交通銀行
BANK OF COMMUNICATIONS

YOUR WEALTH MANAGEMENT BANK

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

2011 ANNUAL REPORT

Stock Code:03328

Company Profile

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

The Bank currently has 155 domestic branches, comprising 30 provincial branches, 7 branches directly managed by the Head Office and 118 managed by provinces. It has also established 2,637 operating locations in 173 cities and 112 counties nationwide. In addition, the Bank has set up 12 overseas institutions, comprising branches in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, Sydney and San Francisco, representative office in Taipei and Bank of Communications (UK) Co., Ltd. According to the "Top 1000 World Banks 2011" published by the British magazine "The Banker", the Bank was ranked number 35 based on its Tier 1 Capital. For the first time, the Bank was also ranked among the top 25 banks worldwide in terms of profit before tax with a ranking of number 24.

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

The Bank's development strategy is to become "a first class listed universal banking group focusing on international expansion and specialising in wealth management" (hereinafter referred to as "BoCom Strategy").

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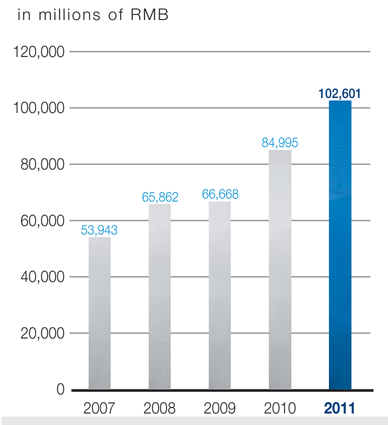
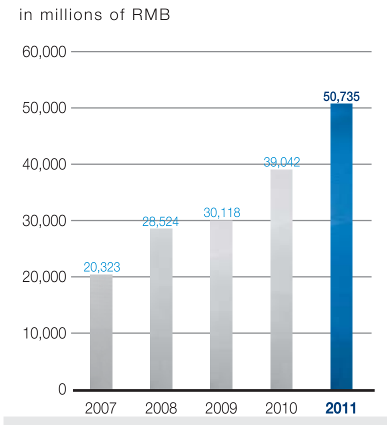
Financial Highlights

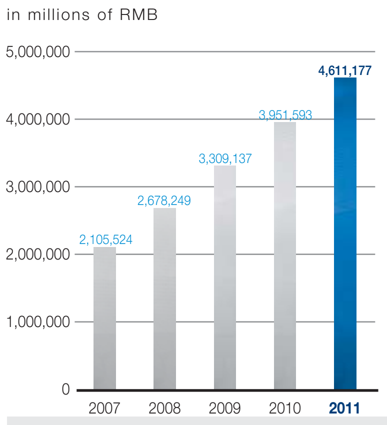
Net interest income



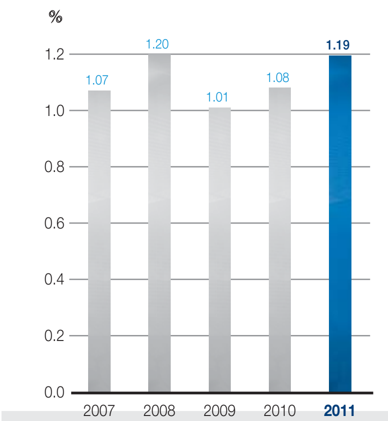
Net profit (excluding non-controlling interests)



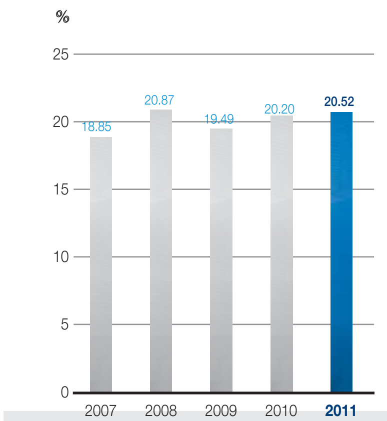
Total assets



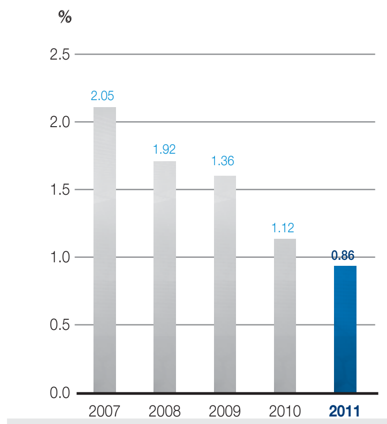
Returns on average assets



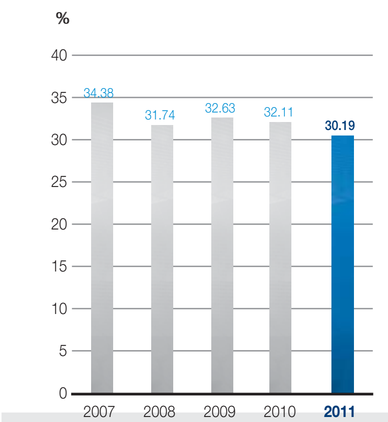
Returns on average shareholders' equity



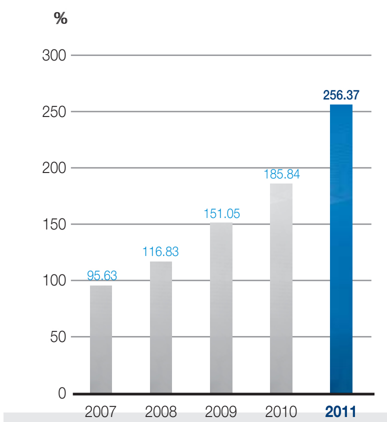
Impaired loans ratio



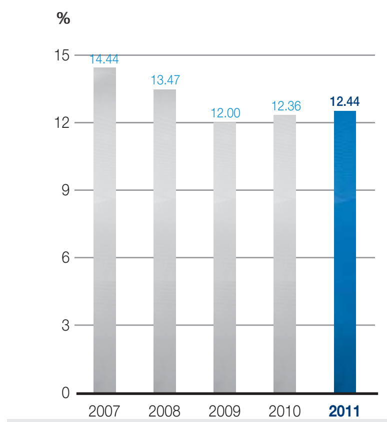
Cost to income ratio



Provision coverage of impaired loans



Capital adequacy ratio



Description	2011	2010	2009	2008	2007
Full year results					*(in millions of RMB)*
Net interest income	**102,601**	84,995	66,668	65,862	53,943
Profit before tax	**65,451**	49,954	38,301	35,953	31,242
Net profit (excluding non-controlling interests)	**50,735**	39,042	30,118	28,524	20,323
As at the end of the year					*(in millions of RMB)*
Total assets	**4,611,177**	3,951,593	3,309,137	2,678,249	2,105,524
Includes: loans and advances to customers	**2,561,750**	2,236,927	1,839,314	1,328,590	1,104,490
Total liabilities	**4,338,389**	3,727,936	3,144,712	2,532,649	1,976,872
Includes: customer deposits	**3,283,232**	2,867,847	2,372,055	1,865,815	1,555,599
Shareholders' equity (excluding non-controlling interests)	**271,802**	222,773	163,848	145,167	128,234
Per share					*(in RMB)*
Earnings per share (excluding non-controlling interests)[1]	**0.82**	0.66	0.53	0.51	0.37
Net assets per share (excluding non-controlling interests)	**4.39**	3.96	3.34	2.96	2.62
Major financial ratios					%
Return on average assets[2]	**1.19**	1.08	1.01	1.20	1.07
Return on average shareholders' equity[3]	**20.52**	20.20	19.49	20.87	18.85
Cost-to-income ratio[4]	**30.19**	32.11	32.63	31.74	34.38
Impaired loans ratio[5]	**0.86**	1.12	1.36	1.92	2.05
Provision coverage of impaired loans[6]	**256.37**	185.84	151.05	116.83	95.63
Capital adequacy indicators					%
Core capital adequacy ratio	**9.27**	9.37	8.15	9.54	10.27
Capital adequacy ratio	**12.44**	12.36	12.00	13.47	14.44

Notes:

1. Earnings per share of the prior years has been restated according to the International Financial Reporting Standards (the "IFRSs") due to the bonus shares issued during the Reporting Period.
2. Calculated by dividing net profit of the Reporting Period by the average of total assets at the beginning and the end of the Reporting Period.
3. Calculated by dividing net profit (excluding non-controlling interests) of the Reporting Period by the average of shareholders' equity (excluding non-controlling interests) at the beginning and the end of the Reporting Period.
4. Refers to certain operating expenses as a percentage of certain net operating income.
5. Calculated by dividing the outstanding balance of impaired loans by the outstanding balance of loans and advances to customers before impairment allowances at the end of the Reporting Period.
6. Calculated by dividing the outstanding balance of impairment allowances by the outstanding balance of impaired loans at the end of the Reporting Period.

Corporate Information

LEGAL NAME

交通銀行股份有限公司

Bank of Communications Co., Ltd.

LEGAL REPRESENTATIVE

Hu Huaibang

BOARD OF DIRECTORS

Executive Directors

Hu Huaibang (Chairman)
Niu Ximing (Vice Chairman and President)
Qian Wenhui
Wang Bin [Note]

Non-executive Directors

Zhang Jixiang
Hu Huating
Du Yuemei
Peter Wong Tung Shun
Anita Fung Yuen Mei
Ma Qiang
Lei Jun

Independent Non-executive Directors

Eric Li Ka-cheung
Gu Mingchao
Wang Weiqiang
Peter Nolan
Chen Zhiwu
Choi Yiu Kwan

SUPERVISORY COMMITTEE

Hua Qingshan (Chairman)
Jiang Yunbao
Jiang Zuqi
Gu Huizhong
Guo Yu
Yang Fajia
Chu Hongjun
Li Jin
Yan Hong
Liu Sha
Chen Qing
Shuai Shi
Du Yarong

COMPANY SECRETARY

Du Jianglong

AUTHORISED REPRESENTATIVES

Qian Wenhui
Du Jianglong

INVESTOR SERVICES

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

Note: On 23 March 2012, Mr. Wang Bin resigned as Executive Director and Vice President of the Bank due to job-redesignation.

NEWSPAPERS AND WEBSITES FOR INFORMATION DISCLOSURE

A Share:	China Securities Journal, Shanghai Securities News, Securities Times Website of the Shanghai Stock Exchange www.sse.com.cn
H Share:	Website of The Stock Exchange of Hong Kong Limited www.hkexnews.hk

PLACES WHERE THE ANNUAL REPORT ARE AVAILABLE

Head Office of the Bank and principal business locations

AUDITORS

International:	Deloitte Touche Tohmatsu
PRC:	Deloitte Touche Tohmatsu CPA Ltd.

HONG KONG LEGAL ADVISER

DLA Piper UK LLP

PRC LEGAL ADVISER

King & Wood

A SHARES SPONSORS

UBS Securities Co. Limited
Haitong Securities Company Limited

SHARE REGISTRARS AND TRANSFER OFFICE

A Shares:	China Securities Depository and Clearing Corporation Limited, Shanghai Branch 3/F, China Insurance Building, No.166 Lujiazui Dong Road, Pudong New District, Shanghai, PRC
H Shares:	Computershare Hong Kong Investor Services Limited, Room 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Hong Kong

LISTING INFORMATION

A Shares:	Place of Listing:	Shanghai Stock Exchange
	Stock Name:	Bank of Communications
	Stock Code:	601328
H Shares:	Place of Listing:	The Stock Exchange of Hong Kong Limited
	Stock Name:	BANKCOMM
	Stock Code:	03328

OTHER INFORMATION

Date of initial business registration: 30 March 1987
Date of latest change of business registration:
11 November 2011
Registar: State Administration for Industry & Commerce of the People's Republic of China
Corporate business licence registration number:
100000000005954
Tax registration number: 31004310000595X
Organisational code: 10000595-X

Awards

MINISTRY OF FINANCE & THE PEOPLE'S BANK OF CHINA
Savings Bonds Underwriting Excellence Award

THE PEOPLE'S BANK OF CHINA
Best Credit Reference Group Award; Best Credit Reference Individual Award

CHINA BANKING REGULATORY COMMISSION
Best Small Businesses Financial Services Provider (Individual) of National Banking Institutions
Best Small Businesses Financial Services Provider (Group) of National Banking Institutions
Best Small Businesses Financial Services (Specialised Product) of National Banking Institutions

THE MINISTRY OF PUBLIC SECURITY
Best Cooperation Award (prevention of bank cards fraud)

SHANGHAI MUNICIPAL GOVERNMENT
The First Prize of Shanghai Finance Innovation Achievements Award: "e-Communcations Bank"

CHINA BANKING ASSOCIATION
Best Development Award; Best Transaction Award; Outstanding Contribution Award; Excellent Project Award

CHINA ASSOCIATION OF TRADE IN SERVICES & CHINA INFORMATION INDUSTRY ASSOCIATION
Best Service Innovation Award

CHINA UNIONPAY
Best Promotion Award; Excellent China Unionpay Inter-bank Trading Quality and Standard Award

CHINESE SOCIETY FOR ENVIRONMENT SCIENCES, ETC
Top 10 Green Responsibility Enterprises

CHINA CHILDREN AND TEENAGERS' FUND
Best Children Loving Unit

CHINA ENTERPRISE CONFEDERATION
No. 46 in Top 500 Enterprises of China

CHINA CENTRAL DEPOSITORY & CLEARING CO., LTD
Excellent Clearing Member

CHINA FOREIGN EXCHANGE TRADING CENTER
Best Spot Market Maker

CHINA FINANCIAL CERTIFICATION AUTHORITY
Best Online Bank Function Award

CHINA TREASURY ONLINE
Top-rated Commercial Bank Corporate Finance Service Award: "Win to Fortune"

CHINA FINANCIAL SUMMIT
Best Research Bank

THE FIFTH CEF ANNUAL CONFERENCE
"Golden Goblet" Prize – 2011 Top 10 Customer Satisfaction E-Finance Brand

FORBES
No. 96 in Forbes Global 2000 The World's Largest Public Companies

FORTUNE
No. 398 in Fortune 500

THE CHINESE BANKER
Best Financial Products Brand Marketing Award: "OTO Fortune"; No. 2 in Core Competitiveness; Top 10 Financial Product: "De Li Bao Zhi Zun"; The Best Bank in Research Capability

THE ASIAN BANKER
Best Transaction System (Backstage) Award

THE ASSET
Best Secondary Custodian in China; Best Cash Management Bank; The Fastest-growing Potentiality of Cash Management Bank

ASIAMONEY
Best Cash Management Bank, China (medium-sized enterprises)

CFO WORLD
Best Cash Management Bank; Best Supply Chain Finance Bank; Best Investment Bank

Chairman's Statement

The year 2011 marked the beginning of China's "12th Five-Year Plan". Facing a complex and changing economic environment, our Central Government took effective measures in macroeconomic control. As a result, the Chinese economy maintained strong growth, with stabilised consumer prices, good profitability and improved living standards for average citizens. The banking industry in China actively seized the opportunities of this growth and facilitated the economic transformation and structural adjustment. With its full support to the development of real economy in China, the banking industry laid a solid foundation for its own steady growth.

Over the past year, with concerted efforts of its management and employees, the Bank achieved new milestones in its reform and business development, and got off to a flying start of its “12th Five-Year Plan”. As at the end of 2011, the Bank’s total assets and net profit reached RMB4,610 billion and RMB50.735 billion. Average return on assets (ROAA) and average return on shareholders’ equity (ROAE) reached 1.19% and 20.52%, representing an increase of 0.11 and 0.32 percentage points, respectively. The Bank made into the list of Fortune 500 Companies for three consecutive years, ranking No. 398. In addition, the Bank ranked No. 35 in terms of tier-one capital among the top global 1000 banks, and its credit rating was upgraded to “A” category by three large international credit rating agencies for the first time.

We fully understand that the above excellent performance was driven by the steady development of the Chinese economy, as well as effective macroeconomic regulations and financial supervision by regulators. The Bank also highly valued the great support from our shareholders, customers and the communities we serve. On behalf of the Bank, I would like to express my sincere appreciation to you.

IMPLEMENTATION OF “BOCOM STRATEGY”

In 2011, with collective efforts of management and employees, the Bank continued to promote the BoCom Strategy. A series of new progress has been accomplished during the year.

— On the internationalisation front, our global financial services are further expanded. In 2011, our subsidiary bank in the UK and new branches in Ho Chi Minh City, San Francisco and Sydney were opened for business. We also obtained the approval for preparation of our Taipei Branch opening. As a result of our strategy in “building an Asia-Pacific focused overseas network extended to Europe and America”, an international network has been formed. Our overseas branches, including Bocom UK Ltd. made great achievements, with its total assets and net profits accounted for 7.20% and 3.46% of the Group’s at year end, respectively. In addition, our partnership with HSBC was further strengthened.

— On the comprehensive banking front, we further strengthened our comprehensive financial services capabilities. During the year, the Bank initiated the establishment of Bank of Tibet, which enabled the Bank to extend its services to all provinces in China. The Bank continued to improve its capabilities in servicing the “agriculture, rural areas and farmers” (the “Three Rural”) sector, through investing in Shihezi Bocom Rural Bank in Xinjiang and preparing the establishment of Laoshan Bocom Rural Bank in Qingdao. Total net profits of subsidiaries (excluding Bocom UK Ltd.) recognised for the year was RMB1.080 billion, representing contributions of 2.13% to the Group’s net profit.

— On the wealth management front, we have fully relied on international and integrated platforms in enhancing our wealth management features. As at the end of 2011, private banking and OTO customers increased by 42.38% and 29.42% respectively. Medium to high-end "Win-To-Fortune" customers increased by 17.3% as compared with the prior year. Meanwhile, we also lead the market trend of wealth management, through publishing the "Wealth Management Market Index" and hosting the "Outstanding Chinese Entrepreneurs Wealth Management Summit", etc. Through relentless efforts, the Bank further promoted its brand image as the Best Wealth Management Bank in the market. The Bank was also awarded the "Best Local Cash Management Bank in China" for three consecutive years by AsiaMoney.

While we are pleased with the remarkable results in our strategy implementation, we also understand that the final part of an endeavour is always the hardest to finish. Looking into the future, we will continue to focus on developing our overseas branch network and coordinating our business operation between domestic and overseas markets, to reach a higher level in terms of internationalisation in our business operation. We will also accelerate the development of our subsidiaries and enhance our business collaboration for the goal of becoming a universal financial institution with "adequate capital, excellent performance, risk isolation, effective collaboration, and strong capabilities". To establish its unique position in the market, the Bank will expand its high-end customer base, and increase the market share and profit contribution of wealth management business. We are fully confident that our BoCom Strategy will be a successful one, and are looking forward to the bright future that it will bring to the Bank.

ECONOMIC TRANSFORMATION AND STRUCTURAL ADJUSTMENT

The "12th Five-Year Plan" period is a critical one for China's transformation of its economic development pattern and structural adjustment. The financial services industry is dependent on and supportive of the economy. During the economic transformation period, the Bank must actively respond to the rapidly changing regulatory environment and market trend, maintain good reform momentum and create vitality for business operation. We aimed at optimising our resource allocation, enhancing efficiency and supporting our social development through the process of the Bank's own transformation and structural adjustment. As a large commercial bank, we are fully aware of the importance of banking reform and strived to make significant progress in our business, to ensure a successful start of the "12th Five-Year Plan".

— Our role in supporting the economy will never change. We carefully implemented the national macroeconomic policies of our Government and optimised our credit structure, with increased financing support to strategic emerging industries, energy conservation and environmental protection projects, technology and innovation, and cultural and modern service industries. Furthermore, we promoted coordinated development of regional economy, and put in more efforts in supporting the Three Rural sector and micro and small enterprises. In 2011, total lending to encouraged sectors increased by 18.41% for the Bank. The proportion of loans made to domestic small to medium and micro enterprises and Central and Western regions of China reached 39.39% and 27.8% respectively, with continuous drop in loans made to "highly polluting energy-intensive sectors and sectors with redundant capacity."

— The "Second Reform" of the Bank in operation and management was launched. Different from the "First Reform" driven by the conversion to a shareholding bank followed by public offering, the "Second Reform", which started in mid-year 2011, primarily focuses on management innovation, reshaping its strength as a large scale but flexible financial institution and internal transformation. With respect to the objectives, tasks and key focuses of the "Second Reform", we conducted various bank-wide research and analysis. By pulling strength and wisdom of our employees, we reached consensus among all departments. In addition, we are delighted to see the preliminary results of our reform in the areas of organisational structure and performance evaluation reflecting improvements made in the related systems.

— Our assets and income structure had been actively adjusted. While adjusting the lending structure, we continued to expand the asset-based business by strengthening our businesses in securities investment, treasury operation and structured financing. We also increased the proportion of non-credit assets and operating profit margin of non-credit funds. In driving the transformation of our profit model, the Bank carried out business innovation on value-added services and process reengineering for cost reduction. Total net fee and commission income amounted to RMB19.549 billion for the year, representing an increase of 35.02% as compared with the prior year. Rate of return on securities investment continued to be among the top of listed banks.

— Great attention had been paid in minimising capital consumption on business development. Under the guidance and support from regulators, the Bank took the opportunity of applying the internal-based ratings approach to expand the application of RAROC (Return On Risk-Adjusted Capital). The results from developing our internal-based ratings approach have been embedded into the existing underwriting process. In addition, we made continuous improvement in policies, framework, process and system of the internal capital adequacy assessment, and strived to reduce capital consumption in our business development. Meanwhile, the Bank lead the various business lines towards the path of capital saving and promoted the transformation of development model from high to low capital consumption through expanding the reform of performance management system and strengthening its evaluation in economic capital.

ENTERPRISE RISK MANAGEMENT AND INTERNAL CONTROL

Strengthening risk management and internal control is always the lifetime commitment to a commercial bank. A small negligence could lead to possible major break-downs. Currently, the effects of the global financial crisis have not yet completely dissipated, but the financial institutions in China have experienced fast growth in their loan portfolio for several years. We also saw signs of slowdown in the Chinese economy, coupled with prudent monetary policy of the Government, as well as innovation in risk management ideas and risk measurement tools for international banks. As a result of these multiple intervening factors, the banking industry in China is entering into a real test period of the quality of their development achieved from the previous years.

In 2011, the Bank made continuous improvement in enterprise-wide risk management and strived to achieve "complete coverage" on policies, procedures and risk measures. We established the "1+3+2" and "1+2" risk management committee frameworks for the Head Office and branches respectively. New risk management tools were introduced to improve efficiencies of risk evaluations. We also actively pushed for the compliance with the new Basel Capital Accord, developed a series of rules and regulations, and enhanced the application of risk measurement tools in the Bank's management, structural adjustment and decision-making process. The Bank fully complied with the "Internal Control Standards for Enterprises" and the related guidelines, with solid implementation of proper internal control system, as well as engaging a professional firm to carry out its internal control audit.

In particular, we closely monitored the changes in macroeconomic policies, industry regulations and market trends, with focuses on key risk areas. We aimed at keeping risks to a minimum level, and enhancing the applicability and forward-looking aspects of our risk prevention activities. On one hand, we placed high importance on loans made to high risk areas, such as the local government financing platforms, real estate industries and customers associated with private lending. We also carried out bank-wide special risk investigations to further strengthen our credit and operational risk management. On the other hand, the Bank actively responded to the tightened monetary policy and adopted an integrated approach to group management. The Bank performed stress testing on liquidity gap and further strengthened its overall risk management capabilities in the risk areas of market, country, consolidation, reputation and information technology, etc.

As a result of our solid risk management undertakings, we achieved the reductions in both the non-performing loan balance and the non-performing loan (NPL) ratio by the year-end, with the NPL ratio dropped to 0.86%. The provision coverage ratio increased by 70.53 percentage points to 256.37%, as compared with the prior year. We are in full compliance with the CARPALs set by CBRC.

BOARD OF DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The Board of Directors (the "Board") and Senior Management consist of experienced professionals from the economic and financial sector. They are all faithful and diligent, with remarkable intelligence and experience. We believe that they are the right people to lead the Bank in its development of various businesses.

The Board duly executed its duties and responsibilities in its decision-making and supervisory capacities, with tremendous achievements made in 2011. In addition to its responsibilities in strategy implementation, business transformation, structural adjustment and risk management, the Board carefully studied the national "12th Five-Year Plan" and developed the "Strategic Plan for Bank of Communications during the 12th Five-Year Plan Period (2011–2015)", based on the past experience gained through reform initiatives at the Bank. To continue its improvements in operation, the Board delivered 29 specific measures covering 10 aspects in capacity building of the Board, which laid a solid foundation for future development in the Bank's corporate governance. In addition, the Board standardised its management of information disclosure and constantly improved the communication with the capital market through investor relations management as a "Communication Bridge". As an outstanding corporate citizen, the Board actively carried out its corporate responsibilities and is dedicated to building a unique corporate culture at the Bank.

In 2011, Mr. Qian Hongyi, Mr. Ji Guoqiang and Mr. Chen Qingtai resigned as Directors for reasons of retirement or job re-designation. Over the years, they have diligently performed their duties and contributed significantly to the development of the Bank. On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to them. On the other hand, the General Meeting of Shareholders appointed Ms. Du Yuemei and Mr. Ma Qiang as Non-executive Directors, and Mr. Choi Yiu Kwan as Independent Non-executive Director. The three new Directors are reputable and possess extensive experience and knowledge in the field of economy and financial management. I would like to extend my warmest welcome to them and look forward to working with them in the future.

In 2011, under the capable leadership of the President, Mr. Niu Ximing, Senior Management proactively responded to dual challenges of national policy adjustments and market changes, by fully implementing the various macroeconomic control measures of the Government, as well as innovation and enhancement of the Bank's competitiveness and risk management capabilities. The Bank successfully accomplished the various operating goals set out by the Board. The achievement of the Bank's management is remarkable, given the increasingly complex market environment under prudent monetary policy, stringent regulatory standards and intense market competition. The Board and I would like to make our recognition for the great contributions by our Senior Management team.

Not only have we had an excellent leader and management team, we also have a team of loyal and capable staff. In 2011, we continued to enhance the "Soft Power" in our corporate culture, and vigorously promoted the spirits of "Working Hard, Corporate Responsibilities and Beyond Innovation". We also integrated the concept of "One BoCom, One Customer" into our corporate culture, to inspire our employees in their career development with the Bank.

OUTLOOK

The banking industry is inherently pro-cyclical and correlates with the economic development. Looking into the future, the Chinese banking industry will face increasingly complex environment, with the rapid growth of past years in both scale and profit unsustainable. However, we strongly believe that the steady growth in the overall Chinese economy will continue, which will offer tremendous opportunities to the banking sector. We will stay committed to our mission and achieve a balanced growth among scale, quality and efficiency, by focusing on the main goals of "Steady Development, Transformation, Risk Control, Reform and Solid Performance".

— We will proactively align the Bank's strategy with our national strategy, strive to improve our service quality and remain committed to support the economic transformation. We will continue to optimise our lending and asset structure to enhance our sustainable development capabilities by meeting the needs arising from industrial optimisation and upgrading, expansion of consumer consumption, and coordinated regional development, as well as seizing the opportunities brought by the rapid growth of new emerging industries. While maintaining our credit income at a strong level and leveraging our strength via the "BoCom Strategy", together with the special features of wealth management, we will continue to adjust our income structure by increasing revenue streams generated from non-credit businesses and its proportion to total income.

— We will move forward with reforms of our system and structure to generate our intrinsic power for development. We will also push for the "Second Reform". To ensure that our reform achieves the desired objectives, we will focus on key areas such as performance measurement, front office structure and operational procedures, as well as product innovation and authorisation management. We will also continue to implement the integrated management strategy of the Group, with improvements made to the "One Bank, One Customer" management system, as well as accelerating the establishment of the Group management framework and mechanism across various operating units, profit centres and business lines.

— We will enhance our research and analysis on market trends, and continue to strengthen our enterprise risk management capabilities by standardising and integrating policies and procedures, and reinforcing the risk management framework. We will also take precautions in risk prevention by focusing on key risk areas such as the local government financing platforms, real estate industry and private lending.

— We will improve our capital management through timely replenishment of core capital. We will also make further enhancement in our capital planning, with tighter control in internal capital and enhancement in the assessment, structure, process and IT system of capital adequacy. In addition, we will take a step forward in monitoring of risk assets and reduction of capital consumption. Furthermore, we will develop and implement a supplementary capital refinancing plan according to the regulatory requirements and market conditions, to reinforce our capital base and support our BoCom Strategy and business development.

The prospects envisioned by the nation's "12th Five-Year Plan" has been gradually unfolded in front of us, but what we see today is the economic and financial environment full of profound changes, opportunities and challenges. Therefore, we will stay focused on the most important goals – steady growth, reform and transformation. I am fully confident that we will be able to write a brilliant chapter on the success of our reform and provide better returns to our shareholders with excellent results.

Chairman

President's Statement

In 2011, the Bank proactively responded to challenges of national policy adjustments and market changes, with focuses on the three key areas of business — "Development, Transformation and Risk". We also strived to improve our competitiveness and risk management capability, accelerated our pace in business expansion, and achieved a comprehensive and balanced development in our core businesses.

DEVELOPMENT: STRONG OPERATING RESULTS AND STEADY DEVELOPMENT STRATEGY

In 2011, the Bank maintained strong growth in its performance, with key financial indicators maintaining a positive level. As at the end of 2011, the Group's total assets increased by 16.69% from the beginning of the year to RMB4,611.177 billion; customer's deposits increased by 14.48% from the beginning of the year to RMB3,283.232 billion; loans and advances to customers (before impairment allowances) increased by 14.52% to RMB2,561.750 billion; so did our market share in Renminbi loans and deposits. Net profit for the year increased by 29.95% from prior year to RMB50.735 billion. Net Interest Margin (NIM) increased by 13 basis points to 2.59%. Cost-to-income ratio was 30.19%, taking the lead in the industry.

The Bank is committed to its "BoCom Strategy". In 2011, the Bank achieved several breakthroughs in its international expansion with new branches in Ho Chi Minh City, San Francisco, Sydney, and a subsidiary bank in the UK opened for business, which lead to the enhancement of cross-boarder and cross-industry service platform. Aligning to its "One BoCom, One Customer" concept, the Bank strived to promote interaction and coordination among domestic and international affiliates within the Group, improve customer service capability, and drive rapid growth in overseas and non-banking businesses. With regard to overseas branches, including Bocom UK Ltd., total realised net profit contributed to the Group reached RMB1.756 billion, increased by 38.81% as compared with the prior year. With regard to subsidiaries (excluding Bocom UK Ltd.), total realised net profit reached RMB1.080 billion. The Bank also continued to promote its brand image as "Bank of Communications — Your Wealth Management Bank", and successfully held the "China Excellent Entrepreneurs Wealth Management Summit", "China Top 100 Entrepreneurs Forum", and "OTO Wealth Expo". These service channels effectively helped in building a platform for communication between the Bank and large and exceptional enterprises and high-end private customers, and won positive support from the public. The Bank also persistently promoted product and service innovation for wealth management business. Furthermore, the Bank designed special financing programs to cover the entire industry chain for both downstream and upstream, according to the related industry-specific and market-specific needs. With products such as the expedited financial service for entrepreneurs of small enterprises that combines both corporate and private banking and the cross-border comprehensive wealth management service for private banking customers launched, our wealth management business experienced rapid growth in customers and continued optimisation in customer structure. In 2011, the number of "Win to Fortune" cash management customers increased by 51.3%, and the number of private banking customers and "OTO Wealth" customers increased by 42.38% and 29.42% respectively.

TRANSFORMATION: CONTINUOUS OPTIMISATION IN BUSINESS STRUCTURE AND ACCELERATED CHANGE IN BUSINESS MODEL

With an accelerated pace in the economic transformation and industrial upgrading in China, the Bank actively implemented the macroeconomic policies and industry regulations along with progressive optimisation to its lending structure. In particular, the Bank developed credit assessment techniques by industry and the related information platform, and credit policies by the five major regions, as well as established credit guidelines for medium-sized customers. The coverage of industrial credit policy over the entire portfolio was above 90%. The Bank also extended significant lending support to sectors of the Three Rural, underdeveloped regions, consumer consumption, advanced manufacturing and energy and resources. At the end of 2011, total loans made to the encouraged sectors increased by 18.41%, and the proportion of loans made to Central and Western China increased by 0.17 percentage point from the beginning of the year to 27.8%. Retail financing business also experienced rapid growth in recent years. Total increment in loans to small-to-medium and micro enterprises contributed to 39.39% of the total increase in the entire lending portfolio, while the proportion of individual loans increased by 1.20 percentage points from the beginning of the year to 19.88%.

With its objectives of "High Customer Satisfaction, High Market Growth, High Integration Degree, Low Capital Consumption and Low Operating Cost" well followed, the Bank made special efforts in developing its non-credit businesses, mainly focusing on the transformation of its growth and profit model. Net fee and commission income increased by 35.02% as compared with the prior year to RMB19.549 billion, with the ratio of fee and commission income to net operating income increased by 1.48 percentage points to 15.30% as compared with the prior year. New businesses such as cross-border Renminbi settlement, investment banking, precious metal trading, wealth management services on behalf of customers and off-shore financial services were gradually introduced by the Bank. In particular, total assets related to off-shore services achieved an increase of 188.67% as compared with the prior year, with its market position leapted to the first among financial institutions in China. The Bank further improved its operating efficiency in its financial market business, with its yield in non-credit assets reaching 3.47%, which clearly puts the Bank at the lead. The Bank was awarded the "Excellent Market Maker" and the "Best Dealer" by the Chinese Dealers Association and the China Banking Association for three years consecutively.

In 2011, the Bank accelerated its pace in opening of new branches, with total 61 outlets commenced their operation. As a strategic investor, we initiated the establishment of Bank of Tibet, to reach full coverage at provincial level. I am very pleased to report that the many years of our hard work has been paid off with significant achievements in network restructuring. Over the past three years, despite the slight decrease in the number of outlets, the Bank's organisation structure is further optimised, with rapid increase in productivity at these outlets. The coverage of cities at above prefecture level increased from 34.24% to 52%, while the coverage of cities at county level increased from 3.15% to 5.2%. Average profits generated by outlets and profits per employee also increased considerably. Seizing the opportunities brought by the development of information technology, the Bank further accelerated the building of its electronic service network by investing heavily in self-service equipment and e-banking. The diversion ratio of e-banking services reached 66.44% of all banking services conducted. In particular, as the leading mobile financial services provider in China, the Bank maintained its frontrunner position in providing financial services without bank-card, and is the first financial institution that provides full coverage on all mainstream mobile devices, which made a number of services such as withdrawal, charging and electronic banking without bank-card possible.

RISK: ENTERPRISE-WIDE RISK MANAGEMENT AND EXCELLENT ASSET QUALITY

After years of hard work, the Bank has made tremendous improvements in the establishment of risk management framework, roles and responsibilities, management policies and procedures, and building an organisation culture. At present, the Bank has developed an adequate comprehensive risk management framework with full coverage of its banking operation. In 2011, the Bank further optimised its risk management decision-making process at its Head Office and branches, established clear reporting lines, and fine-tuned the detailed implementation rules and process. Its internal control principle of "Process Oriented and Procedure First" has been deeply rooted in our corporate culture. In addition, the Bank has made good progress in the compliance with the New Basel Accord, with gradual improvements made in its risk measurement and the related verification systems, as well as with certain results being implemented in its daily operations.

The Bank has always closely monitored the changes in macroeconomic environment and industry trend, with focuses on key risk areas such as the local government financing platforms, real estate industry and the "highly polluting, energy-intensive sectors and sectors with redundant capacity" to actively manage the potential risks arising from sudden changes in the market. The Bank also implemented limit management in lending to nine industries with excess capacity. As at 31 December 2011, loans made to "highly polluting, energy-intensive sectors and sectors with redundant capacity" decreased by RMB6.79 billion as compared with the beginning of the year. Similar measures in disbursement control and over new projects were implemented on loans made to local government financing platforms. Therefore, the asset quality on loans has remained positively stable. As at 31 December 2011, the non-performing loan balance decreased by RMB3.002 billion from the beginning of the year to RMB21.986 billion, while the NPL ratio declined by 0.26 percentage point to 0.86%. The provision coverage ratio increased by 70.53 percentage points from the beginning of the year to 256.37%.

Looking ahead, we are fully aware that today's market environment is complex, with increased instability and uncertainty in the world economic recovery. In China, we still face the challenges brought by imbalance, uncoordinated and unsustainable development. As a result of the pressure from downward economic growth and rising of inflation, the shortage of funds in the capital market remains a fundamental problem, leading to significant operational difficulties for small-to-medium and micro enterprises in certain industries and regions. Due to its pro-cyclical nature, the Banking industry will face significant challenges in 2012. However, we believe that the current market condition will bring more opportunities than challenges, and with increased consumer demand, the Chinese economy will remain strong and stable. The adjustment and upgrading of industrial structure, acceleration of the Renminbi internationalisation, and the rapid growth in enterprise and individual wealth management, will create more demands in comprehensive and diversified financial services.

We believe that, only with a good balance among "Development, Transformation and Risk", the Bank can remain strong and thrive for many years to come. Facing a market environment with slowing economic growth that nonetheless has structural opportunities, the Bank will stay focused on its customer-oriented principle, to provide higher quality and more efficient banking services, through prudent organisational culture, clear market positioning, professional wealth management techniques and effective service outlets. It is the Bank's goal to strengthen its competitive edge and market position through the process of sharing prosperity with the Chinese real economy.

Diversified Business Structure — Leveraging the opportunities of the Renminbi internationalisation and the promotion of Shanghai as an International Financial Centre and an International Shipping Centre ("Two Centres"), the Bank will continue to push forward the development of international expansion and integration, underpinning our strength in cross-border Renminbi investment and financing and offshore financing. In addition, the Bank will accelerate the establishment of global wealth management platform and financial services platform. With low capital consumption as a primary goal, the Bank will continue to provide strong support to product and service innovation, and development of new business areas, with focuses on investment banking, asset custody, asset management, trade finance, private banking, precious metals, and credit card businesses.

High Quality Customer Experience — In order to provide comprehensive banking solutions to customers and support their financing needs by various business channels, the Bank will integrate its different kinds of products by fully utilising its international and integrated platforms. The Bank also increased its support to micro companies, not only helping the customers reach their financial goals, but also helping them maintain the financing chain of both up stream and down stream partners within the industry, thus creating shared value among all participants. The Bank will continue to expedite the development of its "3-in-1" services system, which comprises service outlets, e-banking and account managers, to improve customer's experience on standardised cross-border and cross-channel services.

Solid Risk Prevention — On top of the improvements made in enterprise-wide risk management at Head Office, the Bank will focus on the development of its risk management operation at branches, with risk strategies and risk appetite well embedded into policies and procedures. We will continue to push for the full compliance with the new Basel Capital Accord, and promote the application of advanced risk measurement tools and deficiency evaluation tools. We will also gradually build the self-recovery system that contains the features of risk identification, constant monitoring and timely corrections. Furthermore, we will implement additional control measures in key risk areas such as local government financing platforms, real estate industry, private lending, and certain wealth management services.

On behalf of the management, I would like to take this opportunity to thank all our investors and friends for the care and support that we have received. We also want to thank the Board of Directors and Supervisory Committee for their guidance and assistance throughout the year. Finally, we want to thank all our employees for their great contributions and hard work. Let us stay united and committed, with innovation and growth as our core value, and tradition and change as a way of life, I have the utmost confidence that we will be able to create a better financial life for the people in China.

President

Chairman of the Supervisory Committee

Hua Qingshan
Chairman of the Supervisory Committee

In 2011, in accordance with the requirements of the Company Law and the Bank's Articles of Association etc., the Supervisory Committee monitored the Board of Directors execution of resolutions approved at General Meetings of Shareholders and other decisions made within the Board's authority. The Supervisory Committee also monitored Senior Management's implementation of resolutions approved at General Meetings of Shareholders and the Board of Directors meetings as well as the business activities Senior Management carries out within its authority. At the same time, the Supervisory Committee also intensified its supervision over the discharge of duties by the Board of Directors, Senior Management and its members while closely monitoring areas such as the Bank's financials, internal controls and risk management to safeguard the interests of shareholders and the Bank.

Management Discussion and Analysis

Management Discussion and Analysis

1. MACROECONOMICS AND FINANCIAL SITUATION

2011 marked the beginning of the "12th Five-Year Plan". Under the complicated and volatile market environment, the Chinese economy maintained strong and stable growth, reflecting the effective macroeconomic control by the Chinese Government.

From the global perspective, the world economic recovery has remained vulnerable especially with the disruption of the European sovereign debt crisis and its after-effect across the globe. The US economy experienced weak recovery, with its unemployment rate remained high. However, positive signs of recovery appeared by the end of the year. The tsunami disaster had a great impact on the Japanese economy during the first half of 2011, while the growth rate of the economy for the third quarter turned from negative to positive as a result of the reconstruction in the second half of the year. The emerging markets faced decline in both economic growth and inflation pressure as a result of the shrinking market in developed countries and the tightening of their own policies. The international commodities market was struck by price hikes before general price declines with shocks in the year's second half.

In the domestic market, China's GDP growth rate slowed down to 9.2% in 2011, with quarterly rates of 9.7%, 9.5%, 9.1% and 8.9%, comparing with 10.4% in the prior year. The decrease was mainly due to the debt crisis in Europe and America, as well as the domestic macroeconomic regulation and control. The three main drivers of economy, investments, consumer consumption and foreign trade are becoming more balanced. Also, the upward trend of consumer prices has been initially contained, which resulted in the increase of disposable income of consumers.

The monetary policy in 2011 remained fairly stable, but the actual practice had gone from stable but tight to prudently balanced to reflect timely change. As a result, both the lending growth and money multiplier fell, with the growth rate of money supply dropped significantly. By the end of December 2011, Broad Money (M2) reached RMB85.2 trillion, representing an increase of 13.6% as compared with the prior year, while the growth rate decreased by 6.1 percentage points over the prior year; Narrow Money (M1) amounted to RMB29 trillion, representing an increase of 7.9% as compared with the prior year, while the growth rate decreased by 13.3 percentage points over the prior year. The outstanding RMB loans of all financial institutions in 2011 reached RMB54.8 trillion, with total increment of RMB7.5 trillion, representing a decrease of RMB390.1 billion on the annual growth level from the previous year. Total RMB deposits increased by RMB9.6 trillion to RMB80.9 trillion, representing a decrease of RMB2.3 trillion in annual increment compared with the prior year. Overall, new loan originations in 2011 have slowdown, with steady decrease in money supply across the market. Therefore, the growth rate of loans has returned to a normal level.

2. GROUP OPERATION OVERVIEW

Recall the fiscal year of 2011, the complex and volatile economic environment around the globe and in China brought more uncertainties to commercial banks. The Group achieved favourable operating results through a number of initiatives, such as thoroughly analysing and assessing market changes, seizing opportunities in such volatile market, adhering to proactive and prudent management policies, and maintaining a good balance among business development, risk management and structural adjustment.

At the end of the Reporting Period, the Group's total asset increased by 16.69% from the beginning of the year to RMB4,611.177 billion. Customer deposits increased by 14.48% from the beginning of the year to RMB3,283.232 billion. Total outstanding balance of loans and advances to customers (before impairment allowances, same applies hereinafter unless otherwise stated) increased by 14.52% from the beginning of the year to RMB2,561.750 billion. Net profits increased by 29.95% as compared with the prior year to RMB50.735 billion. Average return on assets and annualised average return on shareholders' equity was 1.19% and 20.52%, representing an increase of 0.11 and 0.32 percentage point respectively from the prior year. Net interest spread and net interest margin increased by 10 and 13 basis points, as compared with the prior year, to 2.49% and 2.59% respectively. The impaired loans ratio decreased by 0.26 percentage point to 0.86% as compared with the beginning of the year, while the provision coverage ratio increased by 70.53 percentage points as compared with the beginning of the year to 256.37%. The Group's capital adequacy ratio and core capital adequacy ratio reached 12.44% and 9.27% respectively, which are in compliance with the relevant regulations.

3. BUSINESS REVIEW

Rapid growth in core business leading the overall strength to a new level

Facing the complex market environment, the Group continued to adhere to its proactive and prudent management policies as it focused on accelerating the development of various business lines. Battling the declining growth of money supply in the market, the Group strived to develop corporate customers, thoroughly performed market analysis, grasped sales opportunities related to industry chain and city circle, and retained customer deposits within the Group. Meanwhile, the Group introduced various products to individual customers for better allocation of their assets, which directly strengthened its customer base and enhanced customer loyalty. At the end of the Reporting Period, corporate deposits increased by 15.01% from the beginning of the year to RMB2,248.317 billion and individual deposits increased by 13.72% from the beginning of the year to RMB1,030.605 billion. Domestic assets-under-management (AUM) balance for individual customers increased by 14.24% from the beginning of the year to RMB1,505.165 billion. The Group's credit portfolio showed a steady and balanced growth. Total loans to corporate customers increased by 12.83% from the beginning of the year to RMB2,052.443 billion and total loans to individual customers increased by 21.87% from the beginning of the year to RMB509.307 billion. At the same time, the Group placed high emphasis on loan volume control and lending structure optimisation, with continuous improvement in its credit policy and implementation measures on quantification and quota management. The new loans were primarily directed to strategic emerging industries, leading service industries and public welfare and consumption. During the Reporting Period, loans made to the encouraged industries such as power, port and shipping, as well as the ship-financing industry increased by 18.41% and 38.03%, which are 5.58 percentage points and 25.20 percentage points higher than the increase in corporate lending respectively. Individual loans accounted for 19.88% of total lending portfolio, representing an increase of 1.20 percentage points from the beginning of the year. Loans to domestic small to medium and micro enterprises accounted for 39.39% of total lending portfolio. In financial market business, the Group conducted timely analysis on macroeconomic trends, responded to changes in market interest rates and achieved reasonable allocation of its capital and assets. In addition, the RMB and foreign exchange trading business continued to remain active. The Bank had a total transaction volume reaching RMB11,640 billion for its trading business in the interbank market. The Group was awarded the Best Spot Market Maker in the interbank foreign exchange market as its total transaction volume amounted to USD556.447 billion for the year. Total transaction volume in the proprietary gold trading business increased by 44.02% as compared with the prior year to 416.76 tonnes.

Additionally, the Group's other business lines made positive development over the year. Off-shore assets ranked the top in the banking industry, representing an increase of 188.67% from the beginning of the year to USD6.469 billion. Despite the weak capital market, the Group's custody business experienced a growth of 18.98% from the beginning of the year to RMB839.737 billion. In particular, its businesses in trust, insurance and private equity were among the fastest growing areas of the Bank. Total transaction volume for international settlement reached USD300 billion, representing an increase of 24.34% from the beginning of the year. The Group further expanded its cross-border RMB settlement business from trade settlement to other services of investment and financing nature, with total transaction volume increased by 2.3 times as compared with the prior year to RMB158.912 billion. Total business volume for domestic letter of credit increased by 4.76 times as compared with the prior year.

The Group's comprehensive strength has been improved to a new level, with continuous development of its various businesses. The Group once again made into the list of Fortune 500. Based on its operating income, the Group ranked No. 398, leaping forward by 42 positions from prior year. In addition, the Group ranked No. 35 in terms of tier-one capital among the global top 1000 banks by The Banker magazine, moving 14 positions forward as compared with the prior year. The Group also ranked No. 96 in Forbes Global Enterprises 2000. In the "Report on the Competitiveness of China's Commercial Banks" published by The Chinese Banker magazine, the Group ranked No. 2 for three consecutive years, in terms of core competitiveness among Chinese commercial banks.

Further improvements in profitability and business development

Benefiting from the continuous improvement of its business development, the Group's net operating income experienced rapid growth with an increase of 22.01% as compared with the prior year. Together with continued improvement in its operating efficiency, the Group achieved significant increase in profitability. During the Reporting Period, the Group's net profit surpassed RMB50 billion for the first time, increased by 29.95% to RMB50.735 billion. Average return on assets (ROAA) and average return on shareholders' equity (ROAE) were 1.19% and 20.52%, representing an increase of 0.11 and 0.32 percentage point respectively.

With regard to interest income, the Group's net interest income increased by 20.71% as compared with the previous year to RMB102.601 billion. On one hand, the growth of net interest income has been driven by increases in interest-bearing assets. During the Reporting Period, the Group's average interest-bearing assets increased by RMB505.434 billion or 14.62% to RMB3,961.600 billion as compared with the prior year. On the other hand, it was driven by the widening interest spread. Since the fourth quarter of 2010, with the multiple increments in prime interest rates for deposits and loans by the People's Bank of

China and the enhanced pricing management, net interest spread and net interest margin increased by 10 and 13 basis points, as compared with the prior year to 2.49% and 2.59% respectively.

To further improve its income structure, the Group continued with its transformation and the development of its fee-based business. During the Reporting Period, the Group's net fee and commission income increased by 35.02% as compared with the prior year to RMB19.549 billion, with the ratio of net fee and commission income to net operating income increased by 1.48 percentage points to 15.30% as compared with the prior year. Due to rapid development in investment banking services, the Group was successful in underwriting the first local government bond — the Shanghai Municipal Government Bond. Its investment banking products also include financial bonds, subordinated bonds and off-shore bonds. The Group's income from investment banking activities increased by 52.89% as compared with prior year to RMB6.276 billion. The Group was also awarded the Best Investment Bank by CFO World and the Best Bank in Bond Underwriting for three consecutive years by Securities Times. Because of the continuous efforts in growing its credit card business, the Group made RMB7.075 billion in annual fee and commission income from its bank card business, an increase of 36.24% as compared with the prior year. Total number of credit cards issued increased by 5.63 million from the beginning of the year to 22.23 million, with accumulated spending volume increased by 57% to RMB360.8 billion.

While promoting the growth in net operating income, the Group dedicated itself towards better cost management and improved operating efficiency. During the Reporting Period, although the Group's operating cost increased by 15.24% as compared with prior year to RMB37.901 billion, the result was 6.77 percentage points lower than the increase in net operating income. The cost-to-income ratio also decreased by 1.92 percentage points as compared with the prior year to 30.19%.

New breakthroughs in implementing the "BoCom Strategy"

The Group continued to implement its development strategy of becoming "a first class listed universal banking group focusing on international expansion and specialising in wealth management" ("BoCom Strategy"), with significant achievements reached together with improvements made to the Group's overall strength and competitive advantages.

During the year, the Group's international expansion achieved a historical breakthrough. Adhering to its business principles of "following the national strategy, following customers, maximising the interest of shareholders, and implementing service capabilities", the Group accelerated its development pace of overseas branches. During the Reporting Period, the Group successfully set up Ho Chi Minh City Branch, San Francisco Branch, Sydney Branch and a subsidiary bank in the United Kingdom. The Taipei Branch was also granted the approval of preparation for opening. The Group's overseas operation has expanded to cover continents of Asia, Europe, America and Oceania. The international expansion strategy "building an Asia-Pacific focused overseas network extended to Europe and America" achieved further advancement. At the end of the Reporting Period, total assets of overseas branches reached RMB331.902 billion, an increase of 38.37% as compared with the beginning of the year. Net profits contributed by overseas branches increased by 38.81% as compared with the prior year to RMB1.756 billion.

The Group made notable progress in its business integration, with synergies across multiple business lines revealed gradually. To enhance its overall financial service capabilities, the Group leveraged its domestic and overseas platforms such as Bank of Communications Finance Leasing Co., Ltd, Bocom International Holdings Co., Ltd. and Bank of Communications International Trust Co., Ltd., to offer an integrated set of onshore and offshore products and services to customers. During the Reporting Period, the Group's subsidiaries, over which the Group had significant control (except for the subsidiary bank in the United Kingdom) generated net profits of RMB1.080 billion. In particular, Bank of Communications Finance Leasing Co., Ltd. made outstanding breakthroughs in its new business model, which includes the practice of operating lease, domestic and overseas SPV, manufacturing leasing and small to medium and micro enterprises leasing, and achieved diversification in its business. In terms of the number of IPO projects completed by Bocom International Holdings Co., Ltd. as a book runner, it was ranked No. 1 among the five Chinese investment banks affiliated to listed Chinese banks in Hong Kong. Meanwhile, Bocom International Holdings Co., Ltd. ranked No. 2 in terms of total proceeds from IPOs.

Guided by the "BoCom Strategy", the Group actively established its unique features and brand image in wealth management. During the Reporting Period, the Group successfully published "Bank of Communications China Wealth Management Market Index", and held the "Outstanding Chinese Entrepreneurs Wealth Management Summit", "Bank of Communications Top 100 Chinese Enterprises Forum", "OTO Wealth Expo", and "2011 World Snooker Shanghai OTO Master". These channels effectively built a platform for communication between the Bank and those exceptional private enterprises, large corporations and high-end individual customers. The Group also introduced the customer payment referral system (PARS) in building communication bridges between banks. Seizing the opportunities brought by the wealth management needs of domestic and overseas customers, the Group took advantage of its international and integrated platform to provide better services to its customers through innovative channels and products. In addition, electronic banking was introduced to provide professional wealth management services to families to help them consolidate their available funds. Through the model "OTO customer manager + small enterprise customer manager + industry expert", the Group explored and established the OTO website in providing one-stop professional services to entrepreneurs. The image "Bank of Communications, Your Wealth Management Bank" was further highlighted. The Group won the "Best Cash Management Local Bank in China", for three consecutive years by AsiaMoney. The Group continued to optimise its customer structure. At the end of the Reporting Period, the number of corporate customers increased by 38.4 thousands, of which, the number of mid-to-high end "Win to Fortune" corporate customers increase by 17.3% and the number of "Win to Fortune" cash management customers increased by 51.3% as compared with the prior year. The number of private banking customers and OTO customers increased by 42.38% and 29.42% respectively from the beginning of the year.

Improved asset quality and new progress in enterprise risk management

Since 2011, the multiple effects of European sovereign debt crisis, weak global economic recovery and the complex Chinese macroeconomic environment, set higher requirements in risk management for commercial banks. The Group continued with its prudent operation and enhanced its enterprise risk management framework. Furthermore, the Group improved its risk management decision-making system and operating mechanism at the Head Office level, and established Risk Management Committee framework at the branch level. At the same time, the Group further standardised its risk management procedures, promoted innovation in management tools, optimised risk management process, and made improvements to the timeliness, focus and accuracy of risk management practice.

Credit risk management has been continuously strengthened. The Group constantly improved its credit policies and set up the multi-dimensional system covering industries, regions and customers with total coverage in the respective areas exceeding 90%. Credit management procedure was revised, emphasising on more detailed classification of asset quality. The Group also implemented new regulations on loans while strengthening its post-loan management and close monitoring on the loan direction. Adhering to its basic principle "Complete Procedure, Key Steps, Standardisation", the Group developed an integrated post-loan management tool. In targeting high risk areas and emergency incidents, the Group continued to strengthen its special reviews and risk prevention system. During the Reporting Period, total loans made to the highly polluting, energy-intensive sectors and sectors with redundant capacity decreased by RMB6.79 billion as compared with the beginning of the year, and the percentage of real estate loans decreased by 0.20 percentage point.

Market risk management strategy has been gradually implemented. The Group continued its efforts to improve its management capabilities, with proactive adjustment to asset allocation, preliminary establishment of level classification and complete coverage of limit management system on market risk. The liquidity gap stress testing and liquidity contingency plan were implemented subsequently.

Operational risk management has maintained its development. The Group performed in-depth analysis on risk event data to build a solid foundation in operational risk management. The case prevention mechanism and system support were further strengthened. In promoting centralised management of risk cases, the Group continued to organise its "Internal Controls and Case Prevention Year" activities.

Capital risk management has been intensively applied. The Group continuously strengthened the application of capital constraints, and promoted its business development towards low capital consumption. Meanwhile, the Group undertook timely actions in capital replenishment, and successfully issued subordinated bonds of RMB26 billion. At the end of the Reporting Period, the Group's capital adequacy ratio increased by 0.08 percentage point from the beginning of the year to 12.44%, which effectively enhanced its risk prevention capability.

In addition, the Group has gradually strengthened its cross-market, cross-border and consolidated risk management capabilities by expanding its risk monitoring and control over its subsidiaries and consolidated financial statements process, further optimising the management of internal transactions and related party transactions. The Group also continuously performed daily monitoring and prevention of cross-market and cross-border risks as well as routine monitoring and evaluation of country risk. The risk measurement system and measurement verification system were gradually improved and its compliance with the New Basel Capital Accord standards has made great progress.

The Group's asset quality continued to improve as a result of the further strengthening of its enterprise risk management. At the end of the Reporting Period, the Group achieved a credit rating of A by three international credit rating agencies. The Group's impaired loans balance decreased by RMB3.002 billion or 12.01% from the beginning of the year to RMB21.986 billion, while the impaired loans ratio declined by 0.26 percentage point from the beginning of the year to 0.86%. The provision coverage ratio increased by 70.53 percentage points from the beginning of the year to 256.37%.

Strong product innovation to enhance service quality

The Group follows the concept of "One Bank, One Client", constantly monitors capital movements and seeks potential clients in competitive market. In order to promote product innovation, the Group continually explores new channels, products, systems and tools that optimise the service process and improve customer service experience. In line with the "client-focused, market-driven, service-oriented" product innovation process, the Group strives to provides diversified services to its customers. In addition, the Group acquired the gold import permit from the People's Bank of China, established sales and repurchases centres of precious metal in both Nanjing and Shanghai to provide one-stop services for precious metal exhibition, as well as sales and repurchase. Furthermore, the Group launched global cash management services and helped overseas enterprises achieve centralised control of both domestic and foreign accounts with the bank. In the meantime, the Group broke the corporate and private online banking boundaries, introduced both corporate and personal online banking services, including self-service account opening system, mobile office, and privileged corporate account. Also, the Group promoted its online lending services — "e-financing" and provided segmented services to meet middle to high-end customers demands such as "OTO e-financing" to enhance customer loyalty. Last but not least, the Group enhanced its credit card selling process and strengthened its management on sales marketing that resulted in better risk control, more efficient management, and lower cost.

While promoting the product and service innovation, the Group has been actively exploring a new model of channel management to improve operational efficiency and service quality. As the channel network was further built up, the Group accelerated the process of establishing new branches and adjusting existing branches. As a strategic investor, the Group initiated the establishment of the Bank of Tibet to reach "full coverage" of service network in the domestic provincial administrative regions. Xinjiang Shihezi Rural Bank commenced operation on schedule and the preparation of Qingdao Laoshan Rural Bank was in good progress. At the end of the Reporting Period, the Group newly set up 28 sub-branches under provincial jurisdiction and 61 new outlets, relocated 23 sub-branches across cities and counties and improved the service coverage ratio to 52%. In the meantime, the Group focused on the development of digital channel which accelerated the online banking development. The Group has provided the mobilised financial services with full coverage of major telecommunication companies and enhanced features in self-service, remote access, and e-commerce, etc. The Group also introduced several self-service devices including automatic card-issuing machines, self-service bill devices, new self-service smart and mobile banking terminal applications. Based on these new features, the Group took one step further to streamline its services into a self-service transaction system supplemented by in-person branch services to support the sales transformation initiative. During the Reporting Period, the Group added 4,618 self-service devices, representing a 38.5% increase from the previous year; the volume of self-service banking transactions increased by 29.6% to RMB866.3 billion. The channel diversion rate of e-banking services increased by 9.27 percentage points from the prior year to 66.44%.

4. FINANCIAL STATEMENT ANALYSIS

(1) Income Statement Analysis

1. *Profit before tax*

During the Reporting Period, the Group's profit before tax increased by RMB15.497 billion or 31.02% as compared with the prior year to RMB65.451 billion. Profit before tax was derived mainly from net interest income and net fees and commission income.

