the Bank, which is also listed on the Hong Kong Stock Exchange. These options have a vesting period of four years from 25 July 2002 with a valid exercise period of ten years.

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 are suspended.

Save as disclosed above, during the reporting period, none of the Bank, its holding companies, nor any of its subsidiaries or fellow subsidiaries was a party to any arrangements that would enable the Bank's Directors and Supervisors, or their respective spouses or children below the age of 18, to benefit by acquiring shares in, or debentures of, the Bank or any other body corporate.

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

Save as disclosed above, as of 30 June 2011, none of the Directors or Supervisors of the Bank or their respective associates has any interests or short positions in the shares, underlying shares or debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register to be kept by the Bank pursuant to section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the *Model Code for Securities Transactions by Directors of Listing Issuers* as set out in Appendix 10 of the Hong Kong Listing Rules (the "Model Code").

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

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

Securities Transactions by Directors and Supervisors

Pursuant to overseas and local securities regulators' requirements, the Bank has adopted and implemented the *Management Rules on Securities Transactions by Directors, Supervisors and Senior Management Personnel of Bank of China Limited* (the "Management Rules") to govern securities transactions by Directors, Supervisors and senior management personnel of the Bank. The terms of the Management Rules are more stringent than the mandatory standards set out in the Model Code. The Bank has made specific enquiries to all Directors and Supervisors, all of whom confirmed that they have complied with the standards set out in both the Management Rules and the Model Code throughout the reporting period.

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

The 2011 interim report of the Bank is in compliance with International Accounting Standard No.34-Interim Financial Reporting.

Interim Report

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

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

Report on Review of Interim Financial Information



羅兵咸永道

To the Board of Directors of Bank of China Limited

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

Introduction

We have reviewed the interim financial information set out on pages 62 to 143, which comprises the condensed consolidated statement of financial position of Bank of China Limited (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2011 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes (the "Interim Financial Information"). The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Bank are responsible for the preparation and presentation of this Interim Financial Information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this Interim Financial Information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

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

A handwritten signature in black ink that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 24 August 2011

Interim Financial Information

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Condensed Consolidated Income Statement

For the six month period ended 30 June 2011
(Amount in millions of Renminbi, unless otherwise stated)

	Note	For the six month period ended 30 June	
		2011 Unaudited	2010 Unaudited
Interest income	III.1	190,774	148,025
Interest expense	III.1	(80,559)	(56,161)
Net interest income		110,215	91,864
Fee and commission income	III.2	37,603	30,505
Fee and commission expense	III.2	(2,629)	(2,199)
Net fee and commission income		34,974	28,306
Net trading gains	III.3	4,263	1,190
Net gains on investment securities		3,336	1,828
Other operating income	III.4	13,186	9,691
Operating income		165,974	132,879
Operating expenses	III.5	(63,256)	(53,094)
Impairment losses on assets	III.7	(12,287)	(9,951)
Operating profit		90,431	69,834
Share of results of associates and joint ventures		346	453
Profit before income tax		90,777	70,287
Income tax expense	III.8	(20,644)	(15,912)
Profit for the period		70,133	54,375
Attributable to:			
Equity holders of the Bank		66,513	52,022
Non-controlling interests		3,620	2,353
		70,133	54,375
Earnings per share for profit attributable to equity holders of the Bank during the period (Expressed in RMB per ordinary share)	III.9		
– Basic		0.24	0.20
– Diluted		0.23	0.20

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

Condensed Consolidated Statement of Comprehensive Income

For the six month period ended 30 June 2011
(Amount in millions of Renminbi, unless otherwise stated)

	For the six month period ended 30 June	
	2011 Unaudited	2010 Unaudited
Profit for the period	70,133	54,375
Other comprehensive income:		
Fair value gains on available for sale financial assets:		
Amount taken to equity	4,821	6,097
Less: related income tax impact	(508)	(1,431)
Amount transferred to income statement	(3,677)	(3,170)
Less: related income tax impact	454	511
Subtotal	1,090	2,007
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(7)	107
Less: related income tax impact	2	(2)
Subtotal	(5)	105
Exchange differences on translating foreign operations	(1,903)	(1,601)
Less: net amount transferred to income statement from other comprehensive income	202	31
Subtotal	(1,701)	(1,570)
Other	44	293
Other comprehensive income for the period, net of tax	(572)	835
Total comprehensive income for the period	69,561	55,210
Total comprehensive income attributable to:		
Equity holders of the Bank	66,395	52,798
Non-controlling interests	3,166	2,412
	69,561	55,210

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

Condensed Consolidated Statement of Financial Position

As at 30 June 2011
(Amount in millions of Renminbi, unless otherwise stated)

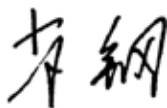
	Note	As at 30 June 2011 Unaudited	As at 31 December 2010 Audited
ASSETS			
Cash and due from banks and other financial institutions	III.10	734,807	636,126
Balances with central banks	III.11	1,838,767	1,573,922
Placements with and loans to banks and other financial institutions	III.12	409,034	213,716
Government certificates of indebtedness for bank notes issued		47,942	42,469
Precious metals		77,720	86,218
Financial assets at fair value through profit or loss	III.13	71,564	81,237
Derivative financial assets	III.14	46,017	39,974
Loans and advances to customers, net	III.15	6,081,932	5,537,765
Investment securities	III.16		
– available for sale		506,250	656,738
– held to maturity		1,090,748	1,039,386
– loans and receivables		271,907	277,963
Investment in associates and joint ventures		12,316	12,631
Property and equipment	III.17	127,146	123,568
Investment property	III.18	14,135	13,839
Deferred income tax assets	III.24	21,915	24,041
Other assets	III.19	131,298	100,272
Total assets		11,483,498	10,459,865

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

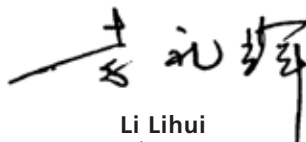
	Note	As at 30 June 2011 Unaudited	As at 31 December 2010 Audited
LIABILITIES			
Due to banks and other financial institutions		1,313,938	1,275,814
Due to central banks		72,424	73,415
Bank notes in circulation		48,012	42,511
Placements from banks and other financial institutions		355,910	230,801
Financial liabilities at fair value through profit or loss	III.20	436,053	215,874
Derivative financial liabilities	III.14	34,906	35,711
Due to customers	III.21	8,048,186	7,483,254
Bonds issued	III.22	164,365	131,887
Other borrowings		45,886	42,620
Current tax liabilities		18,431	22,775
Retirement benefit obligations		6,037	6,440
Deferred income tax liabilities	III.24	4,458	3,919
Other liabilities	III.25	231,767	218,694
Total liabilities		10,780,373	9,783,715
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Share capital		279,147	279,147
Capital reserve		115,030	114,988
Treasury shares		(104)	(138)
Statutory reserves		40,376	40,227
General and regulatory reserves		72,106	71,195
Undistributed profits	III.27	173,054	148,355
Reserve for fair value changes of available for sale securities	III.26	4,940	4,015
Currency translation differences		(14,711)	(13,624)
		669,838	644,165
Non-controlling interests		33,287	31,985
Total equity		703,125	676,150
Total equity and liabilities		11,483,498	10,459,865

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

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



Xiao Gang
Director



Li Lihui
Director

Condensed Consolidated Statement of Changes in Equity

For the six month period ended 30 June 2011
(Amount in millions of Renminbi, unless otherwise stated)

	Unaudited										
	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 2011		279,147	114,988	40,227	71,195	148,355	4,015	(13,624)	(138)	31,985	676,150
Profit for the period		-	-	-	-	66,513	-	-	-	3,620	70,133
Other comprehensive income		-	42	-	-	2	925	(1,087)	-	(454)	(572)
Total comprehensive income for the period		-	42	-	-	66,515	925	(1,087)	-	3,166	69,561
Appropriation to statutory reserves		-	-	149	-	(149)	-	-	-	-	-
Appropriation to general reserve and regulatory reserve		-	-	-	911	(911)	-	-	-	-	-
Dividends	III.27	-	-	-	-	(40,756)	-	-	-	(1,900)	(42,656)
Net change in treasury shares		-	-	-	-	-	-	-	34	-	34
Others		-	-	-	-	-	-	-	-	36	36
As at 30 June 2011		279,147	115,030	40,376	72,106	173,054	4,940	(14,711)	(104)	33,287	703,125

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

	Unaudited										
	Attributable to equity holders of the Bank										Total
	Note	Share capital	Capital reserve	Statutory reserves	General and regulatory reserves	Undistributed profits	Reserve for fair value changes of available for sale securities	Currency translation differences	Treasury shares	Non-controlling interests	
As at 1 January 2010	253,839	76,710	30,391	60,328	100,758	4,750	(11,741)	(43)	30,402	545,394	
Profit for the period	-	-	-	-	52,022	-	-	-	2,353	54,375	
Other comprehensive income	-	312	-	-	-	1,777	(1,313)	-	59	835	
Total comprehensive income for the period	-	312	-	-	52,022	1,777	(1,313)	-	2,412	55,210	
Issuance of convertible bonds	-	4,148	-	-	-	-	-	-	-	4,148	
Appropriation to statutory reserves	-	-	128	-	(128)	-	-	-	-	-	
Appropriation to general reserve and regulatory reserve	-	-	-	377	(377)	-	-	-	-	-	
Dividends	-	-	-	-	(35,537)	-	-	-	(1,949)	(37,486)	
Exercise of subsidiary share options	-	-	-	-	-	-	-	-	3	3	
Net change in treasury shares	-	-	-	-	-	-	-	(17)	-	(17)	
Others	-	-	(1)	(5)	(572)	578	-	-	64	64	
As at 30 June 2010	253,839	81,170	30,518	60,700	116,166	7,105	(13,054)	(60)	30,932	567,316	
Profit for the period	-	-	-	-	52,396	-	-	-	2,920	55,316	
Other comprehensive income	-	(173)	-	-	(3)	(3,090)	(570)	-	(756)	(4,592)	
Total comprehensive income for the period	-	(173)	-	-	52,393	(3,090)	(570)	-	2,164	50,724	
Rights issue	25,308	33,991	-	-	-	-	-	-	-	59,299	
Appropriation to statutory reserves	-	-	9,709	-	(9,709)	-	-	-	-	-	
Appropriation to general reserve and regulatory reserve	-	-	-	10,497	(10,497)	-	-	-	-	-	
Dividends	-	-	-	-	-	-	-	-	(1,334)	(1,334)	
Exercise of subsidiary share options	-	-	-	-	-	-	-	-	3	3	
Net change in treasury shares	-	-	-	-	-	-	-	(78)	-	(78)	
Other	-	-	-	(2)	2	-	-	-	220	220	
As at 31 December 2010	279,147	114,988	40,227	71,195	148,355	4,015	(13,624)	(138)	31,985	676,150	

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

Condensed Consolidated Statement of Cash Flows

For the six month period ended 30 June 2011
(Amount in millions of Renminbi, unless otherwise stated)

	Note	For the six month period ended 30 June	
		2011 Unaudited	2010 Unaudited
Cash flows from operating activities			
Profit before income tax		90,777	70,287
Adjustments:			
Impairment losses on assets		12,287	9,951
Depreciation of property and equipment		5,091	4,244
Amortisation of intangible assets and other assets		877	771
Net gains on disposal of property and equipment, intangible assets and other long-term assets		(78)	(209)
Net gains on disposal of investment in subsidiaries, associates and joint ventures		–	(128)
Share of results of associates and joint ventures		(346)	(453)
Interest income arising from investment securities		(26,773)	(25,050)
Dividends arising from investment securities		(113)	(101)
Net gains on derecognition of investment securities		(3,336)	(1,828)
Interest expense arising from bonds issued		2,907	1,986
Net changes in operating assets and liabilities:			
Net increase in balances with central banks		(288,703)	(183,365)
Net increase in due from banks and placements with and loans to banks and other financial institutions		(122,796)	(42,960)
Net decrease/(increase) in precious metals		8,498	(6,821)
Net decrease/(increase) in financial assets at fair value through profit or loss		7,403	(24,180)
Net increase in loans and advances to customers		(556,484)	(483,973)
Net (increase)/decrease in other assets		(41,203)	5,043
Net increase in due to banks and other financial institutions		38,124	255,224
Net (decrease)/increase in due to central banks		(991)	8,460
Net increase/(decrease) in placements from banks and other financial institutions		125,109	(9,589)
Net increase in due to customers		564,932	598,782
Net increase/(decrease) in other borrowings		3,266	(2,981)
Net increase in other liabilities		228,411	11,353
Cash inflow from operating activities		46,859	184,463
Income tax paid		(22,796)	(20,893)
Net cash inflow from operating activities		24,063	163,570

