中国银行
BANK OF CHINA

1912-2012

Bank of China Limited

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

Stock Code: 3988

A Century of History
A Global Service

2011 Annual Report

Contents

Introduction

Bank of China was formally established in February 1912 following the approval of Dr. Sun Yat-sen. From 1912 to 1949, the Bank served consecutively as the country's central bank, international exchange bank and specialist international trade bank. Fulfilling its commitment to serving the public and developing China's financial services sector, the Bank rose to a leading position in the Chinese financial industry and developed a good standing in the international financial community, despite many hardships and setbacks. After the founding of the People's Republic of China, with a long history as the state-designated specialist foreign exchange and trade bank, the Bank became responsible for managing China's foreign exchange operations and provided tremendous support to nation's foreign trade development and economic infrastructure through its offering of international trade settlement, overseas fund transfer and other non-trade foreign exchange services. During the China's reform and opening up period, the Bank seized the historic opportunity presented by the government's strategy of capitalising on foreign funds, advanced knowledge and equipments to boost economic development, and accomplished as the country's key foreign financing channel by building up its competitive advantages in foreign exchange business. In 1994, the Bank transformed from a specialist foreign exchange bank into a state-owned commercial bank, and then incorporated as Bank of China Limited in August 2004. The Bank was listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange ("SSE") in June and July 2006 respectively, becoming the first Chinese commercial bank to launch an A-Share and H-Share initial public offering and achieve a dual listing in both markets. In 2011, the Bank, as the only bank from China as well as emerging economies, was enrolled as a Global Systemically Important Financial Institution.

As China's most international and diversified bank, Bank of China provides a comprehensive range of financial services to customers across the Chinese mainland, Hong Kong, Macau, Taiwan and 32 overseas countries. The Bank's core business is commercial banking, including corporate banking, personal banking and financial markets services. BOCI, a wholly owned subsidiary, is the Bank's investment banking arm. BOCG Insurance and BOC Insurance run the Bank's insurance business. BOCG Investment, a wholly owned subsidiary, undertakes the Bank's direct investment and investment management business. BOCIM, a controlled subsidiary, operates the Bank's fund management business. BOC Aviation is in charge of the Bank's aircraft leasing business.

Bank of China has upheld the spirit of "pursuing excellence" throughout its hundred-year history. With adoration to the nation in its soul, integrity as its backbone, reform and innovation as its path forward and people foremost as its guiding principle, Bank of China has built up an excellent brand image which is widely recognised within the industry and by its customers. With historic opportunities now arising, Bank of China will actively promote its innovative, transformative and cross-border development, and remain focused on its strategic goal of becoming a premier multinational banking group.

A Century of History

The Bank was established in Shanghai

1912

1912—1928

The Bank served as the country's central bank

The Bank became a government-chartered international exchange bank

1928—1942

1942—1949

The Bank became a specialist international trade bank

The Bank served as the state-designated specialist foreign exchange and trade bank

1949—1994

1994

The Bank transformed into a state-owned commercial bank

1994、1995

The Bank became the note-issuing bank for Hong Kong and Macau, respectively

2001

The Bank consolidated 13 institutions in Hong Kong to form the BOC Hong Kong (Holdings) Limited, which went public on the Hong Kong Stock Exchange in July 2002

2004

The Bank incorporated as Bank of China Limited

2006

The Bank was listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, the first Chinese commercial bank to launch an A-share and H-share initial public offering and achieve a dual listing in both markets

2010

The Bank had a market cap of USD139.8 billion, ranking 6th among listed banks worldwide

2011

The Bank, as the only bank from China as well as emerging economies, was enrolled as a Global Systemically Important Financial Institution

100th Anniversary Celebration Conference of Bank of China

The century-old Bank of China is composing a new chapter of symphony after a century's persistently pursuit of excellence. The 100th anniversary celebration conference of the Bank was solemnly held at the Great Hall of the People in Beijing on 3 February, 2012. Member of the Standing Committee of the Political Bureau of the Communist Party of China Central Committee and Premier WEN Jiabao wrote a letter of congratulations. Member of the Standing Committee of the Political Bureau of the Communist Party of China Central Committee and Vice Premier LI Keqiang attended the ceremony and delivered a keynote speech. Member of the Political Bureau of the Communist Party of China Central Committee and Vice Premier WANG Qishan, and Vice Chairman of the Chinese People's Political Consultative Conference Edmund Ho Hau-wah also attended the ceremony.