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

	(in millions of RMB)	
	2011	2010
Net interest income	**102,601**	84,995
Net fee and commission income	**19,549**	14,479
Impairment allowances	**(12,479)**	(12,246)
Profit before tax	**65,451**	49,954

2. *Net interest income*

During the Reporting Period, the Group's net interest income increased by RMB17.606 billion as compared with the prior year to RMB102.601 billion. This accounted for 80.29% of the Group's net operating income and was a major component of net operating income.

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

(in millions of RMB unless otherwise stated)

	For the twelve months ended 31 December 2011			For the twelve months ended 31 December 2010		
	Average Balance	Interest income/ (expense)	Average yield/(cost) ratio (%)	Average Balance	Interest income/ (expense)	Average yield/(cost) ratio (%)
Assets						
Balances with central bank	602,978	9,336	1.55	451,052	6,855	1.52
Due from other banks and financial institutions	208,271	7,092	3.41	211,004	4,424	2.10
Loans and advances to customers and receivables	2,412,662	147,162	6.10	2,067,067	106,056	5.13
Of which:						
Corporate loans and receivables	1,896,631	115,072	6.07	1,595,373	82,984	5.20
Personal loans	425,359	26,148	6.15	338,765	18,701	5.52
Discount bills	90,672	5,942	6.55	132,929	4,371	3.29
Investment securities	787,230	27,282	3.47	777,937	24,570	3.16
Total interest-earning assets	3,961,600[3]	188,908[3]	4.77	3,456,166[3]	140,901[3]	4.08
Total non-interest earning assets	185,248			157,646		
TOTAL ASSETS	4,146,848[3]			3,613,812[3]		
Liabilities and shareholders' equity						
Due to customers	2,929,032	54,396	1.86	2,572,046	36,628	1.42
Of which:						
Corporate deposits	2,032,440	38,649	1.90	1,709,519	24,710	1.45
Personal deposits	896,592	15,747	1.76	862,527	11,918	1.38
Due to other banks and financial institutions	834,421	31,449	3.77	723,292	18,220	2.52
Debts issued and others	70,989	2,426	3.42	59,540	2,062	3.46
Total interest-bearing liabilities	3,784,901[3]	86,307[3]	2.28	3,303,984[3]	55,906[3]	1.69
Shareholders' equity and non-interest bearing liabilities	361,947			309,828		
TOTAL LIABILIITES AND SHAREHOLDERS' EQUITY	4,146,848[3]			3,613,812[3]		
Net interest income		102,601			84,995	
Net interest spread[1]			2.49[3]			2.39[3]
Net interest margin[2]			2.59[3]			2.46[3]
Net interest spread[1]			2.56[4]			2.46[4]
Net interest margin[2]			2.66[4]			2.53[4]

Notes:

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

During the Reporting Period, the Group achieved a steady increase in its net interest margin and thus the net interest income increased significantly. The Group's net interest spread and net interest margin increased by 10 basis points and 13 basis points as compared with the prior year to 2.49% and 2.59% respectively. The reasons that the gap between net interest spread and net interest margin is widened are: (1) since the fourth quarter of 2010, the Central Bank has raised the benchmark deposit and lending interest rates multiple times and the impact of the increase in interest rates has been reflected gradually during the Reporting Period; (2) the Group has further improved its pricing capability; (3) the Group has optimised its asset-liability structure. Therefore, average yield of interest earning assets increased by 69 basis points while average cost of interest-bearing liabilities increased by 59 basis points, as compared with the prior year.

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

			(in millions of RMB)
	Comparison between 2011 and 2010		
	Increase/(decrease) due to		
	Balance	**Interest rate**	**Net increase/ (decrease)**
Interest-earning assets			
Balances with central banks	**2,309**	**172**	**2,481**
Due from other banks and financial institutions	**(57)**	**2,725**	**2,668**
Loans and advances to customers and receivables	**17,729**	**23,377**	**41,106**
Investment securities	**294**	**2,418**	**2,712**
Changes in interest income	**20,275**	**28,692**	**48,967**
Interest-bearing liabilities			
Customer deposits	**5,069**	**12,699**	**17,768**
Due to other banks and financial institutions	**2,800**	**10,429**	**13,229**
Debts issued and others	**396**	**(32)**	**364**
Changes in interest expense	**8,265**	**23,096**	**31,361**
Changes in net interest income	**12,010**	**5,596**	**17,606**

During the Reporting Period, the Group's net interest income increased by RMB17.606 billion as compared with the previous year. Of which, the increase of RMB12.010 billion was due to changes in the average balances of interest-earning assets and interest-bearing liabilities, while the increase of RMB5.596 billion was due to changes in the average rate of return and average cost ratio.

① **Interest income**

During the Reporting Period, the Group's gross interest income increased by RMB48.967 billion or 34.51% as compared with the prior year to RMB190.872 billion.

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

Interest income from loans and advances to customers and receivables contributed the most to the Group's interest income. During the Reporting Period, interest income from loans and advances to customers and receivables increased by RMB41.106 billion or 38.76% as compared with the prior year, to RMB147.162 billion, largely due to the increase in loans and advances to customers and receivables, as well as the advancement of pricing ability on credit services.

B. Interest income from investment securities

During the Reporting Period, interest income from investment securities increased by RMB2.712 billion or 11.04% as compared with the prior year, to RMB27.282 billion. The Group managed to seize favourable opportunities for investments, strengthened its investment operations and optimised its investment asset structure. This, in turn, helped to maintain the return on investment securities at a relatively high level of 3.47%.

C. Interest income from cash and balances with central banks

Cash and balances with central banks mainly include statutory reserves and excess reserves. During the Reporting Period, average cash and balances with central banks increased by RMB151.926 billion or 33.68% as compared with the previous year, which lead to interest income from cash and balances with central banks reaching RMB9.336 billion, an increase of RMB2.481 billion from the prior year. The growth of the statutory reserve was due to the increase in cash and balances in deposit reserves as a result of the increase in customer deposits and the multiple upward revisions to the deposit reserve ratio during the year.

D. Interest income due from other banks and financial institutions

Total interest income due from other banks and financial institutions increased by RMB2.668 billion as compared with the prior year to RMB7.092 billion. This was mainly driven by the Central Bank raising the benchmark deposit and lending interest rates, and an increase of 131 basis points in average return on income due from other banks and financial institutions.

② **Interest expense**

During the Reporting Period, the Group's interest expense increased by RMB31.361 billion or 55.11% as compared with the prior year to RMB88.271 billion.

A. Interest expense on balance due to customers

Customer deposits is the Group's main source of funding. During the Reporting Period, interest expense on customers' deposits increased by RMB17.768 billion or 48.51% as compared with the prior year to RMB54.396 billion. This accounted for 61.62% of total interest expense. The increase in interest expense on customer deposits is mainly due to the increase in the size of customer deposits as well as the impact of the increase of the benchmark deposit and lending interest rates since the fourth quarter of 2010.

B. Interest expense on balance due to other banks and financial institutions

During the Reporting Period, interest expense on amounts due to other banks and financial institutions increased by RMB13.229 billion or 72.61% as compared with the prior year to RMB31.449 billion. This was mainly due to the 15.36% increase in average balance of amounts due to other banks and financial institutions as compared with the previous year. At the same time, the average cost of funding had increased by 125 basis points due to the increase in interest rates in the domestic money market.

C. Interest expense on debts issued and others

During the Reporting Period, interest expense on debts issued and other interest bearing liabilities increased by RMB0.364 billion as compared with the prior year to RMB2.426 billion. The average cost of funding decreased from 3.46% in previous year to 3.42%.

3. Net fee and commission income

Net fee and commission income is a major component of the Group's net operating income. During the Reporting Period, the Group continuously accelerated its product and service innovation and moved towards a business model with diversified revenue streams from one based on interest spread. During the Reporting Period, the Group's net fee and commission income increased by RMB5.070 billion or 35.02% as compared with the prior year to RMB19.549 billion. Overall, this accounted for 15.30% of net operating income which increased by 1.48 percentage points as compared with the prior year. Investment banking, credit cards and settlement services have been the main growth areas of the Group's fee-based business.

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

	(in millions of RMB) **2011**	2010
Settlement service	**2,053**	1,392
Bank card	**7,075**	5,193
Investment banking	**6,276**	4,105
Guarantee and commitment	**1,894**	1,456
Management service	**3,170**	2,640
Agent service	**1,611**	2,049
Others	**385**	241
Total fee and commission income	**22,464**	17,076
Less: Fee and commission expense	**(2,915)**	(2,597)
Net fee and commission income	**19,549**	14,479

Commission income on settlement services increased by RMB0.661 billion or 47.49% as compared with the prior year to RMB2.053 billion. The increase is mainly due to the increase of agency services commission income.

Bank card related fee income increased by RMB1.882 billion or 36.24% from the prior year to RMB7.075 billion. The increase is mainly due to the increase in card issuance and spending as well as higher transaction volume at self-service machines.

Income from investment banking increased by RMB2.171 billion or 52.89% as compared with the prior year to RMB6.276 billion. The increase is mainly due to the relatively rapid growth in the various types of investment banking services.

Guarantee and commitment commission income increased by RMB0.438 billion or 30.08% from the prior year to RMB1.894 billion. The increase is mainly due to the increase in bank acceptances and letter of credits.

Commission income on management service increased by RMB0.53 billion or 20.08% as compared with the prior year to RMB3.170 billion. This is due to an increase in the size of the asset in custody and rapid growth of wealth management products services.

Commission income on sales of investment funds decreased by RMB0.438 billion or 21.38% from the prior year to RMB1.611 billion. The decrease is mainly due to a decrease in fund sales and sales on World EXPO tickets as compared with the prior year.

4. Operating costs

The Group continuously strengthened its cost management. During the Reporting Period, the Group's operating cost increased by RMB5.012 billion or 15.24% to RMB37.901 billion, 6.77 percentage points lower than the increase in net operating income. The cost-to-income ratio decreased by 1.92 percentage points as compared with the previous year to 30.19%, representing further enhancement of operating efficiency.

5. Impairment allowances

During the Reporting Period, the Group's impairment allowances on loans increased by RMB0.233 billion from the prior year to RMB12.479 billion, and comprised of (1) an increase in collectively assessed allowances by RMB4.276 billion to RMB13.376 billion; (2) a decrease in individually assessed allowances by RMB4.043 billion from the prior year to RMB0.897 billion, which was mainly due to the decrease of impaired loan of the Group. During the Reporting Period, credit-to-cost ratio decreased by 0.06 percentage point from the prior year to 0.49%.

6. Income tax

During the Reporting Period, the Group's income tax expense increased by RMB3.852 billion or 35.73% as compared with the prior year to RMB14.634 billion. The effective tax rate of 22.36%, which is lower than the statutory tax rate of 25%, was due to the exemption of interest income from government bonds held by the Group pursuant to the relevant tax provisions.

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

	(in millions of RMB)	
	2011	2010
Current tax	**15,221**	11,752
Deferred tax	**(587)**	(970)

(2) Analysis on Major Balance Sheet Items

1. Assets

As at the end of the Reporting Period, the Group's total assets was RMB4,611.177 billion, representing an increase of RMB659.584 billion or 16.69% from the beginning of the year.

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

(in millions of RMB unless otherwise stated)

	31 December 2011		31 December 2010	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Loans and advances to customers	**2,505,385**	**54.33**	2,190,490	55.43
Investment securities	**799,946**	**17.35**	809,820	20.49
Cash and balances with central banks	**736,999**	**15.98**	586,554	14.84
Due from other banks and financial institutions	**443,240**	**9.61**	262,976	6.65
Total assets	**4,611,177**		3,951,593	

① Loans and advances to customers

During the Reporting Period, the Group reasonably controlled the volume, direction and pace of credit disbursements, which brought balanced and smooth increase in loans. As at the end of the Reporting Period, the Group's total loans and advances to customers increased by RMB324.823 billion or 14.52% from the beginning of the year to RMB2,561.750 billion, among which the increase in RMB loans to domestic banking institutions amounted to RMB276.280 billion or 13.81% from the prior year.

Loans concentration by industry

During the Reporting Period, the Group actively supported the upgrading of industrial structure and the development of real economy, as well as vigorously promoted the optimisation of its business structure.

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

(in millions of RMB unless otherwise stated)

	31 December 2011		31 December 2010	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Mining	**51,040**	**1.99**	40,223	1.80
Manufacturing				
— Petroleum and chemical	**103,193**	**4.03**	93,525	4.18
— Electronics	**52,532**	**2.05**	44,993	2.01
— Steel, smelting and processing	**42,547**	**1.66**	45,568	2.04
— Machinery	**89,785**	**3.50**	68,911	3.08
— Textile and clothing	**34,996**	**1.37**	29,560	1.32
— Other manufacturing	**188,906**	**7.37**	155,663	6.96
Electricity, gas and water production and supply	**141,316**	**5.52**	138,707	6.20
Construction	**80,621**	**3.15**	68,337	3.05
Transportation, storage and postal service	**329,566**	**12.86**	307,422	13.74
IT services and telecommunications	**10,195**	**0.40**	9,618	0.43
Wholesale and retail	**290,874**	**11.35**	214,588	9.59
Accommodation and catering	**21,009**	**0.82**	15,746	0.70
Financial institutions	**22,995**	**0.90**	37,108	1.66
Real estate	**158,688**	**6.19**	142,868	6.39
Services	**160,039**	**6.25**	131,496	5.88
Water conservancy, environmental and other public services	**151,161**	**5.90**	163,992	7.33
Education	**32,647**	**1.27**	30,192	1.35
Others	**40,136**	**1.58**	23,411	1.06
Discounted bills	**50,197**	**1.96**	57,074	2.55
Total corporate loans	**2,052,443**	**80.12**	1,819,002	81.32
Mortgage loans	**312,897**	**12.21**	268,240	11.99
Credit card advances	**74,194**	**2.90**	43,561	1.95
Medium-term and long-term working capital loans	**51,060**	**1.99**	31,616	1.41
Short-term working capital	**37,495**	**1.46**	28,740	1.28
Car loans	**5,632**	**0.22**	6,607	0.30
Others	**28,029**	**1.10**	39,161	1.75
Total personal loans	**509,307**	**19.88**	417,925	18.68
Gross amount of loans and advances to customers before impairment allowances	**2,561,750**	**100.00**	2,236,927	100.00

As at the end of the Reporting Period, the Group's corporate loans increased by RMB233.441 billion or 12.83% from the beginning of the year to RMB2,052.443 billion. Corporate loans were mainly concentrated in the four industries of manufacturing, transportation, storage and postal service, wholesale and retail services, which collectively accounted for 62.97% of total corporate loans.

As at the end of the Reporting Period, personal loans increased by RMB91.382 billion or 21.87% from the beginning of the year to RMB509.307 billion. The proportion of personal loans as a percentage to total loans and advances to customers increased by 1.20 percentage points from the beginning of the year to 19.88%.

Loan concentration by borrowers

As at the end of the Reporting Period, lending to the largest single client of the Group accounted for 2.21% of the Group's net assets; total loans made to the top 10 clients accounted for 17.49% of the Group's net assets, which are in compliance with the regulatory requirements.

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

(in millions of RMB unless otherwise stated)

		As at 31 December 2011	
	Type of industry	**Loan balance**	**Percentage of total loans and advance (%)**
Customer A	Transportation, storage and postal service	7,795	0.31
Customer B	Transportation, storage and postal service	7,425	0.29
Customer C	Transportation, storage and postal service	6,990	0.27
Customer D	Transportation, storage and postal service	6,326	0.25
Customer E	Real estate	6,000	0.23
Customer F	Services	5,730	0.22
Customer G	Transportation, storage and postal service	5,587	0.22
Customer H	Transportation, storage and postal service	5,400	0.21
Customer I	Electricity, gas and water production and supply	5,270	0.21
Customer J	Services	5,108	0.20
Total		**61,631**	**2.41**

Loan concentration by geographical locations

The Group's credit customers are mainly concentrated in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta. As at the end of the Reporting Period, loans and advances to customers in these three regions accounted for 32.43%, 22.21% and 8.08% of the Group's total loans, increased 17.16%, 8.33% and 12.90% respectively from the beginning of the year.

Loan quality

The Group continuously improved the quality of its loans. As at the end of the Reporting Period, the impaired loans ratio dropped by 0.26 percentage point from the beginning of the year to 0.86%. The provision coverage of impaired loans increased by 70.53 percentage points from the beginning of the year to 256.37%, representing further strengthening of its risk prevention capacity.

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

(in millions of RMB unless otherwise stated)

	31 December 2011	31 December 2010
Impaired loans	**21,986**	24,988
Loans overdue by more than 90 days	**15,228**	16,297
Percentage of impaired loans to gross amount of loans and advances to customers (%)	**0.86**	1.12

Loan customer structure

As at the end of the Reporting Period, based on the Bank's internal rating system for corporate customers, loans to customers of class 1 to class 8, which comprises high quality customers, amounted to 93.24% of the total loans and advances to customers and increased by 1.14 percentage points from the beginning of the year; loans to customers of class 9 to class 12 amounted to 4.48% of total loans and advances to customers and decreased by 0.58 percentage point from the beginning of the year; loans to customers of class 13 to class 15 amounted to 0.99% of total loans and advances to customers and decreased by 0.37 percentage point from the beginning of the year.

② **Investment securities**

As at the end of the Reporting Period, the Group's investment securities decreased by RMB9.874 billion or 1.22% from prior year to RMB799.946 billion. Return on investment securities reached a satisfactory level of 3.47%, profiting from the reasonable allocation and continuous optimisation of investment structure.

Distribution of the Group's investment securities

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

— By financial asset classification

(in millions of RMB unless otherwise stated)

	31 December 2011		31 December 2010	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Financial assets at fair value through profit or loss	**42,837**	**5.35**	41,312	5.10
Investment securities — loans and receivables	**28,256**	**3.53**	42,617	5.26
Investment securities — available-for-sale	**184,092**	**23.01**	162,170	20.03
Investment securities — held-to-maturity	**544,761**	**68.11**	563,721	69.61
Total	**799,946**	**100.00**	809,820	100.00

— By type of issuers

(in millions of RMB unless otherwise stated)

	31 December 2011		31 December 2010	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Central governments and central banks	**288,692**	**36.09**	309,198	38.18
Public sector entities	**14,504**	**1.81**	17,131	2.11
Banks and other financial institutions	**290,583**	**36.33**	266,805	32.95
Corporate entities	**206,167**	**25.77**	216,686	26.76
Total	**799,946**	**100.00**	809,820	100.00

2. *Liabilities*

As at 31 December 2011, the Group's total liabilities increased by RMB610.453 billion or 16.38% from the beginning of the year to RMB4,338.389 billion. Customer deposits increased by RMB415.385 billion from the beginning of the year. This accounted for 75.68% of total liabilities, representing a decrease of 1.25 percentage points from the beginning of the year. Amounts due to other banks and financial institutions increased by RMB137.467 billion and accounted for 19.70% of total liabilities, which is 0.47 percentage point higher than the beginning of the year.

Customer deposits

Customer deposits are the main source of funding for the Group. At the end of the Reporting Period, the Group's customer deposit balance increased by RMB415.385 billion or 14.48% from the beginning of the year to RMB3,283.232 billion. With respect to the Group customer structure, the proportion of corporate deposits increased by 0.31 percentage point from the beginning of the year to 68.48%. The proportion of individual deposits to total deposits decreased by 0.21 percentage point from the beginning of the year to 31.39%. As for deposit terms, the proportion of demand deposits to total deposits decreased by 1.62 percentage points from the beginning of the year to 48.94%, while the proportion of time deposits increased by 1.72 percentage points from the beginning of the year to 50.93%.

The table below illustrates the Group's corporate and individual deposits as of the dates indicated:

		(in millions of RMB)
	31 December 2011	31 December 2010
Corporate deposits	**2,248,317**	1,954,936
Includes: Corporate demand deposits	**1,184,123**	1,064,528
Corporate time deposits	**1,064,194**	890,408
Individual deposits	**1,030,605**	906,301
Includes: Individual demand deposits	**422,487**	385,449
Individual time deposits	**608,118**	520,852

(3) Analysis on Main Items in Cash Flow Statement

As at 31 December 2011, the Group's cash and cash equivalents increased by RMB52.736 billion from the beginning of the year to RMB209.635 billion.

The cash outflows from operating activities decreased by RMB23.021 billion from the beginning of the year to RMB1.146 billion, which was mainly due to the substantial year-over-year increase of amounts due to other banks and financial institutions.

The cash inflows from investing activities increased by RMB32.833 billion from the beginning of the year to RMB28.045 billion, which was mainly due to the decrease in outflows resulted from the securities investment.

The cash inflows from financing activities increased by RMB7.843 billion from the beginning of the year to RMB26.741 billion, which was mainly due to the bonds issued during the year.

(4) Segment Analysis

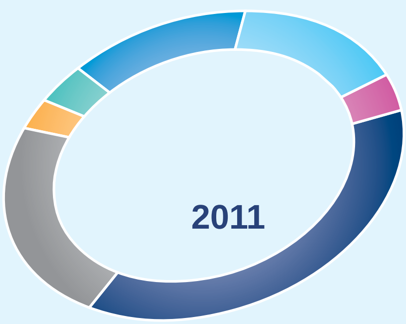
1. *Operating results by geographical segments*

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

				(in millions of RMB)
	2011		2010	
	Profit before tax	**Net operating income[1]**	Profit before tax	Net operating income[1]
Northern China	**9,481**	**20,076**	8,437	15,829
North-eastern China	**2,511**	**6,097**	1,890	5,030
Eastern China[2]	**23,330**	**47,366**	18,086	38,295
Central and Southern China	**14,051**	**23,383**	6,352	17,849
Western China	**4,807**	**10,166**	3,925	8,221
Overseas	**2,502**	**4,402**	1,997	3,727
Head Office	**8,769**	**16,303**	9,267	15,792
Total[3]	**65,451**	**127,793**	49,954	104,743

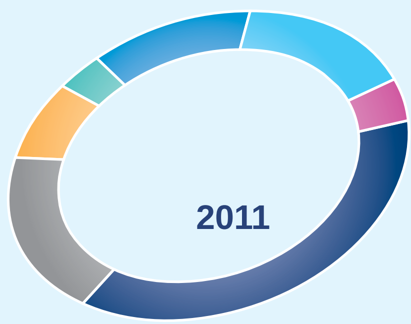
Notes:

1. Includes interest income, fee and commission income, dividend income, net income from trading activities, net income arising from the de-recognition of investment securities, income from insurance business, net investment gains/(losses) of an associate and other operating income.
2. Excludes Head Office.
3. Includes non-controlling shareholder interests.



Profit before tax (in millions of RMB)

Northern China 9,481
Northern Eastern China 2,511
Eastern China 23,330
Central and Southern China 14,051
Western China 4,807
Overseas 2,502
Head Office 8,769



Net operating income (in millions of RMB)

Northern China 20,076
Northern Eastern China 6,097
Eastern China 47,366
Central and Southern China 23,383
Western China 10,166
Overseas 4,402
Head Office 16,303

2. *Deposits and loans and advances by geographical segments*

The table below illustrates the Group's deposits and loans and advances balances by geographical segments at the dates indicated:

(in millions of RMB)

	31 December 2011		31 December 2010	
	Deposit Balance	**Loans and advances balance**	Deposit Balance	Loans and advances balance
Northern China	**615,680**	**449,585**	549,157	422,830
North-eastern China	**217,617**	**129,009**	199,400	110,034
Eastern China Note	**1,280,206**	**1,002,609**	1,108,096	880,314
Central and Southern China	**679,097**	**479,278**	587,970	424,785
Western China	**316,843**	**238,853**	267,576	206,079
Overseas	**172,409**	**186,445**	125,187	147,128
Head Office	**1,380**	**75,971**	30,461	45,757
Total	**3,283,232**	**2,561,750**	2,867,847	2,236,927

Note: Excludes Head Office.

3. *Operating results by business segments*

The Group's four main business segments are: corporate banking, retail banking, treasury operations and other businesses. The corporate banking segment is the primary source of income for the Group, and accounted for 71.57% of the Group's profit before tax.

The table below illustrates the Group's total income from external customers and profit before tax from each of the Group's segments for the periods indicated:

(in millions of RMB)

	Total income from external customers		**Profit before tax**
	2011	2010	2011
Corporate banking	**135,584**	93,420	46,844
Retail banking	**38,599**	29,131	8,127
Treasury operations	**40,776**	38,527	10,033
Other business	**4,020**	3,172	447
Total	**218,979**	164,250	65,451

5. OTHER FINANCIAL INFORMATION

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

(1) Fair value measurement related items

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

The table below illustrates the fair value measurement related items of the Group in 2011:

(in millions of RMB)

Item	Opening balance	Gains/(losses) on change in fair value for the year	Cumulative fair value gains/(losses) recognised in equity	Impairment losses (accrued)/ reversed for the year	Closing balance
Financial assets includes:					
1. Financial assets at fair value through profit and loss (excluding derivative financial instruments)	41,312	277	—	—	42,837
2. Derivative financial instruments	4,731	854	—	—	5,585
3. Investment securities — available-for-sale	162,170	—	(885)	(6)	184,092
Total financial assets	208,213	1,311	(885)	(6)	232,514
Investment property	141	61	—	—	196
Total	208,354	1,192	(885)	(6)	232,710
Total financial liabilities [Note]	(14,379)	(390)	—	—	(18,921)

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

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

The table below illustrates the foreign currency denominated financial assets and financial liabilities held by the Group in 2011:

(in millions of RMB)

Item	Opening balance	Gains/(losses) on change in fair value for the year	Cumulative fair value gains/(losses) recognised in equity	Impairment losses (accrued)/ reversed for the year	Closing balance
Financial assets includes:					
1. Financial assets at fair value through profit and loss (excluding derivative financial instruments)	8,391	10	—	—	8,297
2. Derivative financial instruments	1,497	690	—	—	2,187
3. Loans and receivables[1]	278,112	—	—	(1,678)	347,786
4. Investment securities — available-for-sale	34,011	—	(935)	—	29,067
5. Investment securities — held-to-maturity	2,460	—	—	—	1,908
Total of financial assets	324,471	700	(935)	(1,678)	389,245
Total of financial liabilities[2]	(281,787)	(269)	—	—	(380,320)

Notes:

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

6. RISK MANAGEMENT

In 2011, the Bank continued to be guided by its enterprise risk management plan and adhered to its "stable, balanced, compliance and innovation" risk preference. Within the required framework of external supervision, the Bank manages its key risks efficiently and effectively, balancing its accepted risks with returns and striving to achieve a balanced business development in scale, quality and return. The Bank is committed to compliance management, as well as financial innovation within the compliance framework. It also aims at reaching the standard practice level in risk management for banks from mature markets around the globe, and searching for an efficient development path that offers both growth and scale advantages.

(1) Risk management framework

The Bank's Board of Directors has the ultimate responsibility and decision-making authority for the Group's risk management. The Board monitors and controls the bank-wide risk management matters through its underlying Risk Management Committee. The Senior Management has established a "1+3+2" Risk Management Committee system. The committee is dedicated to implementing the Board's risk management strategy, aims at building a system that is strong, comprehensive, standardised, well-coordinated and efficient. It also moved one step further in setting the risk appetite, improving and standardising management process, optimising the working system, and performing evaluations on the effectiveness of risk management function. Three sub-committees have been established under the Enterprise Risk Management Committee. They are the Credit Risk Management Committee, Market and Liquidity Risk Management Committee, and Operational Risk Management and Anti-money Laundering Committee. Two business review committees; the Loan Credit Review Committee and the High-risk Assets Review Committee have also been established. These sub-committees operate under the supervision of the Enterprise Risk Management Committee and will be responsible for monitoring and supervising the execution and implementation of the bank-wide risk management strategy. The Chairman of the Board is responsible for risk prevention, the President is responsible for risk management, the Chief Supervisor is responsible for risk supervision, and the Vice Presidents and the Chief Risk Officer take different roles in the various aspects of enterprise risk management.

The Bank has established an enterprise risk management execution system with adequate reporting lines. The set up of a risk management unit to organise and coordinate the entire Bank's risk management undertakings is an effective way to consolidate the Bank's risk management capabilities. The various departments under the Risk Management Committee take the lead in meeting the relevant risk management requirements at all organisational levels, according to their roles and responsibilities. Through enhancement of its "large and small middle offices" and dual reporting lines, the Bank has established a risk management framework that is equipped with four lines of defence and organised by business lines.

During the Reporting Period, the Bank made steady progress in its "3+1" internal assessment system for its lending business credit cards and Hong Kong branch. It maintained and improved the models and methodologies in measurement of credit, market and operational risks according to changes of its business and risks; widened the application of risk assessment results in the areas of investment direction, approvals, limit management and performance appraisal. It actively cooperated during its regulatory assessment, and moved forward in its compliance with the new Basel capital with substantive interim results achieved.

(2) Credit risk management

Departments such as the Corporate Business Department, Retail Credit Department, Credit Management Department and Segment Credit Approval Centre, Credit Risk Management Department, Asset Custody Department and Credit Card Centre, collectively form the main functional departments that are responsible for the Group's credit risk management. Their specific responsibility departments are formulating investment policies, pre-loan assessment and application, credit examination and approval, post-loan monitoring and management.

1. *Risk classification procedures and methodology*

According to the regulatory requirements as stipulated in the "Guidelines on Risk-Based Loan Classification" issued by the China Banking Regulatory Commission and the inherent risk of its loans, the Bank implemented a five credit category system that includes pass, special-mention, substandard, doubtful and loss, of which, the latter three categories — substandard, doubtful and loss are regarded as non-performing categories, which is based on the judgement on the possibility of repayment on principle and interest in a timely manner. For corporate credit assets, the Bank has relied on the core regulatory definition as basis and its internal assessment and individual allowances as references to define risk attributes and measurement standards of the five categories in greater detail. The Bank also ensured that sufficient consideration is given to the various factors affecting the quality of credit assets and prudent practices are carried out in risk classification. For retail credit assets (including credit cards), the Bank has uniformly adopted a five category system based on the aging of overdue status and type of guarantees provided.

To further enhance its credit risk management, the Bank has adopted the Basel II advanced internal ratings-based approach, and established a standard of classification based on the probability of default (PD) and Loss Given Default (LGD). This has enabled the Bank to develop a more detailed internal credit risk assessment process covering domestic operations.

2. *Risk management and control polices*

(1) Credit risk management on corporate loans

The Bank established a multi-dimensioned credit management system that encompasses industry, region and customer based on its credit policies and actively aligned with the call by Government on the change of development pattern and economic transformation during the "12th Five-Year Plan" period, together with its goal in adjusting its credit structure. During the Reporting Period, the Bank focused on ensuring the growth rate of loans made to the "Three Rural" sector, small enterprises, and the central and western regions of China not less than the average growth rate of the entire lending portfolio, and boosted support to sectors of consumer consumption, high-end equipment manufacturing and environmental protection. Furthermore, the Bank introduced a certification system for qualified corporate lending approvers, to enhance the Bank's credit risk management capability and standardise its position qualification management system.

The Bank's asset quality continued to improve, with control measures on key risk areas becoming more thorough, as well as notable enhancement in its ability in managing potential and existing risks. The Bank strengthened its post-loan management, by launching the bank-wide post-loan management enhancement project according to the requirements on standardisation and full coverage of complete process and elements of lending transaction, as well as integrating the various processes and tools. In addition, the Bank built a long-term risk investigation mechanism in order to identify potential risk areas on a timely basis by taking adequate positions in responding to external events.

(2) Credit risk management on retail loans

With the goal of enhancing management of specialised market and retail lending, the Bank introduced an access system and an annual review system of financial guarantee companies, to continuously optimise the monitoring of post-individual lending. As a result, the quality of major categories of personal loans continued to improve. The Bank also established a testing and certification system for qualified retail lending approvers, to promote professional lending practices and build an expert team.

(3) Credit risk management on credit card business

The independent credit card centre is responsible for the operation and management of the Bank's credit card business. With its key focus on risk prevention and control, the credit card centre also pays attention to the profitability of its assets to achieve a balance between risk and return. During the Reporting Period, the credit card centre implemented a "smart" sales system to enable full automation on information collection, customer identification, data transmission and systematic risk monitoring process. By changing the front-end sales approach, the Bank promoted the compliance of sales practice, reduced operating costs and effectively prevented various types of frauds during application process.

(4) Non-performing loan management

The Bank made special efforts in the recovery of non-performing assets and the disposal of difficult projects, by focusing on key branches and key projects, and through its "watch list" monitoring system. Leveraging cash settlement as the preferred recovery method, the Bank took full use of other means, which included loan restructuring, taking possession of collaterals and loan write-offs. The Bank further improved its collection practice for retail lending, by building a centralised, information-based and standardised risk-resolving platform at Head Office. As such, the Bank effectively enhanced its credit risk management capabilities by taking early actions on potential risks through risk prevention and mitigation measures.

3. *Asset quality and migration status*

As at 31 December 2011, the breakdown of the Group's five loan categories as stipulated by the Chinese banking regulatory authorities is as follows:

(in millions of RMB unless otherwise stated)

	As at 31 December 2011		As at 31 December 2010		As at 31 December 2009	
Categories	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Pass	**2,481,585**	**96.87**	2,149,629	96.10	1,764,060	95.91
Special mention	**58,179**	**2.27**	62,310	2.78	50,245	2.73
Total performing loan balance	**2,539,764**	**99.14**	2,211,939	98.88	1,814,305	98.64
Sub-standard	**9,042**	**0.35**	10,592	0.47	10,756	0.59
Doubtful	**8,450**	**0.33**	9,930	0.45	11,490	0.62
Loss	**4,494**	**0.18**	4,466	0.20	2,763	0.15
Total non-performing loan balance	**21,986**	**0.86**	24,988	1.12	25,009	1.36
Total	**2,561,750**	**100.00**	2,236,927	100.00	1,839,314	100.00

As at 31 December 2011, the Group's loan migration rates in accordance with guidance stipulated by the Chinese banking regulatory authorities is as follows:

Loan migration rate (%)	2011	2010	2009
Pass	**1.66**	1.60	1.96
Special mention	**8.34**	35.69	24.22
Sub-standard	**47.86**	45.93	36.46
Doubtful	**24.15**	30.11	5.46

For details of the Group's loan restructuring, please refer to "Supplementary Unaudited Financial Information — No. 4"

(3) Market risk management

The Bank implemented a centralised control framework for its market risk management. The Asset Liability Management Department takes the lead in the Bank's market risk management, while business units such as Financial Markets Department and domestic and overseas branches are the execution units of the Bank's market risk management policies. The Risk Management Department and the Audit Department are responsible for the independent verification of the market risk assessment models and management system, as well as the internal audit of the Bank.

In 2011, with the objective of expanding the application of its risk measures, the Bank continued to enhance its market risk management function. It completed the restructuring of its organisation structure to provide stronger support to its market risk initiatives and established a clearly-structured and full-covered limit management system. With integrated resources, the Bank also consolidated its market risk management function for both the trading and banking books. Facing a more prudent regulatory environment, the Bank further defined the management model of small and large middle offices, as well as the reporting lines and the roles and responsibilities of the treasury and risk management functions. The Bank was able to effectively strengthen its operational process, market risk management and internal control system through appropriate addition or amendment to its existing system and operational procedures, revision of governance structure, and the use of new risk measurement tools. Meanwhile, the Bank constantly reinforced the market risk management information system to expand its operating coverage and range of automatic processing. It also continued to enhance the accuracy and valuation capabilities of its IT system, and assisted the regulatory authorities to complete the examination of its internal market risk model.

1. *Interest rate risk and sensitivity analysis*

The Group's asset/liability re-pricing date or maturity date (whichever is earlier) as at 31 December 2011 is as follows:

(in millions of RMB)

	Due in 1 month	Due between 1 month to 3 months	Due between 3 months to 12 months	Due between 1 year to 5 years	More than 5 years	Non-interest bearing	Total
Total assets	2,299,476	455,250	1,185,683	349,186	206,603	114,979	4,611,177
Total liabilities	(2,595,829)	(446,832)	(745,359)	(380,289)	(57,855)	(112,225)	(4,338,389)
Net exposure	(296,353)	8,418	440,324	(31,103)	148,748	2,754	272,788

The table below illustrates the sensitivity of net interest income and other comprehensive income after a 100 basis points movement in interest rate based on the structure of assets and liabilities as at 31 December 2011:

(in millions of RMB)

	As at 31 December 2011		As at 31 December 2010	
	Expected changes in net interest income	**Changes in other comprehensive income**	Expected changes in net interest income	Changes in other comprehensive income
Increase yield rate by 100 basis points	**10,788**	**(3,017)**	8,258	(2,400)
Decrease yield rate by 100 basis points	**(10,788)**	**3,252**	(8,258)	2,553

2. *Foreign currency risk and sensitivity analysis*

As at 31 December 2011, the Group's foreign currency risk exposure is as follows:

(in millions of RMB)

	RMB	US dollar (equivalent to RMB)	HK dollar (equivalent to RMB)	Others (equivalent to RMB)	Total
Total assets	4,220,857	269,296	87,641	33,383	4,611,177
Total liabilities	(3,957,411)	(230,932)	(115,539)	(34,507)	(4,338,389)
Net exposure	263,446	38,364	(27,898)	(1,124)	272,788

The table below illustrates the impact of the Group's net profit and other comprehensive income after a 5% movement in RMB against the USD and HKD based on the structure of assets and liabilities as at the reporting dates shown:

(in millions of RMB)

	As at 31 December 2011		As at 31 December 2010	
	Expected change in net (loss)/profit	**Change in other comprehensive income**	Expected change in net (loss)/profit	Change in other comprehensive income
RMB appreciate 5%	**(458)**	**(376)**	(972)	(459)
RMB depreciate 5%	**458**	**376**	1,406	459

(4) Liquidity risk management

The Bank has continued to enhance its liquidity risk management to ensure that the Group will have sufficient funds to meet its asset growth targets and repayment obligations on its liabilities regardless whether it is under normal operating environment or under pressure.

In 2011, to manage the liquidity pressure as a result of changes in external environment, the Bank positively adjusted its liquidity management approach by increasing core deposit-to-debt ratio, keeping a stable level of liabilities, and utilising indicators and limits to monitor and manage the entire Bank's liquidity position. The Bank has taken a centralised approach by maintaining an appropriate level of reserve balance with the People's Bank of China, interbank balances and highly liquid debt investments. It also plays an active role in the interbank, money and bond markets in order to maintain its financing abilities in the market place. Furthermore, the Bank monitors its asset maturity structure and adopts a multi-level approach to mitigate liquidity risk.

As at 31 December 2011, the Bank's key liquidity ratios are as follows:

Major regulatory indicators (%)	**As at 31 December 2011**	As at 31 December 2010	As at 31 December 2009
Liquidity ratio (including domestic and foreign currencies)	**35.37**	32.23	27.83
Loan-to-deposit ratio (including domestic and foreign currencies)	**71.94**	72.10	71.97

Note: Calculated based on the guidelines as stipulated by the Chinese banking regulatory authorities.

For details of the maturities and structure of the Group's assets and liabilities as at 31 December 2011, please refer to Note 3.3 to the Notes to the Consolidated Financial Statements.

(5) Operational risk management

Based on the completion of various operational risk management projects, the Bank effectively integrated the various operational risk management methodologies and tools into practical business operations. The Bank also carried out self-assessment on operational risk management and internal control, with expanded analyses on risk data, as well as identifying and taking corrective actions on weaknesses.

The Bank performed review and gap analysis on the process and procedures of loan disbursement centre by using the methodologies and tools of operational risk management and business procedure analysis. Through precise role allocation and segregation of duties, the Bank effectively identified key risk areas and made further improvements to relevant business operation processes. The Bank also took control measures during the disbursement process, thus to improve its loan disbursement efficiency and prevent operational risk and ensuring sustainable development of its credit business.

The Bank made further enhancement to its case prevention system and the related IT support. A number of special programmes and initiatives such as "the Year of Implementation", centralisation of risk events and anti-fraud were carried out during the year. A case prevention system described as "system + technology + inspection" was established, through timely detection of risk events, operational risk and misconducts of employees.

(6) Anti-money laundering ("AML")

The Bank has successfully built an AML operating system, with the organisation structure as a foundation, the internal control system as a core, and the system platform as a safeguard. Therefore, the Bank was able to carry out its AML activities effectively.

During the Reporting Period, the Bank performed its self-assessment on AML risk, and provided proper supervision and guidance to its branches. With the customer identification problem being resolved, the Bank undertook risk investigations on individual accounts. In addition, the Bank further expanded the scope of self-assessment and incorporated the result of assessment into its daily control activities, making such self-assessment a useful tool for the management of AML risk. The Bank also continuously improved its AML information system, particularly on identification and reporting of large and suspicious transactions and customers, to increase the management effectiveness of AML.

7. OPERATIONS OF MAJOR SUBSIDIARIES

(1) Bocom Leasing

Bocom Leasing was set up in December 2007 with a registered capital of RMB4 billion. The scope of business includes finance leasing business, accepting guaranteed deposit of the lessee, transfer of lease receivables to commercial banks, issuing financial bonds, interbank lending and borrowings, foreign exchange loan, disposal of residual value, business consulting, and other businesses approved by the China Banking Regulatory Commission.

At the end of 2011, its net profit was RMB0.519 billion, total leasing balance was RMB44.927 billion, and total assets was 46.721 billion.

(2) Bocom International

Bocom International was set up in May 2007 with a registered capital of HKD2 billion. It was set up under the business restructuring and integration program of BOCOM International Securities Limited. It has three subsidiaries in Hong Kong, namely BOCOM International (Asia) Limited, BOCOM International Securities Limited and BOCOM International Asset Management Limited. It also established the wholly-owned Bank of Communications International (Shanghai) Equity Investment Management Limited in Shanghai. The scope of business includes stock brokerage services, investment banking, asset management and various financial and agency businesses.

At the end of 2011, its total assets were HKD6.083 billion and its total revenue reached HKD1.004 billion, with its annual net profit amounted to HKD0.357 billion for the year.

(3) Bocom Schroder

Bocom Schroder was set up in August 2005 with a registered capital of RMB0.2 billion. It is 65% owned by Bank of Communications Co., Ltd., 30% owned by Schroder Investment Management Limited and 5% owned by China International Marine Containers (Group) Co., Ltd. The business scope includes the business of fund raising, fund sales, asset management, and other services approved by the China Securities Regulatory Commission.

At the end of 2011, Bocom Schroder’s total assets was RMB44.967 billion and the average daily business transactions throughout the year remained at about RMB16 billion to realise an annual net profit of RMB0.197 billion.

(4) Bocom International Trust

Bocom International was set up in October 2007 with a registered capital of RMB2 billion It is 85% owned by the Bank and 15% owned by Hubei Province Finance Bureau. The scope of business includes an array of trust services; investment and financing, mergers and acquisitions, corporate finance and financial advisory services as a founder of investment fund or fund management company; securities underwriting services entrusted by the State Council; intermediary services, consulting and credit investigation; generation custody business and safe deposit box service, interbank lending and borrowings, loans, leasing, investment based on existing assets; guarantee; interbank lending and borrowings; and other businesses approved by the China Security Regulatory Commission.

At the end of 2011, the amount of fiduciary trust managed by Bocom International Trust was RMB44.727 billion, while the amount of AUM reached RMB74.089 billion. The average volume of existing trust plans was RMB49.294 billion, and the annual net profit was RMB0.159 billion.

(5) Bocom Insurance

As a wholly owned subsidiary of the Bank, Bocom Insurance was set up in November 2000 with a registered capital of HKD0.4 billion. The scope of its business includes general insurance businesses as defined in the Insurance Companies Ordinance, Chapter 41 of the Laws of Hong Kong.

At the end of 2011, Bocom Insurance's net loss amounted to HKD0.032 billion for the year, and net assets were HKD0.687 billion and HKD0.477 billion, respectively.

(6) BoCommLife Insurance

BoCommLife Insurance was set up in January 2010 with a registered capital of RMB0.5 billion. It is 62.5% owned by the Bank and 37.5% owned by the Commonwealth Bank of Australia. The scope of business includes life insurance, health insurance, accidental injury insurance and reinsurance businesses (excluding statutory insurance) in the Shanghai administrative region and in the provinces, autonomous regions and municipalities where the branches were set up.

At the end of 2011, BoCommLife Insurance's total assets was RMB2.167 billion and net assets was RMB0.336 billion. Premium income in 2011 was RMB0.466 billion and premium income from new businesses was RMB0.406 billion.

(7) Anji Bocom Rural Bank

Anji Bocom Rural Bank was set up in April 2010 with a registered capital of RMB0.15 billion, and is 51% owned by the Bank. The scope of business includes taking deposits from the general public; short, medium and long-term lending, domestic settlement, bill acceptance and discount, inter-bank lending and borrowings, credit cards and other business approved by the China Banking Regulatory Commission.

At the end of 2011, its total assets were RMB1.1 billion, total customer deposits were RMB0.841 billion, total customer loans were RMB0.832 billion, and its annual net profit reached RMB0.013 billion.

(8) Dayi Bocom Rural Bank

Dayi Bocom Rural Bank was set up in September 2008 with a registered capital of RMB0.06 billion and 61% owned by the Bank. The scope of business includes taking deposits from the general public, short, medium and long-term lending, domestic settlement, bill acceptance and discount, interbank lending and borrowings, credit cards, and other businesses approved by the China Banking Regulatory Commission.

At the end of 2011, its total assets were RMB0.489 billion, total customer deposits were RMB0.39 billion, total loans amounted to RMB0.341 billion and its annual net profit reached RMB0.01 billion.

(9) Xinjiang Shihezi Bocom Rural Bank

Xinjiang Shihezi Bocom Rural Bank was set up in May 2011 with a registered capital of RMB0.07 billion and is 70% owned by the Bank. The business scope includes taking deposits from general public, short, medium and long-term leading, domestic settlement, bill acceptance and discount, interbank lending and borrowings, credit cards and other businesses approved by the China Banking Regulatory Commission.

At the end of 2011, its total assets were RMB0.565 billion, total customer deposits were RMB0.436 billion, and total customer loans were RMB0.377 billion, and its annual net loss was RMB5 million.

(10) Bank of Communications (UK) Co., Ltd

Bank of Communications (UK) Co., Ltd was set up on 8 November 2011 in London, with a registered capital of USD0.1 billion. The business scope mainly is wholesale banking business which includes corporate loans and syndicated loans; trade finance; deposits from deposits, interbank lending and borrowings and foreign exchange business, etc.

As the end of 2011, its net assets was USD0.097 billion, total deposits balance was USD0.021 billion and the loss for the period was USD4 million.

8. STRATEGIC COOPERATION

In 2011, build upon on its solid relationship with the Hong Kong and Shanghai Banking Corporation Limited, its international strategic investor, the Bank further enhanced its exchange of technical expertise with HSBC and actively expanded its business cooperation to continuously strengthen their strategic partnership and build the model of strategic cooperation between domestic and overseas banks.

Seamless communication among the top management. Under the mechanism of strategic cooperation and communication, top management from both banks maintained close and seamless communications through various ways including top management meetings, Executive Chairman meetings, business cooperation meetings, as well as informal meetings, ad-hoc exchange of visits, and correspondences where management would discuss the results and challenges of cooperation, as well as areas and ways for further cooperation.

Comprehensive exchange of technical expertise. In accordance with the "Technical Cooperation and Exchange Agreement" signed in 2010, both banks conducted various exchanges of technical expertise at different levels and in different fields based on their specialties and business demands, fully realizing the exchange and complementation of technical expertise and efficiently promote internal operational and management capacity.

— Exchange of technical expertise: HSBC has assigned a total of five experts to five departments of the Bank to provide guidance in the particular areas of expertise. These departments include Human Resource, Retail Credit Management, Risk Management, Personal Finance Service and Training Center. These experts from HSBC also participated in five projects at the Bank, including the reform of human resources, Basel II internal rating based approach, enterprise risk management, marketing, and the core curriculum design and implementation, etc.

— Staff training: HSBC has provided eight project-specific trainings to the Bank including the new generation IT systems, product design and innovation, internal operations and management, and the customer service IT system, etc.

— Staff exchange programs: 21 projects were conducted through on-site communications and discussions among key business personnel of both banks. The projects included the implementation of new regulations, product innovation, business management, system optimisation and risk management, etc.

Further expansion of business cooperation. Both banks maintained excellent momentum in cooperation in the fields of corporate banking, international business, trust, credit card, and financial market business, as well as actively explored new ways of cooperation.

— The credit card business jointly managed by the two banks gained much momentum. Total number of credit cards issued by 31 December 2011 exceeded 22 million, an increase of 5.63 million from the prior year. The accumulated consumer spending exceeded RMB360.8 billion, an increase of 57% from the prior year.

— In the corporate banking front, the corporate banking integration project jointly managed by both banks progressed steadily. As at 31 December 2011, the project has been rolled out in Hong Kong, Macau, Vietnam and Taiwan, further strengthening our capacity of providing global cash management services to clients. Meanwhile, both banks seized the strategic opportunities of "going global" of domestic enterprises, and actively explored resource exchanges and cooperation in overseas investment banking, financing and trade settlement businesses.

— In the international banking business, to satisfy demands from customers, both banks leveraged their network and client resources by carrying out cooperation in the businesses of cross-boarder RMB settlement, foreign currency settlement, overseas guarantees, wire transfer and letters of credit.

— In the field of custody business, both banks continued to explore new areas of cooperation within the regulatory framework, and made good progress in areas such as QDII, QFII and public offering fund.

— In the field of financial market business, both banks continued their cooperation in the traditional business fields of lending and borrowings, foreign exchange and currency swaps. Meanwhile, both banks are also exploring new areas of cooperation such as precious metal.

9. OUTLOOK

Looking ahead, the financial markets around the world will continue to be impacted by the global financial crisis, with the instability and uncertainty of the economic recovery escalating. The Chinese economy has exhibited new characteristics reflecting the particular development stage that it is in, and faces the continuous pressure of "maintaining stable growth and inflation control". In addition, commercial banks in China will face more pressure and challenges from higher supervision standards and more stringent regulatory requirements, which will bring profound changes in the Chinese market. In 2012, the Bank will continue to follow its development strategy and enhance its competitiveness and risk management capabilities, through close monitoring of changes in economic development, monetary policy, regulatory requirements and the market, with primary focus on the following aspects:

i. Carry out timely researches and analyses on the economic and financial trends of the domestic and international markets, and proactively adapt to the changes with flexibility to support growth and development of the Group;

ii. Implement the "BoCom Strategy" and leverage its synergies from international expansion and business collaberation to build a unique and well-positioned wealth management system that offers comprehensive services to customers;

iii. Support the comprehensive transformation of its business, by seizing opportunities in emerging industries and striving to expand its "Blue Ocean" market, to enhance its sustainable development;

iv. Strengthen its overall risk management capabilities, through improvements in the forward-looking aspect and timeliness of risk identification and excellent management results of all risks identified under the complex environment;

v. Promote management and product innovations and improve service quality, by enhancement in customer structure, market competitiveness and brand image.


热烈庆祝数据中心双中心分钟级灾备切
交通银行
BANK OF COMMUNICATIONS
网站首页
个人业务
公司业务
小企业业务
国际业务
电子银行
信用卡
子公司
关于交行
个人网银
企业网银
财富广蕴 通达天下
点击进入
热点推荐
信息发布
公司业务
供应链金融

Changes in Share Capital and Substantial Shareholders

1. CHANGES IN SHARE CAPITAL

	1 January 2011		Changes(+/-) during the Reporting Period					31 December 2011	
	Number of shares	Percentage (%)	Issue of new shares	Bonus Shares	Shares transferred from the surplus reserve	Others	Sub-total	Number of shares	Percentage (%)
1. Shares subject to sales restrictions	–	–	–	–	–	–	–	–	–
1. State-owned shares	–	–	–	–	–	–	–	–	–
2. Shares held by state-owned entities	–	–	–	–	–	–	–	–	–
3. Shares held by other domestic investors	–	–	–	–	–	–	–	–	–
Includes:									
Shares held by domestic non-state-owned legal persons	–	–	–	–	–	–	–	–	–
Shares held by domestic natural persons	–	–	–	–	–	–	–	–	–
4. Shares held by foreign investors	–	–	–	–	–	–	–	–	–
Includes:									
Shares held by foreign legal persons	–	–	–	–	–	–	–	–	–
Shares held by foreign natural persons	–	–	–	–	–	–	–	–	–
2. Shares not subject to sales restrictions	**56,259,641,398**	**100.00**	–	**+5,625,964,140**	–	–	**+5,625,964,140**	**61,885,605,538**	**100.00**
1. Renminbi ordinary shares	29,735,503,042	52.85	–	+2,973,550,304	–	–	+2,973,550,304	32,709,053,346	52.85
2. Domestically listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas listed foreign shares	26,524,138,356	47.15	–	+2,652,413,836	–	–	+2,652,413,836	29,176,552,192	47.15
4. Others	–	–	–	–	–	–	–	–	–
3. Total	**56,259,641,398**	**100.00**	–	**+5,625,964,140**	–	–	**+5,625,964,140**	**61,885,605,538**	**100.00**

Notes: Pursuant to the resolution passed at the General Meeting, the Bank issued 1 bonus share for every 10 A shares and every 10 H shares during the Reporting Period. The record date was 18 July 2011. The A shares and H shares bonus shares issued were listed on 20 July 2011 and 8 August 2011 respectively. For more details, please refer to the announcements published on the Hong Kong Stock Exchange website (www.hkexnews.hk) on 28 June 2011 and in China Securities Journal, Shanghai Securities News, Securities Times and the Shanghai Stock Exchange website (www.sse.com.cn) on 12 July 2011.

2. SHAREHOLDING OF THE TOP 10 SHAREHOLDERS SUBJECT TO SALES RESTRICTIONS AND THE DETAILS OF RESTRICTIONS

As at 31 December 2011, there was no shareholder of the Bank holding shares which were subject to sales restrictions.

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

The number of shareholders as at 31 December 2011	427,209	The number of shareholders as at the end of the month prior to the release date of the Annual Report	419,135

Shareholdings of the top 10 shareholders

Name of shareholder	Nature of shareholder	Shareholding percentage (%)	Number of shares held	Number of shares held subject to sales restriction	Number of shares pledged or frozen[1]
Ministry of Finance of the People's Republic of China	State	26.52	16,413,353,049	–	Nil
HKSCC Nominees Limited[2]	Foreign-owned legal person	21.92	13,564,847,033	–	Unknown
The Hongkong and Shanghai Banking Corporation Limited[3]	Foreign-owned legal person	18.63	11,530,478,263	–	Nil
Capital Airports Holding Company	State-owned legal person	2.01	1,246,591,087	–	Unknown
Yingda International Holdings Corporation Limited	State-owned legal person	0.92	571,078,169	–	Unknown
Yunnan Hongta Group Company Limited	State-owned legal person	0.71	438,686,794	–	Unknown
Sinopec Finance Company Limited	State-owned legal person	0.61	375,461,733	–	Unknown
Shanghai Haiyan Investment Management Co., Ltd	State-owned legal person	0.60	368,584,978	–	Unknown
Aviation Industry Corporation of China	State-owned legal person	0.50	310,678,434	–	Unknown
Daqing Petroleum Administration Bureau	State-owned legal person	0.48	294,936,165	–	Unknown

Shareholding of the top 10 shareholders not subject to sales restrictions

Name of shareholders	Number of shares held not subject to sales restrictions	Class of shares
Ministry of Finance of the People's Republic of China	12,618,353,049	RMB Ordinary Shares
	3,795,000,000	Overseas-Listed Foreign Shares
HKSCC Nominees Limited	13,564,847,033	Overseas-Listed Foreign Shares
The Hongkong and Shanghai Banking Corporation Limited	11,530,478,263	Overseas-Listed Foreign Shares
Capital Airports Holding Company	1,246,591,087	RMB Ordinary Shares
Yingda International Holdings Corporation Limited	571,078,169	RMB Ordinary Shares
Yunnan Hongta Group Company Limited	438,686,794	RMB Ordinary Shares
Sinopec Finance Company Limited	375,461,733	RMB Ordinary Shares
Shanghai Haiyan Investment Management Co., Ltd	368,584,978	RMB Ordinary Shares
Aviation Industry Corporation of China	310,678,434	RMB Ordinary Shares
Daqing Petroleum Administration Bureau	294,936,165	RMB Ordinary Shares
Details of connected relations or acting in concert among the above shareholders:	(1) The Bank is not aware of any connected relations among the above shareholders not subject to sales restrictions or whether they are parties acting in concert regulated in Administration of the Takeover of Listed Companies Procedures. (2) The Bank is not aware of any connected relations among the top 10 shareholders not subject to sales restrictions and the top 10 shareholders or whether they are parties acting in concert.	

Notes:

1. Unless otherwise stated, the Bank is not aware of any circumstances where shares held by the above shareholders have been pledged or frozen.
2. The aggregate number of shares held by the nominee, HKSCC Nominees Limited, represents the total number of H shares held by all institutional and individual investors who maintain an account with it as at 31 December 2011.
3. According to the Bank's register of members kept by Computershare Hong Kong Investor Services Limited, HSBC held 11,530,478,263 H shares of the Bank as at 31 December 2011. In addition, according to the disclosure of interests form filed with the Hong Kong Stock Exchange by HSBC Holdings plc, HSBC beneficially held 11,779,697,178 H shares of the Bank as at 31 December 2011, representing 19.03% of the Bank's total share capital. (For details, please refer to "5. Substantial shareholders and holders of interest or short positions required to be disclosed under Divisions 2 and 3 of Part XV of the Hong Kong Securities and Futures Ordinance").

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

(1) Ministry of Finance

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

As at 31 December 2011, the Ministry of Finance held 16,413,353,049 shares of the Bank, representing approximately 26.52% of the total issued share capital of the Bank. These shares were neither pledged nor the subject of any disputes.

(2) The Hongkong and Shanghai Banking Corporation Limited

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

As at 31 December 2011, HSBC, beneficially held 11,779,697,178 H shares of the Bank, representing approximately 19.03% of the total issued share capital of the Bank. These shares were neither pledged nor the subject of any disputes.

(3) National Council for Social Security Fund

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

As at 31 December 2011, SSF held 7,027,777,777 H shares of the Bank, representing approximately 11.36% of the total issued share capital of the Bank. These shares were registered under the name of HKSCC Nominees Limited. These shares were neither pledged nor the subject of any disputes.

5. SUBSTANTIAL SHAREHOLDERS AND HOLDERS OF INTERESTS OR SHORT POSITIONS REQUIRED TO BE DISCLOSED UNDER DIVISIONS 2 AND 3 OF PART XV OF THE HONG KONG SECURITIES AND FUTURES ORDINANCE

As at 31 December 2011, to the knowledge of the Bank's Directors, Supervisors and Chief Executive, the substantial shareholders and other persons (other than the Directors, Supervisors and Chief Executive of the Bank) who had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the Hong Kong Securities and Future Ordinance (the "SFO") are as follows:

Name of substantial shareholders	Capacity	Number of A shares	Nature of interest[1]	Approximate percentage of total issued A shares (%)	Approximate percentage of total issued shares (%)
Ministry of Finance of the People's Republic of China	Beneficial owner	12,618,353,049[2]	Long position	38.58	20.39

Name of substantial shareholders	Capacity	Number of H shares	Nature of interest [1]	Approximate percentage of total issued H shares (%)	Approximate percentage of total issued shares (%)
National Council for Social Security Fund	Beneficial owner	7,027,777,777[3]	Long position	24.09	11.36
Ministry of Finance of the People's Republic of China	Beneficial owner	3,795,000,000[2]	Long position	13.01	6.13
The Hongkong and Shanghai Banking Corporation Limited	Beneficial owner	11,779,697,178	Long position	40.37	19.03
	Interest of controlled corporations	16,253,342[4]	Long position	0.06	0.03
	Total:	11,795,950,520		40.43	19.06
HSBC Finance (Netherlands)	Interest of controlled corporations	11,795,950,520[5]	Long position	40.43	19.06
HSBC Bank plc	Interest of controlled corporations	63,250[6]	Long position	0.0002	0.0001
HSBC Holdings plc	Interest of controlled corporations	11,796,013,770[7]	Long position	40.43	19.06

Notes:

1. Long positions held other than through equity derivatives.
2. According to the information provided by the MOF, MOF held 3,795,000,000 H shares and 12,618,353,049 A shares of the Bank as at 31 December 2011, representing 6.13% and 20.39% of the total share capital of the Bank respectively.
3. According to the information provided by SSF, SSF held 7,027,777,777 H shares of the Bank as at 31 December 2011, representing 11.36% of the total share capital of the Bank and all these shares were registered under the name of HKSCC Nominees Limited.
4. HSBC holds 62.14% equity interest in Hang Seng Bank Limited. Pursuant to the SFO, HSBC is deemed to hold interest in the Bank's H shares (referred to as "**H Share**" in this section) held by Hang Seng Bank Limited.