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

	Note	For the six month period ended 30 June	
		2011 Unaudited	2010 Unaudited
Cash flows from investing activities			
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		1,016	879
Proceeds from disposal of investment in subsidiaries, associates and joint ventures		40	475
Dividends received		172	330
Interest income received from investment securities		29,208	25,356
Proceeds from disposal/maturity of investment securities		789,875	582,321
Increase in investment in subsidiaries, associates and joint ventures		(163)	(348)
Purchase of property and equipment, intangible assets and other long-term assets		(9,947)	(4,438)
Purchase of investment securities		(722,544)	(672,504)
Net cash inflow/(outflow) from investing activities		87,657	(67,929)
Cash flows from financing activities			
Cash received from issuance of bonds		32,004	81,509
Repayments for debts issued		–	(24,930)
Cash payments for interest on bonds issued		(2,406)	(1,463)
Dividend payments to equity holders of the Bank		(31,012)	(35,537)
Dividend payments to non-controlling interests		(1,900)	(1,949)
Other net cash flows from financing activities		53	51
Net cash (outflow)/inflow from financing activities		(3,261)	17,681
Effect of exchange rate changes on cash and cash equivalents		19	(5,768)
Net increase in cash and cash equivalents		108,478	107,554
Cash and cash equivalents at beginning of the period		769,371	586,319
Cash and cash equivalents at end of the period	III.29	877,849	693,873

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

Notes to the Condensed Consolidated Interim Financial Information

(Amount in millions of Renminbi, unless otherwise stated)

I BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial information for the six month period ended 30 June 2011 has been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) and should be read in conjunction with the annual financial statements for the year ended 31 December 2010.

Except as described below, the principal accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial information are consistent with those used in the Group’s annual financial statements for the year ended 31 December 2010.

Standards, amendments and interpretations effective in 2011

On 1 January 2011, the Group adopted the following new standards, amendments and interpretations.

IAS 24 Revised	Related Party Disclosures
IAS 34 Amendment (included in Annual Improvements 2010)	Interim financial reporting
IFRIC 13	Customer loyalty programmes
IFRIC 14 Amendment	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

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. Full Adoption of IAS 24 Revised effective from 1 January 2011 has resulted in additional disclosure for commitments with related parties. The Group has made relevant disclosures in Note III.30.

The IAS 34 Amendment emphasises the existing disclosure principles in IAS 34 and adds further guidance to illustrate how to apply these principles. Additional requirements address the disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The Group has made relevant disclosures in Note IV.4.

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

I BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

Standards, amendments and interpretations that are not yet effective and have not been adopted early by the Group in 2011

	Effective for annual period beginning on or after
• IAS 1 Amendment – Presentation of financial statements: OCI	1 July 2012
• IAS 12 Amendment – Deferred Tax: Recovery of Underlying Assets	1 January 2012
• IAS 19 Amendment – Employee benefits	1 January 2013
• IAS 27 – Separate Financial Statements	1 January 2013
• IAS 28 – Investments in Associates and Joint Ventures	1 January 2013
• IFRS 7 Amendment – Disclosures – Transfers of Financial Assets	1 July 2011
• IFRS 9 and IFRS 9 Amendment – Financial Instruments	1 January 2013
• IFRS 10 – Consolidated Financial Statements	1 January 2013
• IFRS 11 – Joint Arrangements	1 January 2013
• IFRS 12 – Disclosure of Interests in Other Entities	1 January 2013
• IFRS 13 – Fair Value Measurement	1 January 2013

IAS 1 Amendment requires to separate items presented in other comprehensive income into two groups based on whether or not they may be recycled to profit or loss in the future.

IAS 19 Amendment makes changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The most significant change is that actuarial gains and losses will be recognized in other comprehensive income rather than operating expenses.

IFRS 7 Amendment introduces new disclosure requirement on transfers of financial assets.

I BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

Standards, amendments and interpretations that are not yet effective and have not been adopted early by the Group in 2011 (continued)

The five new standards (IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28) establish new guidance for consolidation and joint arrangements and principally address:

- A revised definition of control for the purposes of determining which arrangements should be consolidated;
- A reduction in the types of joint arrangements to two: joint operations and joint ventures, and classification based on rights and obligations rather than legal structure;
- Elimination of the policy choice of proportionate consolidation for joint ventures; and
- New requirements to disclose significant judgements and assumptions in determining whether an entity controls, jointly controls or significantly influences other entities.

IFRS 13 defines and sets out in a single IFRS a framework for measuring fair value, and requires disclosures about fair value measurement.

Description of the amendments under IAS 12 Amendment, IFRS 9 and IFRS 9 Amendment has been disclosed in the consolidated statements of the Group for the year ended 31 December 2010.

The Group is considering the impact of the standards on the consolidated financial statements.

II CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Except as described below, the nature and assumptions related to the Group's accounting estimates are consistent with those adopted in the Group's financial statements for the year ended 31 December 2010.

On 15 June 2011, BOC Hong Kong Group jointly announced with 13 other distributing banks that have distributed Lehman Brothers minibonds ("Minibonds") in Hong Kong the final resolution of certain series of Minibonds ("Final Resolution"). As part of this Final Resolution, the distributing banks made a voluntary offer to pay *ex gratia* payments to eligible customers and agreed to provide further funding to the trustee of the Minibonds ("Trustee") to pay for expenses which may be incurred in connection with the recovery of the underlying collateral of the Minibonds and the Trustee's role in respect of the Minibonds. The net amount recovered by BOC Hong Kong Group from the underlying collateral of Minibonds, after deducting the *ex gratia* payments and provision for trustee expenses, was credited to operating expenses in the condensed consolidated income statement for the six month period ended 30 June 2011 (Note III.5).

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 Net interest income

	For the six month period ended 30 June	
	2011	2010
Interest income		
Loans and advances to customers	135,468	107,676
Investment securities and financial assets at fair value through profit or loss	27,761	26,115
Due from central banks	12,107	8,797
Due from and placements with and loans to banks and other financial institutions	15,438	5,437
Subtotal	190,774	148,025
Interest expense		
Due to customers	(60,994)	(44,549)
Due to and placements from banks and other financial institutions	(16,238)	(9,198)
Other borrowed funds	(3,327)	(2,414)
Subtotal	(80,559)	(56,161)
Net interest income ⁽¹⁾	110,215	91,864
Interest income accrued on impaired financial assets (included within interest income)	373	559

(1) Included within interest income and interest expenses are RMB189,762 million (2010: RMB146,994 million) and RMB74,935 million (2010: RMB55,641 million) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

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

2 Net fee and commission income

	For the six month period ended 30 June	
	2011	2010
Credit commitment fees	7,846	5,947
Agency commissions	7,072	5,269
Settlement and clearing fees	6,539	4,685
Bank card fees	4,846	4,455
Spread income from foreign exchange business	4,088	3,404
Consultancy and advisory fees	3,905	3,075
Custodian and other fiduciary service fees	947	869
Other	2,360	2,801
Fee and commission income	37,603	30,505
Fee and commission expense	(2,629)	(2,199)
Net fee and commission income	34,974	28,306

3 Net trading gains

	For the six month period ended 30 June	
	2011	2010
Net gains from foreign exchange and foreign exchange products ⁽¹⁾	4,045	1,521
Net losses from interest rate products	(94)	(358)
Net gains/(losses) from equity products	88	(135)
Net gains from commodity products	224	162
Total ⁽²⁾	4,263	1,190

(1) The net gains from foreign exchange and foreign exchange products include losses in connection with the retranslation of foreign currency denominated monetary assets and liabilities of RMB6,618 million (2010: gains of RMB5,676 million), and net realised and unrealised gains on foreign exchange derivatives (including those entered into in conjunction with the Group's asset and liability management and funding arrangements) of RMB10,721 million (2010: losses of RMB4,155 million).

(2) Included in "Net trading gains" above for the six month period ended 30 June 2011 are gains of RMB528 million in relation to financial assets and financial liabilities designated at fair value through profit or loss (2010: gains of RMB791 million).

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

4 Other operating income

	For the six month period ended 30 June	
	2011	2010
Insurance premiums		
– Life insurance contracts	2,845	2,421
– Non-life insurance contracts	1,515	1,409
Revenue from sale of precious metals products	4,224	2,173
Aircraft leasing income	1,873	1,696
Gains on disposal of property and equipment, intangible assets and other assets	103	241
Dividend income	165	128
Changes in fair value of investment properties (Note III.18)	938	504
Gains on disposal of subsidiaries, associates and joint ventures	–	128
Other	1,523	991
Total	13,186	9,691

5 Operating expenses

	For the six month period ended 30 June	
	2011	2010
Staff costs (Note III.6)	28,272	22,761
General operating and administrative expenses ⁽¹⁾	13,617	11,852
Business and other taxes	8,713	6,908
Depreciation and amortisation	5,968	5,015
Insurance benefits and claims		
– Life insurance contracts	3,540	3,400
– Non-life insurance contracts	1,058	827
Cost of sale of precious metals products	3,831	1,958
Allowance for litigation losses	29	14
Losses on disposal of property and equipment	25	32
Lehman Brothers related products ⁽²⁾	(2,378)	68
Other	581	259
Total	63,256	53,094

(1) Included in the general operating and administrative expenses are operating lease expenses of RMB2,042 million and other premises and equipment related expenses (mainly comprised of property management and building maintenance expenses) of RMB3,564 million (2010: RMB1,715 million and RMB3,128 million) respectively.

(2) Including the net amount of RMB2,394 million recovered by BOC Hong Kong Group from the underlying collateral of the Minibonds, after deducting the *ex gratia* payments and provision for trustee expenses (Note II).

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

6 Staff costs

	For the six month period ended 30 June	
	2011	2010
Salary, bonus and subsidy	20,652	16,425
Staff welfare	1,098	852
Retirement benefits	62	195
Social insurance, including:		
– Medical	814	612
– Pension	1,926	1,638
– Annuity	421	373
– Unemployment	141	94
– Injury at work	47	35
– Maternity insurance	56	43
Housing funds	1,500	1,217
Labour union fee and staff education fee	729	574
Reimbursement for cancellation of labour contract	12	7
Other	814	696
Total	28,272	22,761

7 Impairment losses on assets

	For the six month period ended 30 June	
	2011	2010
Loans and advances ⁽¹⁾		
– Individually assessed	(2,694)	(2,641)
– Collectively assessed	15,527	14,082
Subtotal	12,833	11,441
Investment securities ⁽²⁾		
– Available for sale	(440)	(1,346)
– Held to maturity	(32)	(47)
Subtotal	(472)	(1,393)
Other	(74)	(97)
Total	12,287	9,951

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

7 Impairment losses on assets (continued)

- (1) Details of movements in allowances for loans and advances are disclosed in Note III.15.
- (2) Impairment (reversal)/charges on investment securities:

	For the six month period ended 30 June	
	2011	2010
US Subprime mortgage related debt securities	(324)	(704)
US Alt-A mortgage-backed securities	(90)	(210)
US Non-Agency mortgage-backed securities	(171)	(276)
Other securities	113	(203)
Net reversal	(472)	(1,393)

8 Income tax expense

	For the six month period ended 30 June	
	2011	2010
Current income tax		
– Chinese mainland income tax	15,785	13,530
– Hong Kong profits tax	1,814	1,266
– Macau, Taiwan and other countries and regions taxation	630	697
Subtotal	18,229	15,493
Deferred income tax (Note III.24.4)	2,415	419
Total	20,644	15,912

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.

Taxation on profits of Hong Kong, Macau, Taiwan and other countries and regions has been calculated on the estimated taxable income in accordance with local tax regulations at the rates of taxation prevailing in the countries or regions in which the Group operates.

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

8 Income tax expense (continued)

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

	For the six month period ended 30 June	
	2011	2010
Profit before income tax	90,777	70,287
Tax calculated at applicable statutory tax rate	22,694	17,572
Effect of different tax rates in Hong Kong, Macau, Taiwan and other countries and regions	(1,547)	(1,086)
Supplementary PRC tax on overseas income	771	529
Income not subject to tax ⁽¹⁾	(2,215)	(1,804)
Items not deductible for tax purposes ⁽²⁾	890	748
Other	51	(47)
Income tax expense	20,644	15,912

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

(2) Non-deductible items primarily included losses resulting from write-off of certain non-performing loans, and marketing and entertainment expenses in excess of those deductible under the relevant PRC tax regulations.