In his letter, Premier WEN Jiabao expressed sincere congratulations and greetings to all the staff of the Bank on behalf of the Communist Party of China Central Committee and the State Council. He pointed out that the Bank acted as an important window for the opening up of the country and a principal channel of overseas financing for the country over years. It continued to serve the general public and uphold integrity, and made great contribution to support China's economic construction and promoting the development of foreign trade and economic cooperation. In the past decade, the Bank has smoothly completed its shareholding reform and IPO, significantly strengthened its competitiveness, and substantially improved its international image and influence. Through transforming economic development pattern and adjusting economic structure, China's economic and social development has raised new demands and higher requirements for the financial industry. The Bank should continue to faithfully carry out the scientific approach of development, focus on transforming development mode, firmly seize development opportunities, further enhance corporate governance, strive to boost its operation and management, and continuously improve financial services, to achieve further advancement and make greater contribution to the steady and rapid development of the Chinese economy and society.

In his speech, Vice Premier LI Keqiang said, the struggle, growth and thriving of the Bank and other national businesses in the past century set a good example of how businesses thrive in opening-up and survive through reform. Opening-up can broaden the horizon and expand the room of development. We must stick to the opening-up policy in expanding domestic demand to maintain rapid economic growth. There is no end to reform and innovation. We must accelerate the transformation of growth pattern and promote innovation and restructuring through reform. The country's destiny is intertwined with the future of businesses, which in turn are the very fundamentals of achieving economic development and modernization. The growth of the real economy and the sustainable development of the financial sector are inter-dependent. Financial institutions and other enterprises must strengthen their market competitiveness and risk mitigation capabilities to support agriculture and small and micro businesses, with a dedication to serving the reform and opening-up, promoting transformative development and improving people's well-being.

Vice Premier LI Keqiang said that a centennial brand does not come overnight and nothing speaks louder than a centennial brand about the prosperity of a nation. We must pay more attention to quality and service, cultivate more centennial businesses and brands to participate in international cooperation and competition, and make new achievements in building a well-off society and realizing the revival of the Chinese nation.

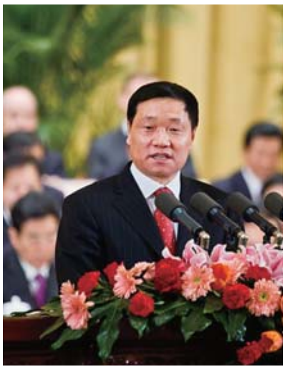
Vice Premier LI Keqiang delivered a keynote speech

Deputy secretarygeneral of the State Council YOU Quan read out the letter of congratulations from Premier WEN Jiabao

Vice Premier LI Keqiang, Vice Premier WANG Qishan, and Vice Chairman of CPPCC Edmund Ho Hau-wah met with the staff representatives of the Bank

The Bank's centennial celebration conference was solemnly held

Vice Premier WANG Qishan met with foreign representatives of the Global Systemically Important Banks Forum held by the Bank in Beijing on 3 February, 2012



The Bank's Chairman XIAO Gang gave an address

The Bank's President LI Lihui hosted the conference

Development Strategy

Core Values

Pursuing excellence

Integrity Performance Responsibility Innovation Harmony

Strategic Goal

To be a premier multinational banking group, delivering growth and excellence

Strategic Positioning

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

2012 Work Plan

To carry forward its fine century-old traditions, the Bank will continue to follow its strategic development plan, implement the principles of "streamlining structure, scaling up, managing risks and sharpening competitiveness", and promote innovative, transformative and cross-border development to pursue balanced and sustainable growth. Through establishing a customer-centric, market-oriented and technology-led global service system, the Bank will refine its service offering and performance to meet the needs of the real economy, and move rapidly towards its goal of becoming a premier multinational banking group.

Honours and Awards

Euromoney
Best Bank in China 2011
Best Private Banking in China 2011
Best Syndicated Loan Arranger 2011

The Banker
Equities Deal of the Year in Asia Pacific

Financial Times
Best Product Innovation Award in China's Banking Industry

Global Finance
The World's Best Foreign Exchange Providers (China)

Trade Finance
Best Chinese Trade Finance Bank

The Asset
Triple A Best Trade Finance Bank in China
Best Trade Finance Deal

EuroFinance
Best Liquidity Management Bank Partner

Asiamoney
Best Domestic Debt House in China

The Asian Banker
The Best Trade Finance Bank in China
The Best Branch Banking in Asia Pacific
The Best RMB Clearing Bank in Asia Pacific

FORTUNE
Ranked 132th in Fortune 500 (2011)

WPP Group
The BrandZ Top 50 Most Valuable Chinese Brands

Stanford University and IDG
Global Competitiveness Brand "China Top 10"