   Hang Seng Bank Limited is deemed to hold interest in the 16,253,342 H Shares held by its wholly-owned subsidiaries. Such 16,253,342 H Shares represent the aggregate of the 16,160,997 H Shares directly held by Hang Seng Bank Trustee International Limited and 92,345 H Shares directly held by Hang Seng Bank (Trustee) Limited.
5. HSBC is wholly-owned by HSBC Asia Holdings BV and HSBC Asia Holdings BV is, in turn wholly-owned by HSBC Asia Holdings (UK) Limited which is wholly-owned by HSBC Holdings BV. Furthermore, HSBC Holdings BV is wholly-owned by HSBC Finance (Netherlands). Pursuant to the SFO, each of HSBC Asia Holdings BV, HSBC Asia Holdings (UK) Limited, HSBC Holdings BV and HSBC Finance (Netherlands) is deemed to hold interest in the 11,795,950,520 H Shares held by HSBC.
6. HSBC Trustee (C.I.) Limited holds 63,250 H Shares. HSBC Trustee (C.I.) Limited is wholly-owned by HSBC Private Bank (C.I.) Limited, which is wholly-owned by HSBC Private Banking Holdings (Suisse) SA. Furthermore, HSBC Private Banking Holdings (Suisse) SA is wholly-owned by HSBC Europe (Netherlands) BV, which is in turn owned as to 94.90% by HSBC Bank plc. Pursuant to the SFO, each of HSBC Private Bank (C.I.) Limited, HSBC Private Banking Holdings (Suisse) SA, HSBC Europe (Netherlands) BV and HSBC Bank plc is deemed to hold interest in the 63,250 H shares held by HSBC Trustee (C.I.) Limited.
7. Both HSBC Finance (Netherlands) and HSBC Bank plc are wholly-owned by HSBC Holdings plc. Pursuant to Note 4, 5 and 6 and the SFO, HSBC Holdings plc is deemed to be interested in the 11,795,950,520 H Shares in which HSBC has an interest and the 63,250 H Shares in which HSBC Bank plc has an interest.

Save as disclosed above, to the knowledge of the Bank's Directors, Supervisors and Chief Executive, no person or corporation was recorded in the register of members required to be kept under Section 336 of the SFO as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO as at 31 December 2011.

Directors, Supervisors, Senior Management and Human Resource Management

1. PROFILE OF DIRECTORS

Mr. Hu Huaibang, age 56, joined the Bank in September 2008 and is the Chairman of the Board of Directors and Executive Director of the Bank. Mr. Hu was the Chairman of the Board of Supervisors of China Investment Corporation from September 2007 to September 2008, Director of the Working Department of the Supervisory Committee of the CBRC and Commissioner of Discipline Inspection of the CBRC from July 2003 to September 2007, Deputy General Manager of the PBOC's Chengdu Branch, General Manager of the PBOC's Xi'an Branch and Administrator of the State Administration of Foreign Exchange's Shaanxi Branch from June 2000 to July 2003. Mr. Hu obtained his Doctoral degree in Economics from Shaanxi Institute of Finance and Economics in 1999. Mr. Hu has been the Chairman of the Board of Directors and Executive Director of the Bank since September 2008.

Mr. Niu Ximing, age 55, joined the Bank in December 2009 and is the Vice Chairman, Executive Director and President of the Bank. Mr. Niu served in several positions in the Industrial and Commercial Bank of China ("ICBC") from July 1986 to December 2009, including as Deputy General Manager and General Manager of the ICBC's Xining Branch in Qinghai Province, Deputy Director, Director and General Manager of the Public Transportation Credit Department of ICBC, General Manager of ICBC's Beijing Branch, Assistant to the President of ICBC and General Manager of ICBC's Beijing Branch, Executive Vice President of ICBC and Executive Director and Executive Vice President of ICBC. Mr. Niu obtained his Master's degree in Economics from Harbin Institute of Technology in 1997. Mr. Niu has been the Vice Chairman of the Board of Directors and Executive Director of the Bank since December 2009.

Mr. Qian Wenhui, age 50, joined the Bank in October 2004 and is an Executive Director and Executive Vice President of the Bank. Mr. Qian has served as Executive Vice President of the Bank since October 2004 (and concurrently served as General Manager of Shanghai Branch from July 2005 to November 2006). Before joining the Bank, Mr. Qian worked at China Construction Bank ("CCB") and served as Director of the General Office of the Asset and Liability Committee of CCB and the Deputy General Manager of CCB's Shanghai Branch; Director of the General Office of the Asset and Liability Committee of CCB and Director of the System Reform Office; General Manager of the Asset and Liability Management Department; the General Manager of the Asset and Liability Management Department and Director of the Restructuring Office. Mr. Qian obtained his MBA degree from Shanghai University of Finance and Economics in 1998. Mr. Qian has been an Executive Director of the Bank since August 2007.

Mr. Wang Bin, age 53, joined the Bank in January 2000 and is an Executive Director, Executive Vice President and President of Beijing Administrative Office of the Bank. Mr. Wang has previously served in numerous positions within the Bank, including as General Manager of the Beijing Branch and the Tianjin Branch. Mr. Wang had served in several positions with the Agricultural Development Bank of China ("ADBC") from December 1993 to January 2000, including as Head of Planning Office, Director of General Office, and General Manager of ADBC's Jiangxi Branch. Mr. Wang obtained his Doctorate degree in Economics from Nankai University in 2005. Mr. Wang has been an Executive Director since June 2010.

Mr. Zhang Jixiang, age 58, is a Non-executive Director of the Bank. Mr. Zhang served as Non-Executive Director and Board Secretary from August 2007 to August 2009 and Executive Director and Board Secretary from September 2004 to July 2007. Before joining the Bank, Mr. Zhang served as Inspector in the General Department of the Ministry of Finance from January 2003 to September 2004; Deputy Director of the Infrastructure Department and Deputy Director of the General Department of the Ministry of Finance from July 1998 to January 2003. Mr. Zhang obtained his Doctoral degree in Economics from the Chinese Academy of Social Sciences in 1989. He is a PRC Certified Public Accountant and a PRC Certified Appraiser. Mr. Zhang has been a Non-executive Director since August 2009.

Mr. Hu Huating, age 54, is a Non-executive Director of the Bank. Mr. Hu served in several positions within the Ministry of Finance from December 1978 to September 2004, including Director of the Bureau for Retired Officials Affairs, Deputy Director of the Economic Construction Department, Assistant Inspector of the Infrastructure Department and Head of the General Affairs Department, Head of the Comprehensive Investment Second Division, Head of the Comprehensive Planning Supplementary Budget Management Department Second Division, Deputy Head of the Special Division of Agricultural Taxation Department, Deputy Head of the Central Division of the Supplementary Budget Management Department, Deputy Head of the Wages and Commodity Prices, Division of the Comprehensive Planning Department and Secretary of the General Office. Mr. Hu obtained his Master's degree in Investment Economics from Dongbei University of Finance and Economics in 1998 and has been a Non-executive Director of the Bank since September 2004.

Ms. Du Yuemei, age 57, is a Non-executive Director of the Bank. Ms. Du served as Deputy Supervision Commissioner and Supervision Commissioner of Shanghai Commissioner Office of the Ministry of Finance from August 2002 to August 2011. She served as Deputy Head and the Head of the Budget Division, Deputy Director-General of the Finance Department of Yunnan Province from May 1995 to July 2002, Deputy General Manager of Yunnan International Trust and Investment Corporation from December 1992 to April 1995. Ms. Du obtained her EMBA degree from Shanghai National Accounting Institute in 2006 and has been a Non-executive Director since August 2011.

Mr. Peter Wong Tung Shun, age 60, is a Non-executive Director of the Bank. Mr. Wong currently holds the positions as the Chief Executive Officer of HSBC, the Bank's substantial shareholder, as well as the General Manager of the HSBC Group, member of the Group's Management Committee and Chairman of HSBC Bank (China) Company Limited. He also serves as Non-executive Director for Hang Seng Bank Limited and Ping An Insurance (Group) Company of China Limited as well as Independent Non-executive Director of Cathay Pacific Airways Limited. Mr. Wong was the Chairman of The Hong Kong Association of Banks in 2001, 2004, 2006 and 2009. His official duties in mainland China include Standing Committee of the 10th Chinese People's Political Consultative Conference ("CPPCC") in Hubei Province, Adviser (Overseas) for the Mayor of Tianjin and International Economics Consultant for the Mayor of Chongqing, Vice Chairman, Council Member of the China Banking Association Council, and Council Member of the Red Cross Society of China. He has been a Visiting Professor at Central University of Finance and Economics since June 2011. Before joining HSBC in April 2005, Mr. Wong worked for Citibank and Standard Chartered Bank. Mr. Wong obtained his Masters in Marketing and Finance and in Computer Science from Indiana University in the US in 1976 and 1979 respectively. Mr. Wong has been a Non-executive Director of the Bank since August 2005.

Ms. Anita Fung Yuen Mei, age 51, is a Non-executive Director of the Bank. She is currently the Group General Manager of HSBC Holdings Plc., Chief Executive Officer of HSBC Hong Kong, Chairman and Director of HSBC Global Asset Management (Hong Kong) Limited, Vice Chairman of HSBC (China) Limited, Non-executive Director of Hang Seng Bank Limited, Director of HSBC Markets (Asia) Limited and HSBC Securities (Japan) Limited. Ms. Fung served as Group General Manager of HSBC Holdings Plc. and Head of HSBC Global Banking and Capital Markets Asia-Pacific from January 2010 to September 2011; Group General Manager of HSBC Holdings Plc., Treasurer and Head of Global Banking and Markets for Asia-Pacific from May 2008 to January 2010. She previously held various positions including Head of HSBC Bond Market, Head of Asian Fixed Income Trading, Joint-Head of Asian Trading, Treasurer and Head of Global Markets for Asia-Pacific from September 1996 to April 2008. Ms. Fung obtained her Master's degree in Applied Finance from Macquarie University, Australia in 1995. Ms. Fung has been a Non-executive Director since November 2010.

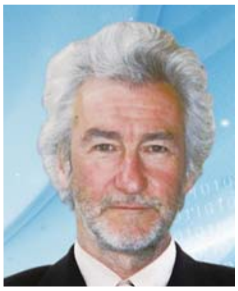
Mr. Ma Qiang, age 53, is a Non-executive Director of the Bank. Mr. Ma has been the Director of the Equity Management Department (Industrial Investment Department) of National Council for Social Security Fund since December 2010. Mr. Ma also served as Deputy Chief and Member of the Party Leadership Group, Deputy Chief and Deputy Secretary of the Party Leadership Group (bureau level) of the Tianjin Finance Bureau and the Tianjin Local Tax Bureau from July 2001 to December 2010. Mr. Ma graduated from Online College of Hunan University in 2004 with Finance major. Mr. Ma has been a Non-executive Director since September 2011.

Mr. Lei Jun, age 42, is a Non-executive Director of the Bank. Mr. Lei is the General Manager of the Capital Operation Department of Beijing Capital Airport Holding Company since June 2005. He also holds the positions as the Chairman of Goldstate Securities Co. Ltd., and Director of KBC Goldstate Fund Management Company. He served as General Manager of the Mergers and Acquisitions Department in Goldstate Securities Co., Ltd from January 2005 to June 2005; Supervisor of the Management and Innovation Division in Shanghai Baosteel Group from October 2003 to January 2005 and Division Deputy General Manager in Fortune Trust from June 1998 to October 2003. Mr. Lei obtained his MBA from the University of Hong Kong in 2000 and has been a Non-executive Director of the Bank since August 2008.

Mr. Eric Li Ka-cheung, age 58, Justice of the Peace, Officer of the Most Excellent Order of the British Empire (OBE) and recipient of the Gold Bauhinia Star, is an Independent Non-executive Director of the Bank. He is also Head Accountant of Li, Tang, Chen & Co and an Independent Non-executive Director of Hang Seng Bank Limited, China Resources Enterprise Limited, Transport International Holdings Ltd., RoadShow Holdings Limited, SmarTone Telecommunications Holdings Limited, Wong's International (Holdings) Ltd and Sun Hung Kai Properties Limited. Mr. Li is a fellow member of the Hong Kong Institute of Certified Public Accountants (Practising), a fellow member of The Institute of Chartered Accountants in England and Wales and a fellow member of CPA Australia. Mr. Li is also a Fellow of The Institute of Chartered Secretaries and Administrators and Hong Kong Institute of Chartered Secretaries. Mr. Li obtained his Bachelor of Arts (Hons) in Economics from the University of Manchester and his Doctoral (Hons) degrees from the University of Manchester and the Hong Kong Baptist University. Mr. Li has been an Independent Non-executive Director of the Bank since January 2007.

Mr. Gu Mingchao, age 68, retired in May 2007, is an Independent Non-executive Director of the Bank. Mr. Gu served as Chairman of the Board of Supervisors of China Galaxy Securities Company Limited, Bank of Communications and Agricultural Bank of China as designated by the State Council from July 2000 to April 2007; Vice President and Executive Director of the Export-Import Bank of China from June 1994 to June 2000. Mr. Gu graduated from Shanghai Institute of Foreign Trade in 1968 and has been an Independent Non-executive Director of the Bank since August 2007.

Mr. Wang Weiqiang, age 64, is an Independent Non-executive Director of the Bank. Mr. Wang is a CPPCC member, PhD Supervisor at Southwestern University of Finance and Economics and Vice Chairman of China Urban Finance Society. Mr. Wang has been serving as Chief Supervisor of ICBC International Holdings Limited from June 2008 to present, Chief Supervisor of Industrial and Commercial Bank of China Limited from October 2005 to June 2008, Chairman of the Supervisory Board of Industrial and Commercial Bank of China upon designation by the State Council from August 2003 to October 2005 and Chairman of the Supervisory Board of the Agricultural Bank of China upon designation by the State Council from June 2000 to July 2003. Mr. Wang graduated from the Department of Economics and Management of Liaoning University in 1984. Mr. Wang has been an Independent Non-executive Director of the Bank since November 2010.



Mr. Peter Nolan, age 63, recipient of the Commander of the Most Excellent Order of the British Empire, is an Independent Non-executive Director of the Bank. Mr. Nolan has been a professor in Judge Business School at Cambridge University since 1997 and was a lecturer in the Faculty of Economics and Political Science at Cambridge University from 1979 to 1997. Mr. Nolan obtained his Doctoral degree in Economics from University of London in 1981 and has been an Independent Non-executive Director of the Bank since November 2010.

Mr. Chen Zhiwu, age 49, is an Independent Non-executive Director of the Bank. Mr. Chen has been a professor of Finance at School of Management of Yale University since July 1999. Currently, he also serves as the Independent Non-executive Director of Petro China Corp, Lord Abbett China Asset Management Co., Ltd., Jiayuan.com International Ltd., visiting professor at Tsinghua University, Cheung Kong Chair Professor, Chairman of Academic Council in ChangCe Thinktank and Chief Adviser of Permal Group. Mr. Chen was an Assistant Professor and Associate Professor of Business and Finance at Ohio State University from July 1995 to July 1999. Mr. Chen obtained his Doctoral degree in Finance and Economics from Yale University in 1990. He has been an Independent Non-executive Director since November 2010.

Mr. Choi Yiu Kwan, age 57, is an Independent Non-executive Director of the Bank, Mr. Choi served as bank examination assistant, assistant bank examiner, bank examiner, senior bank examiner, assistant commissioner of the Commissioner of Banking Office of Hong Kong Government from November 1974 to March 1993. Mr. Choi continued to hold various positions at the Hong Kong Monetary Authority from April 1993 to January 2010, including the Head of the Banking Policy Department, the Head of Administration, the Executive Director (Banking Supervision), the Deputy Chief Executive (Monetary Policy and Reserves Management), the Deputy Chief Executive (Banking Supervision). Mr. Choi retired in January 2010. Mr. Choi was awarded the honour of Silver Bauhinia Star by Hong Kong SAR Government. Mr. Choi obtained a higher certificate from the Accounting Faculty of Hong Kong Polytechnic in 1976. He is also a Fellow Member of the Hong Kong Institute of Bankers. He has been an Independent Non-executive Director since September 2011.

2. PROFILE OF SUPERVISORS

Mr. Hua Qingshan, age 59, joined the Bank in June 2007 and is the Chairman of the Supervisory Board of the Bank. Mr. Hua served as Executive Vice President of Bank of China from December 1998 to June 2007, Non-executive Director of BOC Hong Kong (Holdings) Limited from June 2002 to June 2007; Executive Director of Bank of China from August 2004 to June 2007 and Assistant to the President of Bank of China from May 1994 to December 1998. Mr. Hua obtained his Master's degree of engineering from Hunan University in 1996. Mr. Hua has been the Chairman of the Supervisory Committee of the Bank since August 2007.

Mr. Jiang Yunbao, age 70, is an External Supervisor of the Bank. Mr. Jiang served as Member of the Environmental and Resources Protection Committee and Deputy Group Leader of the Energy Group of the Tenth National People's Congress of the PRC from October 2004 to March 2008; Secretary-General of the Standing Committee and Member of the Environmental and Resources Protection Committee of the Tenth National People's Congress of the PRC from March 2003 to October 2004; Deputy Secretary-General of the Standing Committee of the Ninth National People's Congress of the PRC from March 1998 to March 2003. Mr. Jiang graduated from the Department of Power Mechanical Engineering of Tsinghua University in 1966, majoring in Gas Turbine Engine. Mr. Jiang has been an External Supervisor of the Bank since May 2011.

Mr. Jiang Zuqi, age 71, is an External Supervisor of the Bank. Mr. Jiang served as the Chairman of the Supervisory Board for several key state-owned financial institutions upon appointment by the State Council from June 2000 to August 2005. He was the Chairman of the Supervisory Board of the Bank from June 2000 to August 2003. From August 2003 to August 2005, he was the Chairman of the Supervisory Board in The Export-Import Bank of China. From August 1995 to June 2000, he was the Vice Chairman of the Board of Directors and Vice President of the Bank of China; from August 1997 to February 1999, he was also the Head of the Hong Kong and Macau Administration Office of the Bank of China. Mr. Jiang graduated from the School of Business of the Beijing Technology and Business University in 1966, majoring in Finance and Accounting. Mr. Jiang has been an External Supervisor of the Bank since August 2007.

Mr. Gu Huizhong, age 55, is a Supervisor of the Bank. Mr. Gu has been the Deputy General Manager and Chief Accountant in the Aviation Industry Corporation of China from August 2008 to present. Mr. Gu was the Deputy General Manager of China Aviation Industry Corporation First Group from June 1999 to August 2008, during which he also served as Chief Accountant from February 2005 onwards. He served as Deputy Director of the Finance Department in Technology and Industry Committee for National Defence from July 1998 to December 1998. Mr. Gu obtained his Master's degree in International Finance from the Beijing University of Aeronautics and Astronautics in 2000 and his EMBA from Cheung Kong Graduate School of Business in 2008. Mr. Gu has been a Supervisor of the Bank since August 2010.

Mr. Guo Yu, age 37, is a Supervisor of the Bank. Mr. Guo has been the Head of Investment Division at Shanghai Tobacco (Group) Corp. Ltd and the Director and General Manager of Shanghai Haiyan Investment Management Limited since September 2011. He was the Deputy Head of Investment Division in Shanghai Tobacco (Group) Corp. (currently the Shanghai Tobacco (Group) Corp., Ltd) from November 2009 to September 2011, Deputy General Manager of Shanghai Tobacco Package Printing Co., Ltd. from October 2008 to November 2009. He also held various positions in Shanghai Tobacco (Group) Corp. from July 1997 to October 2008. Mr. Guo obtained his MBA from Arlington Graduate School of University of Texas in the US in December 2003. Mr. Guo has been a Supervisor of the Bank since August 2010.

Mr. Yang Fajia, age 57, is a Supervisor of the Bank. Mr. Yang has been the General Manager and Director of Yunnan Hongta Group Ltd. since January 2003. He served as Deputy General Manager of Yunnan Hongta Group Ltd. from September 1993 to January 2003. Mr. Yang obtained his Bachelor's degree in Electromechanical Science from China University of Mining & Technology in 1980. Mr. Yang has been a Supervisor of the Bank since August 2007.

Mr. Chu Hongjun, age 58, is a Supervisor of the Bank. Mr. Chu has been the Deputy Compliance Officer of Sinopec Finance Company Limited and the General Manager of Sinopec Finance Company Limited Nanjing Branch since May 2010. He was the General Manager of Sinopec Finance Company Limited Nanjing Branch from June 2007 to May 2010, and Deputy Director and Director in Sinopec Finance Company Limited Nanjing office from May 1999 to June 2007. Mr. Chu graduated from the Correspondence Institute of the Party School of the Central Committee of C.P.C.C. in 1998 and has been a Supervisor of the Bank since August 2010.

Mr. Li Jin, age 45, is a Supervisor of the Bank. Mr. Li has been serving as the Deputy General Manager of Huaneng Capital Service Co., Ltd. since September 2006. He was the President of Alltrust Insurance Company of China Limited from January 2005 to September 2006, Deputy General Manager and General Manager of China Huaneng Finance Corporation Ltd. from December 2000 to January 2005. Mr. Li obtained his Master's degree in Monetary Banking from the Financial Research Institution of the PBOC in 1989 and has been a Supervisor of the Bank since August 2007.

Mr. Yan Hong, age 45, is a Supervisor of the Bank. Since March 2008, Mr. Yan has been serving as the Chief Accountant of Daqing Oilfield Limited Company and Daqing Petroleum Administration Bureau. Mr. Yan was the Deputy Chief Accountant, Head of Finance and Asset Management Department and the Chief Accountant of Daqing Oilfield Limited Company from March 2002 to March 2008 and the Deputy Head and Head of Finance and Assets Management Department in Daqing Oilfield Limited Company from May 2000 to March 2002. He previously served as the Deputy Chief Accountant in Daqing Oilfield Limited Liability Company's oil rig construction subsidiary from January 1999 to May 2000. Mr. Yan graduated from Shanghai University of Finance and Economics with a MBA degree in 2003 and from China Europe International Business School with a MBA degree in 2008. Mr. Yan has been a Supervisor of the Bank since August 2008.

Ms. Liu Sha, age 56, joined the Bank in November 2004, is an Employee Representative Supervisor of the Bank. Since September 2005, she has been serving as General Manager of the Audit Department of the Northern China of the Bank. Ms. Liu was the Secretary of the Supervisory Committee from March 2005 to August 2005, Supervisor appointed for key state-owned financial institution (Bocom), Deputy Director General-level, from August 2003 to October 2004 and Supervisor appointed for key state-owned financial institution (China Galaxy Securities Company Limited), Division Chief Level and Deputy Director General-level from August 2000 to July 2003. Ms. Liu obtained her Bachelor's degree in Public Finance from Dongbei University of Finance and Economics in 1979. Ms. Liu has been an Employee Representative Supervisor of the Bank since November 2004.

Ms. Chen Qing, age 51, joined the Bank in November 2004 and is an Employee Representative Supervisor of the Bank. Since March 2005, Ms. Chen has served as the Head of the General Office for the Bank's Supervisory Committee. In November 2004, Ms. Chen was appointed as the Supervisor (Deputy Director General-level) of the Bank. Ms. Chen was the Supervisor for key state-owned financial institution (Agricultural Bank of China), Division Chief Level, from August 2003 to October 2004; the Supervisor for key state-owned financial institution (Bank of China) serving at Division Chief level, and then as the Deputy Division Head, Division Head from July 2000 to August 2003. Ms. Chen served in the Finance Department of the National Audit Office of the People's Republic of China from August 1984 to July 2000. Ms. Chen obtained her Bachelor degree in Economics from Renmin University of China in 1984 and a MBA degree from Shanghai University of Finance and Economics in 2009. She has been an Employee Representative Supervisor of the Bank since November 2004.

Mr. Shuai Shi, age 43, joined the Bank in November 1992 and is an Employee Representative Supervisor of the Bank. Since December 2007, Mr. Shuai has been serving as the General Manager of the Employee Work Department. He is also the Deputy Director of the Labour Union since January 2008. Mr. Shuai served as the Deputy General Manager of the Bank's Huhhot Branch from July 2006 to December 2007 and the Senior Manager of Private Banking Department in the Shanghai Branch from January 2001 to July 2006 (during which he was the Assistant to the Head of the Finance Office within the provincial government of the Inner Mongolia Autonomous Region from February 2004 to February 2006). Mr Shuai graduated with a Graduate Diploma major in economic management from School of Economic Management of the Party School of the Central Committee of C.P.C. in July 2010. Mr. Shuai has been an Employee Representative Supervisor of the Bank since August 2008.

Mr. Du Yarong, age 48, joined the Bank in October 1997 and is an Employee Representative Supervisor of the Bank. Mr. Du has been serving as the Head of the Office of Discipline Investigation and Supervision from November 2009 to present. He was the Deputy General Manager in Zhejiang Branch from January 2009 to November 2009 and served as the Deputy General Manager in Hangzhou Branch from October 2004 to January 2009. Mr. Du is the Head of the General Office in Hangzhou Branch from April 2004 to October 2004 and is the General Manager in the Xiaoshan sub-branch of the Hangzhou Branch from May 2001 to April 2004. He was the Deputy Head of the Internal Audit Control Division at the Bank's Head Office from April 2003 to March 2004. Mr. Du also served as managerial staff (Division Chief Level), Deputy Head and Head of the Party Committee Office of the Hangzhou Branch from October 1997 to May 2001. Mr. Du graduated from Hangzhou Normal University in 1986 and has been a Supervisor of the Bank since August 2010.

3. PROFILE OF SENIOR MANAGEMENT

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

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

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

Ms. Yu Yali, age 54, joined the Bank in February 1993 and is the Executive Vice President and Chief Financial Officer of the Bank. Ms. Yu has been the CFO of the Bank since August 2004 and was the General Manager of Financial Accounting Department and Budget and Finance Department of the Bank from December 1999 to August 2004. Ms Yu served as the Head of Financial Accounting Division and Deputy General Manager of the Bank's Zhengzhou Branch and Deputy General Manager of Financial Accounting Department at the Head Office from February 1993 to December 1999. Ms. Yu obtained her MBA from Fudan University in 2006.

Mr. Shou Meisheng, age 55, joined the Bank in January 1992 and is the Commissioner of Discipline Inspection and President of the Labour Union. Mr. Shou was the General Manager of Human Resources Department of the Bank from May 2005 to December 2007, General Manager of International Banking Department of the Bank from June 1998 to May 2005 and General Manager of Dalian Branch of the Bank from January 2002 to March 2004. Mr. Shou obtained his Doctoral degree in Economics from Dongbei University of Finance and Economics in 2006.

Mr. Hou Weidong, age 52, joined the Bank in April 2002, and is the Executive Vice President and Chief Information Officer. Mr. Hou has been the Chief Information Officer from November 2002 to August 2004 and was the General Manager of the Information Technology Department of the Bank from November 2002 to August 2004 and the Deputy General Manager of Computer Department of the Bank from April 2002 to November 2002. Prior to joining the Bank, he served as Deputy General Manager of Technology Security Department and General Manager of Data Centre in Industrial and Commercial Bank of China from November 1998 to April 2002. Mr. Hou obtained his Doctoral degree in Economics from Peking University in 2003.

Mr. Zhu Hexin, age 44, joined the Bank in 1993 and is the Director of Corporate Development, Executive Vice President of the Beijing Administrative Department and General Manager of Beijing Branch. Mr. Zhu has been the Director of Corporate Development and Executive Vice President of the Beijing Administrative Department since January 2010. He also served as General Manager of the Corporate Banking Department from July 2010 to October 2011, and has been General Manager of Beijing Branch since October 2011. His previous positions include General Manager of Jiangsu Branch from January 2009 to January 2010, General Manager of Nanjing Branch from November 2006 to January 2009 and General Manager of Suzhou Branch from November 2001 to November 2006. Mr. Zhu obtained his Bachelor's degree in Engineering from Shanghai University of Finance and Economics in 1991.

Mr. Dicky Peter Yip, age 65, joined the Bank in May 2005 and is the Executive Vice President of the Bank. Before joining the Bank, Mr. Yip served as Chief Executive of China Business at HSBC's China main representative office between January 2003 and April 2005. Mr. Yip held several positions at HSBC including Senior General Manager of Personal Banking Service, Senior Manager of Retail Business, Assistant General Manager of Retail Business, Assistant General Manager of Personal Banking Service and Deputy Head of Private Wealth Management from June 1988 to January 2003. Mr. Yip obtained his MBA from the University of Hong Kong.

Mr. Yang Dongping, age 55, joined the Bank in May 1989, and is the Chief Risk Officer of the Bank. Mr. Yang served as Deputy General Manager and General Manager of the Bank's Hong Kong Branch from September 2003 to September 2007. He also held several positions in Wuhan Branch, including Deputy Manager of Securities Business Department, Associate Director and Director of Credit and Loan Division, Senior Manager of International Business Division, Deputy General Manager and General Manager from May 1989 to September 2003. Mr. Yang obtained his Master's degree in International Finance from Wuhan University in 1998.

Mr. Du Jianglong, age 41, joined the Bank in August 2009 and is the Secretary of the Board of Directors and Director of the Board Office. From July 1997 to July 2009, Mr. Du worked in the Department of Trade Finance, Department of National Debt Financing and Department of Finance of the Ministry of Finance. While working in these departments, he held various positions of Deputy Head of Division I in the Department of Finance, Secretary of the Department of Finance (Division Chief Level), Head of Division I in the Department of Finance and Deputy Director-General of the Department of Finance. During the period, he also took the positions of Supervisor of The Export-Import Bank of China and Agricultural Development Bank of China. Mr. Du obtained his Master's degree in Economics from the Research Institute for Fiscal Science of Ministry of Finance in 1997 and his Master's degree in Economics from University of Manchester in 2003.

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

(1) Changes in Directors

In April 2011, Mr. Chen Qingtai resigned as Independent Non-executive Director, member of the Audit Committee and member of the Personnel and Remuneration Committee of the Board, after serving as Non-executive Director of the Bank for a consecutive period of 6 years.

In April 2011, Mr. Ji Guoqiang resigned as Non-executive Director, and member of the Risk Management Committee and member of the Social Responsibility Committee of the Board due to job-redesignation.

In April 2011, Mr. Qian Hongyi resigned as Non-executive Director and member of the Audit Committee of the Board.

In June 2011, pursuant to the resolutions passed at the 2010 Annual General Meeting, Ms. Du Yuemei, Mr. Ma Qiang, and Mr. Bu Zhaogang were appointed as Non-executive Directors of the Bank. In addition, Mr. Choi Yiu Kwan was appointed as Independent Non-executive Director. The appointment of the above are subject to the approval of CBRC.

(2) Changes in Supervisors

In May 2011, pursuant to the fifth meeting of the Sixth Session of the Supervisory Committee, Mr. Jiang Yunbao was appointed as the External Supervisor of the Bank.

In May 2011, Ms, Zheng Li resigned as External Supervisor of the Bank, member of the Nomination Committee and member of the Performance and Due Diligence Committee of the Supervisory Committee.

5. HUMAN RESOURCE MANAGEMENT

(1) Basic Information of Employees

As at the end of 2011, the Bank had a total of 90,149 employees. Of which, 88,480 employees were based domestically, representing an increase of 5.63% compared with the beginning of the year. Total number of local employees in overseas branches was 1,669.

Among the domestic employees, 36.6 thousand employees hold professional and technical qualifications (accounting for approximately 41.3% of total domestic employees), of which 614 employees hold senior professional and technical qualifications (accounting for approximately 0.7% of total domestic employees), 16,566 employees hold intermediate professional and technical qualifications (accounting for approximately 18.7% of total domestic employees), and 19,405 employees hold preliminary professional and technical qualifications (accounting for approximately 21.9% of total domestic employees).

The average age of the Bank's domestic employees was 33.5 years old, with 44,733 employees under the age of 30 (accounting for approximately 50.5% of total domestic employees), 24,485 employees between the age of 30 and 40 (accounting for approximately 27.7% of total domestic employees), 14,738 employees between the age of 40 and 50 (accounting for approximately 16.7% of total domestic employees), and 4,524 employees above the age of 50 (accounting for approximately 5.1% of total domestic employees).

Among the domestic employees, 5,374 employees possess postgraduate or higher academic degrees (accounting for approximately 6.1% of total domestic employees), 51,591 employees possess undergraduate degrees (accounting for approximately 58.3% of total domestic employees), 25,566 employees possess college diploma (accounting for approximately 28.9% of total domestic employees), and 5,949 employees possess secondary vocational school certificate or lower qualifications (accounting for approximately 6.7% of total domestic employees).

There was a total of 2,840 retired employees under the Bank's pension scheme in 2011.

(2) Remuneration Policy

The Bank's remuneration is determined with reference to job positions, responsibilities and employee capabilities, and is reflective of market value in the labour market. The Bank continuously assesses and improves the remuneration system to maintain and elevate competitiveness. The Bank implemented a stable remuneration management system to strengthen stability and promote self-discipline among employees to ensure the balance between stability and performance incentives, which aligns remuneration with performance. This will also promote the effectiveness of remuneration in guiding corporate governance and risk control. The purpose was to enhance stable operation and continuous development. The Bank has adopted a total reward policy to effectively manage short-term and long-term incentives. The Bank developed an employee benefits system based on the enterprise annuity programme "to ensure the Bank follow a unified approach and standardise the operation and management" and further enhanced the cohesiveness and creativity of the Bank.

The remuneration of Directors who receive remuneration from the Bank shall be determined based on their performance and the result of the annual evaluation, pursuant to the Articles of Association and the relevant regulations.

(3) Performance Management

The Bank continuously seeks to optimise its performance management framework and is focused on improving performance evaluation processes at each level, including Head Office, provincial branches and overseas institutions. The Bank further aligned its strategy with business verticals and clearly defined goals and responsibilities. Senior Management and employees were evaluated based on performance goals, capabilities and behaviours. The Bank has developed standardised appraisal and grading system to improve its performance evaluation process. The assessment results are linked with remuneration, career development, education and training, as well as spiritual rewards to optimise the guiding effect of performance management.

(4) Employee Pension Scheme

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

Report of the Board of Directors

The Board of Directors hereby presents its report and the audited consolidated financial statements of the Group for the fiscal year ended 31 December 2011.

1. PRINCIPAL ACTIVITIES

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

2. RESULTS AND DIVIDEND DISTRIBUTION

(1) The operating results of the Group for the year are set out in the Consolidated Statement of Comprehensive Income on page 114.

(2) Annual profit distribution

The Board proposed to distribute a cash dividend of RMB0.10 (before tax) to A shares and H shares registered members of the Bank and based on the total share capital of 61.886 billion shares as at 31 December 2011. Total distribution of cash dividend was RMB6.189 billion.

The above proposed profit distribution shall be subject to the approval of the shareholders at the Annual General Meeting and will be effective after their approval.

(3) The ratio of cash dividends over the past three years and the annual net profit based on the PRC Generally Accepted Accounting Principles.

(RMB Million, unless otherwise stated)

	2008	2009	**2010**
Total amount of profit distribution	9,799	9,799	6,751
Annual net profit	28,423	30,075	39,042
Allocation proportion (%)	34.48	32.58	17.29

3. RESERVES

Changes in the Group's reserves during the year are set out in the Consolidated Statement of Changes in Equity on page 117.

4. CHARITABLE DONATIONS

Charitable donations made by the Group during the year 2011 amounted to RMB0.02816 billion (2010: RMB0.14557 billion).

5. FIXED ASSETS

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

6. SHARE CAPITAL AND PUBLIC FLOAT

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

During 2011 and for the period up to the latest practicable date prior to the printing of this annual report, the Bank has fulfilled the minimum public float requirement of the Hong Kong Listing Rules, based on the information that is publicly available to the Bank and within the knowledge of the Directors.

7. FINANCIAL SUMMARY

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

8. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and Senior Management of the Bank are set out on pages 66 to 75 of this Annual Report. The Bank has received an annual confirmation of independence from each of the Independent Non-executive Directors, and considers each of them to be independent.

9. BOARD COMMITTEES

Please refer to the "Corporate Governance Report" set out on pages 93 to 106 of this Annual Report.

10. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACT

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

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

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

12. INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS OF SIGNIFICANCE

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

13. MANAGEMENT CONTRACT

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

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

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

15. INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Shares held at beginning of the year	Class of shares	Change (+) of shares held in the Reporting Period	Change (-) of shares held in the Reporting Period	Shares held at end of the year	Reason of change Category
Zhang Jixiang	Non-executive Director	–	A Shares	37,180	–	37,180	Shares purchased from the secondary market and bonus shares
Yang Dongping	Chief Risk Management Officer	86,200	A shares	8,620	–	94,820	Bonus shares

As at 31 December 2011, other than disclosed above, none of the Bank's Directors, Supervisors and Chief Executive had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO), or which were required to be entered in the register pursuant to section 352 of the SFO, or which were required, pursuant to Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Hong Kong Listing Rules, to be notified to the Bank and the Hong Kong Stock Exchange.

16. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

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

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

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

18. PRE-EMPTIVE RIGHTS AND SHARE OPTION ARRANGEMENTS

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

19. ISSUE OF SHARES AND DEBENTURES

The Bank's "2010 Final Profit Distribution Plan" was approved at the 2010 Annual General Meeting held on 28 June 2011. Based on the total share capital of 56.260 billion shares as at 31 December 2010, 1 bonus share was issued for every 10 shares. The record date for the bonus issue was 18 July 2011. The listing dates of bonus H shares and bonus A shares were 8 August 2011 and 20 July 2011, respectively. Upon the completion of the bonus issue, the share capital of the Bank increased to 61,885,605,538 shares. Correspondingly, the Bank has completed the relevant amendments to the Articles of Association and the registration of changes in the registered capital.

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

20. SHARE APPRECIATION RIGHTS

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

As at 31 December 2011, the Bank has not granted to its Directors, Supervisors, Chief Executive nor their spouses or dependents under 18 years old any rights to subscribe for the shares or debentures of the Bank or any of its subsidiaries and associated companies, nor have any such rights to subscribe for the above shares or debentures been exercised by them. The Bank and its subsidiaries also have not entered into any agreement or arrangement whose arrangement was to enable the Directors, Supervisors, Chief Executive nor their spouses or dependents under 18 years old to acquire benefits by means of the acquisition of shares in, or debentures of the Bank or any other relevant companies.

21. MAJOR CUSTOMERS

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

22. INCOME TAXES

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

In accordance with the Notice on Issues relating to Individual Income Tax after the Abolishment of Guo Shui Fa [1993] No. 045 published by the State Administration of Taxation, when foreign individuals holding H Shares obtained from companies incorporated in PRC that issue H shares, the individual income tax is usually withheld at a uniform rate of 10%. The specific rate applied to foreign individuals may be different according to his/her residential status and the tax treaties signed between the country of his/her residence and the People's Republic of China.

Shareholders should consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing the H Shares.

23. CONTINUING CONNECTED TRANSACTIONS

(1) The Interbank Transactions Master Agreement

As HSBC is a substantial shareholder of the Bank, HSBC, its subsidiaries and affiliated companies (the "HSBC Group") are considered as related parties of the Bank. The Bank and its subsidiaries have regularly engaged in various transactions in the normal course of banking business with HSBC, such as sales and purchases of bonds, sales and purchases of money market instruments, foreign currency transactions, swap and option transactions, factoring and third party loans guaranteed by the HSBC Group.

To regulate the continuing transactions mentioned above, the Bank has entered into an interbank transactions master agreement (the **"Interbank Transactions Master Agreement"**) for a term of three years with HSBC in 2005, and subsequently renewed in 2008. Pursuant to the Interbank Transactions Master Agreement, HSBC and the Bank agree to conduct continuing connected transactions in accordance with applicable market interbank practices and on arms-length commercial terms.

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

Bonds, money market instruments, foreign currency and swap and option transactions entered into between the Group and the HSBC Group under the Interbank Transactions Master Agreement constitute continuing connected transactions under Rule 14A.34 of the Hong Kong Listing Rules, are therefore subject to the reporting and announcement requirements, but exempt from the independent shareholders' approval requirement under the Hong Kong Listing Rules.

The Interbank Transactions Master Agreement has expired on 31 May 2011. For the period from 1 January 2011 to 31 May 2011, the relevant continuing connected transactions had not exceeded their respective annual caps:

1) Each of the realised gains, realised losses and unrealised gains or losses (as appropriate) arising from the non-exempt continuing connected transactions has not exceeded RMB1.569 billion.

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

(2) The Renewal of the Continuing Connected Transaction Agreement

On 30 June 2011, the Bank entered into Interbank Transactions Master Agreement with HSBC for a term of three years, commencing from 1 June 2011 to 31 May 2014, and set the relevant caps for the continuing connected transactions contemplated under the agreement for the two years ending 31 December 2013, and the period from 1 June 2011 to 31 December 2011 and from 1 January 2014 to 31 May 2014, respectively.

The continuing connected transactions contemplated under the Interbank Transactions Master Agreement mainly include Bond Transactions, Money Market Transactions, Foreign Currency Transactions and Swap and Option Transactions.

There is no fixed price or rate for the transactions set out in the Interbank Transactions Master Agreement. The parties agreed to apply the prevailing market prices or rates normally used by independent counterparties for the same type of transaction when transacting pursuant to the Interbank Transactions Master Agreement.

Pursuant to the Hong Kong Listing Rules, transactions under the Interbank Transactions Master Agreement are only subject to reporting, annual review and announcement requirements, and are exempt from the independent shareholders' approval.

For the period from 1 June 2011 to 31 December 2011, the continuing connected transactions contemplated under the Interbank Transactions Master Agreement have not exceeded their respective annual caps:

1) Each of the realised gains or losses and unrealised gains or losses (as appropriate) arising from the non-exempt continuing connected transactions has not exceeded RMB3.055 billion.

2) The fair value of the foreign currency transactions, swap and option transactions entered into with the HSBC Group (whether recorded as assets or liabilities) under the non-exempt continuing connected transactions has not exceeded RMB6.498 billion.

(3) The Independent Non-Executive Directors' Annual Review of the Non-exempt Continuing Connected Transactions

Upon careful review of the continuing connected transactions in 2011, each of the Independent Non-executive Director of the Bank considers that the continuing connected transactions entered into by the Group were:

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

2) either on arms-length commercial terms or if there are no sufficient comparable transactions to judge whether they are on arms-length commercial terms, from the Bank's perspective, on terms no less favourable to the Bank than terms available to or from (as appropriate) independent third parties; and

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

(4) The Auditors' Annual Review of the Non-exempt Continuing Connected Transactions

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

1) the non-exempt continuing connected transactions were approved by the Board of Directors of the Bank;

2) the non-exempt continuing connected transactions were in accordance with the pricing policies of the Bank;

3) the non-exempt continuing connected transactions were entered into in accordance with the terms of the Interbank Transactions Master Agreement; and

4) the actual transaction amount of the non-exempt continuing connected transactions in the financial year of 2011 had not exceeded their respective caps set out above for the period from 1 January 2011 to 31 May 2011, and from 1 June 2011 to 31 December 2011.

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

During the Reporting Period, the transactions between the Bank and HSBC Group are as follows:

1) As at 31 December 2011, the aggregate balance of deposits placed in and loans made to HSBC Group by the Bank amounted to RMB2.317 billion, and the interest income arising from these deposits and loans were approximately RMB0.022 billion in 2011.

2) As at 31 December 2011, the aggregate balance of deposits placed in and loans made to the Bank by HSBC Group amounted to RMB19.707 billion, and the interest expenses arising from these deposits and loans were approximately RMB0.304 billion in 2011.

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

24. USE OF PROCEEDS FROM PUBLIC OFFERINGS IN PREVIOUS THREE YEARS

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

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

25. WORK PERFORMED BY THE AUDIT COMMITTEE AND PERSONNEL AND REMUNERATION COMMITTEE

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

26. AUDITORS

The Group's financial statements for the year 2011 prepared in accordance with China Accounting Standards were audited by Deloitte Touche Tohmatsu CPA Ltd., while the Group's financial statements for the year 2011 prepared in accordance with International Financial Reporting Standards were audited by Deloitte Touche Tohmatsu.

Pursuant to the approval at the 2010 Annual General Meeting, the Bank's financial statements for the year 2011 prepared in accordance with International Financial Reporting Standards were no longer audited by PricewaterhouseCoopers. As of the date of the 2010 Annual General Meeting, PricewaterhouseCoopers had already provided audit service for the Bank for ten years, reaching the maximum number of consecutive years of the provision of auditing service as regulated in the Administrative Measures for Financial Enterprises' Bid for Selecting and Hiring Accounting Firms (trial implementation) (Cai Jin [2010] No.169) published by Ministry of Finance of the People's Republic of China.

By order of the Board

Mr. Hu Huaibang
Chairman
28 March 2012, Shenzhen, PRC

Report of the Supervisory Committee

In 2011, in accordance with the requirements of the Company Law and the Bank's Articles of Association etc., the Supervisory Committee had been monitoring the Board of Directors' execution of resolutions approved at General Meetings of shareholders and other decisions made within the Board's authority. The Supervisory Committee also monitored Senior Management's implementation of resolutions approved at General Meetings of shareholders and the Board of Directors meetings as well as the business activities Senior Management carries out within its authority. At the same time, the Supervisory Committee also intensified its supervision over the discharge of duties by the Board of Directors, Senior Management and its members while closely monitoring areas such as the Bank's financials, internal controls and risk management to safeguard the interests of shareholders and the Bank.

1. MAIN RESPONSIBILITIES OF THE SUPERVISORY COMMITTEE

During the Reporting Period, the Supervisory Committee fulfilled its supervisory responsibilities through Supervisory Committee meetings, discharge of duties review and seminars, discharge of duties assessments; attendance at General Meetings of shareholders, Board of Directors meetings, special committees' meetings and Seminar of development and reform; participation in annual working conference, meetings of the President's Office, quarterly business review/analysis meetings and supervision joint conferences. It also received work progress reports from Senior Management and the relevant branches, departments and subsidiaries, carried out on-site inspections, interviewed other banks and customers on the spot, and reviewed financial information such as periodic reports, analysed business data, and reviewed internal and external investigation reports. The Supervisory Committee had performed its duties in an effective and diligent manner and had comprehensively carried out its supervisory duties.

(1) Continuous enhancement of its role in supervision and discharge of duty. The Supervisory Committee prepared the "Supervisory Committee's Appraisal of the Discharge of Duties by the Board of Directors and Senior Management for 2011" (the "Appraisal Report") by conducting interviews with all Directors and Senior Management, representatives of regulatory authorities and management of branches and departments, performing discharge of duties assessments of Directors and Senior Management, and reviewing annual discharge of duty reports for individual Directors and Senior Management, as well as based on the results of its daily supervision. The Supervisory Committee presented the Appraisal Report at the Board of Directors meetings and submitted the same to the CBRC. It also completed the "Summary Report of Discharge of Duty Appraisal for 2011" for the Board of Directors and Senior Management on the basis of the opinions and suggestions on the Bank's development put forward by individual Directors and Senior Management, which pointed out the immediate issues in development from various perspectives and was reported to the Executive Directors and Senior Management. In addition, it completed the "Discharge of Duty Appraisal for 2011" for individual Directors and Senior Management. The Supervisory Committee also gave objective evaluation to the Executive Directors, Non-executive Directors and Independent Directors, in accordance with the "Method on Duty Appraisal of Directors of Commercial Banks (Provisional)". It also submitted the "Discharge of Duty Appraisal for 2011" to the CBRC and reported to the Board of Directors the appraisal results after soliciting individual written opinions. The Supervisory Committee also prepared appraisal reports for Mr. Qian Hongyi, Mr. Ji Guoqiang and Mr. Chen Qingtai during their term as Directors and Mr. Zhu Hexin as Business Director, who would concurrently be General Manager of Beijing Branch as required by the CBRC. The appraisal reports were submitted to the regulatory authorities in accordance with the "Guidance on Corporate Governance of Joint Stock Commercial Banking Corporations".

(2) Diligent discharge of financial supervisory duties. During the Reporting Period, the Supervisory Committee diligently reviewed the financial information such as periodic reports and the profit distribution plan. It reviewed and analysed the relevant business statistics, attended discussions of the Supervisory Committee's Financial and Internal Control Committee, discussed with the auditors over their report on key items such as significant events, material adjustments and management recommendations, focusing on issues in accounting, performance indicators on deposit business, liquidity management and fee income on financial advisory services, and proposed improvement recommendations. With regard to the issue of deposit stability, the Supervisory Committee suggested to optimise the customer structure, and gradually adopt daily assessment from the combination of point assessment and daily assessment. With regard to the large amount of borrowings from banks and other financial institutions that existed at certain point in time, it recommended the management to focus on liquidity management and seek low-cost settlement funds. With regard to intermediary business, it recommended to further clarify the nature, scope, time period covered and pricing standard to be charged for financial advisory services.

(3) Continued strengthening of supervision over risk management. With regard to the risk in loans made to local government financing platforms and the trend of restructuring, extension and overdue status in loans, it proposed that the Bank should maintain its risk alerts, truthfully reflect non-performing loans status and take active measures to control risks. Due to the fact that the external auditor has provided audit services to the Bank for multiple years, the Supervisory Committee proposed that Bank should focuses on the independence of the external auditor and the building of its core team. As the approving authority for writing-off assets, the Auditing Department participated in the entire process of asset write-off. The Supervisory Committee put forward the suggestion that external auditors should reinforce the audit over asset write-offs.

(4) Research on the implementation of strategy and business development. First, the Supervisory Committee conducted research on the comprehensive operational development of the Bank and recommended all subsidiaries to enhance their core business and competency. It also recommended the Head Office to strengthen its consolidation and integrated group management capabilities. Second, the Supervisory Committee conducted research on the business development of the overseas branches and recommended the management to enhance its strategic planning for overseas expansion, as well as strengthen its integrated management of overseas branches. Third, the Supervisory Committee carried out research on the financing condition of small to medium or micro enterprises by conducting interviews with management of the Bank's Zhejiang and Jiangsu branches and local enterprises. As a result, it recommended the Bank to improve its management on risk tolerance, optimise the lending process of small to medium and micro enterprises, and promote successful marketing model to the entire bank.

(5) Further enhancement to the work of the Supervisory Committee. First, the Supervisory Committee improved its policies and procedures by developing the "Implementation Guidelines on Evaluation of Duties Performed by Directors (Provisional)", which further assesses the contents, methods and application of the performance evaluation specifically; as well as modifying the "Implementation Plan for the Reporting on the Discharge of Duties by ex-Directors and Senior Management at BoCom", which defined the main content and fundamental requirements of the reports. Second, the Supervisory Committee enhanced the capabilities of Supervisors in performing their duties by having them participate in the CSRC's training program, and organising seminars instructed by distinguished scholars on the following topics: the objectives and requirements of our financial system reform during the "12th Five-Year Plan" period, the insurance system for bank deposits, as well as the opportunities and challenges of the current economic and financial situation and transformation of banking system, which helped the Supervisors have a better understanding of the overall condition of economic and financial development and regulatory changes, as well as having a deeper understanding of new business opportunities for banks. Third, it performed evaluations on the performance of the Supervisory Committee and the discharge of duties performed by Supervisors, submitted the "Report of Self-evaluation on Duties Performed by the Supervisory Committee for 2011", and actively rectified the weaknesses identified in the Report of 2010.

The Board of Directors and Senior Management highly value the supervision provided by the Supervisory Committee, and actively report their improvement progress. The Board of Directors, the Supervisory Committee and Senior Management work under adequate coordination, as well as checks and balances with each other to further enhance corporate governance of the Bank.

2. MEETINGS OF THE SUPERVISORY COMMITTEE

In 2011, the Supervisory Committee convened five meetings on 28 and 30 March, 28 April, 30 May, 16 and 18 August and 27 October. The Supervisory Committee was briefed by Senior Management on the performance of consolidated management and by the Auditing Department on rectifying the weaknesses identified through internal and external audits. During the Meetings of the Supervisory Committee, 19 resolutions were approved, including the "2010 Report of the Supervisory Committee", a report presented during the General Meeting of shareholders.

(1) With regard to the monitoring of discharge of duties, the Supervisory Committee approved four reports: "Opinion of the Supervisory Committee on the Discharge of Duty by the Board of Directors and Senior Management in 2010", "Results of Evaluation of Duties Performed by Directors for 2010", "Implementation Guideline on Evaluation of Duties Performed by Directors (Provisional)" and "Implementation Plan for the Reporting on the Discharge of Duties by ex-Directors and ex-Senior Management at BoCom".

(2) With regard to the monitoring of revenue and expenditures, the Supervisory Committee has approved the following six reports: "2010 Annual Report", "2010 Management Accounts", "2010 Profit Distribution Plan", "2011 First Quarterly Results Announcement", "2011 Interim Report", and "2011 Third Quarterly Results Announcement".

(3) With regard to election of new Supervisory Committee members and its capacity building, the Supervisory Committee have approved the following five reports: “Proposal on Election of Mr. Jiang Yunbao as the External Supervisor of the Sixth Session of the Supervisory Committee of the Bank of Communications”, “Proposals on Candidates for the Nomination Committee of the Sixth Session of the Supervisory Committee of the Bank of Communications”, “Proposals on Candidates for the Performance and Due Diligence Committee of the Sixth Session of the Supervisory Committee of the Bank of Communications”, “2010 Report of Self-evaluation on Duties Performed by the Supervisory Committee”, and “2011 Work Plan of the Supervisory Committee”.

In addition, the Supervisory Committee approved the “2010 Internal Control Self-Appraisal Report”, the “2010 Corporate Social Responsibility Report”, and the “Rectification Plan of Opinions of Duties Performed by the Board Committees”, etc.

The Performance and Due Diligence Committee of the Supervisory Committee had convened three meetings and discussed the “Opinion of the Supervisory Committee on the Discharge of Duty by the Board of Directors and Senior Management in 2010”, and summary of interviews with Directors and Senior Management.

The Nomination Committee of the Supervisory Committee has convened two meetings and approved the “2011 Work Plan of the Nomination Committee of the Supervisory Committee”, discussed “2010 Appraisal Report of Discharge of Duty by the Supervisory Committee”, and reviewed the qualifications of candidates for members of the Sixth Session of the Supervisory Committee.

The Financial and Internal Control Committee of the Supervisory Committee has convened three meetings and discussed the “2011 Work Plan of the Financial and Internal Control Committee of the Supervisory Committee”, periodic reports, proposal on profit allocation, and “Internal Control Self-Appraisal Report for 2010”, etc..

Attendance at Supervisory Committee Meetings by Supervisory Committee members

Members of the Supervisory Committee	Attendance in person	Attendance Percentage (%)
Hua Qingshan	5/5	100
Zheng Li[1]	3/3	100
Jiang Yunbao[2]	2/2	100
Jiang Zuqi	5/5	100
Gu Huizhong	4/5	80
Guo Yu	5/5	100
Yang Fajia	3/5	60
Chu Hongjun	4/5	80
Li Jin	5/5	100
Yan Hong	4/5	80
Liu Sha	5/5	100
Chen Qing	5/5	100
Shuai Shi	5/5	100
Du Yarong	4/5	80
Average in person attendance percentage		**91.43**

Note:

1. Ms. Zheng Li resigned as External Supervisor of the Bank since 30 May 2011.
2. Mr. Jiang Yunbao was appointed as External Supervisor of the Bank since 30 May 2011.

3. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS

(1) Truthfulness of the financial statements

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

(2) Use of proceeds

During the Reporting Period, the Bank issued a public subordinated debt to the members of the Chinese interbank bond market in China and total proceeds raised were RMB26 billion. It was used to increase the Bank's supplementary capital, capital adequacy ratio, which is consistent with what the Bank had promised.

(3) Acquisition and disposal of assets

In December 2011, pursuant to the approval from the Board of Directors and CBRC, the Bank made a capital injection of RMB0.68 billion into Bank of Communications International Trust. After the capital injection, the Bank's proportion of shareholding remain unchanged at 85%. The Supervisory Committee is not aware of any acquisition or disposal of assets by the Bank which may damage the interest of the shareholder or which may cause a loss to the Bank's assets.

(4) Related party transactions

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

(5) The auditors' report

Deloitte Touche Tohmatsu CPA Ltd. and Deloitte Touche Tohmatsu have issued unqualified audit reports on the financial position and operating results of the Bank in 2011 and the Supervisory Committee has no objection to the report.

(6) Implementation of information disclosure

During the Reporting Period, the Bank welcomed the supervision by the public and disclosed the information in compliance with applicable laws. The Supervisory Committee has not identified any false records, misleading statements or material omissions.

(7) Internal Control System

During the Reporting Period, the Bank attached significant importance to the development of its internal control system, with continued enhancement made to its internal control procedures. The Supervisory Committee has no objection to the "Internal Control Self-Appraisal Report for 2011" of the Bank.

(8) Compliance with applicable laws

During the Reporting Period, the Bank undertook its business pursuant to applicable laws and its decision-making process was in compliance with relevant laws, regulations and the Bank's Articles of Association. The Board of Directors and Senior Management were diligent, hardworking and prudent and no instances of any breach of laws or regulations which would damage the interests of the Bank and shareholders have been identified. The Supervisory Committee evaluated the discharge of duties performed by Directors for the year of 2011, in accordance with the "Method on Duty Appraisal of Directors of Commercial Banks (Provisional)" issued by the CBRC, "Guidelines of Appointment and Behaviour of Directors in Listed Companies" issued by Shanghai Stock Exchange and the "Supervision of the Supervisory Committee over the Senior Management and members of the Board of Directors" issued by the Bank. As at 31 December 2011, there were 17 incumbent Directors at the Bank. The Supervisory Committee did not evaluate three newly-appointed Directors because their appointments were approved by the CBRC after August 2011, which is less than six months from the effective date. In accordance with the "Method on Duty Appraisal of Directors of Commercial Banks (Provisional)", the results of evaluation of the other 14 Directors are divided into three categories: competent, basic competent and incompetent". According to "the Supervisory Committee should report the results of evaluation to the General Meetings of shareholders and Board of Directors", 12 Directors were evaluated at "competent" and two others at "basic competent".