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

9 Earnings per share (basic and diluted)

Basic earnings per share

Basic earnings per share were computed by dividing the profit attributable to the equity holders of the Bank for the six month period by the weighted average number of ordinary shares in issue during the period. The comparative earnings per share for profit attributable to equity holders of the Bank for the period ended 30 June 2010 have been adjusted to reflect the effect of the rights issues in the six month period ended 31 December 2010.

	For the six month period ended 30 June	
	2011	2010
Profit attributable to equity holders of the Bank	66,513	52,022
Weighted average number of ordinary shares in issue (in million shares)	279,116	262,482
Basic earnings per share (in RMB per share)	0.24	0.20

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

	For the six month period ended 30 June	
	2011	2010
Issued ordinary shares as at 1 January	279,147	253,839
Weighted average number of shares from rights issue	–	8,662
Conversion of the bond into shares (Note III.22)	–	–
Weighted average number of treasury shares	(31)	(19)
Weighted average number of ordinary shares in issue	279,116	262,482

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

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

Diluted earnings per share

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

	For the six month period ended 30 June	
	2011	2010
Profit attributable to equity holders of the Bank	66,513	52,022
Add: interest expense on convertible bonds, net of tax, outstanding as at 30 June	539	69
Profit used to determine diluted earnings per share	67,052	52,091
Adjusted weighted average number of ordinary shares in issue (in million shares)	279,116	262,482
Add: weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	10,747	1,652
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	289,863	264,134
Diluted earnings per share (in RMB per share)	0.23	0.20

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

10 Cash and due from banks and other financial institutions

	As at 30 June 2011	As at 31 December 2010
Cash	52,873	49,222
Due from banks in Chinese mainland	628,753	563,578
Due from other financial institutions in Chinese mainland	620	1,459
Due from banks in Hong Kong, Macau, Taiwan and other countries and regions	52,496	21,867
Due from other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	65	–
Total	734,807	636,126

11 Balances with central banks

	As at 30 June 2011	As at 31 December 2010
Mandatory reserves ⁽¹⁾	1,390,176	1,109,878
Surplus reserves ⁽²⁾	111,802	111,501
Other deposits ⁽³⁾	336,789	352,543
Total	1,838,767	1,573,922

- (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 30 June 2011, mandatory reserve funds placed with the PBOC were calculated at 21.5% (31 December 2010: 18.5%) and 5% (31 December 2010: 5%) of eligible RMB deposits and foreign currency deposits from customers of branches in Chinese mainland of the Bank. The mandatory reserve funds placed with the central bank of domestic subsidiaries of the Group is determined by the PBOC. The amount of mandatory reserve funds placed with the central banks of Hong Kong, Macau, Taiwan and other countries and regions is determined by local jurisdiction.
- (2) This mainly represented the surplus reserve funds placed with PBOC by branches in Chinese mainland of the Group.
- (3) 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.

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

12 Placements with and loans to banks and other financial institutions

	As at 30 June 2011	As at 31 December 2010
Placements with and loans to:		
Banks in Chinese mainland	262,246	91,752
Other financial institutions in Chinese mainland	103,533	83,188
Banks in Hong Kong, Macau, Taiwan and other countries and regions	43,496	39,019
Subtotal	409,275	213,959
Allowance for impairment losses	(241)	(243)
Total	409,034	213,716
Impaired placements	241	243
Percentage of impaired placements to total placements with and loans to banks and other financial institutions	0.06%	0.11%

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 30 June 2011	As at 31 December 2010
Debt securities		
– Government	67,541	43,692
– Policy banks	68,566	29,778
– Financial institutions	–	3,262
Bills	1,310	–
Total	137,417	76,732

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

13 Financial assets at fair value through profit or loss

	As at 30 June 2011	As at 31 December 2010
Trading financial assets		
Trading debt securities		
Issuers in Chinese mainland		
– Government	2,727	5,477
– Policy banks	7,172	1,936
– Financial institutions	112	333
– Corporate	1,912	1,012
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
– Governments	11,511	29,472
– Public sector and quasi-governments	183	203
– Financial institutions	1,236	1,353
– Corporate	4,850	4,585
	29,703	44,371
Other trading financial assets		
Fund investments	310	429
Equity securities	2,594	3,863
Subtotal	32,607	48,663
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	233	174
– Policy banks	1,647	1,666
– Financial institutions	335	347
– Corporate	332	347
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
– Governments	244	242
– Public sector and quasi-governments	454	462
– Financial institutions	25,982	20,206
– Corporate	4,025	3,745
	33,252	27,189
Other financial assets designated at fair value through profit or loss		
Fund investments	2,460	2,577
Loans	1,141	1,172
Equity securities	2,104	1,636
Subtotal	38,957	32,574
Total	71,564	81,237
Analysed as:		
Listed in Hong Kong	10,449	7,735
Listed outside Hong Kong	31,305	22,640
Unlisted	29,810	50,862
Total	71,564	81,237

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

14 Derivative financial instruments

The Group enters into foreign currency exchange rate, interest rate, equity, credit, 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 are set out in the following tables. The contractual/notional amounts of financial instruments provide a basis for comparison with fair value instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates or equity/commodity prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

	As at 30 June 2011			As at 31 December 2010		
	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⁾	1,839,024	36,929	(23,261)	1,979,959	30,763	(23,829)
Currency options	15,197	73	(55)	4,585	24	(25)
Subtotal	1,854,221	37,002	(23,316)	1,984,544	30,787	(23,854)
Interest rate derivatives						
Interest rate swaps	584,792	7,007	(9,586)	532,670	7,308	(10,081)
Interest rate options	5,870	9	(46)	85	–	–
Interest rate futures	3,733	1	(5)	7,388	8	(3)
Subtotal	594,395	7,017	(9,637)	540,143	7,316	(10,084)
Equity derivatives	8,429	92	(186)	8,684	123	(183)
Commodity derivatives	72,206	1,904	(1,767)	33,415	1,744	(1,590)
Credit derivatives	324	2	–	331	4	–
Total ⁽²⁾	2,529,575	46,017	(34,906)	2,567,117	39,974	(35,711)

(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.

(2) Included in the derivative financial instruments above are those designated as hedging instruments by the Group.

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

15 Loans and advances to customers, net

15.1 Analysis of loans and advances to customers

	Group		Chinese mainland	
	As at 30 June 2011	As at 31 December 2010	As at 30 June 2011	As at 31 December 2010
Corporate loans and advances				
Loans and advances	4,586,232	4,143,775	3,667,377	3,445,891
Discounted bills	80,142	100,608	69,326	94,794
Subtotal	4,666,374	4,244,383	3,736,703	3,540,685
Personal loans				
Mortgages	1,183,428	1,089,006	995,760	921,373
Credit cards	71,195	60,833	63,690	53,487
Other	295,527	266,399	266,404	243,040
Subtotal	1,550,150	1,416,238	1,325,854	1,217,900
Total loans and advances	6,216,524	5,660,621	5,062,557	4,758,585
Allowance for impairment losses				
Individually assessed	(33,798)	(36,834)	(33,038)	(35,985)
Collectively assessed	(100,794)	(86,022)	(93,622)	(80,814)
Total allowance for impairment losses	(134,592)	(122,856)	(126,660)	(116,799)
Loans and advances to customers, net	6,081,932	5,537,765	4,935,897	4,641,786

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

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

15 Loans and advances to customers, net (continued)

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

Group

	Loans and advances for which allowance is collectively assessed ⁽¹⁾	Identified impaired loans and advances ⁽²⁾			Subtotal	Total	Identified impaired loans and advances as % of total loans and advances
		for which allowance is collectively assessed	for which allowance is individually assessed				
As at 30 June 2011							
Total loans and advances	6,153,830	12,516	50,178	62,694	6,216,524	1.01%	
Allowance for impairment losses	(92,200)	(8,594)	(33,798)	(42,392)	(134,592)		
Loans and advances to customers, net	6,061,630	3,922	16,380	20,302	6,081,932		
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		

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

15 Loans and advances to customers, net (continued)

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

Chinese mainland

	Loans and advances for which allowance is collectively assessed ⁽¹⁾	Identified impaired loans and advances ⁽²⁾			Subtotal	Total	Identified impaired loans and advances as % of total loans and advances
		for which allowance is collectively assessed	for which allowance is individually assessed				
As at 30 June 2011							
Total loans and advances	5,001,335	12,398	48,824	61,222	5,062,557	1.21%	
Allowance for impairment losses	(85,087)	(8,535)	(33,038)	(41,573)	(126,660)		
Loans and advances to customers, net	4,916,248	3,863	15,786	19,649	4,935,897		
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		

(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 all personal loans which are impaired).

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

15 Loans and advances to customers, net (continued)

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

Group

	Six month period ended 30 June 2011	Year ended 31 December 2010
As at 1 January	122,856	112,950
Impairment losses for the period/year	34,898	45,580
Reversal	(22,065)	(30,016)
Written off and transfer out	(862)	(5,517)
Recovery of loans and advances written off in previous years	337	766
Unwind of discount on allowance	(157)	(395)
Exchange differences	(415)	(512)
As at 30 June/31 December	134,592	122,856

Chinese mainland

	Six month period ended 30 June 2011	Year ended 31 December 2010
As at 1 January	116,799	107,646
Impairment losses for the period/year	32,414	44,010
Reversal	(21,604)	(29,296)
Written off and transfer out	(761)	(5,139)
Recovery of loans and advances written off in previous years	149	269
Unwind of discount on allowance	(155)	(376)
Exchange differences	(182)	(315)
As at 30 June/31 December	126,660	116,799

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

16 Investment securities

	As at 30 June 2011	As at 31 December 2010
Investment securities available for sale		
Debt securities available for sale		
Issuers in Chinese mainland		
– Government	30,808	122,199
– Public sector and quasi-governments	948	2,790
– Policy banks	48,262	95,121
– Financial institutions	22,936	20,617
– Corporate	48,906	57,483
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
– Governments	100,572	90,437
– Public sector and quasi-governments	35,996	45,429
– Financial institutions	168,301	174,496
– Corporate	23,040	23,988
	479,769	632,560
Equity securities	20,789	19,142
Fund investments and other	5,692	5,036
Total investment securities available for sale ⁽¹⁾	506,250	656,738
Debt securities held to maturity		
Issuers in Chinese mainland		
– Government	598,160	689,539
– Public sector and quasi-governments	20,368	13,672
– Policy banks	245,765	146,428
– Financial institutions	24,034	19,584
– Corporate	130,379	90,480
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
– Governments	31,480	32,744
– Public sector and quasi-governments	7,846	7,785
– Financial institutions	28,965	34,257
– Corporate	4,139	5,335
	1,091,136	1,039,824
Allowance for impairment losses	(388)	(438)
Total debt securities held to maturity ⁽²⁾	1,090,748	1,039,386
Debt securities classified as loans and receivables		
Issuers in Chinese mainland		
– China Orient Bond	160,000	160,000
– PBOC Special Bills	–	82
– Special Purpose Treasury Bond	42,500	42,500
– Financial institutions	12,341	16,541
– Certificate and Saving-type Treasury Bonds and other	39,483	43,639
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
– Public sector and quasi-governments	5,193	3,094
– Financial institutions	12,110	12,184
– Corporate	356	–
	271,983	278,040
Allowance for impairment losses	(76)	(77)
Total debt securities classified as loans and receivables	271,907	277,963
Total investment securities	1,868,905	1,974,087

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

16 Investment securities (continued)

	As at 30 June 2011	As at 31 December 2010
Analysed as follows:		
Investment securities available for sale		
Debt securities		
– Listed in Hong Kong	16,089	11,800
– Listed outside Hong Kong	238,824	405,093
– Unlisted	224,856	215,667
Equity, fund and other		
– Listed in Hong Kong	5,482	5,748
– Listed outside Hong Kong	859	274
– Unlisted	20,140	18,156
Debt securities held to maturity		
– Listed in Hong Kong	2,777	2,269
– Listed outside Hong Kong	1,021,809	971,645
– Unlisted	66,162	65,472
Debt securities classified as loans and receivables		
– Unlisted	271,907	277,963
Total	1,868,905	1,974,087
Listed in Hong Kong	24,348	19,817
Listed outside Hong Kong	1,261,492	1,377,012
Unlisted	583,065	577,258
Total	1,868,905	1,974,087

(1) The Group's accumulated impairment charge on available for sale financial instruments, including debt, equity and other, held as at 30 June 2011 amounted to RMB12,266 million and RMB3,368 million, respectively (31 December 2010: RMB15,931 million and RMB3,480 million, respectively).