ChinaHR.com
Top 10 Best Employers in China

21st Century Business Herald
Most Influential Bank in Asia
Chinese-funded Private Banking of the Year
Best Corporate Citizen

China Business News
Wealth Management Brand of the Year (Banking Sector)
CBN Corporate Social Responsibility Contribution Award

Money Weekly
Most Respected Chinese-funded Bank in China
Best Private Banking
Best Mobile Banking

Nanfang Media Group
Distinguished Contribution Award

China Banking Association
Green Finance of the Year
Social Responsibility Innovation of the Year

Directors & Boards
Best Board of Directors Award

CCTV
Finance 50 Index — Top Ten Corporate Governance

Shanghai Stock Exchange
Information Disclosure Award 2011

League of American Communications Professionals
2010 Annual Report — Gold Award

Financial Highlights

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

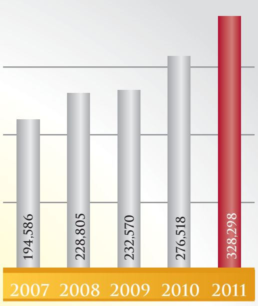
Unit: RMB million

	Note	2011	2010	2009	2008	2007
Results of operations						
Net interest income		**228,064**	193,962	158,881	162,936	152,745
Non-interest income	1	**100,234**	82,556	73,689	65,869	41,841
Operating income	2	**328,298**	276,518	232,570	228,805	194,586
Operating expenses		**(140,815)**	(122,409)	(107,307)	(97,749)	(85,631)
Impairment losses on assets		**(19,355)**	(12,993)	(14,987)	(45,031)	(20,263)
Operating profit		**168,128**	141,116	110,276	86,025	88,692
Profit before income tax		**168,644**	142,145	111,097	86,751	89,955
Profit for the year		**130,319**	109,691	85,349	65,573	62,017
Profit attributable to equity holders of the Bank		**124,182**	104,418	80,819	64,039	56,229
Total dividend		**N.A.**	40,756	35,537	32,999	25,384
Financial position						
Total assets		**11,830,066**	10,459,865	8,751,943	6,955,694	5,995,553
Loans, net		**6,203,138**	5,537,765	4,797,408	3,189,652	2,754,493
Investment securities	3	**2,000,759**	2,055,324	1,816,679	1,646,208	1,712,927
Total liabilities		**11,074,172**	9,783,715	8,206,549	6,461,793	5,540,560
Due to customers	4	**8,817,961**	7,733,537	6,716,823	5,226,204	4,556,708
Capital and reserves attributable to equity holders of the Bank		**723,162**	644,165	514,992	468,272	424,766
Share capital		**279,147**	279,147	253,839	253,839	253,839
Per share						
Basic earnings per share for profit attributable to equity holders of the Bank (RMB)		**0.44**	0.39	0.31	0.24	0.21
Dividend per share (before tax, RMB)	5	**0.155**	0.146	0.14	0.13	0.10
Net assets per share (RMB)	6	**2.59**	2.31	2.03	1.84	1.67
Key financial ratios						
Return on average total assets (%)	7	**1.17**	1.14	1.09	1.01	1.09
Return on average equity (%)	8	**18.27**	18.87	16.48	14.37	13.85
Net interest margin (%)	9	**2.12**	2.07	2.04	2.63	2.76
Non-interest income to operating income (%)	10	**30.53**	29.86	31.68	28.79	21.50
Cost to income (calculated under domestic regulations, %)	11	**33.07**	34.16	34.92	31.52	33.70
Loan to deposit ratio (%)	12	**68.77**	71.72	72.04	63.99	64.22
Capital adequacy ratios						
Core capital adequacy ratio (%)		**10.07**	10.09	9.07	10.81	10.67
Capital adequacy ratio (%)		**12.97**	12.58	11.14	13.43	13.34
Asset quality						
Identified impaired loans to total loans (%)	13	**1.00**	1.13	1.55	2.76	3.17
Non-performing loans to total loans (%)	14	**1.00**	1.10	1.52	2.65	3.12
Allowance for loan impairment losses to non-performing loans (%)	15	**220.75**	196.67	151.17	121.72	108.18
Credit cost (%)	16	**0.32**	0.29	0.38	0.55	0.31
Human resources & Organisations						
Number of employees of the Group	17	**289,951**	272,558	256,553	243,303	233,336
Including: Number of employees in the Chinese mainland		**268,830**	250,976	236,056	222,829	215,334
Number of branches and outlets of the Group	18	**10,951**	10,767	10,659	10,554	10,634
Including: Number of branches and outlets in the Chinese mainland		**10,365**	10,074	9,988	9,983	10,145
Exchange rate						
USD/RMB year-end middle rate		**6.3009**	6.6227	6.8282	6.8346	7.3046
EUR/RMB year-end middle rate		**8.1625**	8.8065	9.7971	9.6590	10.6669
HKD/RMB year-end middle rate		**0.8107**	0.8509	0.8805	0.8819	0.9364

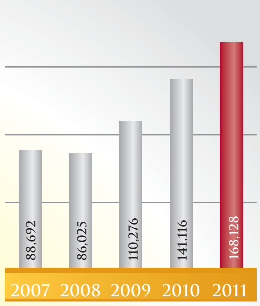
Please refer to "Definitions — Notes to Financial Highlights" in this report for notes.