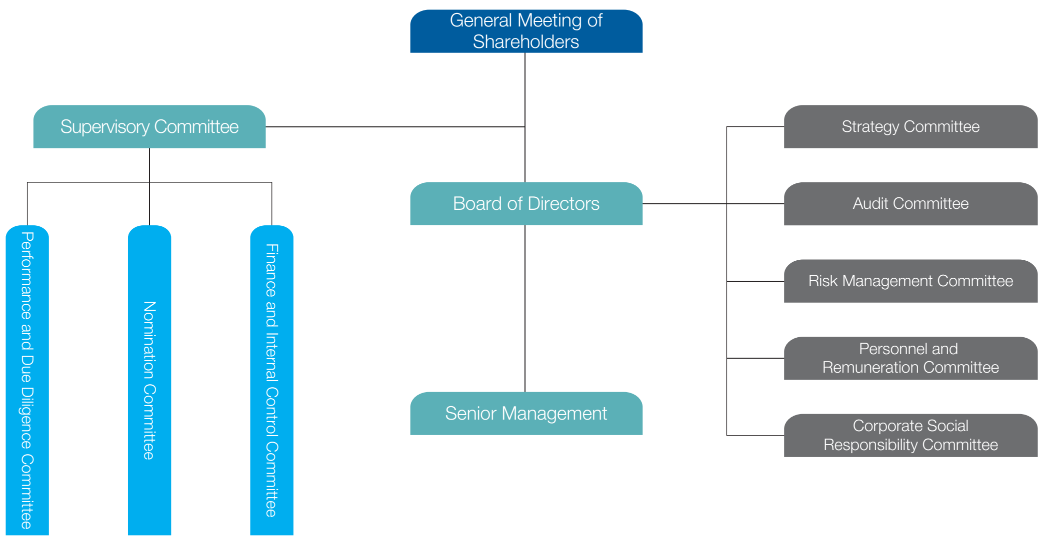
The Bank diligently implemented the nation's macroeconomic policy to actively respond to the changes in market environment, and enhanced its comprehensive strength; moved forward with the set strategy to achieve remarkable development; promoted the institutional reform to continuously upgrade management capabilities; and broadened the overall risk management to enhance its operating capabilities. As a result, the Bank is off to a good start in its "12th Five-year Plan". Facing a complex global economic and financial environment, the Bank shall adhere to its BoCom Strategy and expand its second reform; drive its transformation process and create special features in its services to develop competitive advantages; enhance the application of economic capital in its budget management, resources allocation and performance evaluation to improve its overall capital management; and unremittingly strengthen its risk management to promote steady development of businesses from all aspects.

A sound corporate governance is critical for enhancing shareholder value and investors' confidence. The Bank is always committed to developing a modern corporate governance structure comprising the General Meeting of shareholders, the Board of Directors, the Supervisory Committee, and the Senior Management, while delivering outstanding operating results. In 2011, the Bank fully complied with the Company Law and the relevant standards and regulations promulgated by domestic and overseas regulatory authorities to protect the legal interest of shareholders and other stakeholders, with the global standards as a benchmark and its own practical experience in corporate governance as a basis. The Bank continuously improved and innovated on the operating mechanism of the Board of Directors and the Supervisory Committee, and further strengthened its governance principles and practices. The Bank also moved forward in its transformation and development, with continued enhancement in its enterprise-wide risk management and internal control. Furthermore, the Bank continued to strengthen its investor relationship management and promote transparency of information disclosure. The Bank has been active in fulfilling its social responsibilities and further developing its corporate culture and enhancing brand image.

The Directors confirmed that the Bank has fully complied with the principles and code provisions stipulated in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Hong Kong Listing Rules and the Report on Corporate Governance Practices (the "Report"), and has also followed most of the best recommended practices for the year ended 31 December 2011.

1. CORPORATE GOVERNANCE STRUCTURE

The Bank has established an effective, balanced and independent corporate governance structure, with clearly defined roles and responsibilities for the General Meetings, Board of Directors, Supervisory Committee and Senior Management.



2. SHAREHOLDERS AND GENERAL MEETINGS OF SHAREHOLDERS

As at 31 December 2011, the total issued share capital of the Bank was 61.886 billion shares, consisting of 52.85% A shares and 47.15% H shares. There is no controlling shareholder in the Bank. The largest shareholder, the Ministry of Finance, and the second largest shareholder, HSBC, held 26.52% and 19.03% equity interest in the Bank respectively. The Bank is independent from all shareholders in terms of its business, employees, assets, institutions and finance, and possesses independent and complete autonomy over its business and operations. The Bank is listed on the exchange as a whole and therefore the issues caused by reform of the parts or others such as inter-group competition and related party transactions do not exist.

The General Meeting of shareholders is the highest authority of the Bank. The Bank takes effective measures to protect the interest of shareholders and facilitate their communication. During the Reporting Period, the Bank held two General Meetings of shareholders (on-site). On 23 February 2011, the Bank held the 2011 First Extraordinary General Meeting in Shanghai; on 28 June 2011, the Bank held the 2010 Annual General Meeting in Shanghai, where external auditors also attended. Each matter which was independent by nature was put forward by separate proposal and voted by poll in the meetings. The voting results announcements for all the General Meetings of shareholders had been published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Bank had also been published in China Securities Journal, Shanghai Securities News and Securities Times. All resolutions passed at the General Meetings of shareholders have been fully executed.

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

(1) Responsibilities of the Board of Directors

The Board of Directors is the strategic decision making body of the Bank and reports to the General Meeting of Shareholders. Moreover, it performs its duties in compliance with laws, regulations, and the Bank's articles of association, and as approved by the General Meetings of shareholders, to protect the legal interests of the Bank and its shareholders. Its main responsibilities include, but not limited to, convening shareholders' general meetings and reporting on the Bank's performance at such meetings, executing the resolutions approved in the Shareholders' General Meetings and formulating the Bank's business plans and investment strategies. The Board also reviews and monitors the performance of the President. All Directors of the Bank are committed to fulfilling their responsibilities, actively participating in different kinds of trainings organised by the Bank, and improving the standards of the Board's practices, and displaying a high level of professionalism and competence. The Board of Directors diligently follow the "Delegation Proposal to the Board of Directors in the Shareholders' General Meeting" when making important decisions. During the Reporting Period, the Board focused on 6 key areas: first, devised the development plan for the "12th Five-Year Plan period" (year 2011 to 2015) and reinforced the Bocom Strategy as well as improving the group's overall competitiveness; second, set up the Notice of Further Reinforcement of the Board of Directors (the "Notice"), which includes twenty-nine specific measures covering ten aspects, such as improving the decision making process of the Board of Directors, building a post-evaluation mechanism, and continuing to optimise the operation of board committees. The release and implementation of the Notice is an important milestone of the Board's development in the Bank's history; third, comprehensively supported the Bank's transformation, promoted the reform of the Bank's operation, to support the development of real economy; fourth, continuously reinforced risk control and strict management of insider information; fifth, provided adequate information disclosure, and facilitated more effective communications with investors; sixth, fulfilled its social responsibilities and built its corporate culture and brand.

(2) Composition of the Board of Directors

As at the end of 2011, the Board of Directors comprised 17 members, including four Executive Directors, namely Mr. Hu Huaibang, Mr. Niu Ximing, Mr. Qian Wenhui, and Mr. Wang Bin; seven Non-executive Directors, namely Mr. Zhang Jixiang, Mr. Hu Huating, Ms. Du Yuemei, Mr. Peter Wong Tung Shun, Ms. Anita Fung Yuen Mei, Mr. Ma Qiang and Mr. Lei Jun; six Independent Non-executive Directors, namely Mr. Eric Li Ka-cheung, Mr. Gu Mingchao, Mr. Wang Weiqiang, Mr. Peter Nolan, Mr. Chen Zhiwu and Mr. Choi Yiu Kwan. The number of the Independent Non-executive Directors of the Bank accounted for one-third of the total number of Directors, which met the relevant regulatory requirements and the term of each Non-executive Director of the Bank didn't exceed three years. Please refer to the "Directors, Supervisors, Senior Management and Human Resource" section in this Annual Report for biographical details of the Directors. Their individual profiles are also available on the Bank's website.

The Chairman of the Board of Directors is Mr. Hu Huaibang. Mr. Niu Ximing serves as the Vice Chairman of the Board of Directors and the President of the Bank. The roles and responsibilities of the Chairman and the President are independent from each other and, which has been clearly defined.

(3) Meetings of the Board of Directors

The Bank has developed the "Procedural Rules of the Board of Directors' Meeting" to clearly outline matters in respect of the requirements for convening and giving notice for a meeting, the procedures, agenda and minutes of the meeting and so on. During the Reporting Period, the Board of Directors of the Bank held five meetings (including four on-site meetings and one meeting via circulation of written resolutions) and passed 44 resolutions. Details are as follows:

The Fifth Meeting of the Sixth Session of the Board of Directors was conducted in Dongguan on 30 March 2011. The Sixth Meeting of the Sixth Session of the Board of Directors was convened in Shanghai (on site) Beijing (via video conference), Hong Kong (via video conference) and New York (via video conference) on 28 April 2011. The Seventh Meeting of the Sixth Session of the Board of Directors was conducted via circulation of written resolutions from 3 June to 10 June 2011. The Eighth Meeting of the Sixth Session of the Board of Directors was convened in Shanghai (on site) and Beijing (via video conference) on 18 August 2011. The Ninth Meeting of the Sixth Session of the Board of Directors was convened in Shanghai (on site) and New York (via video conference) on 27 October 2011. All the aforementioned meetings were held in compliance with the Bank's Articles of Association, the "Procedural Rules of the Board of Directors' Meetings", and provisions of the Code on Corporate Governance Practices and the Corporate Governance Report.

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

Director	Attendance at Meetings	Attendance Percentage (%)	Attendance at Meetings in Person	Attendance in Person Percentage (%)
Executive Directors				
Hu Huaibang	5/5	100	5/5	100
Niu Ximing	5/5	100	4/5	80
Qian Wenhui	5/5	100	5/5	100
Wang Bin	5/5	100	4/5	80
Non-executive Directors				
Zhang Jixiang	5/5	100	5/5	100
Hu Huating	5/5	100	5/5	100
Qian Hongyi[1]	2/2	100	2/2	100
Du Yuemei[2]	1/1	100	1/1	100
Peter Wong Tung Shun	5/5	100	2/5	40
Anita Fung Yuen Mei	5/5	100	3/5	60
Ji Guoqiang[3]	1/1	100	0/1	0
Ma Qiang[4]	1/1	100	1/1	100
Lei Jun	5/5	100	4/5	80
Independent Non-executive Directors				
Chen Qingtai[5]	1/1	100	0/1	0
Eric Li Ka-cheung	5/5	100	5/5	100
Gu Mingchao	5/5	100	5/5	100
Wang Weiqiang	5/5	100	4/5	80
Peter Nolan	5/5	100	5/5	100
Chen Zhiwu	5/5	100	5/5	100
Choi Yiu Kwan[6]	1/1	100	1/1	100
Average Attendance Percentage		**100**		**86**

Notes:

1. Mr. Qian Hongyi resigned as the Non-executive Director of the Bank on 29 April 2011; (same applies hereinafter)
2. Ms. Du Yuemei was appointed as the Non-executive Director of the Bank effective on 19 August 2011 after being approved by the CBRC; (same applies hereinafter)
3. Mr. Ji Guoqiang resigned as the Non-executive Director of the Bank on 27 April 2011; (same applies hereinafter)
4. Mr. Ma Qiang was appointed as the Non-executive Director of the Bank effective on 30 September 2011 after being approved by the CBRC; (same applies hereinafter)
5. Mr. Chen Qingtai resigned as the Independent Non-executive Directors of the Bank on 4 April 2011; (same applies hereinafter)
6. Mr. Choi Yiu Kwan was appointed as the Independent Non-executive Director of the Bank effective on 2 September 2011 after being approved by the CBRC; (same applies hereinafter)

(4) BOARD COMMITTEES

The Board has set up five committees, being the Strategy Committee, the Audit Committee, the Risk Management Committee, the Human Resource and Management Committee and the Social Responsibility Committee. The discharge of duty of the respective committees is summarised as follows:

1. Strategy Committee. The Strategy Committee is primarily responsible for designing and developing the strategic plans for the Bank, formulating medium-to long-term development plans, significant equity investment proposals and capital management of the Bank. As at the end of 2011, the Strategy Committee comprised five members, including Mr. Hu Huaibang, Mr. Niu Ximing, Mr. Qian Wenhui, Mr. Wang Bin and Mr. Peter Wong Tung Shun. Mr. Hu Huaibang serves as the Chairman of the Strategy Committee. During the Reporting Period, the Strategy Committee held four meetings and discussed on subjects including the annual development plan for the "12th Five-Year Period", initiating the establishment of Bank of Tibet, and the replenishment of capital for subsidiaries, and presented its recommendations to the Board of Directors. The summary of attendance at the meetings of the Strategy Committee is as follows:

Strategy Committee Member	Attendance	Attendance Percentage (%)
Hu Huaibang (Chairman)	4/4	100
Niu Ximing	4/4	100
Qian Wenhui	4/4	100
Wang Bin	4/4	100
Peter Wong Tung Shun	3/4	75
Average attendance percentage		**95**

2. Audit Committee. The Audit Committee is mainly responsible for proposing the appointment, change or termination of the Bank's auditors, supervising the Bank's internal audit function and control implementation, acting as the communication channel between the Bank's internal and external auditors, reviewing the Bank's financial information and related disclosures, overseeing the Bank's accounting policies, financial conditions and financial reporting procedures, and monitoring the implementation of the Bank's internal control. During the Reporting Period, the Audit Committee held four meetings with external auditors, with no issues on employees' misconduct that had impact on the financial statements noted. As at the end of 2011, the Audit Committee of the Board of Directors comprised four members, including Mr. Eric Li Ka-cheung, Ms. Du Yuemei, Mr. Gu Mingchao and Mr. Choi Yiu Kwan, of which Mr. Eric Li Ka-cheung, the Independent Non-executive Director, serves as the Chairman of the Audit Committee. The number of Independent Non-executive Directors accounted for more than half of the total number of the Audit Committee members.

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

Audit Committee Member	Attendance	Attendance Percentage (%)
Eric Li Ka-cheung (Chairman)	4/4	100
Du Yuemei	1/1	100
Gu Mingchao	4/4	100
Choi Yiu Kwan	1/1	100
Chen Qingtai	0/1	0
Qian Hongyi	2/2	100
Average attendance percentage		**92**

3. Risk Management Committee. The Risk Management Committee is mainly responsible for supervising and controlling the Bank's credit, market, operational risks and compliance, performing periodic assessment on the Bank's risk exposure and tolerance and its risk management capabilities, reviewing significant related-party transactions, significant fixed asset investments, asset disposals, asset pledges and external guarantees. It also presents its recommendations to the Board of Directors in relation to the possible enhancements on the Bank's risk management and internal controls. In addition, it is responsible for monitoring and reviewing significant related party transactions as well as the associated risks. As at the end of 2011, the Risk Management Committee is comprised five members, including Mr. Wang Weiqiang, Mr. Ma Qiang, Mr. Lei Jun, Mr. Peter Nolan and Mr. Chen Zhiwu. The Independent Non-executive Director, Mr. Wang Weiqiang, serves as the Chairman of the Risk Management Committee.

During the Reporting Period, the Risk Management Committee held five meetings. In addition to reviewing the quarterly risk assessment reports, the Risk Management Committee also reviewed a number of important proposals, including the renewal of the "Primary Agreement on Inter-bank Trading" with HSBC, "Policies on Market Risk Management" and "Policies on Stress Testing", liquidity risk Indicators and the initial application of the New BASEL Accord, and presented its recommendations to the Board of Directors. The summary of attendance at the meetings of the Risk Management Committee is as follows:

Risk Management Committee Member	Attendance	Attendance percentage (%)
Wang Weiqiang (Chairman)	5/5	100
Ma Qiang	1/1	100
Lei Jun	5/5	100
Peter Nolan	5/5	100
Chen Zhiwu	5/5	100
Ji Guoqiang	0/1	0
Average attendance percentage		**95**

4. Personnel and Remuneration Committee. The Personnel and Remuneration Committee carries out its practice within the authorisation of and reports directly to the Board of Directors. The Board of Directors reserves the final right of approving the remuneration plans for Directors and Senior Management. According to the strategic plan and operational targets approved by the Board of Directors, the Personnel and Remuneration Committee is primarily responsible for establishing the performance evaluation criteria for the Board of Directors and Senior Management and conducting the evaluations. It is also responsible for formulating the remuneration plans for Directors, Supervisors and Senior Management and monitoring its implementation, as well as developing the criteria and procedures for nomination of Directors and Senior Management and performing initial assessments. The Personnel and Remuneration Committee of the Bank maintains the capacity of both a nomination committee and a remuneration committee, which effectively optimised the Bank's corporate governance structure and improved the efficiency of the Bank's operation. As at the end of 2011, the Personnel and Remuneration Committee comprised four members, including Mr. Gu Mingchao, Mr. Zhang Jixiang, Ms. Anita Fung Yuen Mei and Mr. Choi Yiu Kwan. The Independent Non-executive Director, Mr. Gu Mingchao, serves as the Chairman of the Personnel and Remuneration Committee. The number of Independent Non-executive Directors accounted for half of the total number of members of the Personnel and Remuneration Committee.

During the Reporting Period, the Personnel and Remuneration Committee held five meetings to review a number of proposals, including the nomination of Directors, the appointment of Senior Management, Directors and Supervisors, the remuneration and compensation plan for Senior Management, and the amendment of the Interim Regulations on Annual Performance Assessment for Senior Management, and presented its advice to the Board of Directors. The summary of attendance at the meetings of the Personnel and Remuneration Committee is as follows:

Personnel and Remuneration Committee Member	Attendance	Attendance percentage (%)
Gu Mingchao (Chairman)	5/5	100
Zhang Jixiang	5/5	100
Anita Fung Yuen Mei	4/5	80
Choi Yiu Kwan	1/1	100
Chen Qingtai	1/1	100
Average attendance percentage		**94**

5. Social Responsibility Committee. The Social Responsibility Committee is primarily responsible for designing and formulating the Bank's social responsibility strategy and policy, monitoring, inspecting and evaluating the related implementation, and approving donations according to its authority approved by the Board of Directors. As at the year end of 2011, the Social Responsibility Committee comprised five members, Mr. Niu Ximing, Mr. Qian Wenhui, Mr. Hu Huating, Mr. Ma Qiang and Mr. Chen Zhiwu. Mr. Niu Ximing serves as the Chairman of the committee. During the Reporting Period, the Social Responsibility Committee held two meetings and reviewed a number of proposals including the Corporate Social Responsibility Report and presented its advice to the Board of Directors. The summary of attendance at the meetings of the Social Responsibility Committee is as follows:

Social Responsibility Committee Member	Attendance	Attendance percentage (%)
Niu Ximing (Chairman)	2/2	100
Qian Wenhui	2/2	100
Hu Huating	2/2	100
Ma Qiang	—	—
Chen Zhiwu	2/2	100
Ji Guoqiang	0/1	0
Average attendance percentage		**89**

(5) INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

(6) RESPONSIBILITY OF THE BOARD OF DIRECTORS FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of financial statements to give a true and fair view of the Group's business condition, operating results and cash flows in each accounting period. In preparing for the financial statements for the year ended 31 December 2011, the Directors have selected and consistently applied appropriate accounting policies and have made reasonable and prudent accounting estimates. The Directors have acknowledged their responsibility for the preparation of financial statements and the auditor's acknowledgement of their responsibility has been stated on page 113 of the Independent Auditor's Report.

(7) SPECIFIC NOTIFICATION AND INDEPENDENT OPINION BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS ON EXTERNAL GUARANTEES BY THE BANK

The Independent Non-executive Directors consider that the provision of external guarantees is in the ordinary course of the Group's business and is approved by the banking regulatory authorities in China. To effectively manage the risks of its external guarantee business, the Bank has developed prudent risk management and monitoring policies, particularly on the credit assessment of guarantee, as well as operational and credit approval procedures, etc.

4. SUPERVISORY COMMITTEE AND SPECIAL COMMITTEES OF THE SUPERVISORY COMMITTEE

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

There are 13 members on the Supervisory Committee, including the Chairman, two External Supervisors, six Shareholder Representative Supervisors, and four Employee Representative Supervisors. Mr. Hua Qingshan serves as the Chairman of the Supervisory Committee. The Supervisory Committee has three special committees: The Performance and Due Diligence Supervision Committee, has four members including the Chairman of the Supervisory Committee, two External Supervisors and one Employee Representative Supervisor. They are responsible for the oversight of the Board of Directors and Senior Management performance. The Nomination Committee has five members, with the External Supervisor as the Chairman, two Shareholder Representative Supervisors, and two Employee Representative Supervisors. They are responsible for the development of supervisor nomination procedures and standards, selection of qualified audit supervisors, and evaluation of their annual performance. The Financial and Internal Control Supervision Committee, has seven members, including the Chairman being the External Supervisor, four Shareholder Representative Supervisors and two Employee Representative Supervisors. They are responsible for the supervision of financial management, internal controls and risk management of the Bank.

The attendance rate of Supervisory Committee meetings was 91.43%. Supervisors provide quality comments and suggestions on financial reports, improvement of risk management and internal controls. They actively participated in research, seminars and training organised by the CSRC and Supervisory Committee to continually improve the performance and implement regulatory requirements. The two External Supervisors are experienced professionals in business management and financial accounting, and have duly executed their duties and responsibilities as the Chairman of the special committees. The Supervisors attend meetings of the Board and its special committees, conduct interviews with Directors and Senior Management, visit branches to perform in-depth analysis to monitor the Board of Directors and Senior Management performance.

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

5. SENIOR MANAGEMENT

The Bank's Senior Management comprises of the President, Executive Vice President, Chief Financial Officer, Chief Information Officer, Chief Risk Officer and Corporate Business Director. The Bank adheres to a system whereby the President, as the ultimate responsible officer reports to the Board of Directors. All other functional departments, branch offices and Senior Management report to the President. The President has the authority to manage the Bank's business in compliance with the relevant laws and regulations, the Bank's Articles of Association and authorisation from the Board of Directors, with primary responsibilities include managing day-to-day operations, executing the board resolutions, annual business plan and investment strategy planning.

During the Reporting Period, Senior Management ran the day-to-day operation of the Bank in accordance with the Bank's Articles of Association and authorisation from the Board of Directors. Each individual business line achieved the business targets set by the Board of the Directors. The Board of Directors was satisfied with the performance of the Senior Management for the year 2011.

6. INTERNAL CONTROL

(1) Internal control system overview

Using the guidance provided by the "Guidelines on Internal Controls for Commercial Banks" issued by the CBRC and the "Internal Control Code for Companies" jointly issued by the Ministry of Finance and other five departments, the Bank developed its internal control system framework. The Bank's internal control objective is to guarantee the legitimacy and compliance of its operating management, the security of assets, and the accuracy, completeness and reliability of the financial information, thus enhancing the operating efficiency and achievements, as well as facilitating the Bank to realise its development strategy and operation objectives.

With regard to the internal controls over financial reporting, the Bank has abided with the requirements of International Financial Reporting Standards and Chinese Accounting Standards and the latest supervising regulations. Through the use of appropriate frameworks, procedures and processes to ensure the accuracy, completeness and effectiveness of its financial information and other management information: (1) To take the complete governance framework as guarantee. The Directors, Supervisors and Senior Management have joint responsibility for the accuracy and completeness of over the Bank's financial reporting. The Audit Committee under the Board of Directors and the Financial and Internal Control Supervision Committee under the Supervisory Committee are responsible for the review of the Bank's financial information and disclosures, and the performance of the Bank's auditors. The Bank's Financial Budgeting Department is responsible for the preparation of financial reports and for implementing various accounting procedures to ensure that the Bank's accounts classification is in accordance with International Financial Reporting Standards and Chinese Reporting Standards while the Business Management Centre and Operations Management unit is responsible for daily accounting settlement. (2) To take the systematic financial reporting control system as guidance. The Bank has formulated various financial management systems and accounting procedures for its various lines such as the "Basic Accounting Code for the Bank of Communications" and "Bank of Communications Financial Management

Manual" to clearly guide and formalise the accounting policies for its various business lines as well as its financial management. (3) To take the accompanying data management and information platform as support. Through the use of systems such as its core accounting system, internal accounting system, OPICS system (the backoffice system of treasury business), SUMMIT system (the backoffice system of financial derivative transaction), and the "integrated report processing system" and "accounting standards conversion system". The accuracy of reporting information is ensured through the logical analysis and test of data information. (4) To take strict internal and external review as supervision. The Bank's Internal Audit Department and auditors are responsible for auditing the Bank's business operation and financial reporting.

(2) Internal control measures

Surrounding its BoCom Strategy, the Bank launched "the Second Reform" project in 2011 to optimise its business organisation structure, operation organisation structure, its networked business model, performance appraisal system, and various operating mechanisms including credit management and information technology management, thus continuously improving the Bank's internal control system. First, three special business promotion committees have been built under the Senior Management to facilitate the Bank's operating objectives and development of BoCom Strategy. Three front offices of corporate and retail banking and financial institutions operation have been set up to outstand the operation of various sections and the interaction between business lines, as well as to adjust the business organisation structure and operation mechanism of front offices, which confirmed to the requirements of the market and business development. Second, the management approaches of institutions and network locations were improved to intensify the development of "3-in-1" services system which integrates customer service network locations with electronic banking and customer management. Level-to-level administration was implemented to the institutions to improve the quality of newly-founded branches and the layout and capacity of the existing network locations. Third, in accordance with the "covering all-dimensionally" principle, the Bank strengthened the overall risk management through the following methods: further perfected the risk management system; built a regular appraisal system of risk management defect; improved various risk management measures relating to credit, market, operation and liquidity; expanded the use of internal appraisal tools; facilitated the management of cross-border, cross-industry and country risks; implemented the qualification administration mechanism of risk management; and improved the accountability system of non-performing credit assets. Fourth, the reform in the Bank's operation organisation structure and reengineering of operational procedures were facilitated to implement the centralised model and rebuild the operation management system. Fifth, the mechanisms and procedures of bid, acquisition and construction of the office buildings, management of physical assets and donation, were regulated to strengthen the management of financial assets. Sixth, the construction of "531" project was facilitated to continuously optimise the Bank's system network and strengthen the business development support. In addition, the Bank completed the city-level switching operation at the speed of minutes in the event of a disaster. Seventh, the internal control appraisal and correction system was advanced to promote the classification, rectification and accountability of the problems found.

In 2011, the Bank's internal control system proved to be reliable and operated effectively. In 2012, surrounding the theme of "stabilise development; promote transformation; control risks; carry out reform; and enhance profitability", the Bank will manage the relationship among prudent development, structural adjustment and risk management, focus on key tasks, thus continuously enhancing its internal control system.

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

The Bank is devoted to enhancing the quality of its annual financial report and improving the disclosure of the report. Through building the disclosure system of annual report and implementing the "Rules on Management of Information Disclosure", "Rules on Management of Major Information in Internal Reports", "Guidelines on Management of Confidential and Inside Information", and "Rules on Management of Major Information in Internal Reports for Subsidiaries", the Bank effectively prevents the major mistakes through identifying information disclosure deadlines for reporting, compiling and approval of financial information, enhancing responsibilities of various positions, and implementing accountability for mistakes. During the Reporting Period, there was no major mistake regarding information disclosure found by the Bank.

8. SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Directors, Supervisors and Senior Management of the Bank have strictly adhered to the "Guidelines on Management of Shares held by Directors, Supervisors and Senior Management of Listed Company" by the China Securities Regulatory Commission and the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 to the Hong Kong Listing Rules.

9. AUDITOR'S REMUNERATION

The Group's financial statements for the year ended 31 December 2011 prepared in accordance with China Accounting Standards have been audited by Deloitte Touche Tohmatsu CPA Ltd. The financial statements prepared in accordance with the International Financial Reporting Standards have been audited by Deloitte Touche Tohmatsu. The total audit fees are approximately RMB31.10 million, including the audit services of internal controls.

The fees for non-audit services provided by Deloitte and its associated companies for 2011 are approximately RMB1.22 million. The Audit Committee has been informed of the nature of the non-audit services (such as the translation of documents and attestation services on Corporate Social Responsibilities Report) provided as well as the relevant fees. The Audit Committee was satisfied that the services provided have not impaired the independence of Deloitte.

10. INVESTOR RELATIONS (IR)

Consistent with the goal of maximising shareholder value, the Bank's investor relations management continues to be a key focus in establishing and maintaining positive relationship with investors.

In the year 2011, the IR team further strengthened its investor relations management and maintained close communication with investors through numerous channels. Communication through various media effectively enhanced investors' understanding of the growth strategy, objectives planning, and business operation of the Bank, thus boosting investor confidence.

During the Reporting Period, the Bank held four results press conferences in Hong Kong and Shanghai respectively, and organised international road shows in major international financial centres. These activities allowed the Bank to have direct and effective communication with the investors about the latest progress in the Bank, as well as in the banking industry. The Bank also maintained regular interaction and communication with investors through participation in 13 domestic and overseas investor forums and hosted visits by investors and analysts of more than 100 times. Through these activities, the Bank's IR team managed to communicate with over 1,400 investors and analysts in total.

Investor relations are highly valued as they serve as an important "communication bridge" between the market and the Bank. Thereby the Bank constantly strengthened the supervision and research on existing capital market, as well as obtained market feedback and suggestions on its development strategy and business operation. In particular, the Bank improved the annual analyst survey system for collection of market information and feedback from analysts, including hot topics and recommendations on the Bank's strategy implementation, business operation, market value management. During the Reporting Period, the Bank collected over 50 surveys from analysts and hosted two analysts' forums. The views from analysts were subsequently submitted to the Senior Management of the Bank, which will provide valuable references and inspiration for the Bank's future development.

Corporate Social Responsibilities

Management believes in the corporate value of "strong harmony and integrity, constant pursuit of excellence and growing with the society". With the goals of maximising benefits for shareholders, customers, employees and other stakeholders, as well as reaching world-class in fulfilling social responsibilities, the Bank strived to embed social responsibilities into its strategic planning and create values for shareholders, customers and employees. It also follows the principles of rational development closely. In 2011, the Bank's social contribution per share reached RMB2.93 (2010: RMB2.34).

1. PROMOTING "GREEN CREDIT"

The Bank enthusiastically responded to the State's initiative of "the 12th Five-Year Comprehensive Working Program on Energy Conservation and Emission Reduction", made further enhancement in its policies and procedures of Green Credit lending, by issuing the "Opinions on Broadening the Development of the Green Credit Project" and the "Guidance on the 2011 Green Credit Policy". Customers are classified into seven categories under three colours of "green", "yellow" and "red", and the Bank implemented watch list monitoring procedures for 3 categories under the colours of "yellow" and "red". At the end of the Reporting Period, customers classified under the "green" colour accounted for 99.28% of the Bank's total credit customers and their related credit authorisation accounted for 99.72% of the Bank's total credit lines authorised. Of which, total credit authorised to customers focusing on low carbon, environmental protection and comprehensive utilisation of resources reached RMB123,536 billion, representing an increase of 20.77% from the beginning of the year, and with the number of customers increased by 307 to 1,052.

During the Reporting Period, the Bank implemented limit management on lending to the highly polluting, energy-intensive sectors and sectors with redundant capacity, namely steel, cement, plate glass, coal chemical, polysilicon and wind power equipment, according to its principles of "optimising structure, setting limit and ensuring quality". As a result, total balance of loans made to these industries has been decreasing every month. At the end of the Reporting Period, according to the calculation method described in the "Circular on Restraining Certain Industries with Redundant Capacity or Construction to Lead Sound Industrial Development", total loans made to these discouraged sectors accounted for 3.21% of the entire lending portfolio, representing a decrease of 0.73 percentage point from the prior year.

2. SUPPORTING THE DEVELOPMENT OF GREEN OPERATION AND SERVICES

The Bank actively supported the concept of "Green Finance". Through the channel of e-banking, the Bank is able to offer service products that are more efficient and convenient, with lower cost and higher quality. At the end of the Reporting Period, the diversion ratio of e-banking reached 66.44%, representing an increase of 6.27 percentage points from the prior year. Through online banking and self-service equipment, the Bank, together with its customers, was able to reduce its resources consumption equivalent to 210,000 trees, 12 thousands tons of paper and 3,000 tons of carbon dioxide emission.

The Bank promoted the concept of "Green Operation" across all its business lines and actively implemented the "Notice on Launching the Campaign on Energy Conservation Issued by the General Office of the State Council" and "Regulation on Energy Conservation by Public Entities". Through measures of technology upgrading, management improvement and office automation, the Bank was able to reduce its energy and resources consumption substantially.

3. IMPLEMENTING THE NATION'S MACROECONOMIC POLICIES

The Bank carefully implemented the nation's macroeconomic policies and the requirements by the Central Bank, through the execution of prudent monetary policies and maintaining reasonable control on the growth and disbursement pace of loans.

Focusing on its objective of supporting the real economy, the Bank set specific targets on lending support as well as lending control, whereby, loans made to central and western China, consumer spending related industries, and small to medium and micro enterprises showed increases and loans made to local government financing platforms, real estate, and the highly polluting, energy-intensive sectors and sectors with redundant capacity showed decreases in 2011. Adopting a selective lending policy, the Bank increased its support to industries of energy and resources, advanced manufacturing, consumer spending and the strategically emerging sectors. The Bank fully aligned its policies with the Government's call for economic transformation, by covering 45 industries or 90% of all. The growth in corporate loans is mainly directed to sectors most representative of real economy, being manufacturing, mining, transportation and whole sale. In addition, the Bank also increased its support to sectors that have the largest impact to people's wellbeing and strengthening of the nation's "soft power". At the end of the Reporting Period, total loans made to technology innovation, education, culture and sports industry and health care amounted to RMB30.223 billion, representing an increase of 5.14% from the beginning of the year.

4. PROVIDING FINANCING SERVICES TO SOCIALLY DISADVANTAGED PEOPLE

During the Reporting Period, the Bank increased its lending support to the socially disadvantaged group, mainly in areas of low-income housing, small to micro enterprises, the Three Rural sector, and western regions of China.

At the end of the Reporting Period, loans made to the low-income housing sector amounted to RMB24.626 billion, an increase of 36.94% from the prior year. Total lending in this sector has supported 96 projects in 24 provinces, autonomous regions or municipalities, covering all forms of low-income housing including the affordable housing, rebuilding of shanty areas, low-rent housing, public rental housing and the capped price housing. Total agriculture related loans reached RMB384.774 billion, an increase of 22.67% from the beginning of the year. The Bank made further expansion by increasing its number of branches at county level and obtained the approval from the CBRC to establish its fourth village bank in Laoshan, Qingdao. Total loans made to the 12 western provinces, autonomous regions and municipalities as defined and encouraged by the nation's strategy of development of the western regions surpassed RMB300 billion. Furthermore, the Bank made strategic investment in the Bank of Tibet and became the first strategic investor of the first locally established shareholding bank in the region.

5. DEVOTING TO PUBLIC WELFARE

The Bank always has great concerns over social development. By taking public welfare practices as its corporate responsibilities and obligations, the Bank is dedicated to building a harmonious society and contributing to the social development of China. During the Reporting Period, the Bank made charitable contributions totaling RMB28.16 million, mainly focused on education of disabled youth, poverty alleviation and scientific research. Of which, the program "Gateway to Tomorrow: Education Grant for Disabled Youth by Bank of Communications", jointly sponsored by China Disabled Persons' Federation, entered into its fourth year, with RMB10 million contributed during the year to help 4,000 impoverished and disabled students across 25 provinces, reward 200 excellent special education teachers, and subsidise training programs of special education teachers in 14 provinces, as well as support the targeted training programs for teachers of deaf children in ethnic areas. With multiple targeted poverty alleviation programs carried out in 22 provinces, the Bank contributed RMB6.93 million in 48 projects, of which, the charity program at the Tibetan inhabited areas of Tianshui, Gansu province entered into its ninth year, with a total of RMB2 million invested in the construction of 200 high quality green houses of fruits and vegetables. With 2,516 petty cash donation boxes setup in our outlets across the country, the Bank collected RMB420 thousand in customer donation, all of which has been donated to China Children and Teenagers' Fund. At the same time, volunteers from the Bank continued to participate in public welfare programs, with 4,000 person/times in activities such as afforestation, care for autistic children, blood donation, and care for elderly people and kids.

1. RELATED PARTY TRANSACTIONS

During the Reporting Period, all the transactions between the Bank and its related parties are ordinary operating capital flows at arms-length. No significant related party transaction occurred during the Reporting Period.

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

2. MATERIAL CONTRACTS AND PERFORMANCE OF OBLIGATIONS THEREUNDER

(1) Material trust, sub-contract and lease

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

(2) Material guarantees

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

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

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

3. MATERIAL LITIGATION AND ARBITRATION

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

As at 31 December 2011, the Bank has been involved in certain outstanding litigations as defendant or third party. The outstanding litigation amount was approximately RMB1.508 billion. After consultations with the legal advisers, the Bank is of the view that these litigation cases will not have any significant impact on the financial position of the Group.

4. UNDERTAKINGS

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

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

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

6. OTHER SIGNIFICANT EVENTS

(1) Holdings of shares issued by other listed companies

(in RMB unless otherwise stated)

Stock Code	Stock name	Initial investment cost	Percentage of Shareholding in the company (%)	Book value at the end of the Reporting Period	Gains/(losses) during the Reporting Period	Changes in owners' equity during the Reporting Period	Accounting items	Source of shares
600068	Gezhouba	135,080,299.07	1.42	395,293,500.00	–	(177,166,500.00)	Investment securities – available for sale	Foreclosed assets
01231	NEWTON RES	226,054,393.11	3.98	120,121,649.22	95,285.55	(105,932,743.89)	Investment securities – available for sale	Equity investment
000979	Zhonghong Real Estate	12,494,400.00	1.45	114,816,960.00	–	(78,627,040.00)	Investment securities – available for sale	Foreclosed assets
01798	DATANG RENEW	126,335,293.27	2.65	74,077,971.92	(344.65)	(39,606,557.13)	Investment securities – available for sale	Equity investment
03377	Sino-Ocean Land	83,644,393.28	0.36	59,231,229.63	2,107,432.24	(24,404,966.34)	Investment securities – available for sale	Equity investment
00067	China Lumena New Materials Corp	115,466,914.39	0.79	51,278,784.96	45,702,905.84	(64,188,129.43)	Investment securities – available for sale	Equity investment
01193	CHINA RESGAS	35,199,969.86	0.19	33,390,657.61	2,378,509.56	(456,403.57)	Investment securities – available for sale	Equity investment
600757	ST YUAN FA	22,397,258.16	0.59	28,870,454.16	–	6,473,196.00	Investment securities – available for sale	Foreclosed assets
600728	SUNTEK TECHNOLOGY	6,152,015.00	0.16	23,426,873.12	–	(5,881,326.34)	Investment securities – available for sale	Foreclosed assets
01428	BRIGHT SMART	9,245,106.87	15.39	22,699,600.00	729,630.00	(28,748,352.83)	Investment securities – available for sale	Equity investment
	Others	242,554,846.38		138,255,777.70	121,414,182.06	(187,626,739.79)		
	Total	**1,014,624,889.39**		**1,061,463,458.32**	**172,427,600.60**	**(706,165,563.32)**		

Notes:

1. The table above sets out the investment securities in other listed companies held by the Group, that are classified as available-for-sale investment securities during the Reporting Period.
2. Gain/(loss) during the Reporting Period refers to the impact of such investments on the Group's consolidated net profit.

(2) Holdings of shares issued by unlisted financial institutions

(in RMB unless otherwise stated)

Name of institution	Initial investment cost	Number of Shares held	Percentage shareholding in the company (%)	Book value at the end of the Reporting Period	Gains/(losses) during the Reporting Period	Changes in owners' equity during the Reporting Period	Accounting items	Source of shares
Jiangsu Changshu Rural Commercial Bank Co., Ltd.	489,500,000.00	101,340,337	10.00	489,500,000.00	12,667,542.13	–	Investment securities – available for sale financial assets	Equity investment
China Union Pay Co., Ltd.	146,250,000.00	112,500,000	3.90	146,250,000.00	3,150,000.00	–	Investment securities – available for sale financial assets	Equity investment
China National Aviation Fuel Group Finance Corporation	120,000,000.00	N/A	10.00	120,000,000.00	–	–	Investment securities – available for sale financial assets	Equity investment
Bank of Tibet Co., Ltd.	300,000,000.00	300,000,000	20.00	298,488,594.24	(1,511,405.76)	–	Joint venture investment	Equity investment
Total	**1,055,750,000.00**			**1,054,238,594.24**	**14,306,136.37**			

(3) Purchases and sales of other listed equity shares

(in RMB)

Stock	Number of shares held at the beginning of the Reporting Period	Number of shares bought/sold during the Reporting Period	Number of shares held at end of the Reporting Period	Fund utilised	Gain in the Reporting Period
Purchases	14,219,500	224,365,187	238,584,687	412,196,988.59	—
Sales	143,959,526	66,001,300	77,958,226	—	121,649,492.76

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


交通銀行
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TO THE SHAREHOLDERS OF BANK OF COMMUNICATIONS CO., LTD.

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

We have audited the consolidated financial statements of Bank of Communications Co., Ltd. (the "Bank") and its subsidiaries (collectively referred to as the "Group") set out on pages 114 to 248, which comprise the consolidated and Bank's statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 28 March 2012

Consolidated Financial Statements

Consolidated Statement of Comprehensive Income

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

Group

	Notes	Year ended 31 December 2011	2010
Interest income		190,872	141,905
Interest expense		(88,271)	(56,910)
Net interest income	4	102,601	84,995
Fee and commission income	5	22,464	17,076
Fee and commission expense	6	(2,915)	(2,597)
Net fee and commission income		19,549	14,479
Dividend income	7	71	60
Net gains arising from trading activities	8	1,401	677
Net gains arising from de-recognition of investment securities	21	123	568
Insurance business income		433	689
Other operating income	9	3,617	3,275
Impairment losses on loans and advances to customers	10	(12,479)	(12,246)
Insurance business expense		(491)	(599)
Other operating expense	11	(49,372)	(41,944)
Share of profits/(losses) of an associate		(2)	—
Profit before tax		65,451	49,954
Income tax	14	(14,634)	(10,782)
Net profit for the year		50,817	39,172
Other comprehensive income/(loss)			
Investment securities — available-for-sale			
Changes in fair value recorded in equity		42	(1,150)
Changes in fair value reclassified from equity to profit or loss		(151)	(452)
Translation difference on foreign operations		(523)	(329)
Other comprehensive loss for the year	37	(632)	(1,931)
Total comprehensive income for the year		50,185	37,241
Net profit attributable to:			
Shareholders of the Bank		50,735	39,042
Non-controlling interests		82	130
Total comprehensive income attribute to:			
Shareholders of the Bank		50,154	37,123
Non-controlling Interests		31	118
Basic earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan) (Restated)	15	0.82	0.66

The accompanying notes presented on pages 120 to 248 form a part of these consolidated financial statements.

* For details of the dividends paid or proposed please refer to Note 33.

Consolidated Statement of Financial Position

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

Group

	Notes	As at 31 December 2011	As at 31 December 2010
ASSETS			
Cash and balances with central banks	16	736,999	586,554
Due from banks and other financial institutions	17	443,240	262,976
Financial assets at fair value through profit or loss	18	48,422	46,043
Loans and advances to customers	20	2,505,385	2,190,490
Investment securities — loans and receivables	21	28,256	42,617
Investment securities — available-for-sale	21	184,092	162,170
Investment securities — held-to-maturity	21	544,761	563,721
Investment in an associate	40	298	—
Property and equipment	22	37,017	33,911
Deferred income tax assets	28	7,926	7,341
Other assets	23	74,781	55,770
Total assets		4,611,177	3,951,593
LIABILITIES			
Due to banks and other financial institutions	24	854,499	717,032
Financial liabilities at fair value through profit or loss	25	18,921	14,379
Due to customers	26	3,283,232	2,867,847
Other liabilities	27	95,666	71,997
Current tax liabilities		4,247	4,615
Deferred income tax liabilities	28	21	66
Debt securities issued	30	81,803	52,000
Total liabilities		4,338,389	3,727,936
EQUITY			
Capital and reserves attributable to shareholders of the Bank			
Share capital	31	61,886	56,260
Capital surplus	31	69,465	69,465
Other reserves		93,617	67,107
Retained earnings		46,834	29,941
		271,802	222,773
Non-controlling interests		986	884
Total equity		272,788	223,657
Total equity and liabilities		4,611,177	3,951,593

The consolidated financial statements on pages 114 to 248 were approved and authorised for issue by the Board of Directors on 28 March 2012 and signed on its behalf by:

Chairman of Board: Hu Huaibang *Vice Governor and Chief Financial Officer: Yu Yali*

The accompanying notes presented on pages 120 to 248 form a part of these consolidated financial statements.

Statement of Financial Position

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

Bank

	Notes	As at 31 December 2011	As at 31 December 2010
ASSETS			
Cash and balances with central banks	16	736,763	586,466
Due from banks and other financial institutions	17	441,063	261,767
Financial assets at fair value through profit or loss	18	48,249	45,815
Loans and advances to customers	20	2,502,829	2,189,154
Investment securities — loans and receivables	21	28,029	42,349
Investment securities — available-for-sale	21	181,597	159,420
Investment securities — held-to-maturity	21	544,653	563,393
Investments in subsidiaries	39	9,344	8,089
Investment in an associate	40	298	—
Property and equipment	22	36,129	33,360
Deferred income tax assets	28	7,846	7,372
Other assets	23	27,657	24,426
Total assets		4,564,457	3,921,611
LIABILITIES			
Due to banks and other financial institutions	24	820,254	696,593
Financial liabilities at fair value through profit or loss	25	18,921	14,379
Due to customers	26	3,282,588	2,867,983
Other liabilities	27	88,692	66,664
Current tax liabilities		4,084	4,482
Deferred income tax liabilities	28	21	13
Debt securities issued	30	79,803	50,000
Total liabilities		4,294,363	3,700,114
EQUITY			
Capital and reserves attributable to shareholders of the Bank			
Share capital	31	61,886	56,260
Capital surplus		69,494	69,494
Other reserves		93,800	66,892
Retained earnings		44,914	28,851
Total equity		270,094	221,497
Total equity and liabilities		4,564,457	3,921,611

The accompanying notes presented on pages 120 to 248 form a part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

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

			Other Reserves								
	Share capital	Capital surplus	Statutory reserve	Discretionary reserve	Statutory general reserve	Revaluation reserve for available-for-sale financial assets	Translation reserve on foreign operations	Retained earnings	Attributable to the shareholders of the Bank	Non-controlling interests	Total
	Note 31	Note 31	Note 32	Note 32	Note 32			Note 32, 33			
Balance at 1 January 2010	48,994	44,404	9,949	15,987	18,456	1,001	(989)	26,046	163,848	577	164,425
Net profit for the year	–	–	–	–	–	–	–	39,042	39,042	130	39,172
Changes in fair value recorded in equity	–	–	–	–	–	(1,155)	–	–	(1,155)	5	(1,150)
Changes in fair value reclassified from equity to profit or loss	–	–	–	–	–	(435)	–	–	(435)	(17)	(452)
Translation difference on foreign operations	–	–	–	–	–	–	(329)	–	(329)	–	(329)
Total comprehensive income	–	–	–	–	–	(1,590)	(329)	39,042	37,123	118	37,241
Establishment and acquisition of new subsidiaries	–	–	–	–	–	–	–	–	–	145	145
Acquisition of non-controlling interests	–	(29)	–	–	–	–	–	–	(29)	(16)	(45)
Capital increase in a subsidiary	–	–	–	–	–	–	–	–	–	113	113
Dividends paid	–	–	–	–	–	–	–	(10,525)	(10,525)	(53)	(10,578)
Transfer to reserve	–	–	3,831	15,285	5,506	–	–	(24,622)	–	–	–
Rights issue of A and H shares (Note 31)	7,266	25,090	–	–	–	–	–	–	32,356	–	32,356
Balance at 31 December 2010	56,260	69,465	13,780	31,272	23,962	(589)	(1,318)	29,941	222,773	884	223,657
Balance at 1 January 2011	56,260	69,465	13,780	31,272	23,962	(589)	(1,318)	29,941	222,773	884	223,657
Net profit for the year	–	–	–	–	–	–	–	50,735	50,735	82	50,817
Changes in fair value recorded in equity	–	–	–	–	–	90	–	–	90	(48)	42
Changes in fair value reclassified from equity to profit or loss	–	–	–	–	–	(148)	–	–	(148)	(3)	(151)
Translation difference on foreign operations	–	–	–	–	–	–	(523)	–	(523)	–	(523)
Total comprehensive income	–	–	–	–	–	(58)	(523)	50,735	50,154	31	50,185
Establishment of new subsidiaries	–	–	–	–	–	–	–	–	–	21	21
Capital increase in a subsidiary	–	–	–	–	–	–	–	–	–	120	120
Dividends paid	–	–	–	–	–	–	–	(1,125)	(1,125)	(70)	(1,195)
Transfer to reserve	–	–	4,991	16,968	5,132	–	–	(27,091)	–	–	–
Distributions of stocks dividend (Note 31)	5,626	–	–	–	–	–	–	(5,626)	–	–	–
Balance at 31 December 2011	61,886	69,465	18,771	48,240	29,094	(647)	(1,841)	46,834	271,802	986	272,788

The accompanying notes presented on pages 120 to 248 form a part of these consolidated financial statements.

Consolidated Statement of Cash Flows

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

	Year ended 31 December	
	2011	2010
Cash flows from operating activities:		
Profit before tax:	65,451	49,954
Adjustments for:		
Impairment allowances on loans and advances to customers	12,479	12,246
Unwind of discount on allowances during the year	(766)	(626)
Impairment of finance lease receivables	190	175
(Reversal of)/provision for impairment of other receivables	(20)	4
Insurance contract reserves	219	599
Impairment of investment securities	6	150
Provision for/(reversal of) outstanding litigation and unsettled obligation	75	(18)
Depreciation of property and equipment	3,423	3,307
Amortisation of rent and renovation	498	471
Share of loss of an associate	2	—
Losses from fair value hedges	2	—
Amortisation of land use rights	29	32
Amortisation of intangible assets	192	258
Interest income from investment in debt securities	(27,282)	(24,570)
Net gains arising from de-recognition of investment securities	(123)	(568)
Net gains on disposal of property and equipment	(129)	(39)
Increase in revaluation of investment property	(61)	(21)
Interest expense on subordinated debts and other debts issued	2,257	1,990
Interest expense on certificates of deposit issued	7	—
Fee on debt securities issued	31	6
Dividend income	(71)	(60)
Operating cash flows before movements in operating assets and liabilities	56,409	43,290
Net increase in mandatory reserve deposits	(156,781)	(131,623)
Net increase in due from banks and other financial institutions	(121,192)	(71,342)
Net increase in financial assets at fair value through profit or loss	(2,379)	(16,789)
Net increase in loans and advances to customers	(326,484)	(400,517)
Net increase in other assets	(15,147)	(17,956)
Net increase in due to banks and other financial institutions	137,467	63,860
Net increase in financial liabilities at fair value through profit or loss	4,077	5,004
Net increase in due to customers	415,385	495,792
Net increase in other liabilities	22,263	16,490
Net increase in business tax payable	825	487
Income tax paid	(15,589)	(10,863)
Net cash used in operating activities	(1,146)	(24,167)

Consolidated Statement of Cash Flows (Continued)

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

	Year ended 31 December	
	2011	2010
Cash flows from investing activities:		
Acquisition of subsidiary, net of cash paid	—	(173)
Investment in an associate	(300)	—
Purchase of investment securities	(232,664)	(357,866)
Disposal or redemption of investment securities	243,352	337,106
Dividends received	71	60
Interest received from investment securities	24,587	24,390
Acquisition of intangible assets and other assets	(770)	(915)
Disposal of intangible assets and other assets	19	42
Purchase and construction of property and equipment	(6,846)	(7,696)
Disposal of property and equipment	596	264
Net cash from/(used in) investing activities	28,045	(4,788)
Cash flows from financing activities:		
Cash received from rights issue of A and H shares	—	32,623
Issuance cost paid for rights issue of shares	—	(267)
Proceeds from debt securities issued	29,803	2,000
Fee paid on debt securities issued	(31)	(6)
Interest paid on debt securities issued	(1,977)	(2,012)
Dividends paid to shareholders of the Bank	(1,125)	(10,528)
Repayment of debts securities issued	—	(3,000)
Capital contribution by non-controlling interest	141	186
Acquisition of non-controlling interests	—	(45)
Dividends paid to non-controlling interests	(70)	(53)
Net cash from financing activities	26,741	18,898
Effect of exchange rate changes on cash and cash equivalents	(904)	(1,542)
Net increase/(decrease) in cash and cash equivalents	52,736	(11,599)
Cash and cash equivalents at the beginning of the year	156,899	168,498
Cash and cash equivalents at the end of the year (Note 38)	209,635	156,899
Supplementary Information		
Interest received	185,482	139,017
Interest paid	(81,933)	(49,351)

The accompanying notes presented on pages 120 to 248 form a part of these consolidated financial statements.

1 GENERAL

Bank of Communications Co., Ltd. (the "Bank") is a commercial and retail bank providing banking services mainly in the People's Republic of China ("PRC"). The Bank was reorganised as a joint stocks national commercial bank on 1 April 1987, in accordance with the approval notice (Guo Fa (1986) No. 81) issued by the State Council of the PRC and the approval notice (Yin Fa (1987) No. 40) issued by the People's Bank of China ("PBOC"). Headquartered in Shanghai, the Bank operates 155 cities level and above branches in the Mainland China and also branches in Hong Kong, New York, Singapore, Seoul, Tokyo, Frankfurt, Macau, Ho Chi Minh City, San Francisco and Sydney as well as representative offices in Taipei City. The Bank's A shares are listed on Shanghai Stock Exchange and its H shares are listed on the Stock Exchange of Hong Kong Limited.

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

On 28 Feb 2011, the Bank established Ho Chi Minh City branch.

On 16 Nov 2011, the Bank established San Francisco branch.

On 28 Nov 2011, the Bank established Sydney branch.

The detailed information of new subsidiaries is provided in Note 39.

2 ACCOUNTING POLICIES

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

2.1 Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") and disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property which are measured at fair value.

Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IFRSs and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance require the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

a) *Impairment losses on loans and advances*

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

2 ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

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

b) *Fair value of financial instruments*

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques (e.g. discounted cash flow model). To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty's), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

c) *Income taxes*

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

d) *Held-to-maturity investments*

The Group follows the guidance of International Accounting Standards ("IAS") 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to hold these investments to maturity other than for specific circumstances defined in IAS 39 such as, selling or reclassifying an insignificant amount close to maturity, it will be required to reclassify the entire portfolio of assets as available-for-sale. The investments would then be measured at fair value, not at amortised cost.

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

The Group follows the guidance of IAS 39 to determine when an available-for-sale financial asset or held-to-maturity investment is impaired. The Group determines that an available-for-sale equity investment is impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires management judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, credit ratings, delinquency rates and counterparty risk.

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

f) *Actuarial assumptions for insurance contract reserves*

The determination of the liabilities under life and long-term insurance contracts is based on estimates of future benefit payments, premiums and relevant expenses made by the Group, and the margins. Assumptions about mortality rates, morbidity rates, lapse rates, discount rates and expenses assumption are made based on the most recent historical analysis and current and future economic conditions. The liability uncertainty arising from uncertain future benefit payments, premiums and relevant expenses, is reflected in the risk margin.

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

2 ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

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

f) Actuarial assumptions for insurance contract reserves (Continued)

The residual margin relating to the life and long-term insurance contracts is amortised over the expected life of the contracts, based on the assumptions (mortality rates, morbidity rates, lapse rates, discount rates and expenses assumption) that are determined at inception of the contracts.

Application of new and revised IFRSs

In the current year, the Group has applied the following new and revised IFRSs issued:

Amendments to IFRSs	Improvements to IFRSs issued in 2010
Amendments to IAS 32	Classification of Rights Issues
Amendments to IFRIC 14	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of these new or revised IFRSs had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 7	Disclosures — Transfers of Financial Assets[1]
	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
Amendments to IFRS 7 and IFRS 9	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
IFRS 9	Financial Instruments[3]
IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangements[2]
IFRS 12	Disclosure of Interests in Other Entities[2]
IFRS 13	Fair Value Measurement[2]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to IAS 12	Deferred Tax — Recovery of Underlying Assets[4]
IAS 19 (as revised in 2011)	Employee Benefits[2]
IAS 27 (as revised in 2011)	Separate Financial Statements[2]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[6]

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

2 ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

Application of new and revised IFRSs *(Continued)*

New and revised IFRSs issued but not yet effective (Continued)

Amendments to IFRS 7 Disclosures — Transfers of Financial Assets

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The Directors anticipate that the application of the amendments to IFRS 7 will affect the Group's disclosures regarding transfers of financial assets in the future.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

2 ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

Application of new and revised IFRSs *(Continued)*

New and revised IFRSs issued but not yet effective (Continued)

IFRS 9 Financial Instruments (Continued)

The Group is considering the impact of IFRS 9 on the consolidated financial statements and the timing of its application.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC-Int 12 Consolidation — Special Purpose Entities. IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns.

Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-Int 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The Directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The Group is considering the impact of these five standards on the consolidated financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

2 ACCOUNTING POLICIES *(Continued)*

2.1 Basis of presentation *(Continued)*

Application of new and revised IFRSs *(Continued)*

New and revised IFRSs issued but not yet effective *(Continued)*

IFRS 13 Fair Value Measurement (Continued)

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors anticipate that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Amendments to IAS 12 Deferred Tax — Recovery of Underlying Assets

The amendments to IAS 12 provide an exception to the general principles in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 Investment Property are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The amendments to IAS 12 are effective for annual periods beginning on or after 1 January 2012.

The Directors anticipate that the application of the amendments to IAS 12 in future accounting periods would have no significant impact on amounts reported in the consolidated financial statements.

IAS 19 (as revised in 2011) Employee Benefits

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The Directors anticipate that the amendments to IAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to IAS 19 would have no significant impact on amounts reported in respect of the Groups' defined benefit plans.

2 ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation

2.2.1 Subsidiary undertakings and goodwill

Subsidiaries are all entities over which the Group has control, that is having the power to govern the financial and operating policies, so as to obtain benefits from its activities generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are not consolidated from the date that control ceases.

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

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

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

2.2.2 Transactions with non-controlling interests

For aquisition of additional interests in subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive are reclassified to profit or loss.

2.2.3 Investment in an associate

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

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

2 ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

2.2.3 Investment in an associate *(Continued)*

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised only to the extent of interests in the associate that are not related to the Group.

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

2.3 Derivative financial instruments

Derivative financial instruments include, but not limited to, interest rate derivative and foreign exchange derivative. Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value of these derivative financial instruments are recognised in profit or loss. Fair values are obtained from quoted market prices in active market or are determined using valuation techniques, including discounted cash flow model and options pricing model as appropriate. All derivatives are recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

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

2.4 Financial assets

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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. For a financial instrument which has an active market, the Group uses the quoted price in the active market to establish its fair value. For a financial instrument which has no active market, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

2 ACCOUNTING POLICIES *(Continued)*

2.4 Financial assets *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss have two subcategories, including financial assets held for trading and those designated as fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of selling in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative that is not designated and effective as a hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial asset may be designated as at fair value through profit or loss upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring assets or recognising the gains or losses on them on different bases; or (2) The financial asset forms part of a group of financial assets or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis.

Financial assets at fair value through profit or loss are subsequently measured at fair value. Any gains or losses arising from changes in the fair value and any dividend or interest income earned on the financial assets are recognised in profit or loss.

Held-to-maturity investments

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative that are not either designated or classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

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

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

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

Loans and receivables

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

2 ACCOUNTING POLICIES *(Continued)*

2.4 Financial assets *(Continued)*

De-recognition of financial assets

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

2.5 Impairment of financial assets

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

Objective evidence of impairment of financial assets could include the following observable events:

(1) Significant financial difficulty of the issuer or obligor;

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

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

(4) It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(5) The disappearance of an active market for that financial asset because of financial difficulties;

(6) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

- — adverse changes in the payment status of borrowers in the group; and
- — national or local economic conditions that correlate with defaults on the assets in the group;

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

(8) A significant or prolonged decline in the fair value of equity instrument investments;

(9) Other objective evidence indicating impairment of the financial asset.