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

	As at 30 June 2011		As at 31 December 2010	
	Carrying value	Market value	Carrying value	Market value
Debt securities held to maturity				
– Listed in Hong Kong	2,777	2,885	2,269	2,375
– Listed outside Hong Kong	1,021,809	1,006,975	971,645	958,476

In March 2011, the Group reclassified certain debt securities with a total carrying value of RMB136,503 million from available for sale to held to maturity in response to a change in intention of management.

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

17 Property and equipment

	Six month period ended 30 June 2011				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 1 January	74,058	40,752	12,806	43,707	171,323
Additions	743	871	4,512	4,008	10,134
Transfer from investment property, net (Note III.18)	810	–	–	–	810
Reclassification	1,479	242	(2,381)	660	–
Disposals	(207)	(732)	(5)	(919)	(1,863)
Exchange differences	(254)	(89)	(47)	(963)	(1,353)
As at 30 June	76,629	41,044	14,885	46,493	179,051
Accumulated depreciation					
As at 1 January	(19,378)	(23,942)	–	(3,371)	(46,691)
Depreciation charge	(1,112)	(3,185)	–	(794)	(5,091)
Disposals	67	628	–	50	745
Exchange differences	64	57	–	73	194
As at 30 June	(20,359)	(26,442)	–	(4,042)	(50,843)
Allowance for impairment losses					
As at 1 January	(798)	–	(257)	(9)	(1,064)
Impairment losses	–	–	–	–	–
Disposals	2	–	–	–	2
Exchange differences	–	–	–	–	–
As at 30 June	(796)	–	(257)	(9)	(1,062)
Net book value					
As at 1 January	53,882	16,810	12,549	40,327	123,568
As at 30 June	55,474	14,602	14,628	42,442	127,146

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

17 Property and equipment (continued)

	Year ended 31 December 2010				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 1 January	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 III.18)	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	74,058	40,752	12,806	43,707	171,323
Accumulated depreciation					
As at 1 January	(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	(19,378)	(23,942)	–	(3,371)	(46,691)
Allowance for impairment losses					
As at 1 January	(819)	–	(279)	–	(1,098)
Impairment losses	–	–	–	(9)	(9)
Disposals	21	–	22	–	43
Exchange differences	–	–	–	–	–
As at 31 December	(798)	–	(257)	(9)	(1,064)
Net book value					
As at 1 January	49,803	12,778	11,401	35,972	109,954
As at 31 December	53,882	16,810	12,549	40,327	123,568

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

18 Investment property

	Six month period ended 30 June 2011	Year ended 31 December 2010
As at 1 January	13,839	15,952
Additions	438	–
Transfer to property and equipment, net (Note III.17)	(810)	(3,345)
Disposals	(31)	(94)
Fair value changes (Note III.4)	938	1,649
Exchange differences	(239)	(323)
As at 30 June/31 December	14,135	13,839

19 Other assets

	As at 30 June 2011	As at 31 December 2010
Interest receivable	48,963	42,025
Accounts receivable and prepayments	58,681	35,377
Intangible assets	2,381	2,342
Land use rights	9,431	9,023
Reposessed assets ⁽¹⁾	1,264	1,531
Goodwill	1,812	1,851
Other	8,766	8,123
Total	131,298	100,272

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

19 Other assets (continued)

(1) Repossessed assets

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

	As at 30 June 2011	As at 31 December 2010
Commercial properties	1,516	1,876
Residential properties	206	260
Other	751	1,115
	2,473	3,251
Allowance for impairment	(1,209)	(1,720)
Repossessed assets, net	1,264	1,531

The total book value of repossessed assets disposed for the six month period ended 30 June 2011 amounted to RMB834 million (for the year ended 31 December 2010: RMB1,339 million). The Group plans to dispose the repossessed assets held at 30 June 2011 by auction, bidding or transfer.

20 Financial liabilities at fair value through profit or loss

	As at 30 June 2011	As at 31 December 2010
Trading financial liabilities		
– Short position in debt securities	3,698	21,492
Financial liabilities designated at fair value through profit or loss ⁽¹⁾		
– Structured deposit	432,355	194,382
Total	436,053	215,874

- (1) There were no significant changes in the Group's credit risk and therefore there were no significant gains or losses attributable to changes in credit risk for those financial liabilities designated at fair value through profit or loss in the six month period ended 30 June 2011 or for the year 2010.

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

21 Due to customers

	As at 30 June 2011	As at 31 December 2010
Demand deposits		
Corporate deposits	2,386,860	2,244,807
Personal deposits	1,399,340	1,343,434
Subtotal	3,786,200	3,588,241
Time deposits		
Corporate deposits	1,993,491	1,739,924
Personal deposits	2,161,358	2,109,872
Subtotal	4,154,849	3,849,796
Certificates of deposit	107,137	45,217
Total ⁽¹⁾	8,048,186	7,483,254

(1) Due to customers included margin deposits received by the Group as at 30 June 2011 of RMB471,813 million (31 December 2010: RMB394,231 million).

22 Bonds issued

(1) Pursuant to approval of relevant authorities, on 17 May 2011, the Bank issued subordinated bonds at par with the notional amount of RMB32 billion in the domestic interbank bond markets. The subordinated bonds have a maturity of 15 years, with a fixed coupon rate of 5.30%, paid annually. The Bank is entitled to redeem all the subordinated bonds on the tenth anniversary. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed.

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

22 Bonds issued (continued)

- (2) During the six month period ended 30 June 2011, the movement of liability component of the A-share convertible bonds issued by the Bank is as follows:

As at 1 January	36,206
Accretion	493
Amounts converted to shares	–
As at 30 June 2011	36,699

Convertible bonds in the principal amount of RMB373,000 were converted into 99,800 ordinary A shares during the six month period ended 30 June 2011.

23 Share option schemes

23.1 Share Appreciation Rights Plan

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

23.2 BOCHK Holdings Share Option Scheme and Sharesave Plan

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

23.3 BOCHK Holdings Pre-listing Share Option Scheme

During the six month period ended 30 June 2011, no share options were exercised by the directors or key management of the Group (2010: nil). The number of share options granted to the directors and key management of the Group outstanding at 30 June 2011 was 1,446,000 (31 December 2010: 3,976,500), the decrease in the number of share options results from the resignation of certain directors and key management.

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

24 Deferred income taxes

24.1 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 after offsetting qualifying amounts and related temporary differences:

	As at 30 June 2011		As at 31 December 2010	
	Temporary differences	Deferred tax assets/(liabilities)	Temporary differences	Deferred tax assets/(liabilities)
Deferred income tax assets	81,781	21,915	92,416	24,041
Deferred income tax liabilities	(25,663)	(4,458)	(23,203)	(3,919)
	56,118	17,457	69,213	20,122

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

	Six month period ended 30 June 2011	Year ended 31 December 2010
As at 1 January	20,122	20,132
Charged to income statement (Note III.8)	(2,415)	(464)
(Charged)/credited to equity	(52)	362
Other	(198)	92
As at 30 June/31 December	17,457	20,122

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

24 Deferred income taxes (continued)

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

	As at 30 June 2011		As at 31 December 2010	
	Temporary differences	Deferred tax assets/(liabilities)	Temporary differences	Deferred tax assets/(liabilities)
Deferred income tax assets				
Asset impairment allowances	84,542	21,150	83,360	20,885
Pension, retirement benefits and salary payable	15,322	3,831	17,329	4,332
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	13,151	3,289	14,524	3,631
Fair value changes of available for sale investment securities credited to equity	553	138	832	209
Other temporary differences	2,293	608	2,395	628
Subtotal	115,861	29,016	118,440	29,685
Deferred income tax liabilities				
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	(21,482)	(5,370)	(16,796)	(4,209)
Fair value changes of available for sale investment securities charged to equity	(3,203)	(694)	(3,126)	(713)
Depreciation of property and equipment	(7,515)	(1,277)	(7,179)	(1,218)
Revaluation of property and investment property	(16,599)	(2,942)	(15,054)	(2,591)
Other temporary differences	(10,944)	(1,276)	(7,072)	(832)
Subtotal	(59,743)	(11,559)	(49,227)	(9,563)
Net	56,118	17,457	69,213	20,122

As at 30 June 2011, deferred income tax liabilities relating to temporary differences on the unremitted earnings of certain subsidiaries of RMB31,368 million have not been recognised (31 December 2010: RMB25,729 million).

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

24 Deferred income taxes (continued)

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

	For the six month period ended 30 June	
	2011	2010
Asset impairment allowances	265	277
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	(1,503)	(71)
Pension, retirement benefits and salary payable	(501)	(839)
Other temporary differences	(676)	214
Total	(2,415)	(419)

25 Other liabilities

	As at 30 June 2011	As at 31 December 2010
	Interest payable	65,029
Items in the process of clearance and settlement	54,878	66,241
Insurance liabilities		
– Life insurance contracts	35,796	33,872
– Non-life insurance contracts	5,091	4,376
Salary and welfare payable	15,386	17,761
Dividend payable (Note III.27)	9,744	–
Provision	1,556	1,372
Other	44,287	36,407
Total	231,767	218,694

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

26 Reserve for fair value changes of available for sale securities

	Six month period ended 30 June 2011	Year ended 31 December 2010
As at 1 January	4,015	4,750
Net changes in fair value	4,535	4,125
Share of associates' reserve for fair value changes of available for sale securities	(7)	62
Net impairment reversal transferred to income statement	(438)	(2,355)
Net fair value changes transferred to income statement on derecognition	(3,308)	(3,551)
Deferred income taxes	(19)	406
Other	162	578
As at 30 June/31 December	4,940	4,015

27 Dividends

A dividend of RMB0.146 per share in respect of profits for the year ended 31 December 2010 amounting to RMB40,756 million was approved by the equity holders of the Bank at the Annual General Meeting held on 27 May 2011. Of this amount, RMB31,012 million was distributed during the six month period ended 30 June 2011. The undistributed portion of RMB9,744 million was recorded in other liabilities (Note III.25) as at 30 June 2011. Such dividend was distributed on 8 July 2011 after the appropriate withholding of individual and enterprise income taxes pursuant to the announcement made by the Bank on 3 July 2011.

28 Contingent liabilities and commitments

28.1 Legal proceedings and claims

As at 30 June 2011, the Group was involved in certain legal proceedings and claims arising from its normal business operations. As at 30 June 2011, provisions of RMB706 million (31 December 2010: RMB750 million) were made based on court judgments or the advice of counsel. After consulting legal professionals, management of the Group believes that these lawsuits and claims will not have a material impact on the financial position or operations of the Group.

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

28 Contingent liabilities and commitments (continued)

28.2 Assets pledged

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

	As at 30 June 2011	As at 31 December 2010
Debt securities	121,136	114,180
Precious metals	13,667	–
Total	134,803	114,180

28.3 Collateral accepted

The Group accepts securities and precious metals collateral that it is permitted to sell or re-pledge in connection with its placements and reverse repurchase agreements with banks and other financial institutions. As at 30 June 2011, the fair value of collateral received from banks and financial institutions accepted by the Group amounted to RMB18,933 million (31 December 2010: RMB13,647 million). As at 30 June 2011, the Group had an obligation to return securities collateral that it has sold or pledged with a fair value of RMB62 million (31 December 2010: Nil). These transactions are conducted under standard terms and in the normal course of business.

28.4 Capital commitments

	As at 30 June 2011	As at 31 December 2010
Property and equipment		
– Contracted but not provided for	46,114	52,265
– Authorised but not contracted for	11,226	5,167
Intangible assets		
– Contracted but not provided for	395	443
– Authorised but not contracted for	23	5
Total	57,758	57,880

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

28 Contingent liabilities and commitments (continued)

28.5 Operating leases

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

	As at 30 June 2011	As at 31 December 2010
Within one year	3,761	3,560
One to two years	3,089	2,847
Two to three years	2,578	2,262
Over three years	5,844	5,570
Total	15,272	14,239

28.6 Treasury Bond redemption commitments

The Bank is entrusted by the MOF to underwrite certain Treasury Bonds. The investors of these Treasury Bonds have a right to redeem the bonds at any time prior to maturity and the Bank is committed to redeem those bonds. The MOF will not provide funding for the early redemption of these Treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 30 June 2011, the outstanding principal value of the Treasury bonds sold by the Bank amounted to RMB49,838 million (31 December 2010: RMB57,153 million). The original maturities of these bonds vary from 1 to 5 years and management expects the amount of redemption before the maturity dates of those bonds through the Bank will not be material.