Financial Highlights

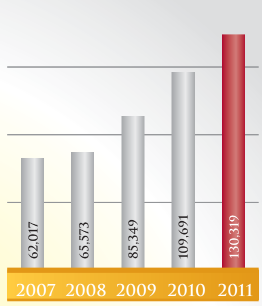
Operating Income
RMB Million



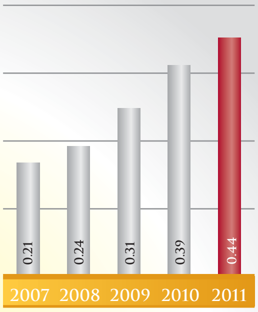
Operating profit
RMB Million



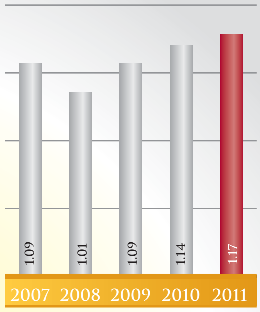
Profit for the year
RMB Million



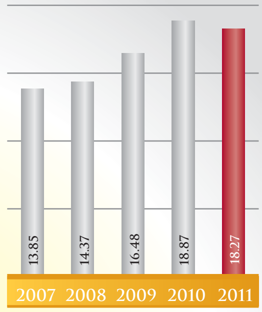
EPS (basic)
RMB



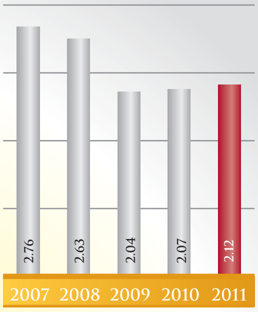
ROA
%



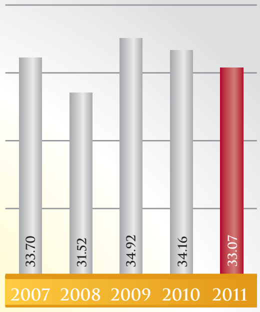
ROE
%



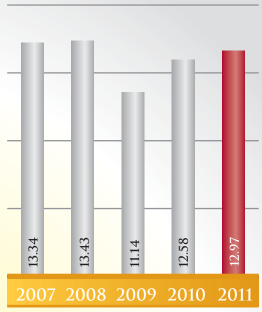
Net interest margin
%



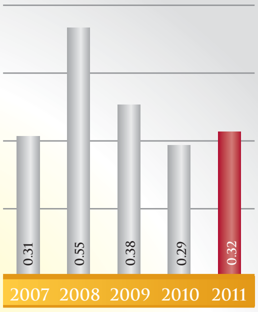
Cost to income (calculated under domestic regulations)
%



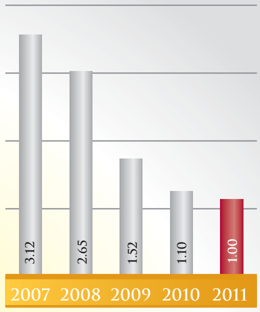
Capital adequacy ratio
%



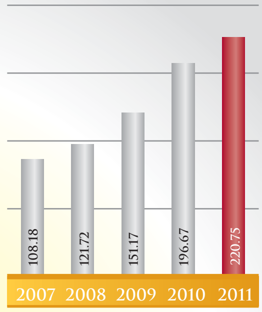
Credit cost
%



Non-performing loans to total loans
%



Allowance for loan impairment losses to non-performing loans
%



Corporate Information

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

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

Legal Representative and Chairman
XIAO Gang

Vice Chairman and President
LI Lihui

Secretary to the Board of Directors
ZHANG Bingxun

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

Company Secretary
YEUNG Cheung Ying

Listing Affairs Representative
LUO Nan

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

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

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

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

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

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

Website designated by Hong Kong Exchanges and Clearing Limited to publish the Annual Report
http://www.hkexnews.hk