2 ACCOUNTING POLICIES *(Continued)*

2.5 Impairment of financial assets *(Continued)*

(a) Financial assets carried at amortised cost

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

If financial assets carried at amortised cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognised as an impairment loss in profit or loss and is recorded through the use of an allowance account. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortised cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(b) Impairment of available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value previously recognised directly in other comprehensive income is reclassified to profit or loss. The amount of the cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

If, subsequent to the recognition of an impairment loss on available-for-sale financial assets, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. The amount of reversal of impairment loss on available-for-sale equity instruments is recognised as other comprehensive income, while the amount of reversal of impairment loss on available-for-sale debt investments is recognised in profit or loss.

(c) Impairment of financial assets measured at cost

If an impairment loss has been incurred on an investment in unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of reduction is recognised as an impairment loss in profit or loss. The impairment loss on such financial asset is not reversed once it is recognised.

2 ACCOUNTING POLICIES *(Continued)*

2.6 Financial liabilities/Equity instruments

The Group classifies financial liabilities and equity instruments according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

All financial liabilities are classified either as financial liabilities at fair value through profit or loss and other financial liabilities.

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

Financial liabilities at fair value through profit or loss consist of financial liabilities held for trading and those designated as at fair value through profit or loss on initial recognition.

A financial liability is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of repurchasing in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is a designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial liability may be designated as at fair value through profit or loss upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring liabilities or recognising the gains or losses on them on different bases; or (2) The financial liability forms part of a group of financial liabilities or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis.

Financial liabilities at fair value through profit or loss are subsequently measured at fair value. Any gains or losses arising from changes in the fair value or any dividend or interest expenses related to the financial liabilities are recognised in profit or loss.

(b) Other financial liabilities

For a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, it is subsequently measured at cost. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with gain or loss arising from derecognition or amortisation recognised in profit or loss.

(c) De-recognition of financial liabilities

The Group derecognises a financial liability or part of it only when the underlying present obligation or part of it is discharged, cancelled or expire. An agreement between the Group (an existing borrower) and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

When the Group derecognises a financial liability or a part of it, it recognises the difference between the carrying amount of the financial liability derecognised and the consideration paid and payable (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.

2 ACCOUNTING POLICIES *(Continued)*

2.7 Interest income and expense

Interest income and expense are recognised in profit or loss for interest-bearing financial instruments using the effective interest method. If the difference between effective interest rate and contract interest rate is relatively small, then the contract interest rate can be used as well.

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

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

2.8 Fee and commission income

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

2.9 Dividend income

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

2.10 Assets transferred under repurchase agreements

(a) Financial assets purchased under reverse repurchase agreements

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the statement of financial position. The cost of purchasing such assets is presented under "assets purchased under reverse repurchase agreements" in the statement of financial position. The difference between the purchasing price and reselling price is recognised as interest income during the term of the agreement using the effective interest method.

(b) Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date are not derecognised in the statement of financial position. The proceeds from selling such assets are presented under "assets sold under repurchase agreements" in the statement of financial position. The difference between the selling price and repurchasing price is recognised as interest expense during the term of the agreement using the effective interest method.

2.11 Property and equipment

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

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

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

2 ACCOUNTING POLICIES *(Continued)*

2.11 Property and equipment *(Continued)*

Subsequent expenditures incurred for the property and equipment are included in the cost of the property and equipment and if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

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

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

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a property and equipment when it is ready for intended use.

2.12 Foreclosed assets

Foreclosed assets are initially recognised at fair value. On each reporting date, foreclosed assets are subsequently measured at lower of its carrying amount or fair value less cost of sale. When the fair value less cost of sale is lower than the foreclosed asset's carrying amount, an impairment cost is recognised in profit or loss.

When a foreclosed asset is disposed, the difference between the disposal proceed and the carrying amount is recognised in profit or loss.

2.13 Land use rights

Land use rights are classified as other assets and amortised using the straight-line method over the lease term.

2.14 Intangible assets

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost is amortised over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortised.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of each reporting period, and makes adjustments when necessary.

2 ACCOUNTING POLICIES *(Continued)*

2.15 Investment property

Investment property is property held to earn rentals or for capital appreciation or both.

As there is an active property market in the location in which the Group's investment property is situated, and the Group can obtain the market price and other relevant information regarding the same or similar type of property from the property market so as to reasonably estimate the fair value of the investment property; therefore, the Group uses the fair value model for subsequent measurement of the investment property, with changes in the fair value included in profit or loss for the period in which they arise.

When determining the fair value of the investment property, the current market prices of the same or similar type of property in an active market is considered. If the current market prices of the same or similar type of property in an active market cannot be obtained, the recent trading prices for such properties in an active market as well as factors such as the circumstances at the time of transactions, transaction dates and geographic areas are considered so as to reasonably estimate the fair value of the investment property. Alternatively, the fair value of the investment property is determined based on the expected future rental income and the present value of the relevant cash flows.

When an investment property is sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

2.16 Impairment of non-financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

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

2.17 Leases

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

(a) The Group as lessor

At the commencement of the lease term, the aggregate of the minimum lease receivable at the inception of the lease and the initial direct costs is recognised as a finance lease receivable, and the unguaranteed residual value is recorded at the same time. The difference between the aggregate of the minimum lease receivable, the initial direct costs and the unguaranteed residual value, and the aggregate of their present values is recognised as unearned finance income. Unearned finance income is recognised as finance income for the period using the effective interest method over the lease term. Contingent rents are credited to profit or loss in the period in which they are actually incurred. The net amount of financial lease receivables less unearned finance income is listed as other assets for presentation.

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

2 ACCOUNTING POLICIES *(Continued)*

2.17 Leases *(Continued)*

(b) The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

2.18 Cash and cash equivalents

Cash comprises cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are the Group's short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

2.19 Provisions

Provisions are recognised when the Group has a present obligation related to a contingency, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognised as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognised does not exceed the carrying amount of the provision.

2.20 Current and deferred income taxes

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

Current income tax

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

Deferred income tax

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

2 ACCOUNTING POLICIES *(Continued)*

2.20 Current and deferred income taxes *(Continued)*

Deferred income tax *(Continued)*

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income, in which case the deferred tax are also recognised in other comprehensive income.

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

2.21 Share capital

(a) Share capital

Share capital comprises ordinary shares issued.

(b) Share issue costs

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

(c) Dividends on ordinary shares

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

2.22 Acceptances

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

2 ACCOUNTING POLICIES *(Continued)*

2.23 Employee benefits

(a) Staff benefit and retirement benefit obligations

In the reporting period in which an employee has rendered services, the Group recognises the employee benefits payable for those services as a liability. The Group participates in the employee social security systems, such as basic pensions, medical insurance, housing funds and other social securities established by the government in accordance with relevant requirements. The related expenditures are charged to profit or loss in the period when they are incurred.

The Group pays supplementary retirement benefits to employees in Mainland China who retired before 31 December 2008. The Group accrues a liability based on actuarial techniques and recognises all actuarial gains and losses in profit or loss.

Employees in Mainland China who retired after 1 January 2009 participate in the defined contribution plan established (the "Annuity Plan") by the Group. The Group contributes a certain portion of the employees' gross salaries to the Annuity Plan. Related expenses are recognised in profit or loss when incurred.

The Group pays the welfare benefits for employees, who have not yet reached the statutory retirement age limit and are approved by the Group to voluntarily retire from their employment, from the internal retirement date to the statutory retirement age limit. These welfare benefits are recognised in profit or loss based on the discounted cash flow calculation over the implementation period. The Group reviews present value of the welfare benefits on each reporting date, with any changes recognised in profit or loss.

(b) Share-based compensation

A share-based payment is a transaction which the Group grants equity instruments, or incurs liabilities for amounts that are determined based on the price of equity instruments, in return for services rendered by employees. The Group's share-based payments is cash-settled share-based payments.

Cash-settled share-based payments are measured at the fair value of the liabilities incurred by the Group, which are determined based on the price of the share or other equity instruments. Until the liability is settled, the Group remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

The value of share appreciation rights ("SARs") granted by the Group is determined by applying the binominal option pricing model.

2.24 Foreign currency translation

Renminbi ("RMB") is the currency of the primary economic environment in which the Group's domestic subsidiaries operate. Therefore, the Group's domestic subsidiaries choose RMB as their functional currency. The Group's foreign subsidiary chooses its functional currency on the basis of the primary economic environment in which it operates. The Group adopts RMB to prepare its financial statements.

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions.

2 ACCOUNTING POLICIES *(Continued)*

2.24 Foreign currency translation *(Continued)*

At the reporting date, foreign currency monetary items are translated into RMB using the spot exchange rates at the reporting date. Exchange differences arising from the differences between the spot exchange rates prevailing at the reporting date and those on initial recognition or at the previous reporting date are recognised in profit or loss for the period, except that (1) exchange differences related to hedging instruments for the purpose of hedging against foreign exchange risks are accounted for using hedge accounting; (2) exchange differences arising from available-for-sale non-monetary items (such as shares) denominated in foreign currencies and changes in the carrying amounts (other than the amortised cost) of available-for-sale monetary items are recognised as other comprehensive income; and (3) exchange differences arising on a foreign currency monetary item that forms part of the Bank's net investment in a foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income.

On disposal of the Group's entire interest in a foreign operation, or upon a loss of control over a foreign operation due to disposal of certain interest in it or other reasons, the Group transfers the accumulated exchange differences arising on translation of financial statements of this foreign operation and foreign currency monetary items that form part of the net investment in such foreign operation presented under shareholder's equity in the statement of financial position, to profit or loss in the period in which the disposal occurs.

In case of a disposal or other reason that does not result in the Group losing control over a foreign operation, the proportionate share of accumulated exchange differences arising on translation of financial statements are re-attributed to non-controlling interests and are not recognised in profit and loss. For partial disposals of equity interests in foreign operations which are associates or joint ventures, the proportionate share of the accumulated exchange differences arising on translation of financial statements of foreign operations is reclassified to profit or loss.

2.25 Contingent liabilities and contingencies

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

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

2.26 Insurance contracts

(a) Insurance Contract

Insurance contract of the Group's insurance subsidiaries includes direct insurance contracts and reinsurance contracts. For contracts entered into by the Group and policyholders, the Group undertakes insurance risks when the occurrence of deaths, disabilities, diseases, maturities, contractual age or payment term is likely to cause the Group to undertake the insurance claim liability. Direct insurance contracts are contracts that the Group undertakes significant insurance risks. Reinsurance contracts signed between the Group and other insurers are accounted for as reinsurance contracts when a significant portion of insurance risk has been transferred.

2 ACCOUNTING POLICIES *(Continued)*

2.26 Insurance contracts *(Continued)*

(b) Income and cost of the insurance contract

Premium revenue will be recognized by the Group when a direct insurance contract has been entered into whereby the related insurance obligation has been assumed; it is probable that the economic benefits associated with the direct insurance contract will flow to the insurer; and the amount of revenue associated with the direct insurance contract can be measured reliably. For direct life insurance contracts, premium revenue of those contracts which require periodic payments of premiums shall be recognized according to the amount of premiums due within the accounting period; and premium revenue of those lump-sum-payment contracts shall be recognized according to the amount of premium due on a lump sum basis. For direct non-life insurance contracts, premium revenue shall be determined based on the total written premiums of the direct non-life insurance contracts.

Upon early termination of a direct insurance contract, the insurer shall determine, according to the terms of the insurance contract, the amount needed to be refunded to the policyholder and recognize the amount in profit or loss for the period as a surrender charge.

Costs of direct insurance contracts are the gross outflows of economic benefits arising under direct insurance contracts that result in decreases in owner's equity, other than those relating to profit appropriation to owners. Costs of direct insurance contracts mainly include handling costs, commissions, costs of claims and benefits, and different kinds of insurance contract reserves accrued.

(c) Insurance contract reserves

The Group calculates insurance contract reserves at the balance sheet date to reflect insurance contract liability. The Group's insurance contract reserves are comprised of the life-insurance contract reserves and non-life insurance contract reserves. The life insurance contract reserves include life insurance liability reserves, long-term health liability reserves, which are composed of unearned premium reserves and outstanding claim reserves. The non-life insurance contract reserves include unearned premium reserves and outstanding claim reserves.

2.27 Financial guarantee contracts

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

2.28 Fiduciary activities

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

2 ACCOUNTING POLICIES *(Continued)*

2.28 Fiduciary activities *(Continued)*

The Group conducts entrusted lending for the third-party lenders. The Group grants loans to borrowers, as trustee, according to the instruction of the third-party lenders who fund these loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the risks and rewards of the entrusted loans and the funding for the corresponding entrusted funds, they are not recognised as assets and liabilities of the Group.

2.29 Segment reporting

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

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

Intra-segment income and expenses are eliminated. Income and expenses directly associated with each segment are considered in determining segment performance.

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

2.30 Offset financial assets and liabilities

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

2.31 Hedge accounting

The Group designates certain derivatives as hedging instruments for fair value hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values of the hedged item attributable to the hedged risk.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

Any adjustment to the carrying amount of the hedged item for the designated risk for interest-bearing financial instruments is amortised to profit or loss, with amortisation commencing no later than when the hedged item ceases to be adjusted. The amortisation is based on a recalculated effective interest rate at the date amortisation commences such that the adjustment is fully amortised by maturity.

3 FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of a certain degree of risks or a portfolio of risks. Risk management are core to the financial business, and business risks are inevitable as a result. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

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

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

The main types of financial risks of the Group are credit risk, liquidity risk and market risk which also includes foreign exchange risk, interest rate risk and other price risk.

3.1 Credit risk

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

Exposure to credit risk is managed through regular analysis of the ability of borrowers to meet interest and principal repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also controlled by obtaining collaterals and corporate and individual guarantees.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk assessment

(a) *Loans and advances to customers and off-balance sheet commitments*

In assessing credit risk of loan and advances to corporate customers and off-balance sheet commitments at a counterparty level, the Group considers three factors: (i) the "probability of default" by the customer or counterparty on its contractual obligations; (ii) current exposure to the counterparty and possible future development, from which the Group derives the "exposure at default"; and (iii) the recovery ratio on the defaulted obligation (the "loss given default").

Exposure at default is based on the loan amount the Group has already lent out at the time of default. For a commitment, the Group includes any amount already drawn plus any further amount that may have been drawn by the time of default, should it occur.

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

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

(i) Corporate loans

According to the Basel New Capital Accord and requirements of internal rating system supervision guidelines issued by China Banking Regulatory Commission ("CBRC"), an internal rating system was implemented in the Group. The Bank summarised a series of financial and other related factors to build the internal credit rating model for corporate customers, which is based on historical data collection, data statistics and data analysis on the characteristics of risks of the clients before the default occurs. Internal rating model applies the principle of regression to forecast the probability of default in the future 12 months, and then matches the probability of default with relevant rank of default risk which decides the borrower's credit rank within the internal rating system. In order to improve the system's accuracy and stability, the back-test will be performed against the actual default status of borrowers and rating results every six months by the Bank.

In the internal rating system, the credit rating of domestic corporate customers has been divided into 15 grades by the Group. The Group defines customers with grade 1–12 as non-default customers and customers with grade between 13 and 15 as default customers. The criteria of the grade of non-default customers are assessed based on the probability of default in the future 12 months. Customers with grade 1–8 are considered as low default risk and grade 9–12 are considered higher default risk. The expected loss is assessed for the default customers for their credit rating in the internal rating system. Discounted bills purchased from other financial institutions are considered as low risk which has not been included in the internal rating system, as these are guaranteed by domestic banks. Overseas branches, off-shore centre and subsidiaries evaluate credit risk and manage their classifications according to the guidance from their local regulations as well as the market conditions. They report the quality of corporate loans to the headquarters in accordance with Guidance on Loan Risk Classifications issued by the CBRC. In 2011, 99% of the corporate loans in overseas or off-shore branches were classified as pass loans, namely the borrowers have capability of repayment and no adequate evidence which suggests that the principle or interest will not be repaid when due.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk assessment *(Continued)*

(a) *Loans and advances to customers and off-balance sheet commitments (Continued)*

(i) Corporate loans *(Continued)*

Under the internal rating system, the credit rating (Probability of default rating) of the corporate customers of Mainland China is as below:

Internal Rating	Description of the grade
1	Borrower is a national, international financial institution or multinational enterprise with good public credit ratings. The repayment ability is trustworthy.
2	Borrower is an extra-large enterprise, which is very unlikely to default as it has sufficient risk resistance capacity. Its management experience, operating ability and financial strength give the borrower a strong competitive advantage in its industry.
3	Borrower is an extra-large enterprise or good financial instituition, which is unlikely to default as it has sufficient debt servicing capacity and risk resistance capacity.
4	Borrower is a large enterprise, which is unlikely to default as it has solid debt servicing capacity and risk resistance capacity.
5	The probability of default is very low. This is the highest grade for small and medium enterprises, real estate enterprises and project financing entities. Borrower has good risk resistance capacity.
6	The probability of default is very low. Large enterprises with average performance, or small and medium enterprises and real estate enterprises with outstanding performance may be rated as this grade. Borrower has good risk resistance capacity.
7	The probability of default is low. Large enterprises with average performance, or small and medium enterprises and real estate enterprises with good performance may be rated as this grade. Borrower's risk resistance capacity is satisfactory.
8	The probability of default is low. Large enterprises with below average performance, or small and medium enterprises and real estate enterprises with average performance may be rated as this grade. Borrower's risk resistance capacity is satisfactory.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk assessment *(Continued)*

(a) Loans and advances to customers and off-balance sheet commitments (Continued)

(i) Corporate loans *(Continued)*

Internal Rating	Description of the grade
9	Borrower may default. Large enterprises with poor performance, or small and medium enterprises and real estate enterprises with below average performance may be rated as this grade. Borrower's risk resistance capacity is less than satisfactory.
10	Borrower is likely to default with poor performance, a lack of information and a lot of uncertainties. Borrower's risk resistance capacity is relatively poor.
11	Borrower is more likely to default with difficulties in its debt servicing capacity. Management level, operating ability and financial strength of the borrower are poor. Borrower's risk resistance capacity is poor.
12	Borrower is probable to default with obvious difficulties with its debt servicing capacity. Management level, operating ability and financial strength of the borrower are poor. Borrower's risk resistance capacity is extremely poor.
13	Borrower's default results in a loss of up to 25% of the loan (debt has been overdue for more than 90 days or have been determined that feasible actions and necessary legal procedures are required, same for grade 14 to 15).
14	Borrower's default results in a loss of between 25% and 90% of the loan.
15	Borrower's default is severe and results in a loss of more than 90% of the loan.

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

(ii) Individual loans

The Group monitors the overdue status of its loans and advances to individual customers to manage credit risk. The Group analyses credit exposures by industry, geography and customer type. This information is monitored regularly by Senior Management.

(b) Debt securities

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 *Credit risk assessment* *(Continued)*

(c) *Derivative instruments*

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

(d) *Due from banks and other financial institutions*

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

3.1.2 *Risk limit control and mitigation measures*

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

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

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

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

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

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

(a) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most useful practice is to accept collaterals. The Group implements guidelines on the acceptability of specific classes of collateral. The principal types of collateral for loans and advances to customers are:

- Residential properties;
- Business assets such as premises, inventory and accounts receivable;
- Financial instruments such as debt securities and stocks.

The value of collaterals at the time of loan origination is determined by the Credit Authorisation Department and the amount of the loans granted is subject to loan-to-value ratio limits based on collateral types. The principal types of collateral for corporate loans and individual loans are as follows:

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

Long-term loans and advances to corporate and individual customers are generally secured; while revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collaterals from the counterparties as soon as impairment indicators are noted for the relevant individual loans and advances.

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

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

(b) Master netting arrangements

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

3.1.3 Impairment and provision policies

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

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

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

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

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

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

Group

	As at 31 December 2011	As at 31 December 2010
Assets		
Balances with central banks	720,745	573,256
Due from banks and other financial institutions	443,240	262,976
Financial assets at fair value through profit or loss (debt securities and derivatives)	48,290	45,876
Loans and advances to customers		
— Loans to corporate entities	2,002,703	1,778,171
— Loans to individuals	502,682	412,319
Investment securities — loans and receivables	28,256	42,617
Investment securities — available-for-sale (debt securities)	181,350	158,542
Investment securities — held-to-maturity	544,761	563,721
Other financial assets	70,822	51,267
	4,542,849	3,888,745
Off-balance sheet exposures		
Guarantees, acceptances and letters of credit	748,710	596,443
Other credit related commitments	313,483	242,055
	1,062,193	838,498

Bank

	As at 31 December 2011	As at 31 December 2010
Assets		
Balances with central banks	720,522	573,178
Due from other banks and financial institutions	441,063	261,767
Financial assets at fair value through profit or loss (debt securities and derivatives)	48,249	45,815
Loans and advances to customers		
— Loans to corporate entities	2,003,300	1,779,176
— Loans to individuals	499,529	409,978
Investment securities — loans and receivables	28,029	42,349
Investment securities — available-for-sale (debt securities)	180,299	157,759
Investment securities — held-to-maturity	544,653	563,393
Other financial assets	24,116	20,267
	4,489,760	3,853,682
Off-balance sheet exposures		
Guarantees, acceptances and letters of credit	748,702	596,443
Other credit related commitments	313,483	242,055
	1,062,185	838,498

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

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

The above table represents a worse case scenario of credit risk exposure to the Group as at 31 December 2011 and 2010, without taking account of any related collaterals or other credit enhancements. For on-balance sheet assets, the exposures above are based on carrying amounts as reported in the statement of financial position.

As shown above, 55% of the total on-balance sheet exposure is derived from loans and advances to customers (2010: 56%).

Management is confident in its ability to continuously control and sustain a minimal exposure to credit risk to the Group based on the following performance of its loans and advances portfolio:

- Mortgage loans, which represent the biggest portion in the individual portfolio, are backed by collaterals;
- 99% of the loans and advances portfolio are neither past due nor impaired (2010: 99%);
- The impaired loans to loans and advances to customers is 0.86%. (2010: 1.12%).

3.1.5 ***Loans and advances to customers***

Group

	As at 31 December 2011		As at 31 December 2010	
	Loans and advances to customers	Due from banks and other financial institutions	Loans and advances to customers	Due from banks and other financial institutions
Neither past due nor impaired	2,534,580	443,228	2,207,652	262,964
Past due but not impaired	5,184	12	4,287	12
Individually impaired	21,986	—	24,988	—
Gross	2,561,750	443,240	2,236,927	262,976
Less: allowance for collectively assessed impairment losses	(45,115)	—	(31,833)	—
Less: allowance for individually assessed impairment losses	(11,250)	—	(14,604)	—
Net	2,505,385	443,240	2,190,490	262,976

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers *(Continued)*

Bank

	As at 31 December 2011		As at 31 December 2010	
	Loans and advances to customers	Due from banks and other financial institutions	Loans and advances to customers	Due from banks and other financial institutions
Neither past due nor impaired	2,532,001	441,051	2,206,309	261,755
Past due but not impaired	5,184	12	4,287	12
Individually impaired	21,986	—	24,988	—
Gross	2,559,171	441,063	2,235,584	261,767
Less: allowance for collectively assessed impairment losses	(45,092)	—	(31,826)	—
Less: allowance for individually assessed impairment losses	(11,250)	—	(14,604)	—
Net	2,502,829	441,063	2,189,154	261,767

As at 31 December 2011, the Group's total impairment allowances for loans and advances to customers are RMB56,365 million (2010: RMB46,437 million) of which RMB11,250 million (2010: RMB14,604 million) represents those for individually assessed impaired loans and the remaining amount of RMB45,115 million (2010: RMB31,833 million) represents those for collectively assessed impaired loans. Further information about the impairment allowances for loans and advances to customers is provided in Note 20.

As at 31 December 2011, the Group's total loans and advances to customers increased by 14.52% as a result of the continuous increase of market demand in Mainland China. When entering into a new market or new industry, the Group targets at large enterprises or other financial institutions with good credit ratings or customers with sufficient collaterals in order to minimise the potential risk of increased credit risk exposure.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 ***Loans and advances to customers*** *(Continued)*

(a) *Loans and advances neither past due nor impaired*

The Group monitors the credit risk of corporate loans and advances neither past due nor impaired by applying its internal 15 grading system to customers.

Group

As at 31 December 2011

Neither past due nor impaired

	Internal Rating System			
	Grade 1–8	Grade 9–12	Unrated	Total
Mainland corporate loans and advances				
— Loans	1,594,914	136,857	—	1,731,771
— Discounted bills	16,297	1,725	21,201	39,223
— Trade finance	62,232	1,523	—	63,755
Total	1,673,443	140,105	21,201	1,834,749
Mainland individual loans and advances				
— Mortgages				300,195
— Credit Cards				70,494
— Other				110,956
Total				481,645
Overseas branches, offshore centre and subsidiaries				218,186

Bank

As at 31 December 2011

Neither past due nor impaired

	Internal Rating System			
	Grade 1–8	Grade 9–12	Unrated	Total
Mainland corporate loans and advances				
— Loans	1,594,914	136,857	—	1,731,771
— Discounted bills	16,297	1,725	21,201	39,223
— Trade finance	62,232	1,523	—	63,755
Total	1,673,443	140,105	21,201	1,834,749
Mainland individual loans and advances				
— Mortgages				300,195
— Credit Cards				70,494
— Other				110,956
Total				481,645
Overseas branches, offshore centre and subsidiaries				215,607

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers *(Continued)*

(a) Loans and advances neither past due nor impaired (Continued)

Group

As at 31 December 2010

Neither past due nor impaired

	Internal Rating System			
	Grade 1–8	Grade 9–12	Unrated	Total
Mainland corporate loans and advances				
— Loans	1,433,531	112,745	—	1,546,276
— Discounted bills	23,848	2,766	28,528	55,142
— Trade finance	48,418	1,631	—	50,049
Total	1,505,797	117,142	28,528	1,651,467
Mainland individual loans and advances				
— Mortgages				254,108
— Credit Cards				41,179
— Other				99,047
Total				394,334
Overseas branches, offshore centre and subsidiaries				161,851

Bank

As at 31 December 2010

Neither past due nor impaired

	Internal Rating System			
	Grade 1–8	Grade 9–12	Unrated	Total
Mainland corporate loans and advances				
— Loans	1,433,531	112,745	—	1,546,276
— Discounted bills	23,848	2,766	28,528	55,142
— Trade finance	48,418	1,631	—	50,049
Total	1,505,797	117,142	28,528	1,651,467
Mainland individual loans and advances				
— Mortgages				254,108
— Credit Cards				41,179
— Other				99,047
Total				394,334
Overseas branches, offshore centre and subsidiaries				160,508

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers *(Continued)*

(b) *Loans and advances past due but not impaired*

Gross amount of loans and advances by types of customers that are past due but not impaired are as follows:

Group and Bank

As at 31 December 2011

	Past due up to 30 days	Past due 31–60 days	Past due 61–90 days	Past due over 90 days	Total	Fair value of collateral
Corporate entities						
— Commercial loans	171	42	42	—	255	547
Individual						
— Mortgages	1,301	368	138	—	1,807	2,811
— Credit Cards	2,159	300	—	—	2,459	—
— Other	457	150	56	—	663	970
Total	4,088	860	236	—	5,184	4,328
Due from banks and other financial institutions	—	—	—	12	12	16

Group and Bank

As at 31 December 2010

	Past due up to 30 days	Past due 31–60 days	Past due 61–90 days	Past due over 90 days	Total	Fair value of collateral
Corporate entities						
— Commercial loans	438	18	11	5	472	322
Individual						
— Mortgages	1,169	284	127	244	1,824	2,619
— Credit Cards	1,136	192	—	—	1,328	—
— Other	377	105	39	142	663	952
Total	3,120	599	177	391	4,287	3,893
Due from banks and other financial institutions	—	—	—	12	12	16

The fair value of collaterals was estimated by management based on the latest available external valuations, adjusted for the current market situation and management's experience in realisation of collaterals.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers *(Continued)*

(c) *Loans and advances individually impaired*

As at 31 December 2011, individually impaired loans and advances to customers before taking into consideration the collaterals held is RMB21,986 million (2010: RMB24,988 million).

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collaterals held by the Group as security, are as follows:

Group and Bank

	As at 31 December 2011	As at 31 December 2010
Corporate entities	19,194	22,507
Individual	2,792	2,481
Individually impaired loans	21,986	24,988
Fair value of collaterals		
Corporate entities	5,077	6,771
Individual	2,570	2,403
Individually impaired loans	7,647	9,174

No individually impaired due from banks and other financial institutions is held by the Group as at 31 December 2011 and 31 December 2010.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 ***Loans and advances to customers*** *(Continued)*

(d) *Geographical risk concentration for loans and advances to customers (gross)*

Group

	As at 31 December 2011	%	As at 31 December 2010	%
PRC domestic regions				
— Jiangsu	315,655	12.32	280,703	12.55
— Shanghai	285,835	11.16	235,981	10.55
— Beijing	271,290	10.59	265,844	11.88
— Guangdong	206,998	8.08	183,342	8.20
— Zhejiang	199,281	7.78	178,264	7.97
— Shandong	113,036	4.41	98,335	4.40
— Hubei	85,393	3.33	77,042	3.44
— Henan	84,989	3.32	75,392	3.37
— Others	812,828	31.73	694,896	31.06
PRC domestic regions total	2,375,305	92.72	2,089,799	93.42
Hong Kong, Macau and overseas regions	186,445	7.28	147,128	6.58
Gross amount of loans and advances to customers before allowance for impairment	2,561,750	100.00	2,236,927	100.00

Bank

	As at 31 December 2011	%	As at 31 December 2010	%
PRC domestic regions				
— Jiangsu	315,655	12.33	280,703	12.56
— Shanghai	285,823	11.17	235,978	10.56
— Beijing	271,290	10.60	265,844	11.89
— Guangdong	206,998	8.09	183,342	8.20
— Zhejiang	198,449	7.75	177,864	7.96
— Shandong	113,036	4.42	98,335	4.40
— Hubei	84,703	3.31	76,512	3.42
— Henan	84,989	3.32	75,392	3.37
— Others	812,108	31.74	694,633	31.07
PRC domestic regions total	2,373,051	92.73	2,088,603	93.43
Hong Kong, Macau and overseas regions	186,120	7.27	146,981	6.57
Gross amount of loans and advances to customers before allowance for impairment	2,559,171	100.00	2,235,584	100.00

A geographical region is reported where it contributes 3% and more of the relevant disclosure item.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers *(Continued)*

(e) *Industry analysis*

The economic sector risk concentration for loans and advances to customers (gross)

Group

	As at 31 December 2011	%	As at 31 December 2010	%
Corporate loans				
Mining	51,040	1.99	40,223	1.80
Manufacturing				
— Petroleum and chemical	103,193	4.03	93,525	4.18
— Electronics	52,532	2.05	44,993	2.01
— Steel	42,547	1.66	45,568	2.04
— Machinery	89,785	3.50	68,911	3.08
— Textile and clothing	34,996	1.37	29,560	1.32
— Other manufacturing	188,906	7.37	155,663	6.96
Electricity, gas and water production and supply	141,316	5.52	138,707	6.20
Construction	80,621	3.15	68,337	3.05
Transportation, storage and postal service	329,566	12.86	307,422	13.74
Telecommunication, IT service and software	10,195	0.40	9,618	0.43
Wholesale and retail	290,874	11.35	214,588	9.59
Accommodation and catering	21,009	0.82	15,746	0.70
Financial institutions	22,995	0.90	37,108	1.66
Real estate	158,688	6.19	142,868	6.39
Services	160,039	6.25	131,496	5.88
Water conservancy, environmental and other public services	151,161	5.90	163,992	7.33
Education	32,647	1.27	30,192	1.35
Others	40,136	1.58	23,411	1.06
Discounted bills	50,197	1.96	57,074	2.55
Total corporate loans	2,052,443	80.12	1,819,002	81.32
Individual loans				
Mortgage loans	312,897	12.21	268,240	11.99
Credit card advances	74,194	2.90	43,561	1.95
Medium-term and long-term working capital loans	51,060	1.99	31,616	1.41
Short-term working capital loans	37,495	1.46	28,740	1.28
Car loans	5,632	0.22	6,607	0.30
Others	28,029	1.10	39,161	1.75
Total individual loans	509,307	19.88	417,925	18.68
Gross amount of loans and advances before allowance for impairment	2,561,750	100.00	2,236,927	100.00

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances to customers *(Continued)*

(e) *Industry analysis (Continued)*

The economic sector risk concentration for loans and advances to customers (gross) *(Continued)*

Bank

	As at 31 December 2011	%	As at 31 December 2010	%
Corporate loans				
Mining	51,033	1.99	40,223	1.80
Manufacturing				
— Petroleum and chemical	103,193	4.03	93,525	4.18
— Electronics	52,532	2.05	44,993	2.01
— Steel	42,547	1.66	45,568	2.04
— Machinery	89,785	3.51	68,911	3.08
— Textile and clothing	34,996	1.37	29,560	1.32
— Other manufacturing	188,231	7.36	155,392	6.96
Electricity, gas and water production and supply	141,311	5.52	138,707	6.20
Construction	80,567	3.15	68,295	3.06
Transportation, storage and postal service	330,180	12.90	307,422	13.75
Telecommunication, IT service and software	10,194	0.40	9,618	0.43
Wholesale and retail	290,676	11.36	214,537	9.60
Accommodation and catering	21,004	0.82	15,746	0.70
Financial institutions	24,780	0.97	38,471	1.72
Real estate	158,652	6.20	143,024	6.40
Services	160,039	6.25	131,496	5.88
Water conservancy, environmental and other public services	151,148	5.91	163,992	7.34
Education	32,638	1.28	30,189	1.35
Others	39,324	1.53	23,257	1.04
Discounted bills	50,197	1.96	57,074	2.55
Total corporate loans	2,053,027	80.22	1,820,000	81.41
Individual loans				
Mortgage loans	312,850	12.22	265,899	11.89
Credit card advances	74,194	2.90	43,561	1.95
Medium-term and long-term working capital loans	50,796	1.99	31,616	1.41
Short-term working capital loans	37,195	1.45	28,740	1.29
Car loans	5,632	0.22	6,607	0.30
Others	25,477	1.00	39,161	1.75
Total individual loans	506,144	19.78	415,584	18.59
Gross amount of loans and advances before allowance for impairment	2,559,171	100.00	2,235,584	100.00

The economic sector risk concentration analysis for loans and advances to customers is based on the type of industry of the borrowers.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 *Loans and advances to customers* *(Continued)*

(f) *Loans and advances to customers analysed by contractual maturity and security type (gross)*

Group

	As at 31 December 2011			
	Within 1 year (inclusive)	1 year to 5 years (inclusive)	Over 5 years	Total
Unsecured loans	307,197	223,936	200,975	732,108
Guaranteed loans	345,347	205,655	121,718	672,720
Collateralised and other secured loans	352,106	292,766	512,050	1,156,922
— loans secured by property and other immovable assets	195,945	244,139	422,252	862,336
— other pledged loans	156,161	48,627	89,798	294,586
Gross amount of loans and advances before allowance for impairment	1,004,650	722,357	834,743	2,561,750

	As at 31 December 2010			
	Within 1 year (inclusive)	1 year to 5 years (inclusive)	Over 5 years	Total
Unsecured loans	248,801	230,966	168,303	648,070
Guaranteed loans	295,594	211,592	105,082	612,268
Collateralised and other secured loans	303,115	261,358	412,116	976,589
— loans secured by property and other immovable assets	171,459	219,273	340,605	731,337
— other pledged loans	131,656	42,085	71,511	245,252
Gross amount of loans and advances before allowance for impairment	847,510	703,916	685,501	2,236,927

Bank

	As at 31 December 2011			
	Within 1 year (inclusive)	1 year to 5 years (inclusive)	Over 5 years	Total
Unsecured loans	308,078	223,503	201,463	733,044
Guaranteed loans	344,504	205,224	121,717	671,445
Collateralised and other secured loans	349,830	292,177	512,675	1,154,682
— loans secured by property and other immovable assets	196,230	243,573	422,239	862,042
— other pledged loans	153,600	48,604	90,436	292,640
Gross amount of loans and advances before allowance for impairment	1,002,412	720,904	835,855	2,559,171

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 *Loans and advances to customers* *(Continued)*

(f) *Loans and advances to customers analysed by contractual maturity and security type (gross) (Continued)*

	As at 31 December 2010			
	Within 1 year (inclusive)	1 year to 5 years (inclusive)	Over 5 years	Total
Unsecured loans	248,742	232,328	168,303	649,373
Guaranteed loans	295,065	211,589	105,081	611,735
Collateralised and other secured loans	301,158	261,207	412,111	974,476
— loans secured by property and other immovable assets	171,774	219,122	340,600	731,496
— other pledged loans	129,384	42,085	71,511	242,980
Gross amount of loans and advances before allowance for impairment	844,965	705,124	685,495	2,235,584

3.1.6 *Investment securities*

The table below presents an analysis of investment securities, excluding derivatives, by independent rating agencies designation as at 31 December 2011 and 2010:

Group

	As at 31 December 2011				
	Investment securities — loans and receivables	Investment securities — available-for-sale (debt securities)	Investment securities — held-to-maturity	Financial assets at fair value through profit or loss (debt securities)	Total
RMB securities					
AAA	25	35,505	126,522	15,009	177,061
AA- to AA+	1,720	6,930	12,873	5,138	26,661
A- to A+	—	—	54	188	242
BBB- to BBB+	—	—	—	—	—
Unrated[(a)]	26,511	110,409	403,404	14,205	554,529
Sub-total	28,256	152,844	542,853	34,540	758,493
Foreign currency securities					
AAA	—	5,115	691	3,155	8,961
AA- to AA+	—	10,413	215	2,104	12,732
A- to A+	—	7,804	117	1,070	8,991
BBB- to BBB+	—	322	—	188	510
Unrated[(a)]	—	4,852	885	1,648	7,385
Sub-total	—	28,506	1,908	8,165	38,579
Total	28,256	181,350	544,761	42,705	797,072

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Investment securities (Continued)

Bank

	As at 31 December 2011				
	Investment securities — loans and receivables	Investment securities — available-for-sale (debt securities)	Investment securities — held-to -maturity	Financial assets at fair value through profit or loss (debt securities)	Total
RMB securities					
AAA	25	35,200	126,492	15,009	176,726
AA- to AA+	1,720	6,603	12,813	5,138	26,274
A- to A+	—	—	54	188	242
BBB- to BBB+	—	—	—	—	—
Unrated[(a)]	26,284	110,395	403,404	14,205	554,288
Sub-total	28,029	152,198	542,763	34,540	757,530
Foreign currency securities					
AAA	—	5,113	691	3,155	8,959
AA- to AA+	—	10,209	215	2,104	12,528
A- to A+	—	7,804	99	1,070	8,973
BBB- to BBB+	—	322	—	188	510
Unrated[(a)]	—	4,653	885	1,607	7,145
Sub-total	—	28,101	1,890	8,124	38,115
Total	28,029	180,299	544,653	42,664	795,645

Group

	As at 31 December 2010				
	Investment securities — loans and receivables	Investment securities — available-for-sale (debt securities)	Investment securities — held-to-maturity	Financial assets at fair value through profit or loss (debt securities)	Total
RMB securities					
AAA	25	30,986	130,303	17,007	178,321
AA- to AA+	400	4,060	12,630	2,316	19,406
A- to A+	—	79	250	—	329
BBB- to BBB+	—	—	—	—	—
Unrated[(a)]	42,060	90,545	418,078	13,598	564,281
Sub-total	42,485	125,670	561,261	32,921	762,337
Foreign currency securities					
AAA	—	7,552	884	4,135	12,571
AA- to AA+	—	9,896	199	2,266	12,361
A- to A+	—	8,299	123	1,343	9,765
BBB- to BBB+	—	289	—	268	557
Unrated[(a)]	132	6,836	1,254	212	8,434
Sub-total	132	32,872	2,460	8,224	43,688
Total	42,617	158,542	563,721	41,145	806,025

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Investment securities *(Continued)*

Bank

	As at 31 December 2010				
	Investment securities — loans and receivables	Investment securities — available-for-sale (debt securities)	Investment securities — held-to-maturity	Financial assets at fair value through profit or loss (debt securities)	Total
RMB securities					
AAA	25	30,620	130,303	17,007	177,955
AA- to AA+	400	3,672	12,630	2,316	19,018
A- to A+	—	79	250	—	329
BBB- to BBB+	—	—	—	—	—
Unrated[(a)]	41,792	90,516	417,958	13,598	563,864
Sub-total	42,217	124,887	561,141	32,921	761,166
Foreign currency securities					
AAA	—	7,552	760	4,135	12,447
AA- to AA+	—	9,896	199	2,266	12,361
A- to A+	—	8,299	103	1,343	9,745
BBB- to BBB+	—	289	—	268	557
Unrated[(a)]	132	6,836	1,190	151	8,309
Sub-total	132	32,872	2,252	8,163	43,419
Total	42,349	157,759	563,393	41,084	804,585

(a) These mainly represent investments and trading securities issued by Ministry of Finance of the PRC ("MOF"), the PBOC and policy banks which are creditworthy issuers in the market, but are not rated by independent rating agencies.

The total gross amount of individually impaired debt securities as at 31 December 2011 is RMB1,182 million (31 December 2010: RMB1,340 million). No collaterals is held by the Group in respect of these impaired securities, and the impairment provision is RMB1,182 million as at 31 December 2011 (31 December 2010: RMB1,340 million).

3.1.7 Derivative instruments

The Group undertakes its transactions in foreign exchange and interest rate derivative contracts with other financial institutions and customers. Management has established limits for these contracts based on counterparties, industry sectors and countries. Actual credit exposures and limits are regularly monitored and controlled by management.

Credit risk weighted amounts

Group and Bank

	As at 31 December 2011	As at 31 December 2010
Derivatives		
— Exchange rate contracts	2,276	3,158
— Interest rate contracts	520	508
	2,796	3,666

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.7 *Derivative instruments (Continued)*

The credit risk weighted amounts are the amounts calculated with reference to the guidelines issued by the CBRC and are dependent on, amongst other factors, the creditworthiness of the counterparty and the maturity characteristics of each type of contract.

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

3.1.8 *Foreclosed assets*

Group and Bank

	As at 31 December 2011	As at 31 December 2010
Residential properties	24	20
Business properties	91	82
Others	115	160
Total	230	262

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Group does not generally occupy foreclosed assets for its own business use. Foreclosed assets are classified as other assets in the statement of financial position.

3.1.9 *Concentration risk analysis for financial assets with credit risk exposure*

Geographical sectors

Group

	PRC	Hong Kong	Others	Total
As at 31 December 2011				
Financial Assets				
Balances with central banks	701,407	11,723	7,615	720,745
Due from banks and other financial institutions	382,728	31,506	29,006	443,240
Financial assets at fair value through profit or loss (debt securities and derivatives)	39,859	2,201	6,230	48,290
Loans and advances to customers	2,379,646	96,916	28,823	2,505,385
Investment securities — loans and receivables	28,256	—	—	28,256
Investment securities — available-for-sale (debt securities)	157,770	3,080	20,500	181,350
Investment securities-held-to-maturity	543,757	25	979	544,761
Other financial assets	67,778	2,590	454	70,822
	4,301,201	148,041	93,607	4,542,849
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	731,384	11,466	5,860	748,710
Other credit related commitments	281,587	20,846	11,050	313,483
	1,012,971	32,312	16,910	1,062,193

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.9 Concentration risk analysis for financial assets with credit risk exposure *(Continued)*

Geographical sectors (Continued)

Bank

	PRC	Hong Kong	Others	Total
As at 31 December 2011				
Financial Assets				
Balances with central banks	701,184	11,723	7,615	720,522
Due from banks and other financial institutions	380,969	31,372	28,722	441,063
Financial assets at fair value through profit or loss (debt securities and derivatives)	39,859	2,160	6,230	48,249
Loans and advances to customers	2,377,287	96,136	29,406	2,502,829
Investment securities — loans and receivables	28,029	—	—	28,029
Investment securities — available-for-sale (debt securities)	157,124	2,877	20,298	180,299
Investment securities-held-to-maturity	543,649	25	979	544,653
Other financial assets	22,643	1,020	453	24,116
	4,250,744	145,313	93,703	4,489,760
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	731,376	11,466	5,860	748,702
Other credit related commitments	281,587	20,846	11,050	313,483
	1,012,963	32,312	16,910	1,062,185

Group

	PRC	Hong Kong	Others	Total
As at 31 December 2010				
Financial Assets				
Balances with central banks	565,798	4,503	2,955	573,256
Due from banks and other financial institutions	238,508	18,118	6,350	262,976
Financial assets at fair value through profit or loss (debt securities and derivatives)	38,298	1,891	5,687	45,876
Loans and advances to customers	2,075,960	85,109	29,421	2,190,490
Investment securities — loans and receivables	42,485	—	132	42,617
Investment securities — available-for-sale (debt securities)	132,659	3,043	22,840	158,542
Investment securities — held-to-maturity	562,659	27	1,035	563,721
Other financial assets	48,928	1,864	475	51,267
	3,705,295	114,555	68,895	3,888,745
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	573,415	12,732	10,296	596,443
Other credit related commitments	204,870	29,773	7,412	242,055
	778,285	42,505	17,708	838,498

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.9 Concentration risk analysis for financial assets with credit risk exposure *(Continued)*

Geographical sectors (Continued)

Bank

	PRC	Hong Kong	Others	Total
As at 31 December 2010				
Financial Assets				
Balances with central banks	565,720	4,503	2,955	573,178
Due from banks and other financial institutions	237,608	17,977	6,182	261,767
Financial assets at fair value through profit or loss (debt securities and derivatives)	38,280	1,848	5,687	45,815
Loans and advances to customers	2,074,666	85,105	29,383	2,189,154
Investment securities — loans and receivables	42,217	—	132	42,349
Investment securities — available-for-sale (debt securities)	131,876	3,043	22,840	157,759
Investment securities-held-to-maturity	562,331	27	1,035	563,393
Other financial assets	18,652	1,140	475	20,267
	3,671,350	113,643	68,689	3,853,682
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	573,415	12,732	10,296	596,443
Other credit related commitments	204,870	29,773	7,412	242,055
	778,285	42,505	17,708	838,498

The above analysis is based on the country/region in which the counterparties are located.

3.2 Market risk

3.2.1 Overview

The Group takes on exposure to market risks, which is initiated by the fluctuation of the fair value of or future cash flow of financial instruments as a result of the changes of the market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market fluctuations and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group separates exposures to market risk into either trading or banking portfolios.

In accordance with the requirements of the CBRC, the Group categorises its business into either the trading book or the banking book. The trading book consists of positions in financial instruments held either for trading intent or economic hedging in other elements of the trading book or the banking book. The banking book consists of the investment purchased by the Group with excess funds and other financial instruments that are not captured in trading book.

The Group's risk management committee under Board of Directors and Senior Management of the Bank approve the overall market risk policies and procedures. The Market Risk Management team within Risk Management Department monitors the Group's market risk exposure and reports the risk exposures and interest rate sensitivity to Senior Management on a quarterly basis. The Senior Management of the Group is responsible for approving the limits for foreign currency exposures and the limits for the trading book.

As part of market risk management, the Group enters into interest rate swaps to match the interest rate risk associated with the structured deposits and fixed-rate long-term debt securities.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.1 Overview (Continued)

The major measurement techniques used to measure and control market risk are outlined below:

3.2.2 Sensitivity tests

Interest rate sensitivity test

The Group performs interest rate sensitivity analysis on net interest income and other comprehensive income for the Group by measuring the impact of a change in net interest income of financial assets and liabilities, not taking customer behavior and prepayment option into consideration. On an assumption of a parallel shift of 100 basis points in RMB interest rate, the Group calculates the change in net interest income for the year and other comprehensive income on a monthly basis.

The table below illustrates the impact of coming year net interest income of the Group at 31 December 2011 and 2010 by the parallel shift of 100 basis point of interest rate structure of interest bearing assets and liabilities.

Group

	Expected change in net interest income	
	Year ended 31 December 2011	Year ended 31 December 2010
+100 basis point parallel shift in all yield curves	10,788	8,258
-100 basis point parallel shift in all yield curves	(10,788)	(8,258)

The table below illustrates the impact of other comprehensive income of the Group by the parallel shift of 100 basis point of interest rate structure

Group

	Change of other comprehensive income	
	As at 31 December 2011	As at 31 December 2010
+100 basis point parallel shift in all yield curves	(3,017)	(2,400)
-100 basis point parallel shift in all yield curves	3,252	2,553

The results of the interest rate sensitivity tests set out in the table above is an illustrative only and is based on simplified scenarios. The figures represent the impact of the projected net interest income and other comprehensive income by the projected movement of current interest risk structure yield curves. This effect, however, does not incorporate actions that would be taken by the Group to mitigate the impact of this interest rate changes. The projections above also assume that interest rates of all maturities excluding demand deposits move by the same amount and, therefore, do not reflect the potential impact on net interest income due to changes in certain rates while others remain unchanged. The projections make other simplifying assumptions as well, including that all positions run to maturity. There will be changes to the projection if not letting positions run to maturity but it is not expected that the changes would be material.

Foreign exchange sensitivity test

The Group performs exchange rate sensitivity analysis on net profit and other comprehensive income for the Group by measuring the impact of a change in exchange rate on financial assets and liabilities by different currency. On an assumption of an appreciation or depreciation of RMB against US dollar and HK dollar by 5%, the Group calculates the change in net profit for the year and other comprehensive income on a monthly basis.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.2 *Sensitivity tests (Continued)*

Foreign exchange sensitivity test (Continued)

The table below illustrates the impact of an appreciation or depreciation of RMB against US dollar and HK dollar by 5% on the Group's net profit:

Group

	Expected change in net profit/(loss)	
	Year ended 31 December 2011	Year ended 31 December 2010
5% appreciation of RMB	(458)	(972)
5% depreciation of RMB	458	1,406

The table below illustrates the impact of an appreciation of RMB against US dollar and HK dollar by 5% on the Group's other comprehensive income:

Group

	Change of other comprehensive income	
	As at 31 December 2011	As at 31 December 2010
5% appreciation of RMB	(376)	(459)
5% depreciation of RMB	376	459

3.2.3 *Interest rate risk*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the market value of a financial instrument will fluctuate because of changes in market interest rates.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce interest margin or create losses in the event that unexpected fluctuation arise.

The Group operates its business predominantly in PRC under the interest rate scheme regulated by the PBOC. According to the PBOC regulations, there is no ceiling for loan interest rates, whilst the floor for loan interest rates is 10% below the stipulated rates. The normal practice for the interest rates of both interest-bearing assets and liabilities is to move in the same direction. The Group conducts most of its domestic businesses including loans and deposits as well as the majority of financial guarantees and credit commitments based upon the PBOC basic interest rates. Consequently, the Group is less vulnerable to interest rate risk. However, there is no guarantee that the PBOC will continue this practice in the future.

The interest rate repricing risk for foreign currency denominated debt securities and the remaining part of financial guarantees and credit commitments businesses which are not based upon these basic interest rates is not expected to be significant.

The interest rate for discounted bills is determined by reference to the PBOC/market re-discount interest rate. However, it is generally lower than the interest rate for a loan with same term.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 ***Interest rate risk*** *(Continued)*

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

Group

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2011							
Assets							
Cash and balances with central banks	705,287	—	—	—	—	31,712	736,999
Due from banks and other financial institutions	348,233	18,979	75,156	860	—	12	443,240
Financial assets at fair value through profit or loss	3,971	5,179	14,318	15,605	3,632	5,717	48,422
Loans and advances to customers	1,198,327	356,612	911,744	23,290	15,412	—	2,505,385
Investment securities — loans and receivables	336	1,514	7,190	6,381	12,835	—	28,256
Investment securities — available-for-sale	13,472	32,811	31,676	70,876	32,515	2,742	184,092
Investment securities — held-to-maturity	16,441	27,363	127,321	232,064	141,572	—	544,761
Other assets	13,409	12,792	18,278	110	637	74,796	120,022
Total assets	2,299,476	455,250	1,185,683	349,186	206,603	114,979	4,611,177
Liabilities							
Due to banks and other financial institutions	(560,750)	(85,698)	(86,849)	(120,922)	(280)	—	(854,499)
Financial liabilities at fair value through profit or loss	(1,605)	(4,025)	(2,084)	(5,214)	—	(5,993)	(18,921)
Due to customers	(2,033,226)	(346,727)	(653,516)	(240,260)	—	(9,503)	(3,283,232)
Other liabilities	(248)	(10,382)	(2,910)	(13,893)	(57,575)	(96,729)	(181,737)
Total liabilities	(2,595,829)	(446,832)	(745,359)	(380,289)	(57,855)	(112,225)	(4,338,389)
Total interest sensitivity gap	(296,353)	8,418	440,324	(31,103)	148,748	2,754	272,788

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Interest rate risk *(Continued)*

Bank

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2011							
Assets							
Cash and balances with central banks	705,064	—	—	—	—	31,699	736,763
Due from banks and other financial institutions	347,076	18,929	75,046	—	—	12	441,063
Financial assets at fair value through profit or loss	3,971	5,138	14,318	15,605	3,632	5,585	48,249
Loans and advances to customers	1,198,119	357,129	909,694	22,486	15,401	—	2,502,829
Investment securities — loans and receivables	336	1,514	7,159	6,249	12,771	—	28,029
Investment securities — available-for-sale	13,472	32,811	31,515	70,471	32,030	1,298	181,597
Investment securities — held-to-maturity	16,441	27,363	127,321	232,052	141,476	—	544,653
Investments in subsidiaries	—	—	—	—	—	9,344	9,344
Other assets	—	—	—	—	—	71,930	71,930
Total assets	2,284,479	442,884	1,165,053	346,863	205,310	119,868	4,564,457
Liabilities							
Due to banks and other financial institutions	(560,508)	(85,269)	(53,275)	(120,922)	(280)	—	(820,254)
Financial liabilities at fair value through profit or loss	(1,605)	(4,025)	(2,084)	(5,214)	—	(5,993)	(18,921)
Due to customers	(2,033,091)	(346,727)	(653,623)	(239,644)	—	(9,503)	(3,282,588)
Other liabilities	(28)	(10,273)	(2,544)	(11,662)	(57,575)	(90,518)	(172,600)
Total liabilities	(2,595,232)	(446,294)	(711,526)	(377,442)	(57,855)	(106,014)	(4,294,363)
Total interest sensitivity gap	(310,753)	(3,410)	453,527	(30,579)	147,455	13,854	270,094

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 ***Interest rate risk*** *(Continued)*

Group

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2010							
Assets							
Cash and balances with central banks	562,121	—	—	—	—	24,433	586,554
Due from banks and other financial institutions	195,582	32,150	34,592	640	—	12	262,976
Financial assets at fair value through profit or loss	1,139	2,776	12,965	20,629	3,636	4,898	46,043
Loans and advances to customers	962,362	282,115	900,422	30,487	15,104	—	2,190,490
Investment securities — loans and receivables	4,206	7,112	16,677	11,647	2,975	—	42,617
Investment securities — available-for-sale	12,214	27,925	43,861	53,199	21,343	3,628	162,170
Investment securities — held-to-maturity	22,153	32,817	100,144	270,319	138,288	—	563,721
Other assets	3,570	9,874	16,532	—	—	67,046	97,022
Total assets	1,763,347	394,769	1,125,193	386,921	181,346	100,017	3,951,593
Liabilities							
Due to banks and other financial institutions	(431,192)	(54,936)	(75,854)	(154,050)	(1,000)	—	(717,032)
Financial liabilities at fair value through profit or loss	(1,349)	(4,448)	(2,257)	(1,175)	—	(5,150)	(14,379)
Due to customers	(1,876,444)	(284,077)	(576,352)	(118,078)	—	(12,896)	(2,867,847)
Other liabilities	(233)	(96)	(302)	(22,911)	(31,143)	(73,993)	(128,678)
Total liabilities	(2,309,218)	(343,557)	(654,765)	(296,214)	(32,143)	(92,039)	(3,727,936)
Total interest sensitivity gap	(545,871)	51,212	470,428	90,707	149,203	7,978	223,657

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Interest rate risk *(Continued)*

Bank

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2010							
Assets							
Cash and balances with central banks	562,043	—	—	—	—	24,423	586,466
Due from banks and other financial institutions	195,117	32,076	34,562	—	—	12	261,767
Financial assets at fair value through profit or loss	1,139	2,776	12,922	20,611	3,636	4,731	45,815
Loans and advances to customers	964,533	282,022	897,164	30,335	15,100	—	2,189,154
Investment securities-loans and receivables	4,119	7,112	16,643	11,500	2,975	—	42,349
Investment securities — available-for-sale	12,214	27,925	43,861	53,050	20,709	1,661	159,420
Investment securities — held-to-maturity	22,153	32,816	100,011	270,210	138,203	—	563,393
Investments in subsidiaries	—	—	—	—	—	8,089	8,089
Other assets	—	—	—	—	—	65,158	65,158
Total assets	1,761,318	384,727	1,105,163	385,706	180,623	104,074	3,921,611
Liabilities							
Due to banks and other financial institutions	(431,519)	(51,570)	(58,454)	(154,050)	(1,000)	—	(696,593)
Financial liabilities at fair value through profit or loss	(1,349)	(4,448)	(2,257)	(1,175)	—	(5,150)	(14,379)
Due to customers	(1,876,507)	(284,103)	(576,399)	(118,078)	—	(12,896)	(2,867,983)
Other liabilities	(32)	(3)	(13)	(20,723)	(31,143)	(69,245)	(121,159)
Total liabilities	(2,309,407)	(340,124)	(637,123)	(294,026)	(32,143)	(87,291)	(3,700,114)
Total interest sensitivity gap	(548,089)	44,603	468,040	91,680	148,480	16,783	221,497

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 *Foreign exchange risk*

The Group conducts the majority of its businesses in RMB, with certain foreign transactions in US dollar, HK dollar and other currencies. The Group takes on exposure to the effects of fluctuations in the prevailing foreign exchange rates on its financial position and cash flows. The Senior Management sets limits on the level of exposure in exchange rate risk and monitoring regularly. The tables below summarise the Group's exposure to foreign exchange risk at the end of each year. The tables show the Group's total assets and liabilities in carrying amounts in RMB, and which categorised by the original currency.