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

28 Contingent liabilities and commitments (continued)

28.7 Credit commitments

	As at 30 June 2011	As at 31 December 2010
Loan commitments ⁽¹⁾		
With an original maturity of under one year	57,729	75,740
With an original maturity of one year or over	679,513	660,970
Letters of guarantee issued ⁽²⁾	708,283	646,098
Bank bill acceptance	416,230	352,252
Letters of credit issued	203,575	184,061
Accepted bill of exchange under letter of credit	135,344	100,511
Other	9,047	7,803
Total	2,209,721	2,027,435

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

(2) Letters of guarantee issued include financial guarantees and performance guarantees. These obligations on the Group to make payment are dependent on the outcome of a future event.

Credit risk weighted amounts of credit commitments

	As at 30 June 2011	As at 31 December 2010
Credit commitments	689,273	684,723

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.

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

28 Contingent liabilities and commitments (continued)

28.8 Underwriting obligations

The unexpired underwriting obligations of securities are as follows:

	As at 30 June 2011	As at 31 December 2010
Underwriting obligations	89,638	81,298

29 Note to condensed consolidated statement of cash flows

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

	As at 30 June 2011	As at 30 June 2010
Cash and due from banks and other financial institutions	213,061	199,157
Balances with central banks	426,568	240,730
Placements with and loans to banks and other financial institutions	198,047	178,889
Short term bills and notes	40,173	75,097
Total	877,849	693,873

30 Related party transactions

30.1 China Investment Corporation ("CIC") was established on 29 September 2007 with a registered capital of USD200 billion. CIC is a wholly State-owned company engaging in foreign currency investment management. The Group is subject to the control of the State Council of the PRC Government through CIC and its wholly owned subsidiary Central Huijin Investments Limited ("Huijin").

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

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

30 Related party transactions (continued)

30.2 Transactions with Huijin and companies under Huijin

(1) General information of Huijin

Central Huijin Investment Ltd.

Legal representative	Lou Jiwei
Registered Capital	RMB552,117 million
Location of registration	Beijing
Capital shares in the Bank	67.55%
Voting right 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 organization 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

	Six month ended 30 June 2011	Year ended 31 December 2010
As at 1 January	21,026	10,107
Received during the period/year	53,391	57,298
Repaid during the period/year	(38,361)	(46,379)
As at 30 June/31 December	36,056	21,026

Bonds issued by Huijin

As at 30 June 2011, the Bank held government backed bonds issued by Huijin with a carrying value of RMB5,688 million (31 December 2010: RMB5,729 million). These bonds have maturities of not more than 30 years and bear fixed interest rates, payable annually. The Group purchased these bonds in the ordinary course of business, complying with requirements of related regulations and corporate governance procedures within the Group.

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

30 Related party transactions (continued)

30.2 Transactions with Huijin and companies under Huijin (continued)

(3) Transactions with companies under Huijin

Companies under Huijin include its equity interests in subsidiaries, associates and joint ventures 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 with these companies were as follows:

	As at 30 June 2011	As at 31 December 2010
Due from banks and other financial institutions	89,553	61,371
Placements with and loans to banks and other financial institutions	59,093	26,891
Financial assets at fair value through profit or loss and Investment securities	223,903	201,102
Derivative financial assets	579	669
Loans and advances to customers	249	–
Due to banks and other financial institutions	(153,613)	(146,291)
Placements from banks and other financial institutions	(52,655)	(24,435)
Derivative financial liabilities	(1,024)	(1,080)
Credit commitments	2,046	996

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

30 Related party transactions (continued)

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

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

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

30.4 Transactions with associates and joint ventures

The Group enters into banking transactions with associates and joint ventures in the normal course of business at commercial terms. These include loans and advances, deposit taking and other normal banking businesses. The outstanding balances with associates and joint ventures as of the respective period/year end dates are stated below:

	As at 30 June 2011	As at 31 December 2010
Loans and advances to customers	1,655	527
Due to customers, banks and other financial institutions	(6,311)	(6,944)
Credit commitments	1,432	1,510

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

30 Related party transactions (continued)

30.5 Transactions with the Annuity Plan

Apart from the obligations for defined contributions to Annuity Fund and normal banking transactions, no transactions were conducted between the Group and the Annuity Fund for the six month period ended 30 June 2011 and the year ended 31 December 2010.

30.6 Transactions with key management personnel

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

The Group enters into banking transactions with key management personnel in the normal course of business. During the six month period ended 30 June 2011 and the year ended 31 December 2010, there were no material transactions and balances with key management personnel on an individual basis.

31 Segment reporting

The Group manages its 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. Transfer prices take into account the specific features and maturities of the products. Internal transactions are eliminated on consolidation.

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

31 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.

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

31 Segment reporting (continued)

As at and for the six month period ended 30 June 2011

	Hong Kong, Macau and Taiwan						Total
	Chinese mainland	BOC Hong Kong Group	Other	Subtotal	Other countries and regions	Elimination	
Interest income	172,234	13,179	2,681	15,860	4,996	(2,316)	190,774
Interest expense	(74,515)	(4,402)	(1,467)	(5,869)	(2,491)	2,316	(80,559)
Net interest income	97,719	8,777	1,214	9,991	2,505	-	110,215
Fee and commission income	30,078	4,585	2,062	6,647	1,487	(609)	37,603
Fee and commission expense	(696)	(1,225)	(738)	(1,963)	(382)	412	(2,629)
Net fee and commission income	29,382	3,360	1,324	4,684	1,105	(197)	34,974
Net trading gains	3,182	713	174	887	194	-	4,263
Net gains on investment securities	877	301	2,146	2,447	12	-	3,336
Other operating income ⁽¹⁾	4,650	3,996	4,648	8,644	41	(149)	13,186
Operating income	135,810	17,147	9,506	26,653	3,857	(346)	165,974
Operating expenses ⁽¹⁾	(53,325)	(5,092)	(3,940)	(9,032)	(1,245)	346	(63,256)
Impairment losses on assets	(10,141)	(27)	(569)	(596)	(1,550)	-	(12,287)
Operating profit	72,344	12,028	4,997	17,025	1,062	-	90,431
Share of results of associates and joint ventures	-	2	344	346	-	-	346
Profit before income tax	72,344	12,030	5,341	17,371	1,062	-	90,777
Income tax expense							(20,644)
Profit for the period							70,133
Segment assets	9,267,185	1,503,002	436,184	1,939,186	720,108	(455,297)	11,471,182
Investment in associates and joint ventures	-	48	12,268	12,316	-	-	12,316
Total assets	9,267,185	1,503,050	448,452	1,951,502	720,108	(455,297)	11,483,498
Include: non-current assets ⁽²⁾	74,459	20,512	58,743	79,255	7,909	(161)	161,462
Segment liabilities	8,731,485	1,412,711	389,938	1,802,649	701,375	(455,136)	10,780,373
Other segment items:							
Intersegment net interest income/(expense)	(215)	353	225	578	(363)	-	-
Intersegment net fee and commission income/(expense)	101	57	186	243	(147)	(197)	-
Capital expenditure	3,147	222	6,401	6,623	45	-	9,815
Depreciation and amortisation	4,530	369	970	1,339	99	-	5,968
Credit commitments	2,191,566	104,777	41,759	146,536	152,722	(281,103)	2,209,721

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

31 Segment reporting (continued)

As at 31 December 2010 and for the six month period ended 30 June 2010

	Hong Kong, Macau and Taiwan						Total
	Chinese mainland	BOC Hong Kong Group	Other	Subtotal	Other countries and regions	Elimination	
Interest income	134,751	9,822	1,508	11,330	3,311	(1,367)	148,025
Interest expense	(53,896)	(1,685)	(698)	(2,383)	(1,249)	1,367	(56,161)
Net interest income	80,855	8,137	810	8,947	2,062	-	91,864
Fee and commission income	24,160	3,951	1,735	5,686	1,245	(586)	30,505
Fee and commission expense	(604)	(951)	(674)	(1,625)	(408)	438	(2,199)
Net fee and commission income	23,556	3,000	1,061	4,061	837	(148)	28,306
Net trading gains	414	229	319	548	228	-	1,190
Net gains on investment securities	296	355	1,156	1,511	21	-	1,828
Other operating income ⁽¹⁾	2,627	3,227	3,870	7,097	47	(80)	9,691
Operating income	107,748	14,948	7,216	22,164	3,195	(228)	132,879
Operating expenses ⁽¹⁾	(41,363)	(7,375)	(3,525)	(10,900)	(1,059)	228	(53,094)
Impairment (losses)/reversal on assets	(9,566)	141	(183)	(42)	(343)	-	(9,951)
Operating profit	56,819	7,714	3,508	11,222	1,793	-	69,834
Share of results of associates and joint ventures	-	(1)	454	453	-	-	453
Profit before income tax	56,819	7,713	3,962	11,675	1,793	-	70,287
Income tax expense							(15,912)
Profit for the period							54,375
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/(expense)	225	13	(15)	(2)	(223)	-	-
Intersegment net fee and commission income/(expense)	242	54	40	94	(188)	(148)	-
Capital expenditure	2,166	143	4,270	4,413	47	-	6,626
Depreciation and amortisation	3,719	370	865	1,235	61	-	5,015
Credit commitments	1,909,129	100,949	32,325	133,274	121,384	(136,352)	2,027,435

(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.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in millions of Renminbi, unless otherwise stated)

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

31 Segment reporting (continued)

As at and for the six month period ended 30 June 2011

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	112,400	60,476	43,082	504	810	215	(26,713)	190,774
Interest expense	(43,652)	(26,715)	(36,097)	(111)	-	(697)	26,713	(80,559)
Net interest income/(expense)	68,748	33,761	6,985	393	810	(482)	-	110,215
Fee and commission income	22,250	10,877	3,094	1,375	327	191	(511)	37,603
Fee and commission expense	(925)	(814)	(224)	(333)	(727)	(50)	444	(2,629)
Net fee and commission income/(expense)	21,325	10,063	2,870	1,042	(400)	141	(67)	34,974
Net trading gains	213	267	3,288	19	235	241	-	4,263
Net gains on investment securities	5	1	1,154	-	7	2,169	-	3,336
Other operating income	100	4,252	115	54	4,558	4,626	(519)	13,186
Operating income	90,391	48,344	14,412	1,508	5,210	6,695	(586)	165,974
Operating expenses	(27,889)	(25,077)	(5,791)	(433)	(5,004)	352	586	(63,256)
Impairment (losses)/reversal on assets	(11,505)	(1,183)	636	-	(34)	(201)	-	(12,287)
Operating profit	50,997	22,084	9,257	1,075	172	6,846	-	90,431
Share of results of associates and joint ventures	-	-	-	185	-	161	-	346
Profit before income tax	50,997	22,084	9,257	1,260	172	7,007	-	90,777
Income tax expense								(20,644)
Profit for the period								70,133
Segment assets	5,187,670	1,652,632	4,424,529	45,842	53,861	202,409	(95,761)	11,471,182
Investment in associates and joint ventures	-	-	-	2,316	-	10,044	(44)	12,316
Total assets	5,187,670	1,652,632	4,424,529	48,158	53,861	212,453	(95,805)	11,483,498
Segment liabilities	5,452,113	3,655,496	1,561,689	41,482	48,833	116,361	(95,601)	10,780,373
Other segment items:								
Intersegment net interest income/(expense)	(2,730)	26,280	(23,251)	4	39	(342)	-	-
Intersegment net fee and commission income/(expense)	-	48	-	-	(423)	442	(67)	-
Capital expenditure	937	1,037	50	19	697	7,075	-	9,815
Depreciation and amortisation	2,055	2,457	408	48	27	973	-	5,968

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

31 Segment reporting (continued)

As at 31 December 2010 and for the six month period ended 30 June 2010

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

IV FINANCIAL RISK MANAGEMENT

1 Credit risk

1.1 Loans and advances

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

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

Group

	As at 30 June 2011		As at 31 December 2010	
	Amount	% of total	Amount	% of total
Chinese mainland	5,062,557	81.43%	4,758,585	84.06%
Hong Kong, Macau and Taiwan	730,261	11.75%	646,432	11.42%
Other countries and regions	423,706	6.82%	255,604	4.52%
Total loans and advances to customers	6,216,524	100.00%	5,660,621	100.00%

Chinese mainland

	As at 30 June 2011		As at 31 December 2010	
	Amount	% of total	Amount	% of total
Northern China	820,148	16.20%	784,066	16.48%
Northeastern China	362,993	7.17%	333,481	7.01%
Eastern China	2,075,412	40.99%	1,948,756	40.95%
Central and Southern China	1,227,014	24.24%	1,163,384	24.45%
Western China	576,990	11.40%	528,898	11.11%
Total loans and advances to customers	5,062,557	100.00%	4,758,585	100.00%

IV FINANCIAL RISK MANAGEMENT (continued)

1 Credit risk (continued)

1.1 Loans and advances (continued)

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

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

	As at 30 June 2011			
	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total
Corporate loans				
– Trade bills	578,366	110,882	189,071	878,319
– Other	3,158,337	402,303	227,415	3,788,055
Personal loans	1,325,854	217,076	7,220	1,550,150
Total loans and advances to customers	5,062,557	730,261	423,706	6,216,524

	As at 31 December 2010			
	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total
Corporate loans				
– Trade bills	571,425	76,361	68,943	716,729
– Other	2,969,260	377,556	180,838	3,527,654
Personal loans	1,217,900	192,515	5,823	1,416,238
Total loans and advances to customers	4,758,585	646,432	255,604	5,660,621

IV FINANCIAL RISK MANAGEMENT (continued)

1 Credit risk (continued)

1.1 Loans and advances (continued)

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

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

Group

	As at 30 June 2011		As at 31 December 2010	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	1,276,198	20.53%	1,176,535	20.78%
Commerce and services	968,531	15.58%	813,590	14.37%
Transportation and logistics	591,998	9.52%	579,582	10.24%
Real estate	481,106	7.74%	438,991	7.76%
Production and supply of electronic power, gas and water	428,354	6.89%	413,004	7.30%
Water, environment and public utility management	263,885	4.24%	257,535	4.55%
Mining	242,781	3.91%	211,717	3.74%
Financial services	119,533	1.92%	94,598	1.67%
Construction	99,724	1.60%	86,102	1.52%
Public utilities	92,495	1.49%	91,197	1.61%
Other	101,769	1.64%	81,532	1.44%
Subtotal	4,666,374	75.06%	4,244,383	74.98%
Personal loans				
Mortgages	1,183,428	19.04%	1,089,006	19.24%
Credit cards	71,195	1.15%	60,833	1.07%
Other	295,527	4.75%	266,399	4.71%
Subtotal	1,550,150	24.94%	1,416,238	25.02%
Total loans and advances to customers	6,216,524	100.00%	5,660,621	100.00%

IV FINANCIAL RISK MANAGEMENT (continued)

1 Credit risk (continued)

1.1 Loans and advances (continued)

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

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

Chinese mainland

	As at 30 June 2011		As at 31 December 2010	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	1,118,001	22.08%	1,092,465	22.95%
Commerce and services	675,612	13.35%	614,713	12.92%
Transportation and logistics	516,034	10.19%	501,202	10.53%
Production and supply of electronic power, gas and water	409,199	8.08%	393,824	8.28%
Real estate	330,819	6.53%	296,747	6.24%
Water, environment and public utility management	263,876	5.21%	257,514	5.41%
Mining	152,990	3.02%	133,811	2.81%
Public utilities	87,838	1.74%	87,588	1.84%
Construction	87,682	1.73%	74,954	1.58%
Financial services	72,053	1.42%	68,068	1.43%
Other	22,599	0.46%	19,799	0.42%
Subtotal	3,736,703	73.81%	3,540,685	74.41%
Personal loans				
Mortgages	995,760	19.67%	921,373	19.36%
Credit cards	63,690	1.26%	53,487	1.12%
Other	266,404	5.26%	243,040	5.11%
Subtotal	1,325,854	26.19%	1,217,900	25.59%
Total loans and advances to customers	5,062,557	100.00%	4,758,585	100.00%

IV FINANCIAL RISK MANAGEMENT (continued)

1 Credit risk (continued)

1.1 Loans and advances (continued)

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

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

Group

	As at 30 June 2011		As at 31 December 2010	
	Amount	% of total	Amount	% of total
Unsecured loans	1,841,021	29.62%	1,695,362	29.95%
Guaranteed loans	1,408,477	22.66%	1,409,744	24.90%
Collateralised and other secured loans				
– Loans secured by property and other immovable assets	2,182,241	35.10%	1,892,354	33.43%
– Other pledged loans	784,785	12.62%	663,161	11.72%
Total loans and advances to customers	6,216,524	100.00%	5,660,621	100.00%

Chinese mainland

	As at 30 June 2011		As at 31 December 2010	
	Amount	% of total	Amount	% of total
Unsecured loans	1,428,635	28.22%	1,377,702	28.95%
Guaranteed loans	1,169,811	23.11%	1,230,833	25.87%
Collateralised and other secured loans				
– Loans secured by property and other immovable assets	1,878,325	37.10%	1,617,363	33.99%
– Other pledged loans	585,786	11.57%	532,687	11.19%
Total loans and advances to customers	5,062,557	100.00%	4,758,585	100.00%

IV FINANCIAL RISK MANAGEMENT (continued)

1 Credit risk (continued)

1.1 Loans and advances (continued)

(2) Analysis of impaired loans and advances to customers

(i) Impaired loans and advances by geographical area

Group

	As at 30 June 2011			As at 31 December 2010		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland	61,222	97.65%	1.21%	62,211	97.39%	1.31%
Hong Kong, Macau and Taiwan	827	1.32%	0.11%	792	1.24%	0.12%
Other countries and regions	645	1.03%	0.15%	873	1.37%	0.34%
Total	62,694	100.00%	1.01%	63,876	100.00%	1.13%

Chinese mainland

	As at 30 June 2011			As at 31 December 2010		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Northern China	11,878	19.40%	1.45%	11,535	18.54%	1.47%
Northeastern China	3,740	6.11%	1.03%	3,941	6.33%	1.18%
Eastern China	13,294	21.71%	0.64%	15,904	25.56%	0.82%
Central and Southern China	25,298	41.33%	2.06%	23,045	37.04%	1.98%
Western China	7,012	11.45%	1.22%	7,786	12.53%	1.47%
Total	61,222	100.00%	1.21%	62,211	100.00%	1.31%

IV FINANCIAL RISK MANAGEMENT (continued)

1 Credit risk (continued)

1.1 Loans and advances (continued)

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

(ii) Impaired loans and advances by customer type

Group

	As at 30 June 2011			As at 31 December 2010		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	53,972	86.09%	1.16%	54,824	85.83%	1.29%
Personal loans	8,722	13.91%	0.56%	9,052	14.17%	0.64%
Total	62,694	100.00%	1.01%	63,876	100.00%	1.13%

Chinese mainland

	As at 30 June 2011			As at 31 December 2010		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	52,572	85.87%	1.41%	53,260	85.61%	1.50%
Personal loans	8,650	14.13%	0.65%	8,951	14.39%	0.73%
Total	61,222	100.00%	1.21%	62,211	100.00%	1.31%

IV FINANCIAL RISK MANAGEMENT (continued)

1 Credit risk (continued)

1.1 Loans and advances (continued)

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

(iii) Impaired loans and advances by geography and industry

	As at 30 June 2011			As at 31 December 2010		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland						
Corporate loans and advances						
Manufacturing	19,736	31.48%	1.77%	20,889	32.70%	1.91%
Commerce and services	8,701	13.88%	1.29%	8,761	13.72%	1.43%
Transportation and logistics	12,776	20.38%	2.48%	12,638	19.79%	2.52%
Production and supply of electronic power, gas and water	6,100	9.73%	1.49%	4,594	7.19%	1.17%
Real estate	1,917	3.06%	0.58%	2,989	4.68%	1.01%
Water, environment and public utility management	1,118	1.78%	0.42%	1,081	1.69%	0.42%
Mining	186	0.30%	0.12%	165	0.26%	0.12%
Public utilities	1,350	2.15%	1.54%	1,419	2.22%	1.62%
Construction	555	0.89%	0.63%	573	0.90%	0.76%
Financial services	3	0.00%	0.00%	3	0.00%	0.00%
Other	130	0.20%	0.58%	148	0.23%	0.75%
Subtotal	52,572	83.85%	1.41%	53,260	83.38%	1.50%
Personal loans						
Mortgage loans	3,830	6.11%	0.38%	4,088	6.40%	0.44%
Credit cards	1,401	2.23%	2.20%	1,180	1.85%	2.21%
Other	3,419	5.46%	1.28%	3,683	5.76%	1.52%
Subtotal	8,650	13.80%	0.65%	8,951	14.01%	0.73%
Total for Chinese mainland	61,222	97.65%	1.21%	62,211	97.39%	1.31%
Hong Kong, Macau, Taiwan and other countries and regions	1,472	2.35%	0.13%	1,665	2.61%	0.18%
Total	62,694	100.00%	1.01%	63,876	100.00%	1.13%

IV FINANCIAL RISK MANAGEMENT (continued)

1 Credit risk (continued)

1.1 Loans and advances (continued)

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

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

	As at 30 June 2011			Net
	Impaired loans	Individually assessed allowance	Collectively assessed allowance	
Chinese mainland	61,222	(33,038)	(8,535)	19,649
Hong Kong, Macau and Taiwan	827	(583)	(37)	207
Other countries and regions	645	(177)	(22)	446
Total	62,694	(33,798)	(8,594)	20,302

	As at 31 December 2010			Net
	Impaired loans	Individually assessed allowance	Collectively assessed allowance	
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

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

(3) Loans and advances rescheduled

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

IV FINANCIAL RISK MANAGEMENT (continued)

1 Credit risk (continued)

1.1 Loans and advances (continued)

(3) Loans and advances rescheduled (continued)

All rescheduled loans are classified as “substandard” or below. 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 30 June 2011 and 31 December 2010.

As at 30 June 2011 and 31 December 2010, within impaired loans and advances, rescheduled loans and advances that were overdue for 90 days or less were insignificant.

(4) Overdue loans and advances to customers

Analysis of overdue loans and advances by geographical area

	As at 30 June 2011	As at 31 December 2010
Chinese mainland	63,296	58,361
Hong Kong, Macau and Taiwan	4,963	4,105
Other countries and regions	802	242
Subtotal	69,061	62,708
Less: total loans and advances to customers which have been overdue for less than 3 months	(34,940)	(25,666)
Total loans and advances to customers which have been overdue for more than 3 months	34,121	37,042
Individually assessed impairment allowance – for loans and advances to customers which have been overdue for more than 3 months	(20,908)	(23,579)

IV FINANCIAL RISK MANAGEMENT (continued)

1 Credit risk (continued)

1.2 Debt securities

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

	As at 30 June 2011					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
– Government	706,036	–	3,796	1,513	–	711,345
– Public sector and quasi-governments	21,316	–	–	–	–	21,316
– Policy banks	302,982	–	2,987	4,877	–	310,846
– Financial institutions	50,999	–	–	734	25	51,758
– Corporate	181,424	–	649	26	1,929	184,028
– China Orient	160,000	–	–	–	–	160,000
Subtotal	1,422,757	–	7,432	7,150	1,954	1,439,293
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
– Governments	119,197	15,410	4,664	4,357	179	143,807
– Public sector and quasi-governments	15,068	28,869	4,889	588	212	49,626
– Financial institutions	34,715	68,643	66,406	58,957	7,702	236,423
– Corporate	5,549	3,851	2,944	15,019	8,867	36,230
Subtotal ⁽¹⁾	174,529	116,773	78,903	78,921	16,960	466,086
Total ⁽²⁾	1,597,286	116,773	86,335	86,071	18,914	1,905,379

(1) Included mortgage backed securities as follows:

	As at 30 June 2011					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	–	825	889	1,074	6,380	9,168
US Alt-A mortgage-backed securities	–	77	54	37	1,780	1,948
US Non-Agency mortgage-backed securities	–	221	123	162	3,344	3,850
Total	–	1,123	1,066	1,273	11,504	14,966

IV FINANCIAL RISK MANAGEMENT (continued)

1 Credit risk (continued)

1.2 Debt securities (continued)

	As at 31 December 2010					Total
	Unrated	AAA	AA	A	Lower than A	
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					Total
	Unrated	AAA	AA	A	Lower than A	
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

IV FINANCIAL RISK MANAGEMENT (continued)

1 Credit risk (continued)

1.2 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 30 June 2011 amounted to RMB12,266 million and RMB388 million, respectively (31 December 2010: RMB15,931 million and RMB438 million). The carrying value of the Available for sale and Held to maturity debt securities considered impaired as at 30 June 2011 were RMB13,218 million and RMB1,134 million, respectively (31 December 2010: RMB17,823 million and RMB1,317 million).