Group

	RMB	US dollar (equivalent to RMB)	HK dollar (equivalent to RMB)	Others (equivalent to RMB)	Total
As at 31 December 2011					
Assets					
Cash and balances with central banks	712,062	5,255	12,319	7,363	736,999
Due from banks and other financial institutions	379,937	49,124	7,612	6,567	443,240
Financial assets at fair value through profit or loss	37,938	6,879	1,262	2,343	48,422
Loans and advances to customers	2,249,242	182,890	61,089	12,164	2,505,385
Investment securities — loans and receivables	28,256	—	—	—	28,256
Investment securities — available-for-sale	155,025	22,498	2,139	4,430	184,092
Investment securities — held-to-maturity	542,853	1,638	—	270	544,761
Other assets	115,544	1,012	3,220	246	120,022
Total assets	4,220,857	269,296	87,641	33,383	4,611,177
Liabilities					
Due to banks and other financial institutions	(723,832)	(113,722)	(5,779)	(11,166)	(854,499)
Financial liabilities at fair value through profit or loss	(6,035)	(7,453)	(4,862)	(571)	(18,921)
Due to customers	(3,056,701)	(105,458)	(100,925)	(20,148)	(3,283,232)
Other liabilities	(170,843)	(4,299)	(3,973)	(2,622)	(181,737)
Total liabilities	(3,957,411)	(230,932)	(115,539)	(34,507)	(4,338,389)
Net position	263,446	38,364	(27,898)	(1,124)	272,788
Financial guarantees and credit related commitments	862,715	160,017	18,811	20,650	1,062,193

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Foreign exchange risk *(Continued)*

Bank

	RMB	US dollar (equivalent to RMB)	HK dollar (equivalent to RMB)	Others (equivalent to RMB)	Total
As at 31 December 2011					
Assets					
Cash and balances with central banks	711,826	5,255	12,319	7,363	736,763
Due from banks and other financial institutions	378,112	48,823	7,561	6,567	441,063
Financial assets at fair value through profit or loss	37,938	6,838	1,130	2,343	48,249
Loans and advances to customers	2,246,998	183,456	60,211	12,164	2,502,829
Investment securities — loans and receivables	28,029	—	—	—	28,029
Investment securities — available-for-sale	153,455	22,297	1,415	4,430	181,597
Investment securities — held-to-maturity	542,763	1,620	—	270	544,653
Investments in subsidiaries	6,620	630	2,094	—	9,344
Other assets	69,302	1,011	1,371	246	71,930
Total assets	4,175,043	269,930	86,101	33,383	4,564,457
Liabilities					
Due to banks and other financial institutions	(689,931)	(113,724)	(5,433)	(11,166)	(820,254)
Financial liabilities at fair value through profit or loss	(6,035)	(7,453)	(4,862)	(571)	(18,921)
Due to customers	(3,055,040)	(105,458)	(101,942)	(20,148)	(3,282,588)
Other liabilities	(162,057)	(4,294)	(3,627)	(2,622)	(172,600)
Total liabilities	(3,913,063)	(230,929)	(115,864)	(34,507)	(4,294,363)
Net position	261,980	39,001	(29,763)	(1,124)	270,094
Financial guarantees and credit related commitments	862,707	160,017	18,811	20,650	1,062,185

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 *Foreign exchange risk (Continued)*

Group

	RMB	US dollar (equivalent to RMB)	HK dollar (equivalent to RMB)	Others (equivalent to RMB)	Total
As at 31 December 2010					
Assets					
Cash and balances with central banks	574,385	3,788	5,157	3,224	586,554
Due from banks and other financial institutions	227,803	27,003	518	7,652	262,976
Financial assets at fair value through profit or loss	36,155	6,920	350	2,618	46,043
Loans and advances to customers	1,962,515	166,902	51,166	9,907	2,190,490
Investment securities — loans and receivables	42,485	132	—	—	42,617
Investment securities — available-for-sale	128,159	25,893	3,213	4,905	162,170
Investment securities — held-to-maturity	561,261	2,379	—	81	563,721
Other assets	93,227	1,452	1,527	816	97,022
Total assets	3,625,990	234,469	61,931	29,203	3,951,593
Liabilities					
Due to banks and other financial institutions	(633,705)	(66,869)	(3,537)	(12,921)	(717,032)
Financial liabilities at fair value through profit or loss	(967)	(7,445)	(5,614)	(353)	(14,379)
Due to customers	(2,687,208)	(85,339)	(75,767)	(19,533)	(2,867,847)
Other liabilities	(123,625)	(1,877)	(1,875)	(1,301)	(128,678)
Total liabilities	(3,445,505)	(161,530)	(86,793)	(34,108)	(3,727,936)
Net position	180,485	72,939	(24,862)	(4,905)	223,657
Financial guarantees and credit related commitments	660,074	126,255	19,391	32,778	838,498

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Foreign exchange risk *(Continued)*

Bank

	RMB	US dollar (equivalent to RMB)	HK dollar (equivalent to RMB)	Others (equivalent to RMB)	Total
As at 31 December 2010					
Assets					
Cash and balances with central banks	574,297	3,788	5,157	3,224	586,466
Due from banks and other financial institutions	226,835	26,948	332	7,652	261,767
Financial assets at fair value through profit or loss	36,155	6,859	183	2,618	45,815
Loans and advances to customers	1,961,326	166,963	50,958	9,907	2,189,154
Investment securities — loans and receivables	42,217	132	—	—	42,349
Investment securities — available-for-sale	126,507	25,893	2,115	4,905	159,420
Investment securities — held-to-maturity	561,141	2,171	—	81	563,393
Investments in subsidiaries	5,891	—	2,198	—	8,089
Other assets	62,634	1,452	256	816	65,158
Total assets	3,597,003	234,206	61,199	29,203	3,921,611
Liabilities					
Due to banks and other financial institutions	(613,098)	(66,892)	(3,682)	(12,921)	(696,593)
Financial liabilities at fair value through profit or loss	(967)	(7,445)	(5,614)	(353)	(14,379)
Due to customers	(2,686,625)	(85,449)	(76,376)	(19,533)	(2,867,983)
Other liabilities	(116,728)	(1,877)	(1,253)	(1,301)	(121,159)
Total liabilities	(3,417,418)	(161,663)	(86,925)	(34,108)	(3,700,114)
Net position	179,585	72,543	(25,726)	(4,905)	221,497
Financial guarantees and credit related commitments	660,074	126,255	19,391	32,778	838,498

3.2.5 Other price risk

The Group is exposed to other price risk arising from financial assets such as equity investments and derivatives linked to commodity price. Most of the equity investments are from the possession of foreclosed assets due to historical reasons and arise from the proprietary trading of the Group's subsidiaries which holds the qualification of securities dealing and brokerage as well. As for the proprietary trading exposure, the Group enforces strict manangement of the risk exposure limit and the balance is insignificant in the Group's financial assets. The Group considers that the other price risk confronted is immaterial.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk

3.3.1 Overview

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend. The Group's objective in liquidity management is to ensure the availability of adequate funding to meet the demands of fund deposit withdrawals and other liabilities as they fall due and to ensure that it is able to meet its obligations to fund loan originations and commitments and to take advantage of new investment opportunities.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, matured deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The Board of Directors set limits on the minimum proportion of funds to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover different levels of unexpected withdrawals. In addition, the Bank limits its loan to deposit ratio at below 75% as required by the PBOC. As at 31 December 2011, 21% (31 December 2010: 19%) of the Bank's total RMB denominated customer deposits and 5% (31 December 2010: 5%) of the total foreign currency denominated customer deposits must be deposited with the PBOC.

3.3.2 Liquidity risk management process

The Group's liquidity risk management process, as monitored by the Assets and Liabilities Management Department for RMB business and foreign exchange business, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met including replenishment of funds matured or to fulfil the commitment of lending;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities centrally at Head Office and centrally managing the utilisation of the Bank's liquid assets;
- Setting up contingency plan, regular monitoring and precaution mechanism and establishing crisis management scheme;
- Enhancing the liquidity management of overseas branches.

The Group monitors and reports cash flow measurement and projections made for the next day, week and month separately, as these are key time periods for liquidity risk management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities (Notes 3.3.3–3.3.4).

Sources of liquidity are regularly reviewed by the Assets and Liabilities Management Department respectively to maintain a wide diversification by currency, geography, customer, product and term regularly.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial instruments cash flows

The table below presents the cash flows of the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the end of the reporting date. The amounts disclosed in the tables are undiscounted contractual cash flows. The Group and the Bank's expected cash flows on these financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

Group

	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2011									
Liabilities									
Due to banks and other financial institution	(143,024)	(161,393)	(100,142)	(98,600)	(429,857)	(8,379)	–	–	(941,395)
Non-derivative financial liabilities at fair value through profit or loss	(406)	(972)	(475)	(3,138)	(8,241)	–	–	–	(13,232)
Due to customers	(1,620,246)	(419,788)	(354,212)	(680,572)	(284,879)	(11,395)	–	–	(3,371,092)
Debts securities issued	–	–	(10,631)	(5,049)	(25,759)	(72,731)	–	–	(114,170)
Other financial liabilities	(38,311)	(1,227)	(31)	(351)	(1,700)	(3,487)	–	–	(45,107)
Total liabilities (contractual maturity dates)	(1,801,987)	(583,380)	(465,491)	(787,710)	(750,436)	(95,992)	–	–	(4,484,996)
Cash and balances with central banks	114,360	–	–	–	–	–	–	622,939	737,299
Due from banks and other financial institutions	62,874	285,598	19,375	77,169	1,087	–	12	–	446,115
Non-derivative financial assets at fair value through profit or loss	–	2,069	2,960	15,448	21,533	6,790	–	132	48,932
Loans and advances to customers	–	178,125	316,836	916,990	826,569	888,626	18,843	–	3,145,989
Investment securities – loans and receivables	–	330	1,551	8,419	9,665	16,385	–	–	36,350
Investment securities – available-for-sale	–	3,022	10,866	34,796	111,268	52,541	722	2,742	215,957
Investment securities – held-to-maturity	–	7,298	13,032	127,269	310,926	185,181	–	–	643,706
Other financial assets	5,134	1,738	2,286	10,271	28,635	11,834	702	–	60,600
Assets held for managing liquidity risk (contractual maturity dates)	182,368	478,180	366,906	1,190,362	1,309,683	1,161,357	20,279	625,813	5,334,948

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 *Non-derivative financial instruments cash flows* *(Continued)*

Bank

	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2011									
Liabilities									
Due to banks and other financial institution	(145,570)	(158,444)	(93,753)	(69,699)	(429,857)	(8,379)	–	–	(905,702)
Non-derivative financial liabilities at fair value through profit or loss	(406)	(972)	(475)	(3,138)	(8,241)	–	–	–	(13,232)
Due to customers	(1,620,112)	(419,788)	(354,155)	(680,773)	(284,226)	(11,395)	–	–	(3,370,449)
Debts securities issued	–	–	(10,631)	(4,986)	(23,696)	(72,731)	–	–	(112,044)
Other financial liabilities	(37,001)	(28)	(14)	(249)	(320)	(2,648)	–	–	(40,260)
Total liabilities (contractual maturity dates)	(1,803,089)	(579,232)	(459,028)	(758,845)	(746,340)	(95,153)	–	–	(4,441,687)
Cash and balances with central banks	114,319	–	–	–	–	–	–	622,744	737,063
Due from banks and other financial institutions	61,834	285,598	19,315	77,038	–	–	12	–	443,797
Non-derivative financial assets at fair value through profit or loss	–	2,069	2,960	15,448	21,533	6,749	–	–	48,759
Loans and advances to customers	–	175,321	316,715	916,947	826,242	889,360	18,843	–	3,143,428
Investment securities – loans and receivables	–	330	1,551	8,387	9,533	16,322	–	–	36,123
Investment securities – available-for-sale	–	3,022	10,861	34,608	110,749	52,006	722	1,298	213,266
Investment securities – held-to-maturity	–	7,298	13,032	127,269	310,917	185,085	–	–	643,601
Other financial assets	4,276	–	–	–	–	–	691	–	4,967
Assets held for managing liquidity risk (contractual maturity dates)	180,429	473,638	364,434	1,179,697	1,278,974	1,149,522	20,268	624,042	5,271,004

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial instruments cash flows *(Continued)*

Group

	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2010									
Liabilities									
Due to banks and other financial institution	(207,410)	(83,814)	(59,395)	(81,065)	(289,765)	(61,335)	–	–	(782,784)
Non-derivative financial liabilities at fair value through profit or loss	(1)	–	(94)	(4,532)	(4,718)	–	–	–	(9,345)
Due to customers	(1,465,143)	(392,898)	(288,008)	(593,100)	(175,438)	(4,342)	–	–	(2,918,929)
Debts securities issued	–	–	(997)	(980)	(28,897)	(32,982)	–	–	(63,856)
Other financial liabilities	(23,560)	(1,333)	(32)	(919)	(961)	(2,632)	–	–	(29,437)
Total liabilities (contractual maturity dates)	(1,696,114)	(478,045)	(348,526)	(680,596)	(499,779)	(101,291)	–	–	(3,804,351)
Cash and balances with central banks	120,639	–	–	–	–	–	–	466,158	586,797
Due from banks and other financial institutions	20,966	174,776	32,319	35,279	787	–	12	–	264,139
Non-derivative financial assets at fair value through profit or loss	–	755	1,569	12,623	24,738	5,434	–	167	45,286
Loans and advances to customers	–	148,627	255,536	764,042	785,944	778,033	17,576	–	2,749,758
Investment securities – loans and receivables	–	5,090	7,182	17,005	13,576	3,571	–	–	46,424
Investment securities – available-for-sale	–	6,515	10,170.	43,397	84,547	37,259	628	3,628	186,144
Investment securities – held-to-maturity	–	12,045	21,306	85,087	353,755	187,342	–	–	659,535
Other financial assets	4,813	1,896	2,007	5,725	18,673	8,817	841	–	42,772
Assets held for managing liquidity risk (contractual maturity dates)	146,418	349,704	330,089	963,158	1,282,020	1,020,456	19,057	469,953	4,580,855

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative financial instruments cash flows *(Continued)*

Bank

	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2010									
Liabilities									
Due to banks and other financial institution	(208,419)	(78,969)	(56,910)	(67,950)	(288,338)	(61,335)	–	–	(761,921)
Non-derivative financial liabilities at fair value through profit or loss	(1)	–	(94)	(4,532)	(4,718)	–	–	–	(9,345)
Due to customers	(1,465,205)	(392,898)	(288,033)	(593,148)	(175,438)	(4,342)	–	–	(2,919,064)
Debts securities issued	–	–	(997)	(917)	(26,771)	(32,982)	–	–	(61,667)
Other financial liabilities	(22,990)	–	(13)	(251)	(371)	(2,219)	–	–	(25,844)
Total liabilities (contractual maturity dates)	(1,696,615)	(471,867)	(346,047)	(666,798)	(495,636)	(100,878)	–	–	(3,777,841)
Cash and balances with central banks	120,614	–	–	–	–	–	–	466,095	586,709
Due from banks and other financial institutions	20,501	174,776	32,246	35,249	–	–	12	–	262,784
Non-derivative financial assets at fair value through profit or loss	–	755	1,569	12,623	24,712	5,399	–	–	45,058
Loans and advances to customers	–	148,593	255,439	762,902	785,781	778,028	17,576	–	2,748,319
Investment securities – loans and receivables	–	5,003	7,182	16,971	13,429	3,571	–	–	46,156
Investment securities – available-for-sale	–	6,515	10,165	43,337	84,287	36,708	628	1,661	183,301
Investment securities – held-to-maturity	–	12,045	21,306	84,967	353,631	187,258	–	–	659,207
Other financial assets	4,813	132	128	–	–	–	827	–	5,900
Assets held for managing liquidity risk (contractual maturity dates)	145,928	347,819	328,035	956,049	1,261,840	1,010,964	19,043	467,756	4,537,434

Assets available to meet all of the liabilities include cash, balances with central banks, balances in the course of collection and treasury, due from banks and other financial institutions and loans and advances to customers. In the normal course of business, a proportion of loans and advances to customers contractually repayable within one year will be extended. In addition, certain debt securities have been pledged for liabilities. The Group would also be able to meet unexpected cash outflows by selling investment securities, using credit commitment from other financial institutions, early termination of borrowings from other financial institutions and reserve repurchase agreement and using the mandatory reserve deposits upon the PBOC's approval.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 *Derivative financial instruments cash flows*

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

(a) *Derivative settled on a net basis*

The Group's derivative financial instruments that will be settled on a net basis include:

- Foreign exchange derivative financial instruments: non-deliverable forward
- Interest rate derivative financial instruments: interest rate swaps, forward rate agreements and over the counter interest rate options

The table below analyses the Group's derivative financial instruments which will be settled on a net basis under relevant maturity groupings based on the remaining contractual period as at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group and Bank

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2011						
Assets						
Derivative financial instruments held for trading						
— Foreign exchange contracts	1	9	116	50	—	176
— Interest rate contracts	26	11	442	245	(30)	694
Total	27	20	558	295	(30)	870
Liabilities						
Derivative financial instruments held for trading						
— Foreign exchange contracts	(10)	(7)	(77)	(44)	—	(138)
— Interest rate contracts	(143)	(100)	(441)	(909)	(66)	(1,659)
Total	(153)	(107)	(518)	(953)	(66)	(1,797)

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 *Derivative financial instruments cash flows (Continued)*

(a) *Derivative settled on a net basis (Continued)*

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2010						
Assets						
Derivative financial instruments held for trading						
— Foreign exchange contracts	28	153	355	75	—	611
— Interest rate contracts	7	112	367	379	34	899
Total	35	265	722	454	34	1,510
Liabilities						
Derivative financial instruments held for trading						
— Foreign exchange contracts	(19)	(136)	(239)	(52)	—	(446)
— Interest rate contracts	(80)	(98)	(477)	(713)	—	(1,368)
Total	(99)	(234)	(716)	(765)	—	(1,814)

(b) *Derivative settled on a gross basis*

The Group's derivative financial instruments that will be settled on a gross basis include:

- Foreign exchange derivative instruments: currency forwards, currency swaps, cross currency interest rate swaps

The table below analyses the Group's derivative financial instruments which will be settled on a gross basis under relevant maturity groupings based on the remaining contractual period as at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows:

Group and Bank

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2011						
Derivative financial instruments held for trading						
— Foreign exchange derivative contracts						
— Outflow	(125,975)	(88,727)	(183,955)	(12,479)	—	(411,136)
— Inflow	126,236	88,825	183,945	12,516	—	411,522

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 Derivative financial instruments cash flows *(Continued)*

(b) Derivative settled on a gross basis (Continued)

Group and Bank

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2010						
Derivative financial instruments held for trading						
— Foreign exchange contracts						
— Outflow	(159,577)	(104,465)	(169,350)	(11,490)	—	(444,882)
— Inflow	159,714	104,413	169,229	11,429	—	444,785

3.3.5 Maturity analysis

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

Group

	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2011									
Assets									
Cash and balances with central banks	114,060	–	–	–	–	–	–	622,939	736,999
Due from banks and other financial institutions	62,850	285,382	18,979	75,157	860	–	12	–	443,240
Financial assets at fair value through profit or loss	–	2,715	3,954	15,116	20,200	6,305	–	132	48,422
Loans and advances to customers	–	170,161	282,312	825,120	601,798	617,062	8,932	–	2,505,385
Investment securities – loans and receivables	–	300	1,515	6,555	6,422	13,464	–	–	28,256
Investment securities – available-for-sale	–	2,594	9,300	28,587	95,581	45,288	–	2,742	184,092
Investment securities – held-to-maturity	–	6,504	9,646	105,434	264,029	159,148	–	–	544,761
Other assets	14,421	5,105	10,297	16,578	24,348	10,289	257	38,727	120,022
Total assets	191,331	472,761	336,003	1,072,547	1,013,238	851,556	9,201	664,540	4,611,177
Liabilities									
Due to banks and other financial institution	(142,593)	(160,682)	(90,138)	(95,629)	(359,027)	(6,430)	–	–	(854,499)
Financial liabilities at fair value through profit or loss	(406)	(1,795)	(1,577)	(4,556)	(9,694)	(893)	–	–	(18,921)
Due to customers	(1,619,891)	(416,608)	(347,850)	(655,603)	(238,556)	(4,724)	–	–	(3,283,232)
Other liabilities	(45,604)	(6,389)	(21,343)	(23,774)	(25,933)	(58,694)	–	–	(181,737)
Total liabilities	(1,808,494)	(585,474)	(460,908)	(779,562)	(633,210)	(70,741)	–	–	(4,338,389)
Net amount on liquidity gap	(1,617,163)	(112,713)	(124,905)	292,985	380,028	780,815	9,201	664,540	272,788

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.5 ***Maturity analysis*** *(Continued)*

Group

	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2010									
Assets									
Cash and balances with central banks	120,396	–	–	–	–	–	–	466,158	586,554
Due from banks and other financial institutions	20,965	174,617	32,149	34,593	640	–	12	–	262,976
Financial assets at fair value through profit or loss	–	1,492	2,506	13,029	23,766	5,083	–	167	46,043
Loans and advances to customers	–	144,879	221,852	685,487	609,464	519,955	8,853	–	2,190,490
Investment securities – loans and receivables	–	4,210	7,112	16,674	11,645	2,976	–	–	42,617
Investment securities – available-for-sale	–	6,325	9,638	39,293	73,673	29,613	–	3,628	162,170
Investment securities – held-to-maturity	–	11,460	18,565	69,556	305,703	158,437	–	–	563,721
Other assets	13,114	4,189	7,878	11,743	16,213	7,651	273	35,961	97,022
Total assets	154,475	347,172	299,700	870,375	1,041,104	723,715	9,138	505,914	3,951,593
Liabilities									
Due to banks and other financial institutions	(207,271)	(83,404)	(54,835)	(73,905)	(248,742)	(48,875)	–	–	(717,032)
Financial liabilities at fair value through profit or loss	(1)	(667)	(1,167)	(6,094)	(5,909)	(541)	–	–	(14,379)
Due to customers	(1,464,798)	(390,483)	(283,667)	(576,360)	(149,038)	(3,501)	–	–	(2,867,847)
Other liabilities	(30,663)	(5,367)	(9,792)	(17,828)	(33,023)	(32,005)	–	–	(128,678)
Total liabilities	(1,702,733)	(479,921)	(349,461)	(674,187)	(436,712)	(84,922)	–	–	(3,727,936)
Net amount on liquidity gap	(1,548,258)	(132,749)	(49,761)	196,188	604,392	638,793	9,138	505,914	223,657

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.6 Off-balance sheet items

The table below lists the off-balance sheet items of the Group and the Bank according to their remaining period to the contractual maturity date. Financial guarantees are included at notional amounts and based on the earliest contractual maturity date. The future minimum lease payments under non-cancellable operating leases where the Group and the Bank are the lessee are also included.

Group

	Less than than 1 year	1–5 years	Over 5 years	Total
As at 31 December 2011				
Loan commitments and credit related commitments	295,968	14,503	3,012	313,483
Guarantees, acceptances and letters of credit	643,043	85,183	20,484	748,710
Operating lease commitments	1,392	3,474	1,207	6,073
Capital expenditure commitments	1,831	1,632	—	3,463
Total	942,234	104,792	24,703	1,071,729
As at 31 December 2010				
Loan commitments and credit related commitments	213,686	24,847	3,522	242,055
Guarantees, acceptances and letters of credit	477,858	95,835	22,750	596,443
Operating lease commitments	1,291	3,010	981	5,282
Capital expenditure commitments	1,496	1,326	24	2,846
Total	694,331	125,018	27,277	846,626

Bank

	Less than 1 year	1–5 years	Over 5 years	Total
As at 31 December 2011				
Loan commitments and credit related commitments	295,968	14,503	3,012	313,483
Guarantees, acceptances and letters of credit	643,035	85,183	20,484	748,702
Operating lease commitments	1,360	3,429	1,207	5,996
Capital expenditure commitments	1,828	1,632	—	3,460
Total	942,191	104,747	24,703	1,071,641
As at 31 December 2010				
Loan commitments and credit related commitments	213,686	24,847	3,522	242,055
Guarantees, acceptances and letters of credit	477,858	95,835	22,750	596,443
Operating lease commitments	1,279	3,008	981	5,268
Capital expenditure commitments	1,496	1,326	24	2,846
Total	694,319	125,016	27,277	846,612

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities

(a) Financial instruments not measured at fair value

The table below summarises the carrying amounts and expected fair values of those financial assets and liabilities not presented on the Group's consolidated statement of financial position at their fair values.

Group

	As at 31 December 2011		As at 31 December 2010	
	Carrying amount	Fair value	Carrying amount	Fair Value
Financial assets				
Due from banks and other financial institutions	443,240	443,240	262,976	263,016
Loans and advances to customers	2,505,385	2,503,953	2,190,490	2,189,377
Investment securities				
— loans and receivables	28,256	28,528	42,617	42,471
— held-to-maturity	544,761	546,348	563,721	556,508
Financial liabilities				
Due from banks and other financial institutions	(854,499)	(853,542)	(717,032)	(712,149)
Due to customers	(3,283,232)	(3,282,581)	(2,867,847)	(2,868,005)
Debt securities issued	(81,803)	(80,953)	(52,000)	(50,896)

Bank

	As at 31 December 2011		As at 31 December 2010	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial assets				
Due from banks and other financial institutions	441,063	441,063	261,767	261,767
Loans and advances to customers	2,502,829	2,501,398	2,189,154	2,188,041
Investment securities				
— loans and receivables	28,029	28,301	42,349	42,203
— held-to-maturity	544,653	546,239	563,393	556,180
Financial liabilities				
Due to banks and other financial institutions	(820,254)	(819,297)	(696,593)	(691,710)
Due to customers	(3,282,588)	(3,281,938)	(2,867,983)	(2,868,141)
Debt securities issued	(79,803)	(79,005)	(50,000)	(48,922)

The fair value of those financial assets and liabilities such as due from/to banks and other financial institutions, loans and advances to customers and due to customer is close to the carrying amount as the interest rates of most of these assets and liabilities are instantaneously adjusted to changes in interest rates set by the PBOC and other regulatory bodies. The Group only has an insignificant amount of fixed rate due from/to banks and other financial institutions, loans and advances to customers and due to customer.

Due from banks and other financial institutions

Due from banks and other financial institutions includes inter-bank placements and balances in the course of collection. The fair values of floating rate placements and overnight deposits are their carrying amounts. The estimated fair value of fixed rate deposits, which are normally less than one year, is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturities. Thus, the fair value of due from other banks and financial institutions is close to its carrying amount.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(a) ***Financial instruments not measured at fair value*** *(Continued)*

Loans and advances to customers

Loans and advances to customers are stated net of impairment allowances. Except for a very insignificant portion, loans and advances to customers bear interest at a floating rate. Therefore, the carrying amount of loans and advances to customers is a reasonable estimate of fair value.

Investment securities

The fair value for loans and receivables and held-to-maturity investments is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit risk, maturity and yield characteristics.

Due to banks and other financial institutions and customers

The fair value of floating rate liabilities due to other banks and other financial institutions and customers is their carrying amount. The estimated fair value of fixed rate liabilities due to banks and other financial institutions and customers without quoted market price, which are normally less than one year, is based on discounted cash flows using interest rates for new debts with similar credit risk and remaining maturities. The fair value of due to banks and other financial institutions and customers is close to its carrying amount.

Debt securities issued

The fair value of floating rate debt securities issued is approximately equal to its carrying amount. The fair value of fixed rate debt securities issued is calculated using a discounted cash flow model which is based on a current yield curve appropriate for the remaining term to maturity.

(b) ***Fair value hierarchy***

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Hong Kong Stock Exchange).

- Level 2 — Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the over-the-counter derivative instruments and debt instruments traded in inter-bank market. The sources of input parameters like yield curve or counterparty credit risk are China Bond and Bloomberg.

- Level 3 — Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and structured financial instruments.

The Group uses valuation techniques to determine the fair value of financial instruments when unable to obtain the open market quotation in active markets.

The main parameters used in valuation techniques for financial instruments held by the Group include bond prices, interest rates, foreign exchange rates, equity and stocks prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are all observable and obtainable from open market.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(b) Fair value hierarchy *(Continued)*

For asset-backed securities and unlisted equities (private equity) held by the Group, the fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments. Instruments which have been valued using unobservable inputs have been classified by the Group as level 3. Management determines the fair value of the Group's level 3 financial instruments using a variety of techniques, including examining correlations of these fair values with macro-economic factors, engaging external valuers, and using valuation models that incorporate unobservable inputs such as loss coverage ratios. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

Assets and liabilities measured at fair value

Group

As at 31 December 2011

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
— Debt securities	2,195	40,510	—	42,705
— Equity investments	132	—	—	132
— Derivatives	—	5,585	—	5,585
	2,327	46,095	—	48,422
Investment securities — available-for-sale				
— Debt securities	15,695	165,644	11	181,350
— Equity investments	1,625	—	1,117	2,742
	17,320	165,644	1,128	184,092
Total Assets	19,647	211,739	1,128	232,514
Financial liabilities at fair value through profit or loss				
— Debt securities issued and others	(406)	(12,522)	—	(12,928)
— Derivatives	—	(5,993)	—	(5,993)
	(406)	(18,515)	—	(18,921)
Total Liabilities	(406)	(18,515)	—	(18,921)

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(b) ***Fair value hierarchy*** *(Continued)*

Assets and liabilities measured at fair value (Continued)

Bank

As at 31 December 2011

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
— Debt securities	2,154	40,510	—	42,664
— Derivatives	—	5,585	—	5,585
	2,154	46,095	—	48,249
Investment securities — available-for-sale				
— Debt securities	15,468	164,820	11	180,299
— Equity investments	567	—	731	1,298
	16,035	164,820	742	181,597
Total Assets	18,189	210,915	742	229,846
Financial liabilities at fair value through profit or loss				
— Debt securities issued and others	(406)	(12,522)	—	(12,928)
— Derivatives	—	(5,993)	—	(5,993)
	(406)	(18,515)	—	(18,921)
Total Liabilities	(406)	(18,515)	—	(18,921)

Group

As at 31 December 2010

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
— Debt securities	1,738	39,407	—	41,145
— Equity investments	167	—	—	167
— Derivatives	—	4,731	—	4,731
	1,905	44,138	—	46,043
Investment securities — available-for-sale				
— Debt securities	19,945	138,448	149	158,542
— Equity investments	2,884	—	744	3,628
	22,829	138,448	893	162,170
Total Assets	24,734	182,586	893	208,213
Financial liabilities at fair value through profit or loss				
— Debt securities issued and others	(1)	(9,228)	—	(9,229)
— Derivatives	—	(5,150)	—	(5,150)
	(1)	(14,378)	—	(14,379)
Total Liabilities	(1)	(14,378)	—	(14,379)

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(b) ***Fair value hierarchy*** *(Continued)*

Assets and liabilities measured at fair value (Continued)

Bank

As at 31 December 2010

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
— Debt securities	1,677	39,407	—	41,084
— Derivatives	—	4,731	—	4,731
	1,677	44,138	—	45,815
Investment securities — available-for-sale				
— Debt securities	19,162	138,448	149	157,759
— Equity investments	917	—	744	1,661
	20,079	138,448	893	159,420
Total Assets	21,756	182,586	893	205,235
Financial liabilities at fair value through profit or loss				
— Debt securities issued and others	(1)	(9,228)	—	(9,229)
— Derivatives	—	(5,150)	—	(5,150)
	(1)	(14,378)	—	(14,379)
Total Liabilities	(1)	(14,378)	—	(14,379)

Reconciliation of level 3 items

Group

	Financial assets at fair value through profit or loss	Investment securities — available-for-sale	Total assets	Financial liabilities at fair value through profit or loss	Total liabilities
Balance at 1 January 2011	—	893	893	—	—
Total gains or losses					
— Losses	—	(3)	(3)	—	—
— Other comprehensive income	—	—	—	—	—
Additions	—	386	386	—	—
Disposals	—	(148)	(148)	—	—
Balance at 31 December 2011	—	1,128	1,128	—	—
Total losses for the year included in consolidated statement of comprehensive income for assets/liabilities held at 31 December 2011	—	(3)	(3)	—	—

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(b) ***Fair value hierarchy*** *(Continued)*

Reconciliation of level 3 items (Continued)

Bank

	Financial assets at fair value through profit or loss	Investment securities — available-for-sale	Total assets	Financial liabilities at fair value through profit or loss	Total liabilities
Balance at 1 January 2011	—	893	893	—	—
Total gains or losses					
— Losses	—	(3)	(3)	—	—
— Other comprehensive income	—	—	—	—	—
Additions	—	—	—	—	—
Disposals	—	(148)	(148)	—	—
Balance at 31 December 2011	—	742	742	—	—
Total losses for the year included in consolidated statement of comprehensive income for assets/liabilities held at 31 December 2011	—	(3)	(3)	—	—

Group and Bank

	Financial assets at fair value through profit or loss	Investment securities — available-for-sale	Total assets	Financial liabilities at fair value through profit or loss	Total liabilities
Balance at 1 January 2010	986	891	1,877	(999)	(999)
Total gains or losses					
— (Losses)/gains	(269)	(6)	(275)	231	231
— Other comprehensive income	—	—	—	—	—
Additions	—	120	120	—	—
Disposals	(88)	(112)	(200)	100	100
Transfers (out of)/into level 3, net[1]	(629)	—	(629)	668	668
Balance at 31 December 2010	—	893	893	—	—
Total (losses)/gains for the year included in consolidated statement of comprehensive income for assets/liabilities held at 31 December 2010	(269)	(6)	(275)	231	231

(1) For complex structured derivative financial instruments, the Group began to adopt valuation models generally accepted by the market to determine the fair value in 2010, instead of counterparty quotations. The main parameters used in valuation techniques for derivative financial instruments held by the Group include foreign exchange rate, market yield curve, quotation of option volatility, etc., which are all available from open market. Therefore, the Group has reclassified these instruments as level 2 financial instruments.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.5 Capital management

The Group's objectives in managing capital, which is a broader concept than the "equity" on the statement of financial position, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operates;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored quarterly by the Group's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBRC, for supervisory purposes. The required information is filed with the CBRC on a quarterly basis.

The CBRC requires each bank or banking group to maintain a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%, and a core capital ratio of above 4%. The Group's capital as monitored by its Planning and Finance Department is divided into two tiers:

- Core capital: share capital, capital surplus, statutory reserve, statutory general reserve, discretionary reserve, retained earnings and non-controlling interests; and
- Supplementary capital: reserve of fair value changes of available-for-sale financial assets, general allowance of impaired loans, qualified portion of subordinated debts.

Goodwill, unconsolidated investments in financial associates, investments in non-financial related entities and subordinated debts issued by other banks are deducted from core and supplementary capital to arrive at the total capital.

The on-balance sheet risk-weighted assets are measured by means of a hierarchy of four risk weightings classified according to the nature of, and reflecting an estimate of, credit and other risks associated with each asset and counterparty, and taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure with adjustments made to reflect the contingent nature of any potential losses. Market risk capital adjustment is calculated using the standardised approach promulgated by the CBRC.

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.5 Capital management *(Continued)*

The table below summarises the composition of regulatory capital and the ratios of the Group at year end.

	As at 31 December 2011	As at 31 December 2010
Core capital:		
Share capital	61,886	56,260
Capital surplus	61,670	63,393
Statutory, discretionary and statutory general reserves	92,316	66,304
Retained earnings	46,755	40,613
Non-controlling interests	857	726
	263,484	227,296
Supplementary capital:		
General allowance of impaired loans	25,962	22,505
Subordinated debts	65,871	50,000
Other supplementary capital	3,415	4,808
Gross value of supplementary capital	95,248	77,313
Eligible value of supplementary capital	95,248	77,313
Total capital base before deductions	358,732	304,609
Deductions:		
Goodwill	(200)	(200)
Equity investments in financial institutions which are not consolidated	(1,218)	(964)
Equity investments in enterprises	(340)	(362)
Subordinated debts issued by other banks	(4,530)	(4,530)
	(6,288)	(6,056)
Total capital base after deductions	352,444	298,553
Risk-weighted assets:		
On-balance sheet risk-weighted assets	2,411,523	2,113,491
Off-balance sheet risk-weighted assets	383,661	257,157
Total risk-weighted assets	2,795,184	2,370,648
Market risk capital	3,034	3,649
Capital adequacy ratios	12.44%	12.36%
Core capital adequacy ratios	9.27%	9.37%

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

4 NET INTEREST INCOME

Group

	Year ended 31 December	
	2011	2010
Interest income		
Balances with central banks	9,336	6,855
Due from banks and other financial institutions	7,092	4,424
Loans and advances to customers	147,162	106,056
Investment in debt securities	27,282	24,570
	190,872	141,905
Interest expense		
Due to banks and other financial institutions	(31,449)	(18,220)
Due to customers	(54,396)	(36,628)
Subordinated debts and other debts issued	(2,257)	(1,990)
Certificates of deposit issued	(169)	(72)
	(88,271)	(56,910)
Net interest income	102,601	84,995

	Year ended 31 December	
	2011	2010
Interest income on listed investments	7,568	6,514
Interest income on unlisted investments	19,714	18,056
Subtotal	27,282	24,570

Interest income includes RMB766 million (2010: RMB626 million) of interest income accrued on impaired loans and receivables.

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

5 FEE AND COMMISSION INCOME

Group

	Year ended 31 December	
	2011	2010 (Restated)
Settlement service	2,053	1,392
Bank card	7,075	5,193
Investment banking	6,276	4,105
Guarantee and commitment	1,894	1,456
Management service	3,170	2,640
Agent service	1,611	2,049
Others	385	241
	22,464	17,076

	Year ended 31 December	
	2011	2010
Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss	223	142
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	750	707

6 FEE AND COMMISSION EXPENSE

Group

	Year ended 31 December	
	2011	2010 (Restated)
Settlement and agent service	430	506
Bank card	2,150	1,674
Others	335	417
	2,915	2,597

	Year ended 31 December	
	2011	2010
Fee expense, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss	81	87

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

7 DIVIDEND INCOME

Group

	Year ended 31 December	
	2011	2010
Available-for-sale equity investments-unlisted	71	60
	71	60

8 NET GAINS ARISING FROM TRADING ACTIVITIES

Group

	Year ended 31 December	
	2011	2010
Foreign exchange	1,197	767
Interest rate instruments	204	(90)
	1,401	677

Net income on foreign exchange includes gains or losses from spot and forward contracts, currency swaps, cross currency interest rate swaps, currency options and from the translation of foreign currency monetary assets and liabilities into RMB.

Net income on interest rate instruments includes the gains or losses from securities held for trading, interest rate swaps, interest rate options and other interest rate derivatives.

Net gains arising from trading activities for the year ended 31 December 2011 include a gain of RMB9 million (year ended 31 December 2010: a loss of RMB32 million) in relation to fair value change of financial liabilities designated at fair value through profit and loss.

9 OTHER OPERATING INCOME

Group

	Year ended 31 December	
	2011	2010
Profit on sale of property and equipment	171	105
Revaluation of investment property	61	21
Income from sales of franchised precious metal merchandise	2,508	2,576
Other miscellaneous income	877	573
	3,617	3,275

Other miscellaneous income includes income arising from miscellaneous banking services provided to the Group's customers.

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

10 IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

Group

	Year ended 31 December	
	2011	2010
Loans and advances to customers (Note 20(b))		
— Collectively assessed losses provision	13,376	9,100
— Individually assessed losses (reversal)/provision	(897)	3,146
	12,479	12,246

11 OTHER OPERATING EXPENSE

Group

	Year ended 31 December	
	2011	2010
Staff costs (Note 12)	18,556	15,749
General and administrative expenses	9,943	8,394
Business tax and surcharges	8,939	6,431
Depreciation of property and equipment (Note 22)	3,423	3,307
Operating lease rental expenses	1,846	1,611
Supervision fee to regulators	244	234
Amortisation of intangible assets	192	258
Impairment of finance lease receivables	190	175
Impairment of investment securities ((a), Note 21)	6	150
Professional fees	28	36
Amortisation of land use rights	29	32
Litigation expenses	84	26
(Reversal of)/provision for impairment of other receivables	(20)	4
Others	5,912	5,537
	49,372	41,944

(a) Net impairment losses on investment securities

Group

	Year ended 31 December	
	2011	2010
Available-for-sale (Note 21)	6	150
Total	6	150

12 STAFF COSTS

Group

	Year ended 31 December	
	2011	2010
Salaries and bonuses	13,229	11,277
Pension costs (Note 29)	1,599	1,351
Housing benefits and subsidies	545	555
Other social security and benefit costs	3,183	2,566
	18,556	15,749

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(a) Directors', Supervisors' and Senior Management's taxable emoluments

(In thousands of RMB)	Year ended 31 December				
	2011				2010
Name	Emoluments	Remuneration	Other benefits	Total	Total
Executive Directors					
Mr. Hu, Huaibang(1)	—	845	199	1,044	1,673
Mr. Niu, Ximing(1)	—	761	199	960	1,526
Mr. Qian, Wenhui(1)	—	718	165	883	1,418
Mr. Wang, Bin(1)	—	718	168	886	1,417
Non-executive Directors					
Mr. Zhang, Jixiang(1)	—	676	146	822	1,326
Mr. Hu, Huating(1)	—	676	146	822	1,326
Mr. Qian, Hongyi	—	—	—	—	—
Mr. Peter Wong Tung Shun	5	—	—	5	—
Mr. Ji, Guoqiang	—	—	—	—	—
Mr. Lei, Jun	15	—	—	15	—
Mr. Chen, Qingtai	—	—	—	—	—
Mr. Gu, Mingchao	—	—	—	—	—
Mr. Eric Li, Ka-cheung	250	—	—	250	250
Ms. Anita Fung Yuen Mei	10	—	—	10	—
Mr. Wang, Weiqiang	—	—	—	—	—
Mr. Peter Hugh Nolan	250	—	—	250	30
Mr. Chen, Zhiwu	250	—	—	250	30
Ms. Du, Yuemei(1)	—	225	51	276	NA
Mr. Ma, Qiang	5	—	—	5	NA
Mr. Choi Yiu Kwan	83	—	—	83	NA

(In thousands of RMB)	Year ended 31 December				
	2011				2010
Name	Emoluments	Remuneration	Other benefits	Total	Total
Supervisors					
Mr. Hua, Qingshan(1)	—	744	199	943	1,496
Mr. Jiang, Yunbao	—	—	—	—	NA
Ms. Zheng, Li	—	—	—	—	—
Mr. Jiang, Zuqi	—	—	—	—	—
Mr. Yang, Fajia	15	—	—	15	—
Mr. Li, Jin	25	—	—	25	—
Mr. Yan, Hong	20	—	—	20	—
Ms. Liu, Sha(1)	—	532	122	654	1,443
Ms. Chen, Qing(1)	—	538	116	654	1,304
Mr. Shuai, Shi(1)	—	510	113	623	1,292
Mr. Guo, Yu	30	—	—	30	—
Mr. Gu, Huizhong	20	—	—	20	—
Mr. Chu, Hongjun	25	—	—	25	—
Mr. Du, Yarong(1)	—	494	113	607	562
Total	1,003	7,437	1,737	10,177	15,093

(1) The total compensation package for these Directors and Supervisors for the year ended 31 December 2011 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's and the Bank's 2011 financial statements. The final compensation will be disclosed in a separate announcement when determined. The total final compensation for the year ended 31 December 2010 was disclosed in the Supplemental Announcement for the 2010 Annual Report issued on 10 June 2011.

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

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(Continued)

(a) Directors', Supervisors' and Senior Management's taxable emoluments *(Continued)*

Amounts listed above only include emoluments of the Directors or Supervisors during their tenure of Director or Supervisor. Mr. Chen Qingtai resigned from the position of the Independent Non-executive Director of the Bank as well as his positions in the Audit Committee and Personnel and Remuneration Committee of the Board in April 2011. Mr. Qian Hongyi resigned from the position of the Non-executive Director of the Bank as well as his position in the Audit Committee of the Board in April 2011. Mr. Ji Guoqiang resigned from the position of the Non-executive Director of the Bank as well as his positions in the Risk Management Committee and Social Responsibility Committee of the Board in April 2011. Ms. Zheng Li resigned from the position of the External Supervisor of the Bank as well as her positions in the Nomination Committee and the Performance and Due Diligence Supervision Committee under the Supervisory Committee of the Bank in May 2011. Ms. Du Yuemei was appointed as the Non-executive Director of the Bank in August 2011. Mr. Choi Yiu Kwan was appointed as the Independent Non-executive Director of the Bank in September 2011. Mr. Ma Qiang was appointed as the Non-executive Director of the Bank in September 2011. Mr. Jiang Yunbao was appointed as the External Supervisor of the Bank in May 2011.

(b) Five highest paid individuals

The five highest paid individuals in the Bank for the related years are as follows:

	Year ended 31 December	
	2011	2010
Salary	7	6
Discretionary bonuses	6	5
Employer's contribution to pension scheme and other benefits	—	1
	13	12

Emoluments of above five highest paid individuals in the Bank are within the following bands:

	Number of employees	
	2011	2010
RMB1,500,000–RMB2,000,000	—	1
RMB2,000,001–RMB2,500,000	2	3
RMB2,500,001 and above	3	1
	5	5

During the years, no emolument was paid by the Bank to any of the Directors, Supervisors and five highest paid individuals as an inducement to join or upon joining the Bank or as compensation for loss of position.

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(Continued)

(c) Share-based compensation

On 18 November 2005, the Board of Directors resolved to grant certain cash settled SARs to several senior executives of the Bank under a long-term incentive plan. According to the resolution, the initial grant of SARs was targeted at senior executives of the Bank as at 23 June 2005. The exercise price of each SAR is HK$2.50, which was the issue price of the H share at the time of its initial public offering. The amount of the initial grant of the SARs was 7.558 million shares. The SARs was valid for a period of ten years from 23 June 2005, with a two-year vesting period.

On 3 November 2006, the Board of Directors resolved to grant certain cash settled SARs to several senior executives of the Bank under its long-term incentive plan. According to the resolution, the grant of SARs was targeted at senior executives of the Bank as at 3 November 2006. The exercise price of each SAR is HK$6.13, which was the closing price of the Group's H share on the granting date. The amount of the grant of the SARs was 2.724 million shares. The SARs was valid for a period of ten years from 3 November 2006, with a two-year vesting period.

During 2011, no SARs were exercised. Changes in fair value of these SARs (RMB5.29 million) were recognised in other operating expense but not included in the Directors' emoluments disclosed above.

Movements in the number of SARs outstanding are as follows:

Group and Bank

	Year ended at 31 December	
	2011	2010
	Number of shares (In millions)	Number of shares (In millions)
Outstanding at the beginning of the year	11	11
Granted in the year	—	—
Outstanding at the end of the year	11	11

The fair value of SARs using the Binomial Option Pricing model as at 31 December 2011 is RMB24.93 million (31 December 2010: RMB30.22 million) and is recorded in other liabilities.

14 INCOME TAX

Group

	Year ended 31 December	
	2011	2010
Current tax		
— PRC enterprise income tax	14,717	11,333
— Hong Kong profit tax	297	289
— Overseas taxation	207	130
	15,221	11,752
Deferred income tax (Note 28)	(587)	(970)
	14,634	10,782

The provision for enterprise income tax in PRC is calculated based on the statutory rate of 25% of the assessable income of the Bank and each of the subsidiaries established in PRC.

14 INCOME TAX *(Continued)*

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Group at 25% (2010: 25%). The major reconciliation items are as follows:

	Year ended 31 December	
	2011	2010
Profit before tax	65,451	49,954
Tax calculated at a tax rate of 25%	16,363	12,489
Effect of different tax rates in other countries (or regions)	(1)	10
Tax effect arising from income not subject to tax [(a)]	(2,185)	(1,916)
Tax effect of expenses that are not deductible for tax purposes [(b)]	457	199
Income tax expense	14,634	10,782

(a) The income not subject to tax mainly represents interest income arising from treasury bonds, which is income tax free in accordance with the PRC tax regulations.

(b) The expenses that are not tax deductible mainly represent a portion of expenditure, such as entertainment expense etc, which exceed the tax deduction limits in accordance with PRC tax regulations.

15 BASIC EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2011	2010 (Restated)
Net profit attributable to shareholders of the Bank	50,735	39,042
Weighted average number of ordinary shares in issue (expressed in millions)	61,886	58,928
Basic earnings per share (expressed in RMB per share)	0.82	0.66

The weighted average number of ordinary shares in issue for the years ended 31 December 2011 and 2010 were adjusted by taking into consideration of stocks dividend issued as described in Note 33.

16 CASH AND BALANCES WITH CENTRAL BANKS

Group

	As at 31 December 2011	As at 31 December 2010
Cash	16,254	13,298
Balances with central banks other than mandatory reserve deposits	97,806	107,098
Included in cash and cash equivalents (Note 38)	114,060	120,396
Mandatory reserve deposits	622,939	466,158
	736,999	586,554

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

16 CASH AND BALANCES WITH CENTRAL BANKS *(Continued)*

Bank

	As at 31 December 2011	As at 31 December 2010
Cash	16,241	13,288
Balances with central banks other than mandatory reserve deposits	97,778	107,083
Included in cash and cash equivalents	114,019	120,371
Mandatory reserve deposits	622,744	466,095
	736,763	586,466

The Group is required to place mandatory deposits with central banks. The mandatory reserve deposits are calculated based on the eligible deposits from customers. Mandatory reserve deposits with central banks are not available for use by the Group in its day-to-day operations.

	As at 31 December 2011	As at 31 December 2010
Mandatory reserve rate for deposits denominated in RMB	21.00%	19.00%
Mandatory reserve rate for deposits denominated in foreign currencies	5.00%	5.00%

17 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Group

	As at 31 December 2011	As at 31 December 2010
Placement with banks and other financial institutions	96,605	37,223
Included in cash and cash equivalents (Note 38)	95,575	36,503
Securities purchased under reverse repurchase agreements	147,588	84,319
Loans purchased under reverse repurchase agreements	50,321	61,824
Loans and advances to other banks	104,875	58,725
Loans to other financial institutions	43,851	20,885
	443,240	262,976

Bank

	As at 31 December 2011	As at 31 December 2010
Placement with banks and other financial institutions	94,548	36,014
Included in cash and cash equivalents	94,488	36,014
Securities purchased under reverse repurchase agreements	147,588	84,319
Loans purchased under reverse repurchase agreements	50,321	61,824
Loans and advances to other banks	104,755	58,725
Loans to other financial institutions	43,851	20,885
	441,063	261,767

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

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Group

	As at 31 December 2011	As at 31 December 2010
Derivative financial instruments (Note 19)	5,585	4,731
Government bonds		
— Listed in Hong Kong	699	755
— Listed outside Hong Kong	980	1,865
— Unlisted	3,177	4,909
Other debt securities		
— Listed in Hong Kong	2,220	2,269
— Listed outside Hong Kong	3,616	3,959
— Unlisted — corporate entities	24,046	17,632
— Unlisted — public sector	10	1,371
— Unlisted — banking sector	7,957	8,385
Equity securities		
— Listed in Hong Kong	131	166
— Listed outside Hong Kong	1	1
	48,422	46,043

Bank

	As at 31 December 2011	As at 31 December 2010
Derivative financial instruments (Note 19)	5,585	4,731
Government bonds		
— Listed in Hong Kong	699	755
— Listed outside Hong Kong	980	1,865
— Unlisted	3,177	4,909
Other debt securities		
— Listed in Hong Kong	2,179	2,226
— Listed outside Hong Kong	3,616	3,959
— Unlisted — corporate entities	24,046	17,632
— Unlisted — public sector	10	1,371
— Unlisted — banking sector	7,957	8,367
	48,249	45,815

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

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Securities — financial assets at fair value through profit or loss are analysed by issuer as follows:

Group

	As at 31 December 2011	As at 31 December 2010
Securities — Financial assets at fair value through profit or loss		
— Central governments and central banks	4,856	7,529
— Public sector entities	1,488	2,961
— Banks and other financial institutions	11,134	11,818
— Corporate entities	25,359	19,004
	42,837	41,312

Bank

	As at 31 December 2011	As at 31 December 2010
Securities — Financial assets at fair value through profit or loss		
— Central governments and central banks	4,856	7,529
— Public sector entities	1,488	2,961
— Banks and other financial institutions	11,130	11,750
— Corporate entities	25,190	18,844
	42,664	41,084

The financial assets at fair value through profit or loss include financial assets held for trading and derivatives designated and effective as hedging instruments.

Majority of the Group's unlisted bonds are traded in China's inter-bank bond market.

As at 31 December 2011, RMB3,714 million trading securities of the Group and the Bank were pledged to third parties and stock exchanges under repurchase agreements and short-selling arrangements (31 December 2010: RMB9 million).

19 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative instruments are utilised by the Group for trading or hedging purposes:

Currency forwards are contracts between two parties to buy or sell certain currencies at a specified future date at a predetermined price. The party agreeing to buy the underlying currency in the future assumes a long position, and the party agreeing to sell the currency in the future assumes a short position. The price agreed upon is called the delivery price, which is equal to the forward price at the time the contract is entered into.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

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

19 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer (over the counter market).

The notional amounts of certain types of financial instruments provide a reference of the amounts recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

Group and Bank

	Contractual/notional amount	Fair values	
		Assets	Liabilities
As at 31 December 2011			
Foreign exchange contracts	571,381	3,785	(3,392)
Interest rate contracts	326,370	1,800	(2,601)
Total amount of derivative instruments recognised	897,751	5,585	(5,993)

Group and Bank

	Contractual/notional amount	Fair values	
		Assets	Liabilities
As at 31 December 2010			
Foreign exchange contracts	549,996	3,450	(3,397)
Interest rate contracts	235,596	1,281	(1,753)
Total amount of derivative instruments recognised	785,592	4,731	(5,150)

The tables above provide a breakdown of the contractual or notional amounts and the fair values of the Group's derivative financial instruments outstanding at year end. These instruments, comprising foreign exchange and interest rate derivatives allow the Group and its customers to transfer, modify or reduce their foreign exchange and interest rate risks.

The Group undertakes its transactions in foreign exchange and interest rates contracts with other financial institutions and customers. Management has established limits for these contracts based on counterpart types, industry sectors and countries. Related risks are regularly monitored and controlled by management.

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

19 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Notional amounts of derivative financial instruments by original currency

Group and Bank

	As at 31 December 2011	As at 31 December 2010
RMB	474,914	386,299
US dollar	339,866	326,146
HK dollar	54,499	40,076
Others	28,472	33,071
Total	897,751	785,592

Hedge accounting

As at 31 December 2011, included in the derivative financial instruments above are those designated as hedging instruments by the Group and Bank as follows (31 December 2010: Nil):

Group and Bank

	Contractual/notional amount	Fair values	
		Assets	Liabilities
As at 31 December 2011			
Derivative financial instruments designated as hedging instruments in fair value hedges			
— Interest rate swaps	7,000	—	(465)
Total	7,000	—	(465)

The Group uses interest rate swaps to minimise its exposure to fair value changes of its fixed-rate bond investments by swapping fixed-rate bond investments from fixed rates to floating rates. The interest rate swaps and the corresponding bond investments have the same terms and management of the Group consider that the interest rate swaps are highly effective hedging instruments.

The following table shows the profit and loss effects in the fair value hedges:

Group and Bank

	Year ended 31 December	
	2011	2010
Losses on hedging instruments	(465)	—
Gains on hedged items attributable to the hedge risk	463	—
Net losses from fair value hedges	(2)	—

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

20 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

Group

	As at 31 December 2011	As at 31 December 2010
Loans and advances to customers	2,561,750	2,236,927
Less: allowance for collectively assessed impairment losses	(45,115)	(31,833)
Less: allowance for individually assessed impairment losses	(11,250)	(14,604)
	2,505,385	2,190,490

Bank

	As at 31 December 2011	As at 31 December 2010
Loans and advances to customers	2,559,171	2,235,584
Less: allowance for collectively assessed impairment losses	(45,092)	(31,826)
Less: allowance for individually assessed impairment losses	(11,250)	(14,604)
	2,502,829	2,189,154

(b) Movements in allowance for losses on loans and advances

Group

	As at 31 December 2011		As at 31 December 2010	
	Collectively assessed	Individually assessed	Collectively assessed	Individually assessed
Balance at the beginning of the year	31,833	14,604	22,778	14,998
Impairment allowances for loans	13,376	2,753	9,100	7,457
Reversal of impairment allowances for loans	—	(3,650)	—	(4,311)
Net impairment allowances for loans charged to profit or loss (Note 10)	13,376	(897)	9,100	3,146
Recoveries of loans written-off in previous years	—	295	—	238
Unwind of discount on allowances during the year	—	(766)	—	(626)
Loans written off during the year as uncollectible	—	(1,956)	—	(3,142)
Exchange difference	(94)	(30)	(45)	(10)
Balance at the end of the year	45,115	11,250	31,833	14,604

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

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(b) Movements in allowance for losses on loans and advances *(Continued)*

Bank

	As at 31 December 2011		As at 31 December 2010	
	Collectively assessed	Individually assessed	Collectively assessed	Individually assessed
Balance at the beginning of the year	31,826	14,604	22,777	14,998
Impairment allowances for loans	13,360	2,753	9,094	7,457
Reversal of impairment allowances for loans	—	(3,650)	—	(4,311)
Net impairment allowances for loans charged to profit or loss	13,360	(897)	9,094	3,146
Recoveries of loans written-off in previous years	—	295	—	238
Unwind of discount on allowances during the year	—	(766)	—	(626)
Loans written off during the year as uncollectible	—	(1,956)	—	(3,142)
Exchange difference	(94)	(30)	(45)	(10)
Balance at the end of the year	45,092	11,250	31,826	14,604

Group

	As at 31 December 2011		As at 31 December 2010	
	Corporate	Individual	Corporate	Individual
Balance at the beginning of the year	40,831	5,606	32,812	4,964
Impairment allowances for loans	14,234	1,895	14,532	2,025
Reversal of impairment allowances for loans	(3,186)	(464)	(3,883)	(428)
Net impairment allowances for loans charged to profit or loss	11,048	1,431	10,649	1,597
Recoveries of loans written-off in previous years	190	105	238	—
Unwind of discount on allowances during the year	(685)	(81)	(563)	(63)
Loans written off during the year as uncollectible	(1,526)	(430)	(2,255)	(887)
Exchange difference	(118)	(6)	(50)	(5)
Balance at the end of the year	49,740	6,625	40,831	5,606

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

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(b) Movements in allowance for losses on loans and advances *(Continued)*

Bank

	As at 31 December 2011		As at 31 December 2010	
	Corporate	Individual	Corporate	Individual
Balance at the beginning of the year	40,824	5,606	32,811	4,964
Impairment allowances for loans	14,228	1,885	14,526	2,025
Reversal of impairment allowances for loans	(3,186)	(464)	(3,883)	(428)
Net impairment allowances for loans charged to profit or loss	11,042	1,421	10,643	1,597
Recoveries of loans written-off in previous years	190	105	238	—
Unwind of discount on allowances during the year	(685)	(81)	(563)	(63)
Loans written off during the year as uncollectible	(1,526)	(430)	(2,255)	(887)
Exchange difference	(118)	(6)	(50)	(5)
Balance at the end of the year	49,727	6,615	40,824	5,606

(c) Individually assessed loans with impairment

Group and Bank

	As at 31 December 2011		As at 31 December 2010	
	Gross amount of impaired loans before allowance for impairment	Allowance for individually assessed impaired loans	Gross amount of impaired loans before allowance for impairment	Allowance for individually assessed impaired loans
Corporate	19,194	(9,610)	22,507	(13,079)
Individuals	2,792	(1,640)	2,481	(1,525)
	21,986	(11,250)	24,988	(14,604)

Group and Bank

	As at 31 December 2011	As at 31 December 2010
Individually assessed impaired loans to loans and advances to customers	0.86%	1.12%

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

21 INVESTMENT SECURITIES

Group

	As at 31 December 2011	As at 31 December 2010
Securities — loans and receivables		
Debt securities — at amortised cost		
— Unlisted	28,256	42,617
Loans and receivables securities	28,256	42,617
Securities — available-for-sale		
Debt securities — at fair value		
— Listed in Hong Kong	1,160	649
— Listed outside Hong Kong	38,258	27,104
— Unlisted	141,932	130,789
Debt securities, net	181,350	158,542
Equity securities — at fair value		
— Listed in Hong Kong	429	1,108
— Listed outside Hong Kong	1,044	1,502
— Unlisted	1,269	1,018
Equity securities, net	2,742	3,628
Securities — available-for-sale total, net	184,092	162,170
Include: Fair value of listed securities — available-for-sale	40,891	30,363
Securities — held-to-maturity		
Debt securities — at amortised cost		
— Listed inside Hong Kong	—	174
— Listed outside Hong Kong	205,022	223,017
— Unlisted	339,739	340,530
Held-to-maturity investments	544,761	563,721
Include: Fair value of listed held-to-maturity investments	209,775	222,505

As at 31 December 2011, listed investment securities at fair value of RMB26,801 million (31 December 2010: RMB16,900 million) were pledged to third parties under repurchase agreements.