1.3 Repossessed assets

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

1.4 Derivatives

The credit risk weighted amounts represent the counterparty credit risk associated with derivative transactions and are calculated with reference to the guidelines issued by the CBRC or Hong Kong Monetary Authority as appropriate and are dependent on, among other factors, the creditworthiness of the customer and the maturity characteristics of each type of contract.

The credit risk weighted amounts of derivative financial instruments are as follows:

	As at 30 June 2011	As at 31 December 2010
Exchange rate derivatives		
Currency forwards and swaps, and cross-currency interest rate swaps	16,341	12,723
Currency options	79	–
Interest rate derivatives		
Interest rate swaps	5,120	6,187
Interest rate options	48	–
Interest rate futures	–	–
Equity derivatives	–	–
Commodity derivatives	30	18
Credit derivatives	3	5
	21,621	18,933

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

IV FINANCIAL RISK MANAGEMENT (continued)

2 Market Risk

2.1 Market risk measurement techniques and limits

(1) *Trading book*

Market risk in the trading book is managed by establishing Value at Risk (VaR) limits. Total exposure, 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.

VaR is performed separately by the Bank and its major subsidiaries that are exposed to market risk, BOC Hong Kong (Holdings) Limited (“BOCHK”) and BOC International Holdings Limited (“BOCI”). The Bank, BOCHK and BOCI used a 99% level of confidence (therefore 1% statistical probability that actual losses could be greater than the VaR estimate) and a historical simulation model to calculate the VaR. The holding period of the VaR calculations is one day. To enhance the Group’s market risk management, in 2010, the Group has also 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 the 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 adjusts and enhances the scenarios for stress testing taking into account financial market fluctuations in order to capture the potential impact of market price fluctuations and volatility on the trading book, enhancing the Group’s market risk management capabilities.

IV FINANCIAL RISK MANAGEMENT (continued)

2 Market Risk (continued)

2.1 Market risk measurement techniques and limits (continued)

(1) Trading book (continued)

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

Unit: USD million

	Six month period ended 30 June					
	2011			2010		
	Average	High	Low	Average	High	Low
Bank trading VaR						
Interest rate risk	0.94	1.43	0.47	5.00	9.88	2.19
Foreign exchange risk	0.51	1.74	0.17	1.09	2.78	0.23
Volatility risk	0.04	0.12	0.01	0.12	0.61	0.01
Total Bank trading VaR	1.08	1.89	0.60	4.74	10.29	1.87

The Bank's VaR for the six month period ended 30 June 2010 was calculated on Head Office and branches in Chinese mainland trading positions, excluding foreign currency against RMB transactions. For the six month period ended 30 June 2011, the Bank expanded the scope of its VaR calculation based on the Group's trading positions excluding those of BOCHK and BOCI and 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 derivatives and the related potential impact on the Bank's income statement are considered to be insignificant.

IV FINANCIAL RISK MANAGEMENT (continued)

2 Market Risk (continued)

2.1 Market risk measurement techniques and limits (continued)

(1) Trading book (continued)

Unit: USD million

	Six month period ended 30 June					
	2011			2010		
	Average	High	Low	Average	High	Low
BOCHK trading VaR						
Interest rate risk	0.97	1.21	0.65	1.12	1.75	0.65
Foreign exchange risk	0.81	1.64	0.25	0.67	1.44	0.30
Equity risk	0.02	0.05	0.00	0.04	0.22	0.00
Commodity risk	0.01	0.07	0.00	0.00	0.02	0.00
Total BOCHK trading VaR	1.24	1.88	0.87	1.35	2.01	0.89
BOCI trading VaR*						
Equity derivatives unit	1.75	3.32	0.89	1.28	1.92	0.88
Fixed income unit	1.66	2.61	0.70	0.85	1.38	0.51

* 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.

(2) Banking book

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

IV FINANCIAL RISK MANAGEMENT (continued)

2 Market risk (continued)

2.2 GAP analysis

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

	As at 30 June 2011						
	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	145,244	179,624	326,915	30,098	-	52,926	734,807
Balances with central banks	1,788,862	-	56	10	-	49,839	1,838,767
Placements with and loans to banks and other financial institutions	197,430	78,891	129,249	3,464	-	-	409,034
Government certificates of indebtedness for bank notes issued	-	-	-	-	-	47,942	47,942
Precious metals	-	-	-	-	-	77,720	77,720
Financial assets at fair value through profit or loss	9,471	8,804	5,032	25,790	14,871	7,596	71,564
Derivative financial assets	-	-	-	-	-	46,017	46,017
Loans and advances to customers, net	1,251,654	1,376,925	3,316,372	59,321	37,075	40,585	6,081,932
Investment securities							
– available for sale	62,976	86,035	77,618	179,133	74,007	26,481	506,250
– held to maturity	65,575	140,949	256,868	412,337	215,019	-	1,090,748
– loans and receivables	5,011	6,228	27,301	27,206	206,161	-	271,907
Investment in associates and joint ventures	-	-	-	-	-	12,316	12,316
Property and equipment	-	-	-	-	-	127,146	127,146
Investment property	-	-	-	-	-	14,135	14,135
Deferred income tax assets	-	-	-	-	-	21,915	21,915
Other assets	4,003	7,078	3,667	-	-	116,550	131,298
Total assets	3,530,226	1,884,534	4,143,078	737,359	547,133	641,168	11,483,498

IV FINANCIAL RISK MANAGEMENT (continued)

2 Market risk (continued)

2.2 GAP analysis (continued)

	As at 30 June 2011						Total
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non- interest bearing	
Liabilities							
Due to banks and other financial institutions	968,279	69,638	104,996	83,987	3,500	83,538	1,313,938
Due to central banks	29,577	9,755	33,092	-	-	-	72,424
Bank notes in circulation	-	-	-	-	-	48,012	48,012
Placements from banks and other financial institutions	198,628	128,045	29,009	228	-	-	355,910
Financial liabilities at fair value through profit or loss	369,674	43,259	18,443	220	104	4,353	436,053
Derivative financial liabilities	-	-	-	-	-	34,906	34,906
Due to customers	4,804,840	807,258	1,909,197	461,053	2,696	63,142	8,048,186
Bonds issued	2,000	758	4	64,078	97,525	-	164,365
Other borrowings	7,515	10,957	11,777	6,111	7,008	2,518	45,886
Current tax liabilities	-	-	-	-	-	18,431	18,431
Retirement benefit obligations	-	-	-	-	-	6,037	6,037
Deferred income tax liabilities	-	-	-	-	-	4,458	4,458
Other liabilities	6,395	-	-	-	-	225,372	231,767
Total liabilities	6,386,908	1,069,670	2,106,518	615,677	110,833	490,767	10,780,373
Total interest repricing gap	(2,856,682)	814,864	2,036,560	121,682	436,300	150,401	703,125

IV FINANCIAL RISK MANAGEMENT (continued)

2 Market risk (continued)

2.2 GAP analysis (continued)

	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

IV FINANCIAL RISK MANAGEMENT (continued)

2 Market risk (continued)

2.2 GAP analysis (continued)

	As at 31 December 2010						Total
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non- interest bearing	
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

IV FINANCIAL RISK MANAGEMENT (continued)

2 Market risk (continued)

2.3 Foreign currency risk

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 30 June 2011 and 31 December 2010. The Group's exposure to RMB is provided in the tables below for comparison purposes. Included in the table are the carrying amounts of the assets and liabilities of the Group along with off-balance sheet positions and credit commitments in RMB equivalent, categorised by the original currency. Derivative financial instruments are included in net off-balance sheet position using notional amounts.

	As at 30 June 2011							Total
	RMB	USD	HKD	EURO	JPY	GBP	Other	
Assets								
Cash and due from banks and other financial institutions	648,870	51,818	8,359	10,103	4,466	707	10,484	734,807
Balances with central banks	1,755,102	60,025	2,253	10,184	891	2	10,310	1,838,767
Placements with and loans to banks and other financial institutions	344,547	35,189	8,677	9,049	60	957	10,555	409,034
Government certificates of indebtedness for bank notes issued	-	-	45,289	-	-	-	2,653	47,942
Precious metals	-	-	3,840	-	-	-	73,880	77,720
Financial assets at fair value through profit or loss	12,405	27,404	28,812	2,825	-	56	62	71,564
Derivative financial assets	11,155	11,822	19,317	770	474	724	1,755	46,017
Loans and advances to customers, net	4,453,991	1,019,068	459,940	49,327	27,344	5,451	66,811	6,081,932
Investment securities								
– available for sale	120,740	216,982	92,519	29,908	3,888	228	41,985	506,250
– held to maturity	1,014,583	45,051	14,686	6,893	2,664	7	6,864	1,090,748
– loans and receivables	253,577	987	3,329	1,189	-	8,089	4,736	271,907
Investment in associates and joint ventures	5,823	1,550	4,943	-	-	-	-	12,316
Property and equipment	63,125	45,891	13,525	154	1,278	1,482	1,691	127,146
Investment property	4,562	-	8,166	-	-	-	1,407	14,135
Deferred income tax assets	21,251	296	229	-	-	-	139	21,915
Other assets	89,941	18,728	17,347	1,575	610	937	2,160	131,298
Total assets	8,799,672	1,534,811	731,231	121,977	41,675	18,640	235,492	11,483,498

IV FINANCIAL RISK MANAGEMENT (continued)

2 Market risk (continued)

2.3 Foreign currency risk (continued)

	As at 30 June 2011							Total
	RMB	USD	HKD	EURO	JPY	GBP	Other	
Liabilities								
Due to banks and other financial institutions	947,560	252,657	12,071	12,515	6,182	890	82,063	1,313,938
Due to central banks	6	62,876	7,271	2,265	-	-	6	72,424
Bank notes in circulation	-	-	45,289	-	-	-	2,723	48,012
Placements from banks and other financial institutions	109,551	194,042	9,441	22,801	3,180	931	15,964	355,910
Financial liabilities at fair value through profit or loss	409,955	9,842	7,458	3,441	217	475	4,665	436,053
Derivative financial liabilities	2,300	13,475	16,497	1,047	62	756	769	34,906
Due to customers	6,622,321	529,904	628,869	81,916	16,011	34,644	134,521	8,048,186
Bonds issued	147,624	16,737	4	-	-	-	-	164,365
Other borrowings	-	32,985	-	9,897	1,573	69	1,362	45,886
Current tax liabilities	13,982	82	3,125	135	-	547	560	18,431
Retirement benefit obligations	6,037	-	-	-	-	-	-	6,037
Deferred income tax liabilities	892	799	2,644	9	-	-	114	4,458
Other liabilities	132,820	39,474	50,160	4,281	1,224	1,679	2,129	231,767
Total liabilities	8,393,048	1,152,873	782,829	138,307	28,449	39,991	244,876	10,780,373
Net on-balance sheet position	406,624	381,938	(51,598)	(16,330)	13,226	(21,351)	(9,384)	703,125
Net off-balance sheet position	149,463	(313,259)	129,234	17,581	(9,877)	22,739	17,731	13,612
Credit commitments	1,384,327	607,254	74,199	78,845	16,768	10,192	38,136	2,209,721

IV FINANCIAL RISK MANAGEMENT (continued)

2 Market risk (continued)

2.3 Foreign currency risk (continued)

	As at 31 December 2010							Total
	RMB	USD	HKD	EURO	JPY	GBP	Other	
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

IV FINANCIAL RISK MANAGEMENT (continued)

2 Market risk (continued)

2.3 Foreign currency risk (continued)

	As at 31 December 2010							Total
	RMB	USD	HKD	EURO	JPY	GBP	Other	
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

2.4 Price risk

The Group is exposed to equity risk on its available for sale listed equity securities. As at 30 June 2011, a 5 per cent variance in listed equity prices from the 30 June 2011 price would impact the fair value of available for sale listed equity positions by RMB317 million (31 December 2010: RMB301 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 IV.2.1).