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

21 INVESTMENT SECURITIES *(Continued)*

Bank

	As at 31 December 2011	As at 31 December 2010
Securities — loans and receivables		
Debt securities — at amortised cost		
— Unlisted	28,029	42,349
Loans and receivables securities	28,029	42,349
Securities — available-for-sale		
Debt securities — at fair value		
— Listed in Hong Kong	961	649
— Listed outside Hong Kong	38,230	27,037
— Unlisted	141,108	130,073
Debt securities, net	180,299	157,759
Equity securities — at fair value		
— Listed in Hong Kong	9	11
— Listed outside Hong Kong	558	906
— Unlisted	731	744
Equity securities, net	1,298	1,661
Securities — available-for-sale total, net	181,597	159,420
Include: Fair value of listed securities — available-for-sale	39,758	28,603
Securities — held-to-maturity		
Debt securities — at amortised cost		
— Listed outside Hong Kong	204,932	222,897
— Unlisted	339,721	340,496
Held-to-maturity investments	544,653	563,393
Include: Fair value of listed held-to-maturity investments	209,635	222,297

The Group holds bonds issued by the PBOC as at 31 December 2011 amounting to RMB9,328 million (31 December 2010: RMB37,023 million). The related interest rates on such bonds for the year ended 31 December 2011 ranged between 2.65%–3.49% (31 December 2010: 2.65%–4.56%).

Net gains arising from de-recognition of investment securities comprise of:

Group and Bank

	Year ended 31 December 2011	Year ended 31 December 2010
Net gains arising from de-recognition of investment securities — available-for-sale	123	568

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

21 INVESTMENT SECURITIES *(Continued)*

The movements in allowance for impairment losses of investment securities are summarised as follows:

Group

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Allowance for impairment losses				
As at 1 January 2011	—	(1,480)	—	(1,480)
Provision for impairment	—	(6)	—	(6)
Amounts written off during the year as uncollectible	—	106	—	106
Exchange differences	—	84	—	84
As at 31 December 2011	—	(1,296)	—	(1,296)

Bank

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Allowance for impairment losses				
As at 1 January 2011	—	(1,438)	—	(1,438)
Provision for impairment	—	(6)	—	(6)
Amounts written off during the year as uncollectible	—	106	—	106
Exchange differences	—	82	—	82
As at 31 December 2011	—	(1,256)	—	(1,256)

Group

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Allowance for impairment losses				
As at 1 January 2010	—	(1,408)	—	(1,408)
Provision for impairment	—	(150)	—	(150)
Amounts written off during the year as uncollectible	—	36	—	36
Exchange differences	—	42	—	42
As at 31 December 2010	—	(1,480)	—	(1,480)

Bank

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Allowance for impairment losses				
As at 1 January 2010	—	(1,400)	—	(1,400)
Provision for impairment	—	(107)	—	(107)
Amounts written off during the year as uncollectible	—	27	—	27
Exchange differences	—	42	—	42
As at 31 December 2010	—	(1,438)	—	(1,438)

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

21 INVESTMENT SECURITIES *(Continued)*

Investment securities are analysed by issuer as follows:

Group

	As at 31 December 2011	As at 31 December 2010
Securities — loans and receivables		
— Central governments and central banks	2,671	3,109
— Banks and other financial institutions	13,496	3,107
— Corporate entities	12,089	36,401
	28,256	42,617
Securities — available-for-sale		
— Central governments and central banks	39,829	45,620
— Public sector entities	3,004	2,085
— Banks and other financial institutions	92,544	71,817
— Corporate entities	48,715	42,648
	184,092	162,170
Securities — held-to-maturity		
— Central governments and central banks	241,336	252,940
— Public sector entities	10,012	12,085
— Banks and other financial institutions	173,409	180,063
— Corporate entities	120,004	118,633
	544,761	563,721

Bank

	As at 31 December 2011	As at 31 December 2010
Securities — loans and receivables		
— Central governments and central banks	2,671	3,109
— Banks and other financial institutions	13,496	3,107
— Corporate entities	11,862	36,133
	28,029	42,349
Securities — available-for-sale		
— Central governments and central banks	39,613	45,603
— Public sector entities	3,002	2,085
— Banks and other financial institutions	91,245	70,655
— Corporate entities	47,737	41,077
	181,597	159,420
Securities — held-to-maturity		
— Central governments and central banks	241,336	252,940
— Public sector entities	10,012	12,081
— Banks and other financial institutions	173,319	179,925
— Corporate entities	119,986	118,447
	544,653	563,393

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

21 INVESTMENT SECURITIES *(Continued)*

The certificates of deposit held and included in investment securities are analysed as follows:

Group and Bank

	As at 31 December 2011	As at 31 December 2010
Available-for-sale, at fair value		
— Unlisted	906	528

The maturity profile of certificates of deposit held by the remaining period as at year end to the contractual maturity dates are summarised as follows:

Group and Bank

	As at 31 December 2011	As at 31 December 2010
Within 3 months	237	—
3 months to 12 months	345	397
1 year to 5 years	324	131
	906	528

22 PROPERTY AND EQUIPMENT

Group

	Land and Buildings	Construction in Progress	Equipment	Motor Vehicles	Property Improvement	Total
Cost						
As at 1 January 2011	25,189	8,076	14,455	586	2,468	50,774
Additions	785	2,841	2,390	450	489	6,955
Disposals	(405)	(17)	(1,144)	(64)	(24)	(1,654)
Transfers in/(out)	3,428	(4,039)	—	—	611	—
As at 31 December 2011	28,997	6,861	15,701	972	3,544	56,075
Accumulated depreciation						
As at 1 January 2011	(6,032)	—	(9,936)	(395)	(500)	(16,863)
Charge for the year	(969)	—	(1,990)	(68)	(396)	(3,423)
Disposals	139	—	1,028	61	—	1,228
As at 31 December 2011	(6,862)	—	(10,898)	(402)	(896)	(19,058)
Net book value						
As at 31 December 2011	22,135	6,861	4,803	570	2,648	37,017

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

22 PROPERTY AND EQUIPMENT *(Continued)*

Group

	Land and Buildings	Construction in Progress	Equipment	Motor Vehicles	Property Improvement	Total
Cost						
As at 1 January 2010	23,086	6,150	13,263	574	1,602	44,675
Additions	582	4,658	2,141	66	249	7,696
Disposals	(296)	(3)	(949)	(54)	(295)	(1,597)
Transfers in/(out)	1,817	(2,729)	—	—	912	—
As at 31 December 2010	25,189	8,076	14,455	586	2,468	50,774
Accumulated depreciation						
As at 1 January 2010	(5,046)	—	(8,917)	(393)	(441)	(14,797)
Charge for the year	(1,083)	—	(1,924)	(53)	(247)	(3,307)
Disposals	97	—	907	51	188	1,243
Transferred-in from newly acquired subsidiaries	—	—	(2)	—	—	(2)
As at 31 December 2010	(6,032)	—	(9,936)	(395)	(500)	(16,863)
Net book value						
As at 31 December 2010	19,157	8,076	4,519	191	1,968	33,911

Bank

	Land and Buildings	Construction in Progress	Equipment	Motor Vehicles	Property Improvement	Total
Cost						
As at 1 January 2011	24,574	8,076	14,341	572	2,468	50,031
Additions	757	2,841	2,356	115	479	6,548
Disposals	(377)	(17)	(1,141)	(64)	(24)	(1,623)
Transfers in/(out)	3,428	(4,039)	—	—	611	—
As at 31 December 2011	28,382	6,861	15,556	623	3,534	54,956
Accumulated depreciation						
As at 1 January 2011	(5,920)	—	(9,862)	(389)	(500)	(16,671)
Charge for the year	(953)	—	(1,967)	(60)	(396)	(3,376)
Disposals	133	—	1,026	61	—	1,220
As at 31 December 2011	(6,740)	—	(10,803)	(388)	(896)	(18,827)
Net book value						
As at 31 December 2011	21,642	6,861	4,753	235	2,638	36,129

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

22 PROPERTY AND EQUIPMENT *(Continued)*

Bank

	Land and Buildings	Construction in Progress	Equipment	Motor Vehicles	Property Improvement	Total
Cost						
As at 1 January 2010	22,453	6,150	13,173	562	1,598	43,936
Additions	580	4,658	2,115	64	249	7,666
Disposals	(276)	(3)	(947)	(54)	(291)	(1,571)
Transfers in/(out)	1,817	(2,729)	—	—	912	—
As at 31 December 2010	24,574	8,076	14,341	572	2,468	50,031
Accumulated depreciation						
As at 1 January 2010	(4,949)	—	(8,862)	(389)	(441)	(14,641)
Charge for the year	(1,064)	—	(1,905)	(51)	(247)	(3,267)
Disposals	93	—	905	51	188	1,237
As at 31 December 2010	(5,920)	—	(9,862)	(389)	(500)	(16,671)
Net book value						
As at 31 December 2010	18,654	8,076	4,479	183	1,968	33,360

With exception to the Hong Kong branch and subsidiaries, all other land and buildings are located outside Hong Kong.

	As at 31 December 2011	As at 31 December 2010
Net book value of land and buildings of Hong Kong branch and subsidiaries	202	213

The Group recognised the leasehold land in Hong Kong branch and subsidiaries as finance lease and accounted for it as "land and buildings" and is depreciated over the shorter of the useful life of the buildings and the land's lease term.

As at 31 December 2011, property and equipment for which registration was not completed amounted to RMB853 million (2010: RMB528 million). However, this registration process does not affect the rights of the Bank to these assets.

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

22 PROPERTY AND EQUIPMENT *(Continued)*

The net book value of land and buildings is analysed based on the remaining lease terms as follows:

Group

	As at 31 December 2011	As at 31 December 2010
Held in Hong Kong		
on long-term lease (over 50 years)	168	184
on medium-term lease (10–50 years)	34	29
on short-term lease (less than 10 years)	—	—
	202	213
Held outside Hong Kong		
on long-term lease (over 50 years)	22	23
on medium-term lease (10–50 years)	20,637	17,647
on short-term lease (less than 10 years)	1,274	1,274
	21,933	18,944
	22,135	19,157

Bank

	As at 31 December 2011	As at 31 December 2010
Held in Hong Kong		
on long-term lease (over 50 years)	168	184
on medium-term lease (10–50 years)	11	12
on short-term lease (less than 10 years)	—	—
	179	196
Held outside Hong Kong		
on long-term lease (over 50 years)	22	23
on medium-term lease (10–50 years)	20,167	17,161
on short-term lease (less than 10 years)	1,274	1,274
	21,463	18,458
	21,642	18,654

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

23 OTHER ASSETS

Group

	As at 31 December 2011	As at 31 December 2010
Interest receivable	19,773	15,149
Settlement accounts	4,393	5,616
Other receivables	2,004	1,815
Less: impairment allowance	(574)	(743)
Land use rights[(a)]	556	693
Foreclosed assets	230	262
Leasehold improvement	658	647
Intangible assets	609	528
Rental deposits	242	222
Goodwill	322	322
Investment property[(b)]	196	141
Finance lease receivables[(c)]	45,743	30,303
Less: impairment allowance	(517)	(327)
Others	1,146	1,142
	74,781	55,770

Bank

	As at 31 December 2011	As at 31 December 2010
Interest receivable	19,723	15,102
Settlement accounts	3,006	4,776
Other receivables	1,961	1,772
Less: impairment allowance	(574)	(743)
Land use rights[(a)]	556	693
Leasehold improvement	653	647
Intangible assets	582	510
Foreclosed assets	230	262
Rental deposits	240	219
Investment property[(b)]	196	141
Others	1,084	1,047
	27,657	24,426

(a) The net book value of land use rights is analysed based on the remaining terms of the leases as follows:

Group and Bank

	As at 31 December 2011	As at 31 December 2010
Held outside Hong Kong		
on medium-term lease (10–50 years)	542	602
on short-term lease (less than 10 years)	14	91
	556	693

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

23 OTHER ASSETS *(Continued)*

(b) Investment property

Group and Bank

	Year ended 31 December	
	2011	2010
Balance at the beginning of the year	141	124
Gains on property revaluation	61	21
Effect of foreign currency exchange difference	(6)	(4)
Balance at the end of the year	196	141

The net book value of investment properties is analysed based on the remaining terms of the leases as follows:

Group and Bank

	As at 31 December 2011	As at 31 December 2010
Held in Hong Kong		
on long-term lease (over 50 years)	72	56
on medium-term lease (10–50 years)	124	85
	196	141

(c) Finance lease receivables

Group

	As at 31 December 2011	As at 31 December 2010
Minimum finance lease receivables		
Within 1 year (inclusive)	13,731	8,422
1 year to 5 years (inclusive)	28,635	18,657
Over 5 years	11,834	8,817
	54,200	35,896
Gross investment in finance leases	54,200	35,896
Unearned finance income	(8,457)	(5,593)
Net investment in finance leases	45,743	30,303
The net investment in finance leases is analysed as follows:		
Within 1 year (inclusive)	11,774	7,279
1 year to 5 years (inclusive)	23,740	15,413
Over 5 years	10,229	7,611
	45,743	30,303
The allowance for uncollectible finance lease receivable	(517)	(327)
Net finance lease receivables	45,226	29,976

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

24 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Group

	As at 31 December 2011	As at 31 December 2010
Loans from PBOC	—	20
Deposits from other banks	275,446	198,721
Deposits from other financial institutions	387,261	401,544
Loans from banks and other financial institutions	164,178	98,251
Securities sold under repurchase agreements	27,614	15,231
Credit assets sold under repurchase agreements and others	—	3,265
	854,499	717,032

Bank

	As at 31 December 2011	As at 31 December 2010
Loans from PBOC	—	20
Deposits from other banks	275,503	198,898
Deposits from other financial institutions	389,878	403,328
Loans from banks and other financial institutions	127,418	75,851
Securities sold under repurchase agreements	27,455	15,231
Credit assets sold under repurchase agreements and others	—	3,265
	820,254	696,593

25 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Group

	As at 31 December 2011	As at 31 December 2010
Derivative financial instruments (Note 19)	5,993	5,150
Short position of securities held for trading	406	1
Certificates of deposit issued	12,522	9,228
	18,921	14,379

Bank

	As at 31 December 2011	As at 31 December 2010
Derivative financial instruments (Note 19)	5,993	5,150
Short position of securities held for trading	406	1
Certificates of deposit issued	12,522	9,228
	18,921	14,379

All the financial liabilities at fair value through profit or loss are held for trading except for certificates of deposit issued.

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

25 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Financial liabilities designated as fair value through profit or loss

Group and Bank

	As at 31 December 2011	As at 31 December 2010
Difference between carrying amount and maturity amount		
Fair value	12,522	9,228
Amount payable at maturity	12,506	9,185
	16	43

For current and prior year, there were no significant changes in the fair value of the Group's and the Bank's financial liabilities designated as at fair value through profit or loss that were attributable to the changes in credit risk.

26 DUE TO CUSTOMERS

Group

	As at 31 December 2011	As at 31 December 2010
Corporate demand deposits	1,184,123	1,064,528
Corporate time deposits	1,064,194	890,408
Individual demand deposits	422,487	385,449
Individual time deposits	608,118	520,852
Other deposits	4,310	6,610
	3,283,232	2,867,847
Including:		
Pledged deposits held as collateral	392,501	279,443

Bank

	As at 31 December 2011	As at 31 December 2010
Corporate demand deposits	1,184,102	1,064,884
Corporate time deposits	1,064,358	890,481
Individual demand deposits	422,272	385,156
Individual time deposits	607,546	520,852
Other deposits	4,310	6,610
	3,282,588	2,867,983
Including:		
Pledged deposits held as collateral	392,353	279,443

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

27 OTHER LIABILITIES

Group

	As at 31 December 2011	As at 31 December 2010
Interest payable	39,053	32,715
Settlement accounts	31,209	20,166
Staff compensation payable	6,920	6,269
Business and other tax payable	3,119	2,294
Insurance contracts contract reserves	1,594	1,414
Deposits received for finance leases	2,284	1,204
Provision for outstanding litigation[(a)]	561	477
Provision for unsettled obligation[(a)]	149	158
Dividends payable	64	64
Others	10,713	7,236
	95,666	71,997

Bank

	As at 31 December 2011	As at 31 December 2010
Interest payable	38,749	32,614
Settlement accounts	31,020	19,767
Staff compensation payable	6,648	6,072
Business and other tax payable	3,099	2,263
Provision for outstanding litigation[(a)]	561	477
Provision for unsettled obligation[(a)]	149	158
Dividends payable	64	64
Others	8,402	5,249
	88,692	66,664

(a) The movements in the provision for outstanding litigation and unsettled obligation

Group and Bank

	As at 31 December 2010	Amounts accrued during the year	Amounts reversed during the year	As at 31 December 2011
Provision for outstanding litigation	477	250	(166)	561
Provision for unsettled obligation	158	—	(9)	149
Total	635	250	(175)	710

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

28 DEFERRED INCOME TAX

Deferred income taxes are calculated on all temporary differences using an effective tax rate of 25% for the year ended 31 December 2011 (for the year ended 31 December 2010: 25%) for transactions in PRC. Deferred income taxes are calculated on all temporary differences using an effective tax rate of 16.5% (for the year ended 31 December 2010: 16.5%) for transactions in Hong Kong.

The movements in the deferred income tax account are as follows:

Group

	Year ended 31 December	
	2011	2010
Balance at the beginning of the year	7,275	5,786
Credit to profit or loss	587	970
Available-for-sale financial assets — fair value remeasurement	43	519
Balance at the end of the year	7,905	7,275

Bank

	Year ended 31 December	
	2011	2010
Balance at the beginning of the year	7,359	5,855
Credit to profit or loss	563	969
Available-for-sale financial assets — fair value remeasurement	(97)	535
Balance at the end of the year	7,825	7,359

Deferred income tax assets and liabilities are attributable to the following items:

Group

	As at 31 December 2011	As at 31 December 2010
Deferred income tax liabilities		
Available-for-sale financial assets	(10)	(143)
Other temporary differences	(2,552)	(1,601)
	(2,562)	(1,744)
Deferred income tax assets		
Impairment allowances for loans	7,492	6,216
Impairment allowances for investments	318	359
Impairment allowance for other assets	319	386
Unpaid salaries and bonuses	1,249	1,101
Retirement supplementary pension payable	143	148
Outstanding litigation and unsettled obligation	178	159
Available-for-sale financial assets	247	311
Other temporary differences	521	339
	10,467	9,019
Net deferred income tax assets	7,905	7,275

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

28 DEFERRED INCOME TAX *(Continued)*

Bank

	As at 31 December 2011	As at 31 December 2010
Deferred income tax liabilities		
Available-for-sale financial assets	(2)	(59)
Other temporary differences	(2,552)	(1,601)
	(2,554)	(1,660)
Deferred income tax assets		
Impairment allowances for loans	7,474	6,213
Impairment allowances for investments	318	359
Impairment allowances for other assets	370	437
Unpaid salaries and bonuses	1,195	1,056
Retirement supplementary pension payable	143	148
Outstanding litigation and unsettled obligation	178	159
Available-for-sale financial assets	179	308
Other temporary differences	522	339
	10,379	9,019
Net deferred income tax assets	7,825	7,359

The above net deferred income tax assets are disclosed separately on the statements of financial position based on different taxation authorities:

Group

	As at 31 December 2011	As at 31 December 2010
Deferred income tax assets	7,926	7,341
Deferred income tax liabilities	(21)	(66)

Bank

	As at 31 December 2011	As at 31 December 2010
Deferred income tax assets	7,846	7,372
Deferred income tax liabilities	(21)	(13)

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

28 DEFERRED INCOME TAX *(Continued)*

The deferred tax credit to profit or loss comprises the following temporary differences:

Group

	Year ended 31 December	
	2011	2010
Impairment allowances for loans:		
Additional impairment allowances for loans	2,159	1,826
Prior year written off amounts which are approved to be deductible in current year	(883)	(702)
Sub-total	1,276	1,124
Impairment allowances for investments	(41)	32
Impairment allowances for other assets	(67)	(132)
Outstanding litigation and unsettled obligation	19	(4)
Unpaid salaries and bonuses	148	380
Retirement supplementary pension payable	(5)	5
Other temporary differences	(743)	(435)
	587	970

29 RETIREMENT BENEFIT OBLIGATIONS

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees' basic salary for the period. The Group currently has no additional significant cost for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. The Group's contributions to these pension plans are charged to profit or loss in the period to which they relate.

The Group pays supplementary retirement benefits to employees in Mainland China, who retired before 31 December 2008. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits are discounted to determine their present values. The discount rate is the yield on government bonds at the end of reporting date, the maturity dates of which approximate to the terms of the Group's obligations. Actuarial gains and losses, changes in actuarial assumptions and amendments to pension plan are recognised in profit or loss. The amounts recognised in the statement of financial position represent the present value of unfunded obligations plus any unrecognised actuarial gains and losses minus any unrecognised past service cost.

Employees who retire after 1 January 2009 can voluntarily participate in an Annuity Plan. The Bank contributes to the Annuity Plan based on certain percentage of the employees' gross salary and recognised in other comprehensive income as incurred.

Retirement benefit obligations of the Group in locations other than Mainland China, which are immaterial to the Group, are made in accordance with the relevant local policies and regulations.

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

29 RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

	Year ended 31 December	
	2011	2010
Expenses incurred for retirement benefit plans	1,233	1,033
Expenses incurred for supplementary retirement benefits	19	59
Expenses incurred for corporate Annuity Plan	347	259
Total	1,599	1,351

	As at 31 December 2011	As at 31 December 2010
Statement of financial position obligations for		
— Pension benefits	570	593

	Year ended 31 December	
	2011	2010
Statement of comprehensive income charge for		
— Pension benefits	19	59

The amounts recognised in the statement of financial position are determined as follows:

	As at 31 December 2011	As at 31 December 2010
Present value of unfunded obligations	570	593
Unrecognised actuarial gains	—	—
Unrecognised past service cost	—	—
Liability in the statement of financial position as at year end	570	593

Movements in the unfunded obligations over the year are as follows:

	Year ended 31 December	
	2011	2010
Present value of unfunded obligations at the beginning of the year	593	572
Retirement benefits paid during the year	(42)	(38)
Interest cost	24	23
Net actuarial (gains)/losses recognised during the year	(5)	36
Present value of unfunded obligations at the end of the year	570	593

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

29 RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

The amounts recognised in profit or loss are as follows:

	Year ended 31 December	
	2011	2010
Interest cost	24	23
Net actuarial (gains)/losses recognised during the year	(5)	36
Total (included in staff costs)	19	59

The principal actuarial assumptions used are as follows:

	As at 31 December 2011	As at 31 December 2010
Discount rate	3.97%	4.15%
Inflation rate	4.00%	4.00%

Assumptions regarding future mortality rate are set based on published statistics by China Insurance Regulatory Commission.

The following table lists an average life expectancy in years of a pensioner retiring at age 60 for male and 55 for female:

	As at 31 December 2011	As at 31 December 2010
Male	22.20	22.20
Female	29.52	29.52

30 DEBT SECURITIES ISSUED

Group

	As at 31 December 2011	As at 31 December 2010
Subordinated debts and other debts issued[1]	78,000	52,000
Certificates of deposit issued[2]	3,803	—
	81,803	52,000

Bank

	As at 31 December 2011	As at 31 December 2010
Subordinated debts and other debts issued[1]	76,000	50,000
Certificates of deposit issued[2]	3,803	—
	79,803	50,000

During the years ended 31 December 2011 and 2010, the Group did not default on principal, interest or redemption amounts with respect to its debt securities issued.

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

30 DEBT SECURITIES ISSUED *(Continued)*

(1) Details of the Group's and the Bank's subordinated debts and other debts issued

Group

	As at 31 December 2011	As at 31 December 2010
Fixed rate subordinated debt — 2022[(a)]	16,000	16,000
Fixed rate subordinated debt — 2017[(a)]	9,000	9,000
Fixed rate debt[(b)]	2,000	2,000
Fixed rate subordinated debt — 2019[(c)]	11,500	11,500
Fixed rate subordinated debt — 2024[(c)]	13,500	13,500
Fixed rate subordinated debt — 2026[(d)]	26,000	—
	78,000	52,000

Bank

	As at 31 December 2011	As at 31 December 2010
Fixed rate subordinated debt — 2022[(a)]	16,000	16,000
Fixed rate subordinated debt — 2017[(a)]	9,000	9,000
Fixed rate subordinated debt — 2019[(c)]	11,500	11,500
Fixed rate subordinated debt — 2024[(c)]	13,500	13,500
Fixed rate subordinated debt — 2026[(d)]	26,000	—
	76,000	50,000

(a) The Group issued subordinated debts amounting to RMB25 billion on 6 March 2007 in China's inter-bank bond market:
The first type of the subordinated debts, which was in the principal amount of RMB16 billion with a maturity of 15 years, has a fixed coupon rate of 4.13% for the first ten years, payable annually. The Group has an option to redeem these debts at face value on 8 March 2017. If the Group does not exercise this redemption option, these debts will bear interest at a fixed rate of interest of the original coupon rate plus 3% for the remaining five years.
The second type of the subordinated debts, which was in the principal amount of RMB9 billion with a maturity of 10 years, has a fixed coupon rate of 3.73% for the first five years, payable annually. The Group has an option to redeem these debts at face value on 8 March 2012. If the Group does not exercise this redemption option, these debts will bear interest at a fixed rate of interest of the original coupon rate plus 3% for the remaining five years.

(b) On 27 July 2010, Bank of Communication Financial Leasing Co., Ltd., a subsidiary of the Group issued a RMB2 billion term debt in China's inter-bank bond market, which has a maturity of three years and bears interest at the annual rate of 3.15%.

(c) The Group issued subordinated debts amounting to RMB25 billion on 1 July 2009 in China's inter-bank bond market:
The first type of subordinated debts, which was in the principal amount of RMB11.5 billion with a maturity of 10 years, has a fixed coupon rate of 3.28% for the first five years, payable annually. The Group has an option to redeem these debts at face value on 3 July 2014. If the Group does not exercise this redemption option, these debts will bear interest at a fixed rate of interest of the original coupon rate plus 3% for the remaining five years.
The second type of subordinated debts, which was in the principal amount of RMB13.5 billion with a maturity of 15 years, has a fixed coupon rate of 4% for the first ten years, payable annually. The Group has an option to redeem these debts at face value on 3 July 2019. If the Group does not exercise this redemption option, these debts will bear interest at a fixed rate of interest of the original coupon rate plus 3% for the remaining five years.

(d) On 21 October 2011, the Group issued subordinated debts in China's inter-bank bond market, which was in the principal amount of RMB26 billion with a maturity of 15 years, has a fixed coupon rate of 5.75%, payable annually. The Group has an option to redeem these debts at face value on 23 October 2021.

(2) Certificates of deposit were issued by the branches of the Bank in Hong Kong, Singapore and Frankfurt.

31 SHARE CAPITAL AND CAPITAL SURPLUS

	Number of shares (in millions)	Ordinary shares of RMB1 each	Capital surplus	Total
As at 1 January 2011	56,260	56,260	69,465	125,725
Distributions of stocks dividend	5,626	5,626	—	5,626
As at 31 December 2011	61,886	61,886	69,465	131,351

	Number of shares (in millions)	Ordinary shares of RMB1 each	Capital surplus	Total
As at 1 January 2010	48,994	48,994	44,404	93,398
Rights issue of shares	7,266	7,266	25,357	32,623
Issuance cost	—	—	(267)	(267)
Acquisition of non-controlling interests	—	—	(29)	(29)
As at 31 December 2010	56,260	56,260	69,465	125,725

The shareholding structure of the Bank's as at 31 December 2011 and 2010 are as follow:

	As at 31 December 2011		As at 31 December 2010	
	Number of shares (in millions)	Approximated percentage of the Bank's issued share capital	Number of shares (in millions)	Approximated percentage of the Bank's issued share capital
RMB ordinary shares (A shares)	32,709	52.85%	29,736	52.85%
Overseas listed foreign shares (H shares)	29,177	47.15%	26,524	47.15%
Total number of shares	61,886	100.00%	56,260	100.00%

Transactions of the following natures are recorded in the capital surplus:

(I) share premium arising from the issuance of shares at prices in excess of their par value;
(II) donations received from shareholders; and
(III) any other items required by the PRC regulations to be so treated.

Capital surplus can be utilised to offset prior years' accumulated losses, for the issuance of stocks dividend or for increasing paid-up capital as approved by the shareholders. There are no changes during the year.

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

31 SHARE CAPITAL AND CAPITAL SURPLUS *(Continued)*

As at 31 December 2011 and 2010, the Bank's capital surplus is listed as follow:

	As at 1 January 2011	Additions	Disposals	As at 31 December 2011
Share premium	68,851	—	—	68,851
Property revaluation gain designated by MOF	472	—	—	472
Donation of non-cash assets	145	—	—	145
Acquisition of non-controlling interests	(29)	—	—	(29)
Others	26	—	—	26
Total	69,465	—	—	69,465

	As at 1 January 2010	Additions	Disposals	As at 31 December 2010
Share premium	43,761	25,090	—	68,851
Property revaluation gain designated by MOF	472	—	—	472
Donation of non-cash assets	145	—	—	145
Acquisition of non-controlling interests	—	—	(29)	(29)
Others	26	—	—	26
Total	44,404	25,090	(29)	69,465

32 RESERVES AND RETAINED EARNING

Pursuant to the relevant PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the Directors and are subject to the resolutions to be passed at the Annual General Meeting.

Pursuant to the relevant PRC banking regulations, the Bank is required to transfer a certain amount of its net income to the statutory general reserve through its profit appropriation. It is determined based on the overall unidentified loss exposure, normally no lower than 1% of the ending balance of risk assets. The statutory general reserve is an integral part of equity interest but not subject to dividend distribution. Such statutory general reserve is recognised in the statement of financial position upon approval by the shareholders at the Annual General Meeting. Regulatory reserve of the Hong Kong branch required by the Hong Kong Monetary Authority is also included in above statutory general reserve.

In accordance with the relevant PRC legislation, after the statutory reserve has been transferred from the net distributable profit of the Bank, discretionary reserve is recognised upon approval by the shareholders at the Annual General Meeting.

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

32 RESERVES AND RETAINED EARNING *(Continued)*

On 28 June 2011, the shareholders at the 2010 Annual General Meeting approved the following profit appropriation of 2010:

	Amount arising from the prior year, approved and processed in 2011
Statutory reserve	3,831
Statutory general reserve	5,132
Discretionary reserve	16,968
	25,931

On 28 March 2012, the Directors proposed the following profit appropriation, which is still subject to the approval by the shareholders at the Annual General Meeting:

	Year 2011
Statutory reserve	4,991
Statutory general reserve	4,808
Discretionary reserve	9,917
	19,716

As at 31 December 2011, the retained earnings of the Group include statutory and discretionary reserves provided by its subsidiaries of RMB262 million (31 December 2010: RMB214 million), and statutory general reserve (consisting of statutory general reserve and trust compensation reserve) provided by its subsidiaries of RMB205 million (31 December 2010: RMB188 million).

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

33 DIVIDENDS

	Year ended 31 December	
	2011	2010
Stocks and cash dividends paid to shareholders of the Bank in the year	6,751	10,528

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

(i) Making up cumulative losses from prior years, if any;
(ii) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under the relevant PRC accounting standards;
(iii) Allocations to statutory general reserve;
(iv) Allocations to the discretionary reserve if approved by the Annual General Meeting. These funds form part of the shareholders' equity.

The cash dividends are recognised in the consolidated statement of financial position upon approval by the shareholders at the Annual General Meeting.

Based on the proposal on 30 March 2011 at the 5th meeting on the 6th Session of the Board of Directors and approved at the Annual General Meeting on 28 June 2011, the Bank transferred a total of RMB5,132 million to the statutory general reserve. A profit appropriation based on the total number of shares outstanding of 56.26 billion shares as at 31 December 2010 was also approved as follows: (i) a ten-for-one stocks dividend, amounting to RMB5,626 million, (ii) cash dividend of RMB0.20 (before tax) per every 10 shares, amounting to RMB1,125 million, and (iii) a transfer of RMB16,968 million to discretionary reserve. The registration date for the above stocks and cash dividends is 18 July 2011. The actual distribution date is 18 August 2011.

On 28 March 2012, the 12th meeting of the 6th session of the Board of Directors of the Bank proposed to transfer a total of RMB4,808 million to the statutory general reserve and RMB9,917 million to discretionary reserve. A cash dividend of RMB0.10 (before tax) per share, amounting to RMB6,189 million based on the total number of shares outstanding of 61.886 billion shares as at 31 December 2011 was also proposed. These proposals are still subject to the approval by the Shareholders' Meeting of the Bank.

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

34 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Financial guarantees and credit related commitments

The following tables indicate the contractual amounts of the Group's financial guarantees and credit related commitments which the Group has committed to its customers:

Group

	As at 31 December 2011	As at 31 December 2010
Letters of guarantees	218,012	198,573
Letters of credit	82,755	51,224
Acceptances	447,943	346,646
Other commitments with an original maturity of		
— Under 1 year	292,123	210,037
— 1 year and over	21,360	32,018
	1,062,193	838,498

Bank

	As at 31 December 2011	As at 31 December 2010
Letters of guarantees	218,012	198,573
Letters of credit	82,755	51,224
Acceptances	447,935	346,646
Other commitments with an original maturity of		
— Under 1 year	292,123	210,037
— 1 year and over	21,360	32,018
	1,062,185	838,498

Capital expenditure commitments

Group

	As at 31 December 2011	As at 31 December 2010
Capital expenditure commitments for buildings	3,463	2,846

Bank

	As at 31 December 2011	As at 31 December 2010
Capital expenditure commitments for buildings	3,460	2,846

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

34 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments on buildings and equipment under non-cancellable operating leases are as follows:

Group

	As at 31 December 2011	As at 31 December 2010
Within 1 year	1,392	1,291
Beyond 1 year and not more than 5 years	3,474	3,010
More than 5 years	1,207	981
	6,073	5,282

Bank

	As at 31 December 2011	As at 31 December 2010
Within 1 year	1,360	1,279
Beyond 1 year and not more than 5 years	3,429	3,008
More than 5 years	1,207	981
	5,996	5,268

Commitments on security underwriting and bond acceptance

Group and Bank

	As at 31 December 2011	As at 31 December 2010
Outstanding balance on security underwriting	35,660	56,810
Outstanding balance on bond acceptance [(a)]	25,974	27,094

(a) The Bank is entrusted by the MOF to underwrite certain Certificate Type Treasury Bonds. The investors of Certificates Type Treasury Bonds have early redemption right while the Bank has the obligation to buy back those Certificates Type Treasury Bonds. The redemption price is the principal value of the Certificates Type Treasury Bond plus unpaid interest till redemption date.

The original maturities of these bonds vary from 1 to 5 years.

The MOF will not provide funding for the early redemption of these Certificates Type Treasury Bond on a back-to-back basis but will pay interest and principal at maturity.

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

34 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

Legal proceedings

The Group is involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. Provision for litigation losses as advised by in-house or external legal professionals is disclosed in Note 27. The total outstanding claims against the Group (defendant) by a number of third parties at the end of the years are summarised as follows:

Group and Bank

	As at 31 December 2011	As at 31 December 2010
Outstanding claims	1,508	1,384
Provision for outstanding litigation (Note 27)	561	477

35 COLLATERALS

Assets pledged are mainly collaterals under repurchase and short selling agreements with banks and other financial institutions and deposits for memberships of stocks and exchanges.

Group

	Pledged Assets		Related Liabilities	
	As at 31 December 2011	As at 31 December 2010	As at 31 December 2011	As at 31 December 2010
Trading securities	3,714	9	3,250	1
Investment securities	26,317	17,037	24,770	15,231
Loans and others	—	3,265	—	3,265
	30,031	20,311	28,020	18,497

Bank

	Pledged Assets		Related Liabilities	
	As at 31 December 2011	As at 31 December 2010	As at 31 December 2011	As at 31 December 2010
Trading securities	3,714	9	3,250	1
Investment securities	26,145	17,037	24,611	15,231
Loans and others	—	3,265	—	3,265
	29,859	20,311	27,861	18,497

The Group accepts collaterals under reverse repurchase agreements, which are permitted for sale or re-pledge. As at 31 December 2011, the fair value of such collaterals amounted to RMB18,381 million (31 December 2010: RMB1,023 million). All pledges are conducted under standard and normal business terms. As at 31 December 2011 and 31 December 2010, the Group did not sell or re-pledge any collaterals received.

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

36 CREDIT RISK WEIGHTED AMOUNT OF FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS

Group and Bank

	As at 31 December 2011	As at 31 December 2010
Credit risk weighted amount of financial guarantees and credit related commitments	383,661	257,157

The credit risk weighted amount refers to the amount as computed in accordance with the formula promulgated by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and credit related commitments.

37 OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR

Group

	Year ended 31 December 2011		
	Before tax amount	Tax (expense) benefit	Net of tax amount
Other comprehensive loss			
Investment securities — available-for-sale	(152)	43	(109)
Changes in fair value recorded in equity	48	(6)	42
Changes in fair value reclassified from equity to profit or loss	(200)	49	(151)
Translation difference on foreign operations	(523)	—	(523)
Other comprehensive loss for the year	(675)	43	(632)

Group

	Year ended 31 December 2010		
	Before tax amount	Tax benefit	Net of tax amount
Other comprehensive loss			
Investment securities — available-for-sale	(2,121)	519	(1,602)
Changes in fair value recorded in equity	(1,515)	365	(1,150)
Changes in fair value reclassified from equity to profit or loss	(606)	154	(452)
Translation difference on foreign operations	(329)	—	(329)
Other comprehensive loss for the year	(2,450)	519	(1,931)

38 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Analysis of the balance of cash and cash equivalents

For the purposes of the consolidated statements of cash flows, cash and cash equivalents comprise the following balances with original maturities of less than or equal to 90 days used for the purpose of meeting short-term cash commitments:

	As at 31 December 2011	As at 31 December 2010
Cash and balances with central banks (Note 16)	114,060	120,396
Due from banks and other financial institutions (Note 17)	95,575	36,503
	209,635	156,899

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

39 PRINCIPAL SUBSIDIARIES

(a) Details of the principal subsidiaries

Name of subsidiaries	Place of incorporation and operation	Date of incorporation	Issued and fully paid up share capital	Bank equity interest %	Principal activities
BOCOM Finance Limited	Hong Kong	13 Mar 1979	HK$90,000,000	100	Deposit taking and other financial services
Bank of Communications Trustee Limited	Hong Kong	13 Oct 1981	HK$50,000,000	100	Trustee service
BOCOM International Holdings Company Limited (former known as BOCOM Securities Company Limited)	Hong Kong	3 Jun 1998	HK$2,000,000,000	100	Securities dealing and brokerage
China BOCOM Insurance Company Limited (former known as China Communications Insurance Company Limited)	Hong Kong	1 Nov 2000	HK$400,000,000	100	General insurance and reinsurance
BOCOM International Asset Management Limited[1]	Hong Kong	18 May 2007	HK$5,000,000	100	Asset management
BOCOM International Securities Limited[1]	Hong Kong	18 May 2007	HK$510,000,000	100	Securities dealing and brokerage
BOCOM International (Asia) Limited[1]	Hong Kong	18 May 2007	HK$10,000,000	100	Securities dealing and brokerage
BOCOM International (Shanghai) Equity Investment Management Limited[1]	PRC	25 Oct 2010	USD10,000,000	100	Investment management and consulting
Bank of Communications Schroder Fund Management Co., Ltd.[2]	PRC	4 Aug 2005	RMB200,000,000	65	Fund management
Bank of Communications International Trust Co., LTD.[2]	PRC	18 Oct 2007	RMB2,000,000,000	85	Trust investment
Bank of Communications Financial Leasing Co., Ltd.[2]	PRC	20 Dec 2007	RMB4,000,000,000	100	Financial leasing
Dayi Bocom Xingmin Rural Bank Co.,Ltd.[2]	PRC	15 Aug 2008	RMB60,000,000	61	Commercial banking
BoCommLife Insurance Company Limited [2]	PRC	27 Jan 2010	RMB500,000,000	62.5	Life insurance
Anji Bocom Xingmin Rural Bank Co.,Ltd.[2]	PRC	18 Mar 2010	RMB150,000,000	51	Commercial banking
Shihezi Bocom Rural Bank Company Limited [2]	PRC	5 May 2011	RMB70,000,000	70	Commercial banking
Bank of Communications (UK) Limited	UK	29 July 2011	USD100,000,000	100	Commercial banking

Note1: These companies are the subsidiaries of the Bank's subsidiaries. BOCOM International Asset Management Limited, BOCOM International Securities Limited, BOCOM International (Asia) Limited and BOCOM International (Shanghai) Equity Investment Management Limited are all subsidiaries of BOCOM International Holdings Company Limited.

Note 2: These subsidiaries incorporated in PRC are all limited liability companies.

39 PRINCIPAL SUBSIDIARIES *(Continued)*

(a) Details of the principal subsidiaries *(Continued)*

(1) Changes of subsidiaries

In May 2011, the Bank established a subsidiary, Shihezi Bocom Rural Bank Company Limited, with registered capital of RMB70 million. The Bank owns 70% of this subsidiary.

Bank of Communications (UK) Limited, a wholly-owned subsidiary of the Bank in United Kingdom, was incorporated from 29 July 2011 with registered capital of US dollar 100 million. The principal activities of this subsidiary are the provision of loans, deposits and settlement business.

On 12 December 2011, the subsidiary of the Bank, Bank of Communications International Trust Co., LTD, increased its registered capital by RMB800 million. The Bank injected RMB680 million capital and maintains its interest at 85%.

(2) Auditors of subsidiaries

For the year ended 31 December 2011, Deloitte Touche Tohmatsu was the auditor of all principal subsidiaries incorporated in Hong Kong. For the year ended 31 December 2010, PricewaterhouseCoopers was the auditor of all principal subsidiaries incorporated in Hong Kong.

For the year ended 31 December 2011, Bank of Communications Schroder Fund Management Co., Ltd. and Bank of Communications Financial Leasing Co., Ltd. were audited by Deloitte Touche Tohmatsu CPA Limited. For the year ended 31 December 2010, Bank of Communications Schroder Fund Management Co., Ltd. and Bank of Communications Financial Leasing Co., Ltd. were audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company.

For the year ended 31 December 2011 and 2010, Bank of Communications International Trust Co., LTD. was audited by Deloitte Touche Tohmatsu CPA Limited.

For the year ended 31 December 2011, Dayi Bocom Xingmin Rural Bank Co., Ltd. was audited by Deloitte Touche Tohmatsu CPA Limited. For the year ended 31 December 2010, Dayi Bocom Xingmin Rural Bank Co.,Ltd. was audited by Sichuan Zhong Fu CPAs Limited.

For the year ended 31 December 2011, BoCommLife Insurance Company Limited was audited by Deloitte Touche Tohmatsu CPA Limited. For the year ended 31 December 2010, BoCommLife Insurance Company Limited was audited by Ernst & Young Hua Ming CPAs Limited.

For the year ended 31 December 2011 and 2010, Anji Bocom Xingmin Rural Bank Co.,Ltd. was audited by Deloitte Touche Tohmatsu CPA Limited.

For the year ended 31 December 2011, Shihezi Bocom Rural Bank Company Limited was audited by Deloitte Touche Tohmatsu CPA Limited.

For the year ended 31 December 2011, Bank of Communications (UK) Limited was audited by Deloitte LLP.

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

39 PRINCIPAL SUBSIDIARIES *(Continued)*

(b) Investment costs and balances with subsidiaries

	As at 31 December 2011	As at 31 December 2010
Investment cost	9,344	8,089
Due from banks and other financial institutions	70	50
Loans and advances to customers	3,223	2,203
Other assets	16	32
Due to banks and other financial institutions	(2,804)	(1,961)
Due to customers	(1,024)	(813)
Other liabilities	(30)	(32)
Total	8,795	7,568

40 INVESTMENT IN AN ASSOCIATE

Group and Bank

	As at 31 December 2011	As at 31 December 2010
Investment cost	300	—
Share of post-acquisition loss	(2)	—
Investment in an associate	298	—

The Group's and the Bank's investment in an associate is Bank of Tibet Co., Ltd., which was registered in Tibet of the PRC and established at 30 December 2011. The registered capital of the entity is RMB1,500 million, and the principal activities of the entity are banking activities. The Group held 20% of equity interest in this associate as at 31 December 2011 (31 December 2010: not applicable).

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

41 RELATED PARTY TRANSACTIONS

(a) Transactions with the MOF

As at 31 December 2011, the MOF holds 16,413 million (31 December 2010: 14,921 million) shares of the Bank which represents 26.52% (31 December 2010: 26.52%) of total share capital of the Bank. The Group enters into banking transactions with the MOF under normal course of business and they mainly include the purchase and redemption of investment securities issued by the MOF and the deposits from the MOF. The volumes and outstanding balances of the related party transactions at the year end, and related income and expenses for the years are summarised as follows:

(i) Treasury bonds issued by the MOF

	Year ended 31 December	
	2011	2010
Purchase during the year	41,122	52,010
Redemption during the year	(44,711)	(384,214)
Interest income	8,473	7,364

	Year ended 31 December	
	2011	2010
Outstanding balance of treasury bonds at the beginning of the year	230,309	197,976
Outstanding balance of treasury bonds at the end of the year	231,223	230,309
Maturity range of the bonds	6 months–30 years	3 months–30 years
Interest rate range of the bonds	1.44%–6.15%	1.44%–6.34%

(ii) Deposits

	Year ended at 31 December	
	2011	2010
Time Deposits	35,390	29,910
Maturity range of the deposits	6 months–12 months	6 months–9 months
Interest rate range of the deposits	5.70%–6.83%	4.00%–4.93%

(iii) Interest expense

	Year ended 31 December	
	2011	2010
Interest expense	1,640	858

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

41 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with National Council for Social Security Fund

As at 31 December 2011, National Council for Social Security Fund holds 7,028 million (31 December 2010: 6,389 million) shares of the Bank which represents 11.36% (31 December 2010: 11.36%) of total share capital of the Bank. The Group enters into transactions with National Council for Social Security Fund under normal course of business and they mainly include deposits which are carried out under normal commercial terms and paid at market rates.

The volumes and outstanding balances at the year end, and related interest expenses for the years are summarised as follows:

Deposits

	Year ended 31 December	
	2011	2010
Outstanding balance at the beginning of the year	25,033	13,350
Deposited during the year	4,207	17,717
Repaid during the year	(1,007)	(6,034)
Outstanding balance at the end of the year	28,233	25,033
Interest expense	1,495	826

(c) Transactions with The Hongkong and Shanghai Banking Corporation Limited ("HSBC")

As at 31 December 2011, HSBC holds 11,530 million (31 December 2010: 10,482 million) shares of the Bank which represents 18.63% (31 December 2010: 18.63%) of total share capital of the Bank. Transactions between the Group and HSBC are carried out under normal commercial terms and paid at market rates. Details of transaction volumes and outstanding balances are summarised below:

(i) Due from HSBC

	Year ended 31 December	
	2011	2010
Outstanding at the beginning of the year	402	238
Granted during the year	587,332	471,447
Repaid during the year	(585,417)	(471,283)
Outstanding at the end of the year	2,317	402
Interest income	22	13

(ii) Due to HSBC

	Year ended 31 December	
	2011	2010
Outstanding at the beginning of the year	10,368	3,214
Deposited during the year	153,916	73,039
Repaid during the year	(144,577)	(65,885)
Outstanding at the end of the year	19,707	10,368
Interest expense	304	100

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

41 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Transactions with The Hongkong and Shanghai Banking Corporation Limited ("HSBC") *(Continued)*

(iii) Investment securities issued by HSBC

	Year ended 31 December	
	2011	2010
Interest income	50	19

	As at 31 December 2011	As at 31 December 2010
Outstanding balance	2,137	2,482

(iv) Derivative transactions

	As at 31 December 2011	As at 31 December 2010
Notional amount of derivative transactions	39,959	45,196
Fair value of derivative transactions	(242)	(222)

(d) Transactions with Directors and Senior Management

The Group enters into transactions with Directors and Senior Management under the normal course of business and they mainly include loans and deposits, which are carried out under commercial terms and paid at market rates. The volumes during and outstanding balances at the year ended 31 December 2011 and 2010 are summarised as follows:

(i) Loans

	Year ended 31 December	
	2011	2010
Outstanding at the beginning of the year	2	126
Granted during the year	—	284
Repayment during the year	—	(408)
Outstanding at the end of the year	2	2

No allowance for impairment has been recognised in respect of loans granted to Directors and Senior Management.

(ii) Deposits

	Year ended 31 December	
	2011	2010
Outstanding at the beginning of the year	6	5
Deposited during the year	9	75
Repaid during the year	(8)	(74)
Outstanding at the end of the year	7	6

(e) Transactions with associates

The Group does not enter into any transactions with its associates for the year ended 31 December 2011.

42 SEGMENTAL ANALYSIS

The Group's Senior Management reviewed the Group's operation by the particular economic areas in which the Group's branches and subsidiaries provide products or services. The Group's operating segments are decided upon location of the assets, as the Group's branches mainly serve local customers.

The reportable operating segments derive their revenue primarily from the commercial banking services provided to customers and investing activities, including deposits/loans, bills, trade finance, money market placements and takings and securities investments. The operating segments are:

(i) Northern China — Including the following provinces: Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia;

(ii) North Eastern China — Including the following provinces: Liaoning, Jilin, Heilongjiang;

(iii) Eastern China — Including the following provinces: Shanghai (excluding Head Office), Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;

(iv) Central and Southern China — Including the following provinces: Henan, Hunan, Hubei, Guangdong, Guangxi, Hainan;

(v) Western China — Including the following provinces: Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shannxi, Gansu, Qinghai, Ningxia and Xinjiang;

(vi) Head Office;

(vii) Overseas — Including overseas subsidiaries and the following banking institutions: Hong Kong, New York, Singapore, Seoul, Tokyo, Frankfurt, Macau, Ho Chi Mihn City, San Francisco, Sydney and London.

There were no changes in the reportable segments during the year.

The revenue from external parties reported to the Senior Management is measured in a manner consistent with that in the consolidated statement of comprehensive income.

As the Group's major revenue is derived from interest and the Senior Management relies primarily on net interest income to assess the performance of the segment, the total interest income and expense for all reportable segments will be presented on a net basis.

The measure of segment profit or loss reviewed by the Group's Senior Management is profit before tax. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the segments.

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

42 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information

Group

	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Head Office	Overseas	Eliminations	Group Total
As at 31 December 2011									
Assets									
Cash and balances with central banks	10,260	4,178	25,816	13,199	6,033	657,900	19,613	–	736,999
Due from banks and other financial institutions	2,991	812	34,733	8,471	2,341	350,435	43,457	–	443,240
Financial assets at fair value through profit or loss	–	–	–	–	–	38,421	10,001	–	48,422
Loans and advances to customers	438,679	125,396	979,286	467,734	233,053	75,970	185,267	–	2,505,385
Investment securities — loans and receivables	316	171	429	526	162	26,652	–	–	28,256
Investment securities — available-for-sale	9	–	1,435	680	14	158,062	23,892	–	184,092
Investment securities — held-to-maturity	–	–	90	–	–	542,948	1,723	–	544,761
Investment in an associate	–	–	–	–	–	298	–	–	298
Other assets	485,461	115,985	628,775	340,433	138,402	86,372	50,865	(1,726,569)	119,724
Total assets	937,716	246,542	1,670,564	831,043	380,005	1,937,058	334,818	(1,726,569)	4,611,177
Liabilities									
Due to banks and other financial institutions	(275,198)	(18,555)	(296,817)	(93,647)	(34,114)	(52,168)	(84,000)	–	(854,499)
Financial liabilities at fair value through profit or loss	–	–	–	–	–	(3,681)	(15,240)	–	(18,921)
Due to customers	(615,680)	(217,617)	(1,280,206)	(679,097)	(316,843)	(1,380)	(172,409)	–	(3,283,232)
Debts securities issued	–	–	(2,000)	–	–	(76,000)	(3,803)	–	(81,803)
Other liabilities	(28,781)	(7,534)	(59,882)	(30,045)	(16,645)	(1,630,370)	(53,246)	1,726,569	(99,934)
Total liabilities	(919,659)	(243,706)	(1,638,905)	(802,789)	(367,602)	(1,763,599)	(328,698)	1,726,569	(4,338,389)
Net on-balance sheet position	18,057	2,836	31,659	28,254	12,403	173,459	6,120	–	272,788
Acquisition cost of property and equipment and intangible assets	(1,348)	(592)	(2,826)	(1,137)	(1,106)	(572)	(144)	–	(7,725)

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

42 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

Group

	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Head Office	Overseas	Eliminations	Group Total
Year ended 31 December 2011									
Interest income[1]	60,469	15,756	111,450	53,102	24,673	58,216	6,182	(138,976)	190,872
Interest expense[2]	(43,320)	(10,538)	(73,475)	(33,863)	(15,742)	(46,970)	(3,339)	138,976	(88,271)
Net interest income[3]	17,149	5,218	37,975	19,239	8,931	11,246	2,843	–	102,601
Fee and commission income	2,957	599	7,624	3,446	1,100	5,519	1,219	–	22,464
Fee and commission expense	(694)	(72)	(1,009)	(489)	(155)	(281)	(215)	–	(2,915)
Net fee and commission income	2,263	527	6,615	2,957	945	5,238	1,004	–	19,549
Dividend income	–	–	33	–	–	18	20		71
Net gains/(losses) arising from trading activities	386	97	742	255	54	(283)	150	–	1,401
Net gains/(losses) arising from de-recognition of investment securities	–	–	5	–	–	(36)	154	–	123
Insurance business income	–	–	433	–	–	–	–	–	433
Share of profits/(losses) of an associate	–	–	–	–	–	(2)	–	–	(2)
Other operating income	278	255	1,563	932	236	122	231	–	3,617
Total operating revenue	20,076	6,097	47,366	23,383	10,166	16,303	4,402	–	127,793
Impairment losses/(reversals) of loans and advances to customers	(3,766)	(702)	(6,350)	(131)	(1,349)	3	(184)	–	(12,479)
Insurance business expense	–	–	(491)	–	–	–	–	–	(491)
Other operating expense	(6,829)	(2,884)	(17,195)	(9,201)	(4,010)	(7,537)	(1,716)	–	(49,372)
Profit before tax	9,481	2,511	23,330	14,051	4,807	8,769	2,502	–	65,451
Income tax	(2,439)	(649)	(6,049)	(3,635)	(1,240)	(132)	(490)	–	(14,634)
Net profit for the year	7,042	1,862	17,281	10,416	3,567	8,637	2,012	–	50,817
Depreciation and amortisation	(555)	(291)	(1,323)	(694)	(403)	(755)	(121)	–	(4,142)
[1]Include									
External interest income	28,288	7,991	63,146	29,125	14,092	43,030	5,200	–	190,872
Inter-segment interest income	32,181	7,765	48,304	23,977	10,581	15,186	982	(138,976)	–
[2]Include									
External interest expense	(22,260)	(4,698)	(32,344)	(13,628)	(5,773)	(6,673)	(2,895)	–	(88,271)
Inter-segment interest expense	(21,060)	(5,840)	(41,131)	(20,235)	(9,969)	(40,297)	(444)	138,976	–
[3]Include									
External net interest income	6,028	3,293	30,802	15,497	8,319	36,357	2,305	–	102,601
Inter-segment net interest income	11,121	1,925	7,173	3,742	612	(25,111)	538	–	–

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

42 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

Group

	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Head Office	Overseas	Eliminations	Group Total
As at 31 December 2010									
Assets									
Cash and balances with central banks	11,359	4,253	26,619	12,528	9,534	514,532	7,729	–	586,554
Due from banks and other financial institutions	16,094	3,744	40,842	12,580	2,679	155,913	31,124	–	262,976
Financial assets at fair value through profit or loss	–	–	–	–	–	36,013	10,030	–	46,043
Loans and advances to customers	415,245	106,752	862,313	412,956	201,467	45,752	146,005	–	2,190,490
Investment securities — loans and receivables	437	296	702	728	266	40,188	–	–	42,617
Investment securities — available-for-sale	10	–	1,831	712	33	135,936	23,648	–	162,170
Investment securities — held-to-maturity	–	–	–	120	–	561,339	2,262	–	563,721
Other assets	349,701	108,793	493,816	253,899	103,876	83,573	22,096	(1,318,732)	97,022
Total assets	792,846	223,838	1,426,123	693,523	317,855	1,573,246	242,894	(1,318,732)	3,951,593
Liabilities									
Due to banks and other financial institutions	(224,500)	(20,267)	(262,683)	(86,710)	(29,819)	(32,987)	(60,066)	–	(717,032)
Financial liabilities at fair value through profit or loss	–	–	–	–	–	(3,495)	(10,884)	–	(14,379)
Due to customers	(549,157)	(199,400)	(1,108,096)	(587,970)	(267,576)	(30,461)	(125,187)	–	(2,867,847)
Debts securities issued	–	–	(2,000)	–	–	(50,000)	–	–	(52,000)
Other liabilities	(16,866)	(6,428)	(35,705)	(15,928)	(18,849)	(1,260,875)	(40,759)	1,318,732	(76,678)
Total liabilities	(790,523)	(226,095)	(1,408,484)	(690,608)	(316,244)	(1,377,818)	(236,896)	1,318,732	(3,727,936)
Net on-balance sheet position	2,323	(2,257)	17,639	2,915	1,611	195,428	5,998	–	223,657
Acquisition cost of property and equipment and intangible assets	(1,537)	(827)	(2,145)	(2,030)	(726)	(1,282)	(58)	–	(8,605)

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

42 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

Group

	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Head Office	Overseas	Eliminations	Group Total
Year ended 31 December 2010									
Interest income[1]	43,148	11,574	80,174	38,562	18,027	42,906	3,760	(96,246)	141,905
Interest expense[2]	(29,684)	(7,204)	(48,979)	(23,736)	(10,764)	(31,322)	(1,467)	96,246	(56,910)
Net interest income[3]	13,464	4,370	31,195	14,826	7,263	11,584	2,293	–	84,995
Fee and commission income	2,390	412	5,209	2,327	729	4,878	1,131	–	17,076
Fee and commission expense	(659)	(57)	(904)	(395)	(112)	(208)	(262)	–	(2,597)
Net fee and commission income	1,731	355	4,305	1,932	617	4,670	869	–	14,479
Dividend income	–	–	22	–	–	23	15	–	60
Net gains/(losses) arising from trading activities	423	81	511	233	52	(949)	326	–	677
Net gains arising from de-recognition of investment securities	3	–	78	53	13	388	33	–	568
Insurance business income	–	–	689	–	–	–	–	–	689
Other operating income	208	224	1,495	805	276	76	191	–	3,275
Total operating revenue	15,829	5,030	38,295	17,849	8,221	15,792	3,727	–	104,743
Impairment losses/(reversals) of on loans and advances to customers	(1,746)	(547)	(4,945)	(3,935)	(952)	3	(124)	–	(12,246)
Insurance business expense	–	–	(599)	–	–	–	–	–	(599)
Other operating expense	(5,646)	(2,593)	(14,665)	(7,562)	(3,344)	(6,528)	(1,606)	–	(41,944)
Profit before tax	8,437	1,890	18,086	6,352	3,925	9,267	1,997	–	49,954
Income tax	(1,393)	(331)	(4,796)	(1,935)	(1,116)	(806)	(405)	–	(10,782)
Net profit for the year	7,044	1,559	13,290	4,417	2,809	8,461	1,592	–	39,172
Depreciation and amortisation	(524)	(306)	(1,255)	(687)	(373)	(799)	(124)	–	(4,068)
[1]Include									
External interest income	20,498	5,596	45,803	21,349	10,273	34,865	3,521	–	141,905
Inter-segment interest income	22,650	5,978	34,371	17,213	7,754	8,041	239	(96,246)	–
[2]Include									
External interest expense	(15,193)	(3,415)	(20,748)	(9,805)	(3,948)	(2,573)	(1,228)	–	(56,910)
Inter-segment interest expense	(14,491)	(3,789)	(28,231)	(13,931)	(6,816)	(28,749)	(239)	96,246	–
[3]Include									
External net interest income	5,305	2,181	25,055	11,544	6,325	32,292	2,293	–	84,995
Inter-segment net interest income	8,159	2,189	6,140	3,282	938	(20,708)	–	–	–

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

42 SEGMENTAL ANALYSIS *(Continued)*

Geographical information

	Year ended 31 December			
	2011		2010	
	Revenue	Non-current assets[1]	Revenue	Non-current assets[1]
PRC	217,225	39,912	163,127	36,928
Other countries	1,754	113	1,123	84
Total	218,979	40,025	164,250	37,012

Note 1: Non-current assets include property and equipment, land use rights, intangible assets, prepaid rental expenses, leasehold improvement, investment property and goodwill etc. It excludes financial assets, deferred income tax assets and rights arising under insurance contracts.