IV FINANCIAL RISK MANAGEMENT (continued)

3 Liquidity risk

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

	As at 30 June 2011							Total
	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	
Assets								
Cash and due from banks and other financial institutions	-	121,339	76,527	179,927	246,916	110,098	-	734,807
Balances with central banks	-	385,445	1,453,256	-	56	10	-	1,838,767
Placements with and loans to banks and other financial institutions	-	-	197,430	78,891	129,249	3,464	-	409,034
Government certificates of indebtedness for bank notes issued	-	47,942	-	-	-	-	-	47,942
Precious metals	-	77,720	-	-	-	-	-	77,720
Financial assets at fair value through profit or loss	-	2,769	7,959	4,592	4,952	28,281	23,011	71,564
Derivative financial assets	-	18,885	3,291	7,369	8,200	4,795	3,477	46,017
Loans and advances to customers, net	12,181	78,939	253,384	561,624	1,651,332	1,573,025	1,951,447	6,081,932
Investment securities								
– available for sale	-	-	28,553	50,601	88,457	241,578	97,061	506,250
– held to maturity	-	-	35,343	91,983	206,372	477,911	279,139	1,090,748
– loans and receivables	-	-	5,011	5,490	22,173	28,072	211,161	271,907
Investment in associates and joint ventures	-	-	-	-	-	5,519	6,797	12,316
Property and equipment	-	-	-	-	-	-	127,146	127,146
Investment property	-	-	-	-	-	-	14,135	14,135
Deferred income tax assets	-	-	-	-	-	21,915	-	21,915
Other assets	876	26,022	28,990	25,862	23,313	7,867	18,368	131,298
Total assets	13,057	759,061	2,089,744	1,006,339	2,381,020	2,502,535	2,731,742	11,483,498

IV FINANCIAL RISK MANAGEMENT (continued)

3 Liquidity risk (continued)

	As at 30 June 2011							
	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	-	665,791	173,471	67,950	102,488	264,238	40,000	1,313,938
Due to central banks	-	25,661	3,916	9,755	33,092	-	-	72,424
Bank notes in circulation	-	48,012	-	-	-	-	-	48,012
Placements from banks and other financial institutions	-	-	198,628	128,045	29,009	228	-	355,910
Financial liabilities at fair value through profit or loss	-	-	369,864	44,547	20,327	1,191	124	436,053
Derivative financial liabilities	-	14,544	2,358	3,468	4,540	6,973	3,023	34,906
Due to customers	-	3,795,386	990,898	830,660	1,967,818	462,128	1,296	8,048,186
Bonds issued	-	-	-	758	4	41,078	122,525	164,365
Other borrowings	-	-	1,188	537	3,546	14,998	25,617	45,886
Current tax liabilities	-	-	57	11	17,944	419	-	18,431
Retirement benefit obligations	-	-	74	148	667	2,521	2,627	6,037
Deferred income tax liabilities	-	-	-	-	103	4,355	-	4,458
Other liabilities	-	78,158	39,476	19,297	46,472	37,781	10,583	231,767
Total liabilities	-	4,627,552	1,779,930	1,105,176	2,226,010	835,910	205,795	10,780,373
Net Liquidity Gap	13,057	(3,868,491)	309,814	(98,837)	155,010	1,666,625	2,525,947	703,125

Notes to the Condensed Consolidated Interim Financial Information

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (continued)

3 Liquidity risk (continued)

	As at 31 December 2010							Total
	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	
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

IV FINANCIAL RISK MANAGEMENT (continued)

3 Liquidity risk (continued)

	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

4 Fair value of financial assets and liabilities

During the six month period ended 30 June 2011, there were no significant transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments of the Group.

During the six month period ended 30 June 2011, the changes in the business or economic circumstances did not have significant impact on the fair value of the Group's financial assets and financial liabilities.

IV FINANCIAL RISK MANAGEMENT (continued)

5 Capital management

The tables below summarise the capital adequacy ratios and the composition of regulatory capital of the Group as at 30 June 2011 and 31 December 2010. The Group complied with the externally imposed capital requirements to which it is subject.

	As at 30 June 2011	As at 31 December 2010
Capital adequacy ratio	12.95%	12.58%
Core capital adequacy ratio	10.01%	10.09%

The capital adequacy ratios above are calculated in accordance with the rules and regulations promulgated by the CBRC, and the generally accepted accounting principles of the PRC ("CAS").

IV FINANCIAL RISK MANAGEMENT (continued)

5 Capital management (continued)

	As at 30 June 2011	As at 31 December 2010
Components of capital base		
Core capital:		
Share capital	279,043	279,009
Reserves ⁽¹⁾	375,437	315,377
Minority interests	33,287	31,985
Total core capital	687,767	626,371
Supplementary capital:		
Collective impairment allowances	62,165	56,606
Long-term subordinated bonds issued	122,525	90,607
Convertible bonds issued (Note III.22)	39,776	39,776
Other ⁽¹⁾	10,993	4,001
Total supplementary capital	235,459	190,990
Total capital base before deductions	923,226	817,361
Deductions:		
Goodwill	(1,812)	(1,851)
Investments in entities engaged in banking and financial activities which are not consolidated	(11,101)	(11,048)
Investment properties	(14,135)	(13,839)
Investments in commercial corporations	(26,702)	(26,224)
Other deductible items ⁽²⁾	(21,287)	(23,695)
Total capital base after deductions	848,189	740,704
Core capital base after deductions ⁽³⁾	655,968	593,787
Risk weighted assets and market risk capital adjustment	6,549,927	5,887,170

(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.

Appendix

(Amount in millions of Renminbi, unless otherwise stated)

APPENDIX I UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

According to Hong Kong Listing Rule and disclosure regulations of banking industry, the Group discloses the following supplementary financial information:

1 Liquidity ratios

	As at 30 June 2011	As at 31 December 2010
RMB current assets to RMB current liabilities	45.30%	43.18%
Foreign currency current assets to foreign currency current liabilities	56.65%	52.20%

The liquidity ratios are calculated in accordance with the relevant provisions of PBOC and CBRC. Financial data as at 30 June 2011 and 31 December 2010 is based on the Chinese Accounting Standards 2006.

2 Currency concentrations

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

	Equivalent in millions of Renminbi			
	USD	HKD	Other	Total
As at 30 June 2011				
Spot assets	986,434	32,085	184,855	1,203,374
Spot liabilities	(614,607)	(183,065)	(239,766)	(1,037,438)
Forward purchases	767,642	192,547	275,412	1,235,601
Forward sales	(1,078,024)	(63,487)	(228,220)	(1,369,731)
Net options position*	(598)	(119)	(7)	(724)
Net long/(short) position	60,847	(22,039)	(7,726)	31,082
Net structural position	11,984	96,562	19,982	128,528
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

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

APPENDIX I UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

3 Cross-border claims

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

Cross-border claims include Balances with central banks, Placements with and loans to banks and other financial institutions, Government certificates of indebtedness for bank notes issued, Financial assets at fair value through profit or loss, Loans and advances to customers, net and investment securities.

Cross-border claims have been disclosed by country or geographical areas. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	Banks and other financial institutions	Public sector entities	Other*	Total
As at 30 June 2011				
Asia Pacific excluding Chinese mainland				
Hong Kong	23,805	7,474	579,009	610,288
Other Asia Pacific locations	77,351	17,227	165,197	259,775
Subtotal	101,156	24,701	744,206	870,063
North and South America	75,753	24,100	183,685	283,538
Europe	104,492	14,954	53,959	173,405
Middle East and Africa	3,365	2,569	33,477	39,411
Total	284,766	66,324	1,015,327	1,366,417

	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

* Claims on the government entities are included in "Other".

APPENDIX I UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

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 30 June 2011	As at 31 December 2010
Total loans and advances to customers which have been overdue for		
below 3 months	34,940	25,666
between 3 and 6 months	2,777	3,113
between 6 and 12 months	3,556	5,097
over 12 months	27,788	28,832
Total	69,061	62,708
Percentage		
below 3 months	0.56%	0.46%
between 3 and 6 months	0.04%	0.05%
between 6 and 12 months	0.06%	0.09%
over 12 months	0.45%	0.51%
Total	1.11%	1.11%

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

The total amount of overdue placements with and loans to banks and other financial institutions as at 30 June 2011 and 31 December 2010 is not considered material.

APPENDIX II SUPPLEMENTARY INFORMATION – DIFFERENCES BETWEEN CAS AND IFRS CONSOLIDATED FINANCIAL INFORMATION

There are no differences in the Group's operating results for the six month periods ended 30 June 2011 and 30 June 2010 or total equity as at 30 June 2011 and as at 31 December 2010 presented in the Group's condensed consolidated interim financial information prepared under IFRS and those prepared under CAS.

Definitions

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

the Bank/the Group	Bank of China Limited or its predecessors and, except where the context otherwise requires, all of the subsidiaries of Bank of China Limited
Articles of Association	The performing Articles of Association of the Bank
BOC Aviation	BOC Aviation Private Limited
BOC Insurance	BOC Insurance Company Limited
BOCG Insurance	Bank of China Group Insurance Company Limited
BOCG Investment	Bank of China Group Investment Limited
BOCG Life	BOC Group Life Assurance Company Limited
BOCHK	Bank of China (Hong Kong) Limited, an authorised financial institution incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK (Holdings)
BOCHK (BVI)	BOC Hong Kong (BVI) Limited
BOCHK (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-Prudential	BOCI-Prudential Asset Management Limited
CBRC	China Banking Regulatory Commission
Central and Southern China	The area including, for the purpose of this report, the branches of Henan, Hubei, Hunan, Guangdong, Shenzhen, Guangxi and Hainan
Convertible Bonds	Corporate Bonds that are vested for conversion to the A-Share stock of the Bank
CSRC	China Securities Regulatory Commission
Eastern China	The area including, for the purpose of this report, the branches of Shanghai, Jiangsu, Suzhou, Zhejiang, Ningbo, Anhui, Fujian, Jiangxi and Shandong
Fullerton Financial	Fullerton Financial Holdings Pte. Ltd.
Fullerton Management	Fullerton Management Pte. Ltd.
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.
Northeastern China	The area including, for the purpose of this report, the branches of Heilongjiang, Jilin and Liaoning
Northern China	The area including, for the purpose of this report, the branches of Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia and the Head Office
PBOC	People's Bank of China, PRC
RMB	Renminbi, the lawful currency of the PRC
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
SHIBOR	Shanghai Interbank Offered Rate
SSE	The Shanghai Stock Exchange
Temasek	Temasek Holdings (Private) Limited
Western China	The area including, for the purpose of this report, the branches of Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Ningxia, Qinghai, Tibet and Xinjiang

Notes to the 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. In accordance with IFRS, due to the influence of rights issue, basic earnings per share of the previous years were recalculated.
4. Return on average total assets = profit for the period \div average total assets. Average total assets = (total assets at the beginning of reporting period + total assets at the end of reporting period) \div 2, annualised.
5. Return on average equity = profit attributable to the equity holders of the Bank \div average owner's equity, annualised. 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.
6. Net interest margin = net interest income \div average balance of interest-earning assets, annualised. Average balance is average daily balance derived from the Bank's management accounts (unreviewed).
7. Non-interest income to operating income = non-interest income \div operating income
8. Cost to income ratio (calculated under domestic regulations) is calculated according to the *Interim Measures of the Performance Evaluation of State-owned and State Holding Financial Enterprises* (Cai Jin [2009] No.3) formulated by the MOF.
9. Credit cost = impairment losses on loans \div average balance of loans. Average balance of loans = (balance of loans at the beginning of reporting period + balance of loans at the end of reporting period) \div 2, annualised.
10. 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.
11. Net assets per share = capital and reserves attributable to the equity holders of the Bank at the end of reporting period \div number of ordinary shares in issue at the end of reporting period.
12. Identified impaired loans to total loans = identified impaired loans at the end of reporting period \div total loans at the end of reporting period
13. Non-performing loans to total loans = non-performing loans at the end of reporting period \div total loans at the end of reporting period. It is calculated according to the *Guidelines on the Corporate Governance and Supervision of State-owned Commercial Banks* (Y.J.F [2006] No.22).
14. Allowance for loan impairment losses to non-performing loans = allowance for loan impairment losses at the end of reporting period \div non-performing loans at the end of reporting period. It is calculated according to the *Guidelines on the Corporate Governance and Supervision of State-owned Commercial Banks* (Y.J.F [2006] No.22).

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