Business Information

The Group is engaged predominantly in banking and related financial activities. It comprises corporate banking, retail banking, treasury and other classes of business. Corporate banking mainly comprises corporate loans, bills, trade finance, corporate deposits and remittance. Retail banking mainly comprises individual loans, individual deposits, credit card and remittance. Treasury mainly comprises money market placements and takings, investment securities, and securities sold under repurchase agreements. The "Others" business segment mainly comprises items which cannot be categorised in the above business segments. The details of business information are as follows:

Group

	Year ended 31 December 2011				
	Corporate	Retail	Treasury	Others and unallocated	Total
External net interest income	59,113	9,182	33,997	309	102,601
Internal net interest income/(expense)	10,715	12,985	(23,700)	—	—
Net interest income	69,828	22,167	10,297	309	102,601
Net fee and commission income	7,945	9,850	212	1,542	19,549
Dividend income	—	—	18	53	71
Net gains/(losses) arising from trading activities	561	15	1,058	(233)	1,401
Net gains arising from de-recognition of investment securities	—	—	123	—	123
Insurance business income	—	—	—	433	433
Other operating income	2,011	555	9	1,042	3,617
Impairment losses on loans and advances to customers	(10,943)	(1,536)	—	—	(12,479)
Insurance business expense	—	—	—	(491)	(491)
Other operating expense					
— depreciation and amortisation	(1,335)	(1,944)	(23)	(840)	(4,142)
— others	(21,223)	(20,980)	(1,661)	(1,366)	(45,230)
Share of gains/(losses) of an associate	—	—	—	(2)	(2)
Profit before tax	46,844	8,127	10,033	447	65,451
Capital expenditure	2,509	3,674	43	1,499	7,725
Total assets	2,084,131	526,910	1,981,784	18,352	4,611,177
Total liabilities	(2,364,483)	(1,046,492)	(920,738)	(6,676)	(4,338,389)

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

42 SEGMENTAL ANALYSIS *(Continued)*

Group

	Year ended 31 December 2010				
	Corporate	Retail	Treasury	Others and unallocated	Total
External net interest income	44,765	7,538	32,458	234	84,995
Internal net interest income/(expense)	10,510	11,543	(22,053)	—	—
Net interest income	55,275	19,081	10,405	234	84,995
Net fee and commission income	6,072	7,165	(20)	1,262	14,479
Dividend income	—	—	15	45	60
Net gains arising from trading activities	330	10	337	—	677
Net gains arising from de-recognition of investment securities	—	—	513	55	568
Insurance business income	—	—	—	689	689
Other operating income	1,246	1,342	16	671	3,275
Impairment losses on loans and advances to customers	(10,671)	(1,575)	—	—	(12,246)
Insurance business expense	—	—	—	(599)	(599)
Other operating expenses					
— depreciation and amortisation	(1,308)	(1,974)	(24)	(762)	(4,068)
— others	(17,745)	(17,546)	(1,427)	(1,158)	(37,876)
Profit before tax	33,199	6,503	9,815	437	49,954
Capital expenditure	2,771	4,219	42	1,573	8,605
Total assets	1,841,104	433,832	1,660,526	16,131	3,951,593
Total liabilities	(2,041,397)	(917,319)	(762,398)	(6,822)	(3,727,936)

There were no large transactions with a single external customer that the Group mainly relying on.

43 RECLASSIFICATION OF COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year presentation.

44 SUBSEQUENT EVENT

The second type of the fixed rate subordinated debts, which was issued on 6 Mar 2007 by the Bank (with a maturity of 10 years, bond code 071502) ("these debts") includes an option to the Bank to redeem these debts at face value by the end of the fifth year of these bonds, that is 8 March 2012. On 8 March 2012, the Bank exercised the redemption option and redeemed the principal amount of RMB9 billion of these bonds.

The Bank issued term debts amounting to RMB1 billion on 8 March 2012 in Hong Kong. The first type of term debts, which was in the principal amount of RMB700 million with a maturity of 2 years, has a fixed coupon rate of 2.98%. The second type of term debts, which was in the principal amount of RMB300 million with a maturity of 3 years, has a fixed coupon rate of 3.10%.

The 11th meeting of the 6th session of the Board of Directors of the Bank was held on 15 March 2012, in which the "Resolution for Non-public Issue of A Shares and H Shares" and the "Proposed Resolution for Non-public Issue of A Shares of Bank of Communications Co., Ltd." were examined and approved, pursuant to which the Bank will issue 12,377,121,107 new shares, including 6,541,810,669 new A Share at the price of RMB4.55 per share and 5,835,310,438 new H Shares at the price of HK$5.63 per share. These resolutions still need to be examined and approved by the Shareholders' Meeting of the Bank.

Supplementary Unaudited Financial Information

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

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

1 LIQUIDITY RATIOS

The liquidity ratios that the Bank submitted to the Regulators are calculated in accordance with the formula promulgated by CBRC.

Group

	As at 31 December 2011	As at 31 December 2010
Liquidity ratios:	35.49%	32.37%

Bank

	As at 31 December 2011	As at 31 December 2010
Liquidity Ratios:	35.37%	32.23%

2 CURRENCY CONCENTRATIONS

Group

	US dollar	HK dollar	Others	Total
As at 31 December 2011				
Spot assets	265,263	83,781	31,557	380,601
Spot liabilities	(229,692)	(115,719)	(34,327)	(379,738)
Forward purchases	278,882	58,306	20,192	357,380
Forward sales	(313,676)	(13,904)	(17,467)	(345,047)
Net option position	(218)	(2)	8	(212)
Net long position	559	12,462	(37)	12,984
Net structural position	5,408	3,959	1,830	11,197

Group

	US dollar	HK dollar	Others	Total
As at 31 December 2010				
Spot assets	229,761	57,784	27,550	315,095
Spot liabilities	(159,136)	(86,586)	(34,022)	(279,744)
Forward purchases	245,324	34,291	25,266	304,881
Forward sales	(271,705)	(8,277)	(19,734)	(299,716)
Net option position	(6,723)	—	—	(6,723)
Net long/(short) position	37,521	(2,788)	(940)	33,793
Net structural position	5,288	3,979	1,241	10,508

The net options position is calculated using the model user approach as set out by CBRC. The net structural position of the Group includes the structural positions of the Bank's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

— Investments in fixed assets and premises, net of depreciation charges;
— Capital and statutory reserves of overseas branches;
— Investments in overseas subsidiaries and related companies; and
— Loan capital.

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

3 CROSS-BORDER CLAIMS

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

Cross-border claims include loans and advances to customers, balances and placements with banks and other financial institutions, trade bills and certificates of deposit and investment securities.

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

	Bank and other financial institutions	Public sector entities	Others	Total
As at 31 December 2011				
Asia Pacific excluding Mainland China	35,783	3,830	78,571	118,184
— of which attributed to Hong Kong	*13,182*	*3,128*	*64,409*	*80,719*
North and South America	24,249	418	5,655	30,322
Africa	394	—	—	394
Europe	21,847	1,079	4,452	27,378
	82,273	5,327	88,678	176,278

	Bank and other financial institutions	Public sector entities	Others	Total
As at 31 December 2010				
Asia Pacific excluding Mainland China	22,011	5,267	55,021	82,299
— of which attributed to Hong Kong	*5,198*	*2,817*	*44,494*	*52,509*
North and South America	12,426	366	7,685	20,477
Africa	524	—	—	524
Europe	17,846	1,178	2,471	21,495
	52,807	6,811	65,177	124,795

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

4 OVERDUE AND RESCHEDULED ASSETS

(a) Gross amount of overdue loans

Group and Bank

	As at 31 December 2011	As at 31 December 2010
Gross loans and advances to customers which have been overdue for:		
— within 3 months	6,779	4,614
— between 3 and 6 months	1,031	1,344
— between 6 and 12 months	2,424	2,030
— over 12 months	11,773	12,923
	22,007	20,911
Percentage:		
— within 3 months	0.26%	0.20%
— between 3 and 6 months	0.04%	0.06%
— between 6 and 12 months	0.09%	0.09%
— over 12 months	0.46%	0.58%
	0.85%	0.93%

Group and Bank

	As at 31 December 2011	As at 31 December 2010
Gross amounts for due from banks and other financial institutions		
— within 3 months	—	—
— between 3 and 6 months	—	—
— between 6 and 12 months	—	—
— over 12 months	12	12
	12	12
Percentage:		
— within 3 months	—	—
— between 3 and 6 months	—	—
— between 6 and 12 months	—	—
— over 12 months	0.01%	0.01%
	0.01%	0.01%

As at 31 December 2011 and 2010, balances of overdue trade bills which have been included in the gross overdue loans and advances to customers are:

	As at 31 December 2011	As at 31 December 2010
— within 3 months	—	—
— between 3 and 6 months	—	—
— between 6 and 12 months	—	—
— over 12 months	68	162
	68	162

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

4 OVERDUE AND RESCHEDULED ASSETS *(Continued)*

(b) Overdue and rescheduled loans

Group and Bank

	As at 31 December 2011	As at 31 December 2010
Total rescheduled loans and advances to customers	3,615	2,479
Including: rescheduled loans and advances to customers overdue above 3 months	*1,280*	*753*
Percentage of rescheduled loans and advances to customers overdue above 3 months in total loans	0.05%	0.03%

5 SEGMENTAL INFORMATION OF LOANS

(a) Impaired loans by geographical area

Group and Bank

	As at 31 December 2011		As at 31 December 2010	
	Impaired loans	Allowances for individually assessed impaired loans	Impaired loans	Allowances for individually assessed impaired loans
Domestic regions				
— Northern China	4,130	(1,972)	3,860	(2,371)
— North Eastern China	2,334	(1,214)	2,572	(1,602)
— Eastern China	8,416	(4,335)	7,663	(5,067)
— Central and Southern China	4,583	(2,420)	8,390	(4,015)
— Western China	2,204	(1,107)	2,175	(1,288)
	21,667	(11,048)	24,660	(14,343)
Hong Kong, Macau and overseas countries	319	(202)	328	(261)
	21,986	(11,250)	24,988	(14,604)

(b) Overdue loans and advances to customers by geographical area

Group and Bank

	As at 31 December 2011			As at 31 December 2010		
	Overdue loans	Allowances for individually assessed impaired loans	Allowances for collectively assessed impaired loans	Overdue loans	Allowances for individually assessed impaired loans	Allowances for collectively assessed impaired loans
Domestic regions						
— Northern China	4,132	(1,875)	(10)	3,890	(2,171)	(14)
— North Eastern China	2,210	(1,084)	(6)	2,466	(1,438)	(6)
— Eastern China	8,431	(4,003)	(36)	7,421	(4,395)	(25)
— Central and Southern China	5,096	(2,299)	(25)	4,636	(2,446)	(22)
— Western China	1,750	(857)	(10)	1,952	(1,051)	(6)
	21,619	(10,118)	(87)	20,365	(11,501)	(73)
Hong Kong, Macau and overseas countries	388	(189)	(4)	546	(190)	(1)
	22,007	(10,307)	(91)	20,911	(11,691)	(74)
Fair value of collaterals	9,958			11,013		

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

6 LOANS AND ADVANCES TO CUSTOMERS

(a) The economic sector risk concentration analysis for loans and advances to customers (gross)

	As at 31 December 2011			As at 31 December 2010		
		%	Amount covered by collaterals		%	Amount covered by collaterals
Hong Kong						
Corporate loans						
Manufacturing						
— Petroleum and chemical	—	0.00	—	1,686	1.69	—
— Electronics	1,317	1.05	20	1,835	1.84	13
— Textile and clothing	439	0.35	54	403	0.40	57
— Other manufacturing	2,914	2.31	194	3,913	3.93	210
Electricity, gas and water production and supply	49	0.04	—	170	0.17	—
Construction	6,741	5.35	804	5,194	5.21	496
Transportation, storage and postal service	11,515	9.14	2,885	5,554	5.58	1,721
Telecommunication, IT service and software	401	0.32	—	1,109	1.11	—
Wholesale and retail	45,997	36.52	5,465	34,739	34.87	1,670
Accommodation and catering	154	0.12	3	817	0.82	556
Financial institutions	10,218	8.11	479	8,561	8.59	805
Real estate	9,595	7.62	8,064	10,227	10.27	7,710
Services	—	—	—	2,918	2.93	—
Education	1	—	—	2	—	—
Others	17,541	13.93	957	5,503	5.54	520
Corporate loans total	106,882	84.86	18,925	82,631	82.95	13,758
Individual loans						
Mortgage loans	9,795	7.78	9,787	11,266	11.31	10,665
Short-term working capital loans	87	0.07	76	93	0.09	87
Credit card advances	213	0.17	—	137	0.14	—
Others	8,973	7.12	8,594	5,493	5.51	5,395
Total individual loans	19,068	15.14	18,457	16,989	17.05	16,147
Gross amount of loans and advances before allowance for impairment	125,950	100.00	37,382	99,620	100.00	29,905
Outside Hong Kong	2,435,800			2,137,307		

The economic sector risk concentration analysis for loans and advances to customers is based on the Group's internal rating system.

The ratio of collateral loan to the total loan of the Group is 45% as at 31 December 2011 (31 December 2010: 44%).

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

6 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(b) Allowance on loans and advances by loan usage

Group and Bank

	As at 31 December 2011		As at 31 December 2010	
	Impaired loans	Allowance for individually assessed impaired loans	Impaired loans	Allowance for individually assessed impaired loans
Corporate	19,194	(9,610)	22,507	(13,079)
Individuals	2,792	(1,640)	2,481	(1,525)
	21,986	(11,250)	24,988	(14,604)
Fair value of collateral	7,647	N/A	9,174	N/A

Collateral held against such loans mainly include cash deposits and mortgages over properties.

The amount of new provisions charged to statement of comprehensive income, and the amount of loans and advances written off during the years are disclosed below:

Group

	Year end 31 December					
	2011			2010		
	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years
Corporate	11,048	(1,526)	190	10,649	(2,255)	238
Individuals	1,431	(430)	105	1,597	(887)	—
	12,479	(1,956)	295	12,246	(3,142)	238

Bank

	Year end 31 December					
	2011			2010		
	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years
Corporate	11,042	(1,526)	190	10,643	(2,255)	238
Individuals	1,421	(430)	105	1,597	(887)	—
	12,463	(1,956)	295	12,240	(3,142)	238

List of Branches

- **BANK OF COMMUNICATIONS CO., LTD. BEIJING MUNICIPAL BRANCH**
  22 Jin Rong Street, Xicheng District, Beijing
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  SWIFT: COMMCNSHBJG
  P.C.: 100033
  FAX: (010) 88660000

- **BANK OF COMMUNICATIONS CO., LTD. TIANJIN MUNICIPAL BRANCH**
  35 Nanjing Road, He Xi District, Tianjin
  TEL: (022) 23403701
  SWIFT: COMMCNSHTJN
  P.C.: 300200
  FAX: (022) 23302004

- **BANK OF COMMUNICATIONS CO., LTD. HEBEI PROVINCIAL BRANCH**
  22 Zi Qiang Road, Shijiazhuang
  TEL: (0311) 87026358
  SWIFT: COMMCNSHSJZ
  P.C.: 050000
  FAX: (0311) 87016376

- **BANK OF COMMUNICATIONS CO., LTD. TANGSHAN BRANCH**
  103 East Xin Hua Avenue, Tangshan
  TEL: (0315) 3720100
  SWIFT: COMMCNSHTSN
  P.C.: 063000
  FAX: (0315) 2849299

- **BANK OF COMMUNICATIONS CO., LTD. QINHUANGDAO BRANCH**
  174 Wen Hua Road, Hai Gang District, Qinhuangdao
  TEL: (0335) 3038260
  SWIFT: COMMCNSHQHD
  P.C.: 066000
  FAX: (0335) 3028046

- **BANK OF COMMUNICATIONS CO., LTD. HANDAN BRANCH**
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  TEL: (0310) 6268323
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  P.C: 056008
  FAX: (0310) 6268303

- **BANK OF COMMUNICATIONS CO., LTD. BAODING BRANCH**
  1868 Dong Feng Zhong Road, Baoding
  TEL: (0312) 3362589
  SWIFT: COMMCNSHSJZ
  P.C: 071051
  FAX: (0312) 3362589

- **BANK OF COMMUNICATIONS CO., LTD. LANGFANG BRANCH**
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  TEL: (0316) 2396058
  SWIFT: COMMCNSHSJZ
  P.C: 065000
  FAX: (0316) 2396069

- **BANK OF COMMUNICATIONS CO., LTD. SHANXI PROVINCIAL BRANCH**
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  TEL: (0351) 4071477
  4072062
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  FAX : (0351) 4071457

- **BANK OF COMMUNICATIONS CO., LTD. JINCHENG BRANCH**
  878 Huang Hua Street, Jincheng
  TEL: (0356) 2026882
  SWIFT: COMMCNSHJCG
  P.C: 048026
  FAX: (0356) 2029840

- **BANK OF COMMUNICATIONS CO., LTD. LINFEN BRANCH**
  34 East Jiefang Road, Linfen
  TEL: (0357) 2120011
  SWIFT: COMMCNSHTYN
  P.C: 041000
  FAX: (0357) 2120029

- **BANK OF COMMUNICATIONS CO., LTD. DATONG BRANCH**
  452 South Xin Jian Road, Datong
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  P.C: 037008
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- **BANK OF COMMUNICATIONS CO., LTD. SHUOZHOU BRANCH**
  1 West Minfu Road, Shuozhou
  TEL: (0349) 6668222
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- **BANK OF COMMUNICATIONS CO., LTD. CHANGZHI BRANCH**
  71 East Tai Hang Street, Changzhi
  TEL: (0355) 3768966
  P.C: 046000
  FAX: (0355) 3768977

- **BANK OF COMMUNICATIONS CO., LTD. INNER MONGOLIA AUTONOMOUS REGION BRANCH**
  110 West Daxue Street, Sai Han District, Huhhot
  TEL: (0471) 3396646
  SWIFT: COMMCNSHHHH
  P.C.: 010020
  FAX: (0471) 3396580

- **BANK OF COMMUNICATIONS CO., LTD. BAOTOU BRANCH**
  24 Gang Tie Avenue, Qing Shan District, Baotou
  TEL: (0472) 5185114
  SWIFT: COMMCNSHBTU
  P.C.: 014030
  FAX: (0472) 5144698

- **BANK OF COMMUNICATIONS CO., LTD. ORDOS BRANCH**
  Wanbo Mansions, Tianjiao Avenue North, Dongsheng District, Ordos
  TEL: (0477) 8377618
  SWIFT: COMMCNSHHHH
  P.C.: 017000
  FAX: (0477) 8378456

- **BANK OF COMMUNICATIONS CO., LTD. XILINGOL BRANCH**
  Western Tuanjie Avenue, Xilingol
  TEL: (0479) 6981032
  SWIFT: COMMCNSHHHH
  P.C.: 026000
  FAX: (0479) 6981032

- **BANK OF COMMUNICATIONS CO., LTD. LIAONING PROVINCIAL BRANCH**
  100 Shi Yi Wei Road, Shen He District, Shenyang
  TEL: (024) 22828080
  SWIFT: COMMCNSHSYG
  P.C.: 110014
  FAX: (024) 22825238

- **BANK OF COMMUNICATIONS CO., LTD. ANSHAN BRANCH**
  38 Er Yi Jiu Road, Tie Dong District, Anshan
  TEL: (0412) 5554790
  SWIFT: COMMCNSHASN
  P.C.: 114001
  FAX: (0412) 5554785

- **BANK OF COMMUNICATIONS CO., LTD. FUSHUN BRANCH**
  2-1 Xi Yi Road, Xin Fu District, Fushun
  TEL: (0413) 52861800
  SWIFT: COMMCNSHFSN
  P.C.: 113008
  FAX: (0413) 52648493

- **BANK OF COMMUNICATIONS CO., LTD. DANDONG BRANCH**
  117 Jin Shan Avenue, Dandong
  TEL: (0415) 2125736
  SWIFT: COMMCNSHDDG
  P.C.: 118000
  FAX: (0415) 2131250

- **BANK OF COMMUNICATIONS CO., LTD. JINZHOU BRANCH**
  42 Yun Fei Street, Er Duan, Jinzhou
  TEL: (0416) 3124258
  SWIFT: COMMCNSHJIN
  P.C.: 121000
  FAX: (0416) 3125832

- **BANK OF COMMUNICATIONS CO., LTD. YINGKOU BRANCH**
  21 West Bo Hai Avenue, Yingkou
  TEL: (0417) 2881234
  SWIFT: COMMCNSHYKU
  P.C.: 115003
  FAX: (0417) 2837764

- BANK OF COMMUNICATIONS CO., LTD. LIAOYANG BRANCH
  114 Xin Yun Avenue, Liaoyang
  TEL: (0419) 2127571
  P.C.: 111000
  FAX: (0419) 2151178

- BANK OF COMMUNICATIONS CO., LTD. DALIAN BRANCH
  6 Zhong Shan Square, Zhong Shan District, Dalian
  TEL: (0411) 82639911
  SWIFT: COMMCNSHDLN
  P.C.: 116001
  FAX: (0411) 82656612

- BANK OF COMMUNICATIONS CO., LTD. JILIN PROVINCIAL BRANCH
  3515 ren min Avenue, Changchun
  TEL: (0431) 85570020
  SWIFT: COMMCNSHCCN
  P.C.: 130021
  FAX: (0431) 85570100

- BANK OF COMMUNICATIONS CO., LTD. JILIN BRANCH
  4 East Song Jiang Road, Jilin
  TEL: (0432) 62102994
  SWIFT: COMMCNSHJLN
  P.C.: 132001
  FAX: (0432) 62102996

- BANK OF COMMUNICATIONS CO., LTD. YANBIAN BRANCH
  172 Guang Ming Street, Yanji
  TEL: (0433) 2910523
  SWIFT: COMMCNSHYBN
  P.C.: 133000
  FAX: (0433) 2520418

- BANK OF COMMUNICATIONS CO., LTD. HEILONGJIANG PROVINCIAL BRANCH
  428 You Yi Road, Dao Li District, Harbin
  TEL: (0451) 83085649
  SWIFT: COMMCNSHHEB
  P.C.: 150010
  FAX: (0451) 82644448

- BANK OF COMMUNICATIONS CO., LTD. QIQIHAR BRANCH
  199 Bu Kui Avenue, Jian Hua District, Qiqihar
  TEL: (0452) 2559780
  SWIFT: COMMCNSHQQH
  P.C.: 161006
  FAX: (0452) 2559777

- BANK OF COMMUNICATIONS CO., LTD. DAQING BRANCH
  2 Re Yuan Street Dong Feng Road, Dong Feng Xin Cun, Daqing
  TEL: (0459) 6688863
  SWIFT: COMMCNSHDQG
  P.C.: 163311
  FAX: (0459) 6688860

- BANK OF COMMUNICATIONS CO., LTD. MUDANJIANG BRANCH
  38 Wusuli Road, Mudanjiang
  TEL: (0453) 6395559
  P.C.: 157020
  FAX: (0453) 6308888

- BANK OF COMMUNICATIONS CO., LTD. SHANGHAI MUNICIPAL BRANCH
  99 South Zhong Shan Road, Shanghai
  TEL: (021) 63111000
  SWIFT: COMMCNSHSHI
  P.C.: 200010
  FAX: (021) 63744799

- BANK OF COMMUNICATIONS CO., LTD. JIANGSU PROVINCIAL BRANCH
  124 North Zhong Shan Road, Nanjing
  TEL: (025) 83278888
  SWIFT: COMMCNSHNJG
  P.C.: 210009
  FAX: (025) 83322050

- BANK OF COMMUNICATIONS CO., LTD. XUZHOU BRANCH
  56 South Zhong Shan Road, Xuzhou
  TEL: (0516) 85608204
  SWIFT: COMMCNSHIUZ
  P.C.: 221006
  FAX: (0516) 85608186

- BANK OF COMMUNICATIONS CO., LTD. LIANYUNGANG BRANCH
  141 Middle Hai Lian Road, Xin Pu District, Lianyungang
  TEL: (0518) 85414580
  SWIFT: COMMCNSHLYG
  P.C.: 222003
  FAX: (0518) 85411387

- BANK OF COMMUNICATIONS CO., LTD. YANGZHOU BRANCH
  477 MIDDLE HANJIANG Road, YANGZHOU
  TEL: (0514) 87344635
  SWIFT: COMMCNSHYAN
  P.C.: 225009
  FAX : (0514) 87348552

- BANK OF COMMUNICATIONS CO., LTD. TAIZHOU BRANCH
  151 North Qing Nian Road, Taizhou
  TEL: (0523) 86242741
  SWIFT: COMMCNSHTAI
  P.C.: 225300
  FAX: (0523) 86210456

- BANK OF COMMUNICATIONS CO., LTD. NANTONG BRANCH
  27 Middle Ren Min Road, Nantong
  TEL: (0513) 85058018
  SWIFT: COMMCNSHNTG
  P.C.: 226001
  FAX: (0513) 85058028

- BANK OF COMMUNICATIONS CO., LTD. ZHENJIANG BRANCH
  229 Jie Fang Road, Zhenjiang
  TEL: (0511) 85021069
  SWIFT: COMMCNSHZJG
  P.C.: 212001
  FAX: (0511) 85021124

- BANK OF COMMUNICATIONS CO., LTD. CHANGZHOU BRANCH
  171 West Yan Ling Road, Changzhou
  TEL: (0519) 86607696
  SWIFT: COMMCNSHCHA
  P.C.: 213003
  FAX : (0519) 86607630

- BANK OF COMMUNICATIONS CO., LTD. YANCHENG BRANCH
  68 East Jian Jun Road, Yancheng
  TEL: (0515) 88258200
  SWIFT: COMMCNSHYCA
  P.C.: 224002
  FAX : (0515) 88299730

- BANK OF COMMUNICATIONS CO., LTD. HUAIAN BRANCH
  126 East Huaihai Road, Huaian
  TEL: (0517) 83788035
  SWIFT: COMMCNSHNJG
  P.C.: 223001
  FAX : (0515) 83788013

- BANK OF COMMUNICATIONS CO., LTD. SUQIAN BRANCH
  139 Xihu Road, Suqian
  TEL: (0527) 81668991
  SWIFT: COMMCNSHNJG
  P.C.: 223800
  FAX : (0527) 81668958

- BANK OF COMMUNICATIONS CO., LTD. SUZHOU BRANCH
  77 North Nan Yuan Road, Suzhou
  TEL: (0512) 65188666
  SWIFT: COMMCNSHSUZ
  P.C.: 215006
  FAX : (0512) 65186051

- BANK OF COMMUNICATIONS CO., LTD. WUXI BRANCH
  198 Middle Ren Min Road, Wuxi
  TEL: (0510) 82705226
  SWIFT: COMMCNSHWXI
  P.C.: 214001
  FAX : (0510) 82701640

- BANK OF COMMUNICATIONS CO., LTD. ZHEJIANG PROVINCIAL BRANCH
  1–39 Ju Yuan Road, Hangzhou
  TEL: (0571) 87216012
  87216232
  TLX: 351123 BOCOM CN
  SWIFT: COMMCNSHHAN
  P.C.: 310020
  FAX: (0571) 87082330

- BANK OF COMMUNICATIONS CO., LTD. WENZHOU BRANCH
JiaoHang Plaza, Chezhandadao, Wenzhou
TEL: (0577) 88068797
SWIFT: COMMCNSHWEN
P.C.: 325000
FAX : (0577) 88068567

- BANK OF COMMUNICATIONS CO., LTD. JIAXING BRANCH
1086 East Zhong Shan Road, Jiaxing
TEL: (0573) 82052112
SWIFT: COMMCNSHJXG
P.C.: 314001
FAX: (0573) 82052110

- BANK OF COMMUNICATIONS CO., LTD. HUZHOU BRANCH
299 Ren Min Road, Huzhou
TEL: (0572) 2032602
SWIFT: COMMCNSHHUZ
P.C.: 313000
FAX: (0572) 2214738

- BANK OF COMMUNICATIONS CO., LTD. SHAOXING BRANCH
283 Middle Ren Min Road, Shaoxing
TEL: (0575) 85115890
SWIFT: COMMCNSHSXG
P.C.: 312000
FAX: (0575) 85137247

- BANK OF COMMUNICATIONS CO., LTD. TAIZHOU BRANCH
298 Donghuan Avenue, Jiaojiang District, Taizhou
TEL: (0576) 88599311
SWIFT: COMMCNSHTAA
P.C.: 318000
FAX: (0576) 88319000

- BANK OF COMMUNICATIONS CO., LTD. JINHUA BRANCH
191 West Shuangxi Road, Jinhua
TEL: (0579) 82139999
SWIFT: COMMCNSHJHA
P.C.: 321017
FAX: (0579) 82139998

- BANK OF COMMUNICATIONS CO., LTD. QUZHOU BRANCH
17 Xinqiao Street, Kecheng District, Quzhou
TEL: (0570) 8519012
P.C.: 324000
FAX: (0570) 8519999

- BANK OF COMMUNICATIONS CO., LTD. ZHOUSHAN BRANCH
177 North Huancheng Road, Zhoushan
TEL: (0580) 2260750
SWIFT: COMMCNSHHAN
P.C.: 316000
FAX: (0580) 2260710

- BANK OF COMMUNICATIONS CO., LTD. LISHUI BRANCH
693 Zhongdong Street, Liandu District, Lishui
TEL: (0578) 2227222
P.C.: 323000
FAX: (0578) 2227222

- BANK OF COMMUNICATIONS CO., LTD. NINGBO BRANCH
55 East Zhong Shan Road, Ningbo
TEL: (0574) 87363954
SWIFT: COMMCNSHNBO
P.C.: 315000
FAX: (0574) 87262365

- BANK OF COMMUNICATIONS CO., LTD. ANHUI PROVINCIAL BRANCH
38 Hua Yuan Street, Hefei
TEL: (0551) 2637049
SWIFT: COMMCNSHHFI
P.C.: 230001
FAX : (0551) 2637010

- BANK OF COMMUNICATIONS CO., LTD. WUHU BRANCH
BoCom Tower, West Beijing Road, Wuhu
TEL: (0553) 3839500
SWIFT: COMMCNSHWHU
P.C.: 241000
FAX: (0553) 3839531

- BANK OF COMMUNICATIONS CO., LTD. BENGBU BRANCH
88 Nan Shan Road, Bengbu
TEL: (0552) 2056075
SWIFT: COMMCNSHBBU
P.C.: 233000
FAX: (0552) 2040376

- BANK OF COMMUNICATIONS CO., LTD. HUAINAN BRANCH
95 Middle Chao Yang Road, Huainan
TEL: (0554) 6645215
SWIFT: COMMCNSHHNA
P.C.: 232001
FAX: (0554) 6651788

- BANK OF COMMUNICATIONS CO., LTD. ANQING BRANCH
99 Long Shan Road, Anqing
TEL: (0556) 5509699
SWIFT: COMMCNSHAQG
P.C.: 246004
FAX: (0556) 5509641

- BANK OF COMMUNICATIONS CO., LTD. MAANSHAN BRANCH
156 South Hu Dong Road, Maansan
TEL: (0555) 2389158
SWIFT: COMMCNSHMAS
P.C.: 243000
FAX: (0555) 2389157

- BANK OF COMMUNICATIONS CO., LTD. TONGLING BRANCH
990 Middle Changjiang Road, Tongling
TEL: (0562) 2186658
SWIFT: COMMCNSHHFI
P.C.: 244000
FAX: (0562) 2186656

- BANK OF COMMUNICATIONS CO., LTD. LIUAN BRANCH
53 South Jiefang Road, Liuan
TEL: (0564) 3233535
SWIFT: COMMCNSHHFI
P.C.: 237005
FAX: (0564) 3233535

- BANK OF COMMUNICATIONS CO., LTD. CHAOHU BRANCH
Lijing International View Community Building, Jian Kang West Road, Chaohu
TEL: (0565) 2390005
SWIFT: COMMCNSHHFI
P.C.: 238000
FAX: (0565) 2390005

- BANK OF COMMUNICATIONS CO., LTD. CHUZHOU BRANCH
81 West Langya Road, Chuzhou
TEL: (0550) 3078005
SWIFT: COMMCNSHHFI
P.C.: 239000
FAX: (0550) 3078005

- BANK OF COMMUNICATIONS CO., LTD. XUANCHENG BRANCH
70 Aofeng Road, Xuancheng
TEL: (0563) 2199777
P.C.: 242000
FAX: (0563) 2199777

- BANK OF COMMUNICATIONS CO., LTD. FUJIAN PROVINCIAL BRANCH
116 Hu Dong Road, Fuzhou
TEL: (0591) 87874839 87874850
SWIFT: COMMCNSHFUZ
P.C.: 350003
FAX : (0591) 87874837

- BANK OF COMMUNICATIONS CO., LTD. QUANZHOU BRANCH
550 Feng Ze Street, Quanzhou
TEL: (0595) 22695559
SWIFT: COMMCNSHQUA
P.C.: 362000
FAX : (0595) 22132988

- BANK OF COMMUNICATIONS CO., LTD. PUTIAN BRANCH
99 Dongyuan East Road, Licheng District, Putian
TEL: (0594) 2606722
SWIFT: COMMCNSHFUZ
P.C.: 351100
FAX : (0594) 2606729

- BANK OF COMMUNICATIONS CO., LTD. XIAMEN BRANCH
9 Hu Bin Zhong Lu, Xiamen
TEL: (0592) 2295012
SWIFT: COMMCNSHIMN
P.C.: 361004
FAX: (0592) 2295013

- BANK OF COMMUNICATIONS CO., LTD. JIANGXI PROVINCIAL BRANCH
199 Huizhan Road, Honggutan, Nanchang
TEL: (0791) 88537722, 88533022
SWIFT: COMMCNSHNCG
P.C.: 330038
FAX: (0791) 86214486

- BANK OF COMMUNICATIONS CO., LTD. JINGDEZHEN BRANCH
1 Chang Nan Avenue, Jingdezhen
TEL: (0798) 8570699
P.C.: 333000
FAX: (0798) 8570660

- BANK OF COMMUNICATIONS CO., LTD. XINYU BRANCH
98 West Bei Hu Road, Xinyu
TEL: (0790) 6441577
SWIFT: COMMCNSHIYU
P.C.: 338000
FAX: (0790) 6441943

- BANK OF COMMUNICATIONS CO., LTD. JIUJIANG BRANCH
139 Xun Yang Road, Jiujiang
TEL: (0792) 8231117
P.C.: 332000
FAX: (0792) 8118426

- BANK OF COMMUNICATIONS CO., LTD. GANZHOU BRANCH
South Gate Cultural Square Dongyuan, Zhanggong District, Ganzhou
TEL: (0797) 8200272
P.C.: 341000
FAX: (0797) 8200355

- BANK OF COMMUNICATIONS CO., LTD. SHANDONG PROVINCIAL BRANCH
98 Gong Qing Tuan Road, Jinan
TEL: (0531) 86106389
SWIFT: COMMCNSHJNN
P.C.: 250012
FAX : (0531) 86106390

- BANK OF COMMUNICATIONS CO., LTD. ZIBO BRANCH
100 Jin Jing Avenue, Zhang Dian District, Zibo
TEL: (0533) 2285517
SWIFT: COMMCNSHZBO
P.C.: 255040
FAX: (0533) 2285526

- BANK OF COMMUNICATIONS CO., LTD. WEIFANG BRANCH
358 East Dong Feng Street, Weifang
TEL: (0536) 8190228
SWIFT: COMMCNSHWFG
P.C.: 261041
FAX: (0536) 8190228

- BANK OF COMMUNICATIONS CO., LTD. YANTAI BRANCH
5 Da Ma Road, Yantai
TEL: (0535) 6677001
SWIFT: COMMCNSHYTI
P.C.: 264001
FAX: (0535) 6677086

- BANK OF COMMUNICATIONS CO., LTD. WEIHAI BRANCH
34 North Hai Bin Road, Weihai
TEL: (0631) 52226210
SWIFT: COMMCNSHWHI
P.C.: 264200
FAX: (0631) 5201144

- BANK OF COMMUNICATIONS CO., LTD. JINING BRANCH
36 Middle Hong Xing Road, Jining
TEL: (0537) 2883615
SWIFT: COMMCNSHJNG
P.C.: 272045
FAX: (0537) 2883615 2883659

- BANK OF COMMUNICATIONS CO., LTD. TAIAN BRANCH
No.55 Dongyue Street, Taian
TEL: (0538) 8220402
SWIFT: COMMCNSHTAN
P.C.: 271000
FAX: (0538) 8220402

- BANK OF COMMUNICATIONS CO., LTD. DONGYING BRANCH
213 East Er Road, Dongying
TEL: (0546) 8831800
SWIFT: COMMCNSHDYG
P.C.: 257000
FAX: (0546) 8831800

- BANK OF COMMUNICATIONS CO., LTD. RIZHAO BRANCH
89 Taian Road, Rizhao
TEL: (0633) 8168727
P.C.: 276826
FAX: (0633) 8168701

- BANK OF COMMUNICATIONS CO., LTD. LINYI BRANCH
10 Jin Que Shan Road, Lan Shan District, Linyi
TEL: (0539) 8960012
P.C.: 276000
FAX: (0539) 8960012

- BANK OF COMMUNICATIONS CO., LTD. BINZHOU BRANCH
567 Bo Hai No.18 Road, Binzhou
TEL: (0543) 3091256
P.C.: 256600
FAX: (0543) 3091256

- BANK OF COMMUNICATIONS CO., LTD. LIAOCHENG BRANCH
49 Zhongtong Era Fontana Gardens, West Xinghua Road, Liaocheng
TEL: (0635) 8761098
P.C.: 252000
FAX: (0635) 8761095

- BANK OF COMMUNICATIONS CO., LTD. QINGDAO BRANCH
6 Zhong Shan Road, Qingdao
TEL: (0532) 82959000
SWIFT: COMMCNSHQDO
P.C.: 266001
FAX: (0532) 82897062

- BANK OF COMMUNICATIONS CO., LTD. HENAN PROVINCIAL BRANCH
11 Zheng Hua Road, Zhengzhou
TEL: (0371) 69395800
SWIFT: COMMCNSHZHE
P.C.: 450008
FAX : (0371) 69395555

- BANK OF COMMUNICATIONS CO., LTD. LUOYANG BRANCH
226 Kai Yuan Avenue, Luoyang
TEL: (0379) 63272668
SWIFT: COMMCNSHLYA
P.C.: 471000
FAX : (0379) 63938888

- BANK OF COMMUNICATIONS CO., LTD. NANYANG BRANCH
25 Zhong Zhou Road, Nanyang
TEL: (0377) 63322979
SWIFT: COMMCNSHZHE
P.C.: 473000
FAX : (0377) 63322900

- BANK OF COMMUNICATIONS CO., LTD. ANYANG BRANCH
1 You Yi Road, Anyang
TEL: (0372) 5016359
SWIFT: COMMCNSHZHE
P.C.: 455000
FAX : (0372) 5016331

- BANK OF COMMUNICATIONS CO., LTD. JIAOZUO BRANCH
1159 Ren Min Road, Jiaozuo
TEL: (0391) 3379379
SWIFT: COMMCNSHZHE
P.C.: 454000
FAX : (0391) 3379371

- BANK OF COMMUNICATIONS CO., LTD. PINGDINGSHAN BRANCH
895 Jian She Road, Pingdingshan
TEL: (0375) 3799862
SWIFT: COMMCNSHZHE
P.C.: 467000
FAX : (0375) 3799868

- BANK OF COMMUNICATIONS CO., LTD. XINXIANG BRANCH
289 Ping Yuan Road, Xinxiang
TEL: (0373) 3799862
SWIFT: COMMCNSHZHE
P.C.: 453003
FAX : (0373) 5869021

- BANK OF COMMUNICATIONS CO., LTD. HUBEI PROVINCIAL BRANCH
A Ruitong Square, 847 Jianshe Avenue, Wuhan
TEL: (027) 85487110 85487101
SWIFT: COMMCNSHWHN
P.C.: 430015
FAX: (027) 85487112

- BANK OF COMMUNICATIONS CO., LTD. HUANGSHI BRANCH
380 Yi Yang Road, Huangshi
TEL: (0714) 6216518
SWIFT: COMMCNSHHSI
P.C.: 435000
FAX: (0714) 6211018

- BANK OF COMMUNICATIONS CO., LTD. YICHANG BRANCH
22 Sheng li Si Road, Yichang
TEL: (0717) 6484982
SWIFT: COMMCNSHYCG
P.C.: 443000
FAX: (0717) 6484831

- BANK OF COMMUNICATIONS CO., LTD. XIANGYANG BRANCH
8 Yanjiang Avenue, Xiangyang
TEL: (0710) 3421858
SWIFT: COMMCNSHWHN
P.C.: 441000
FAX: (0710) 3421853

- BANK OF COMMUNICATIONS CO., LTD. XIANNING BRANCH
18 Qianshan Road, Xianning
TEL: (0715) 8200117, 8200107
SWIFT: COMMCNSHWHN
P.C.: 441000
FAX: (0715) 8200097

- BANK OF COMMUNICATIONS CO., LTD. JINGMEN BRANCH
No.106 Baiyun Road, Jingmen
TEL: (0724) 6071003
SWIFT: COMMCNSHWHN
P.C.: 448000
FAX: (0724) 6071008

- BANK OF COMMUNICATIONS CO., LTD. SHIYAN BRANCH
98 Renmin Road, Shiyan
TEL: (0719) 8616666
SWIFT: COMMCNSHWHN
P.C.: 442000
FAX: (0719) 8616660

- BANK OF COMMUNICATIONS CO., LTD. HUNAN PROVINCIAL BRANCH
37 Middle Shao Shan Road, Changsha
TEL: (0731) 85555522
SWIFT: COMMCNSHCSA
P.C.: 410007
FAX: (0731) 85603737

- BANK OF COMMUNICATIONS CO., LTD. YUEYANG BRANCH
Yin Du Mansion, Nan Hu Avenue, Yueyang
TEL: (0730) 8296189
P.C.: 414000
FAX: (0730) 8296191

- BANK OF COMMUNICATIONS CO., LTD. CHANGDE BRANCH
1508 Renmin Road, Changde
TEL: (0736) 7188006
P.C.: 415000
FAX: (0736) 7188007

- BANK OF COMMUNICATIONS CO., LTD. HENGYANG BRANCH
9 Jiefang Street, Huaxin Development Area, Hengyang
TEL: (0734) 8180958
P.C.: 421001
FAX: (0734) 8180971

- BANK OF COMMUNICATIONS CO., LTD. CHENZHOU BRANCH
17 Renmin West Road, Chenzhou
TEL: (0735) 5889802
P.C.: 423000
FAX: (0735) 5889800

- BANK OF COMMUNICATIONS CO., LTD. XIANGTAN BRANCH
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SWIFT: COMMCNSHCSA
P.C.: 411101
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- BANK OF COMMUNICATIONS CO., LTD. YIYANG BRANCH
1089 Yiyang Road, Yiyang
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P.C.: 413000
FAX: (0737) 3689067

- BANK OF COMMUNICATIONS CO., LTD. GUANGDONG PROVINCIAL BRANCH
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SWIFT: COMMCNSHGUA
P.C.: 510120
FAX: (020) 83270386

- BANK OF COMMUNICATIONS CO., LTD. ZHUHAI BRANCH
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SWIFT: COMMCNSHZHI
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- BANK OF COMMUNICATIONS CO., LTD. SHANTOU BRANCH
83 Jin Sha Road, Shantou
TEL: (0754) 88246988
SWIFT: COMMCNSHSTU
P.C.: 515041
FAX: (0754) 88611962

- BANK OF COMMUNICATIONS CO., LTD. DONGGUAN BRANCH
190 Qi Feng Road, Dongguan
TEL: (0769) 22336998
SWIFT: COMMCNSHDGN
P.C: 523008
FAX: (0769) 22336908

- BANK OF COMMUNICATIONS CO., LTD. ZHONGSHAN BRANCH
30 South Yue Lai Road, Shi Qi, Zhongshan
TEL: (0760) 88812999
SWIFT: COMMCNSHZSN
P.C.: 528400
FAX: (0760) 88808917

- BANK OF COMMUNICATIONS CO., LTD. FOSHAN BRANCH
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TEL: (0757) 83215360
SWIFT: COMMCNSHFSA
P.C.: 528000
FAX: (0757) 83333125

- BANK OF COMMUNICATIONS CO., LTD. JIEYANG BRANCH
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P.C.: 522000
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8 West Yunshan Road, Hui Cheng District, Huizhou
TEL: (0752) 2856111
SWIFT: C0MMCNSHHUI
P.C.: 516003
FAX: (0752) 2856113

- BANK OF COMMUNICATIONS CO., LTD. JIANGMEN BRANCH
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SWIFT: COMMCNSHJMN
P.C.: 529000
FAX: (0750) 3935199

- BANK OF COMMUNICATIONS CO., LTD. ZHANJIANG BRANCH
No.40 Middle Remin Avenue, Zhanjiang
TEL: (0759) -2826008
P.C.: 529000

- BANK OF COMMUNICATIONS CO., LTD. QINGYUAN BRANCH
No.65, Guangqing Avenue, Qingcheng District, Qingyuan
TEL: (0763) -3695559
P.C.: 511515

- BANK OF COMMUNICATIONS CO., LTD. SHENZHEN BRANCH
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SWIFT: COMMCNSHSZN
P.C.: 518031
FAX: (0755) 83680033

- BANK OF COMMUNICATIONS CO., LTD. GUANGXI ZHUANG AUTONOMOUS REGION BRANCH
228 East Ren Min Road, Nanning
TEL: (0771) 2835260
SWIFT: COMMCNSHNNG
P.C.: 530012
FAX: (0771) 2835475

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32 Yue Jin Road, Liuzhou
TEL: (0772) 2860711
SWIFT: COMMCNSHLIU
P.C.: 545001
FAX: (0772) 2866680

- BANK OF COMMUNICATIONS CO., LTD. GUILIN BRANCH
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SWIFT: COMMCNSHGLN
P.C.: 541002
FAX: (0773) 2826506

- BANK OF COMMUNICATIONS CO., LTD. WUZHOU BRANCH
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SWIFT: COMMCNSHWUZ
P.C.: 543000
FAX: (0774) 2827711

- **BANK OF COMMUNICATIONS CO., LTD. BEIHAI BRANCH**
  Tower, 25 Yun Nan Road, Beihai
  TEL: (0779) 3088836
  SWIFT: COMMCNSHBHI
  P.C.: 536000
  FAX: (0779) 3038440

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  P.C.: 537100
  FAX: (0775) 4369212

- **BANK OF COMMUNICATIONS CO., LTD. HAINAN PROVINCIAL BRANCH**
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  TEL: (0898) 68532666
  SWIFT: COMMCNSHHNN
  P.C.: 570125
  FAX: (0898) 68532333

- **BANK OF COMMUNICATIONS CO., LTD. SANYA BRANCH**
  Chuang Ye Building D Block, No.241 Xin Feng Street, Sanya
  TEL: (0898) 88260222
  P.C.: 572000
  FAX: (0898) 88260246

- **BANK OF COMMUNICATIONS CO., LTD. CHONGQING MUNICIPAL BRANCH**
  158 Zhongshan San Road, Yu Zhong District, Chongqing
  TEL: (023) 63632020
  SWIFT: COMMCNSHCQG
  P.C.: 400015
  FAX: (023) 63851916

- **BANK OF COMMUNICATIONS CO., LTD. SICHUAN PROVINCIAL BRANCH**
  211 Xi Yu Long Street, Chengdu
  TEL: (028) 86525666
  SWIFT: COMMCNSHCDU
  P.C.: 610015
  FAX : (028) 86525555

- **BANK OF COMMUNICATIONS CO., LTD. ZIGONG BRANCH**
  108 Wu Xing Street, Zi Liu Jing District, Zigong
  TEL: (0813) 2105667
  P.C.: 643000
  FAX : (0813) 2105667

- **BANK OF COMMUNICATIONS CO., LTD. PANZHIHUA BRANCH**
  129 Bing Cao Gang Avenue, Panzhihua
  TEL: (0812) 3336955
  P.C.: 617000
  FAX : (0812) 3334197

- **BANK OF COMMUNICATIONS CO., LTD. DEYANG BRANCH**
  10 East Zhu Jiang Road, Deyang
  TEL: (0838) 2907961
  P.C.: 618000
  FAX : (0838) 2907961

- **BANK OF COMMUNICATIONS CO., LTD. LUZHOU BRANCH**
  NO.16 Section 1 Jiucheng Avenue, Jiangyang District, Luzhou
  TEL: (0830) 2360571
  SWIFT: COMMCNSHCDU
  P.C.: 646000
  FAX : (0830) 2360518

- **BANK OF COMMUNICATIONS CO., LTD. NANCHONG BRANCH**
  NO.168 Jinquan Road, Nanchong
  TEL: (0817) 2289033
  P.C.: 637000
  FAX : (0817) 2289099

- **BANK OF COMMUNICATIONS CO., LTD. GUIZHOU PROVINCIAL BRANCH**
  4 Sheng Fu Road, Guiyang
  TEL: (0851) 5861460
  SWIFT: COMMCNSHGYG
  P.C.: 550001
  FAX: (0851) 5861460

- **BANK OF COMMUNICATIONS CO., LTD. ZUNYI BRANCH**
  108 Zhong Hua Road, Hong Hua Gang District Zunyi
  TEL: (0852) 8824421
  SWIFT: COMMCNSHZYI
  P.C.: 563000
  FAX: (0852) 8825356

- **BANK OF COMMUNICATIONS CO., LTD. YUNNAN PROVINCIAL BRANCH**
  67 Hu Guo Road, Kunming
  TEL: (0871) 3107673
  SWIFT: COMMCNSHKMG
  P.C.: 650021
  FAX : (0871) 3107584

- **BANK OF COMMUNICATIONS CO., LTD. QUJING BRANCH**
  South Qilin Road and Wenchang Street Crossing, Qujing
  TEL: (0874) 8988588 8988511
  SWIFT: COMMCNSHQJG
  P.C.: 655000
  FAX : (0874) 8988555

- **BANK OF COMMUNICATIONS CO., LTD. YUXI BRANCH**
  61 Yu Xing Road, Hong Ta District, Yuxi
  TEL: (0877) 20556555
  SWIFT: COMMCNSHYXI
  P.C.: 653100
  FAX : (0877) 2056555

- **BANK OF COMMUNICATIONS CO., LTD. CHUXIONG BRANCH**
  102 Beipu Road, Chuxiong
  TEL: (0878) 3121712
  SWIFT: COMMCNSHCXG
  P.C.: 675000
  FAX : (0878) 3121712

- **BANK OF COMMUNICATIONS CO., LTD. DALI BRANCH**
  281 YunHe Road, Economic Development Zone, Dali
  TEL: (0872) 2318986
  P.C.: 671000
  FAX : (0872) 2143666

- **BANK OF COMMUNICATIONS CO., LTD. SHAANXI PROVINCIAL BRANCH**
  88 Xi Xin Street, Xian
  TEL: (029) 87653017
  SWIFT: COMMCNSHIAN
  P.C.: 710004
  FAX: (029) 87653019

- **BANK OF COMMUNICATIONS CO., LTD. XIANYANG BRANCH**
  1 East Anding Road, Xianyang
  TEL: (029) 33177301
  SWIFT: COMMCNSHIAN
  P.C.: 712000
  FAX: (029) 33177301

- **BANK OF COMMUNICATIONS CO., LTD. YULIN BRANCH**
  132 Fushi Road, Yulin
  TEL: (0912) 3510013
  P.C.: 719000
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- **BANK OF COMMUNICATIONS CO., LTD. GANSU PROVINCIAL BRANCH**
  129 Qing Yang Road, Lanzhou
  TEL: (0931) 8105123
  SWIFT: COMMCNSHLAN
  P.C.: 730030
  FAX: (0931) 8105124

- **BANK OF COMMUNICATIONS CO., LTD. JIUQUAN BRANCH**
  No.28 Suzhou Road, Suzhou District, Jiuquan
  TEL: (0937) 2816006
  P.C.: 735000
  FAX: (0937) 2816006

- **BANK OF COMMUNICATIONS CO., LTD. NINGXIA HUI AUTONOMOUS REGION BRANCH**
  296 North Minzu road, Yingchuan
  TEL: (0951) 6916803
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  P.C.: 750001
  FAX: (0951) 5014268

- **BANK OF COMMUNICATIONS CO., LTD. XINJIANG UYGUR AUTONOMOUS REGION BRANCH**
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  SWIFT: COMMCNSHWLM
  P.C.: 830002
  FAX : (0991) 2840184

- **BANK OF COMMUNICATIONS CO., LTD. YILI BRANCH**
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  TEL: (0999) 8215107
  SWIFT: COMMCNSHWLM
  P.C.: 835000
  FAX: (0999) 8215104

- **BANK OF COMMUNICATIONS CO., LTD. QINGHAI PROVINCIAL BRANCH**
  29 West Wusi Road, Xinning
  TEL: (0971) 63609993
  SWIFT: COMMCNSHQHI
  P.C.: 810008
  FAX: (0971) 6360999

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Central, Hong Kong.
Tel: 00852-28419611
Fax: 00852-28106993

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31st & 32nd Floor
New York,
NY 10006-3008, U. S. A.
Postal Code: 10006-3008
Tel: 001-212-376-8030
Fax: 001-212-376-8089

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Address:
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Mori BLDG. 9F 3-5-1,
Toranomon Minato-ku
Tokyo, Japan
Postal Code: 105-0001
Tel: 0081-3-3432-1818
Fax: 0081-3-3432-1824

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Address:
50 Raffles Place
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Land Tower, Singapore
Postal Code: 048623
Tel: 0065-65320335
Fax: 0065-65320339

Seoul Branch

Address:
6th Floor, Samsung Fire &
Marine Bldg.
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Jung-Gu, Seoul
100-782, Korea
Postal Code: 100782
Tel: 00822-2022-6888
Fax: 00822-2022-6899

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Address:
Neue Mainzer
Str. 75, 60311
Frankfurt am
Main Germany
Postal Code: 60311
Tel: 0049-69-6605890
Fax: 0049-69-66058938

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Address:
16F, AIA Tower,
No. 251A–301,
Avenida Commercial
De Macau
Tel: 00853-28286611
Fax: 00853-28286686

Ho Chi Minh City Branch

Address:
17th floor, Vincom Center,
No. 72 Le Thanh Ton Street,
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Ho Chi Minh City, Vietnam
Tel: 0084-8-39369988
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4th Floor,
1 Bartholomew Lane,
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U. K
Postal Code: EC2N 2AX
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Address:
Level 27,
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Sydney NSW 2000
Australia
Postal Code: NSW2000
Tel: 00612-8029 8888
Fax: 00612-80298800/
80298802

San Francisco Branch

Address:
575 Market Street,
38th Floor,
San Francisco,
CA 94105, U. S. A.
Postal Code: CA 94105
Tel: (001) 415-5380888
Fax: (001) 415-5380080

Taipei Representative Office

Address:
台灣台北市信義路
5段7號29樓
Postal Code: 110
Tel: 00886 2 81011009
Fax: 00886 2 81011169

Definitions

The following terms will have the following meanings in the Annual Report unless otherwise stated:

"Anji Bocom Rural Bank"	Refers to Zhejiang Anji Bocom Rural Bank Co., Ltd.
"Articles of Association"	Refers to the Articles of Association of the Bank of Communications Co.,Ltd. as approved by CBRC
"Bank"	Refers to the Bank of Communications Co., Ltd.
"Basis point"	Refers to one in ten thousand
"Bocom International"	Refers to BOCOM International Holdings Company Limited
"Bocom International Trust"	Refers to Bank of Communications International Trust Co., Ltd.
"Bocom Insurance"	Refers to China BOCOM Insurance Co., Ltd.
"Bocom Leasing"	Refers to Bank of Communications Finance Leasing CO., Ltd.
"Bocom Schroder"	Refers to Bank of Communications Schroder Fund Management Co., Ltd.
"Bocom UK Ltd."	Refers to Bank of Communications (UK) Co., Ltd.
"BoCommLife Insurance"	Refers to BoCommLife Insurance Company Limited
"CBRC"	Refers to China Banking Regulatory Commission
"Central and Southern China"	Includes Henan Province, Hunan Province, Hubei Province, Guangdong Province, Hainan Province and Guangxi Autonomous Region
"Commercial Bank Law"	Refers to the Law of the People's Republic of China on Commercial Banks
"Company Law"	Refers to the Company Law of the People's Republic of China
"Changshu Rural Bank"	Refers to Jiangsu Changshu Rural Commercial Bank Co., Ltd.
"CSRC"	Refers to China Securities Regulatory Commission
"Dayi Bocom Rural Bank"	Refers to Dayi Bocom Rural Bank Co., Ltd.
"Eastern China"	Includes Shanghai, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province
"Group"	Refers to the Bank and its subsidiaries
"Head Office"	Refers to the Group's Head Office in Shanghai
"Hong Kong Listing Rules"	Refers to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"Hong Kong Stock Exchange"	Refers to The Stock Exchange of Hong Kong Limited
"HSBC"	Refers to The Hong Kong and Shanghai Banking Corporation Limited
"Impaired loans"	Refers to loans which are impaired due to objective evidence that the counterparty will be unable to pay amounts in full when due
"Interest bearing assets"	Refers to the customer loans, investment securities, receivables and due from other banks and financial institutions
"Interest bearing liabilities"	Refers to customer deposits, due to other banks and financial institutions and other borrowings
"Ministry of Finance"	Refers to the Ministry of Finance of the People's Republic of China
"North Eastern China"	Includes Liaoning Province, Jilin Province and Heilongjiang Province
"Northern China"	Includes Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region
"Overseas"	Includes Hong Kong Branch, New York Branch, Singapore Branch, Seoul Branch, Tokyo Branch, Frankfurt Branch, Macau Branch, Ho Chi Minh City Branch, San Francisco Branch, Sydney Branch and Bank of Communications (UK) Co., Ltd. and other overseas subsidiaries
"PBOC"	Refers to The People's Bank of China
"RMB"	Refers to Renminbi, the lawful currency of the PRC
"Shanghai Stock Exchange"	Refers to the Shanghai Stock Exchange
"SSF"	Refers to the National Council for Social Security Fund
"State Administration of Taxation"	Refers to the State Administration of Taxation of the People's Republic of China
"Western China"	Includes Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region, Xinjiang Autonomous Region and Tibet Autonomous Region

交通銀行
BANK OF COMMUNICATIONS

YOUR WEALTH MANAGEMENT BANK

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