Places where Annual Report can be obtained
Major business locations

Domestic Legal Advisor
King & Wood Mallesons Lawyers

Corporate Information

Hong Kong Legal Advisor
Allen & Overy

Auditors

Domestic auditor

PricewaterhouseCoopers Zhong Tian
CPAs Limited Company
Address:
11th Floor, PricewaterhouseCoopers Center,
2 Corporate Avenue, No.202 Hu Bin Road,
Huangpu District, Shanghai, China

International auditor

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

Date of First Registration
31 October 1983

Modified Registration Date
26 August 2004 (joint stock restructuring)
26 May 2011 (increase in registered capital)

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

Corporate Business Licence Serial Number
100000000001349

Financial Institution Licence Serial Number
B0003H111000001

Tax Registration Certificate Number
Jingshuizhengzi 110102100001342

Organisation Code
10000134-2

Securities Information

A Share

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

H Share

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

A-Share Convertible Bonds

Shanghai Stock Exchange
Securities Name: 中行轉債
Securities Code: 113001

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

Message from the Chairman

"The Bank responded to these pressures by strictly adhering to a scientific outlook on development and fully implementing the state's macroeconomic policies, regulatory requirements and our own strategic development plan. The Bank brought to life our principles of 'streamlining structure, scaling up, managing risks and sharpening competitiveness' and pushed forward innovative, transformative and cross-border development. Thus the Bank recorded outstanding operating results."

I am delighted to report our 2011 business results to our shareholders and the public. Last year, the Bank achieved an after-tax profit of RMB130.319 billion, representing a year-on-year increase of 18.81%; Profit attributable to equity holders was RMB124.182 billion, up 18.93%; Earnings per share increased by RMB0.05 to RMB0.44 and return on average total assets rose by 0.03 percentage points to 1.17%. Our asset quality remained stable, with the non-performing loan ratio stood at a low level. The Board of Directors has proposed a dividend of RMB0.155 per share for 2011, pending for approval by the Annual General Meeting held in May 2012.

In 2011, the banking industry was confronted with a complex and severe business environment. The path to economic recovery was rocky, with volatility surged and uncertainty abounded. The United States experienced sluggish economic growth while Europe suffered an increasingly perilous sovereign debt crisis. Emerging economies faced the twin pressures of tempered growth and rising inflation. International trade lost steam and international financial markets fluctuated drastically. China continued to transform its development model and the national economy maintained its smooth and rapid growth. However, there are still some obvious problems arising from unbalanced, uncoordinated and unsustainable economic development, even if China's long-term prospects are promising. The Bank responded to these pressures by strictly adhering to a scientific outlook on development and fully implementing the state's macroeconomic policies, regulatory requirements and our own strategic development plan. The Bank brought to life our principles of "streamlining structure, scaling up, managing risks and sharpening competitiveness" and pushed forward innovative, transformative and cross-border development. Thus the Bank recorded outstanding operating results.

The execution of the Bank's strategy over the past year has yielded remarkable achievements. Assets and liabilities increased steadily, key financial indicators improved and capital strength was enhanced. The Bank sharpened its competitive edge by reforming its diversified operations, quickening the pace of overseas business development and strengthening its global service capacity. There were significant breakthroughs in infrastructure development, including the successful completion of our IT Blueprint project. A quantum leap for our IT capabilities, this project has fundamentally transformed the Bank's service model from an account-centric to a customer-centric approach. The upgrading of our outlets and the significant functional enhancement of our e-banking channels brought in more and more customers. Our internal management also reached new heights. Remarkable progress was made in asset and liability management, comprehensive risk management, human resources management and in the cultivation of a strong and meaningful corporate culture. Buoyed by these achievements, the Bank's brand value continued to

Message from the Chairman

appreciate. The Bank was listed in the Fortune 500 for the 23rd consecutive year, was named "Best Bank in China" by authoritative international media, and became the only bank from China, as well as emerging markets, being enrolled as a Global Systemically Important Financial Institution ("G-SIFI").

In 2011, the Board of Directors further improved its structure and enhanced its strength through re-election. Mr. ZHOU Zaiqun resigned as Executive Director of the Bank due to his transfer to Hong Kong. Ms. HONG Zhihua and HUANG Haibo retired at the expiry of their terms of office. Mr. Jackson P. TAI was elected as Independent Non-executive Director. Mr. ZHANG Xiangdong and Mr. ZHANG Qi were newly elected as Non-executive Directors. Mr. WANG Yongli commenced to serve as an Executive Director of the Bank on 15 February 2012. On behalf of the Board of Directors, I would like to take this opportunity to express our sincere appreciation to Mr. ZHOU Zaiqun, Ms. HONG Zhihua and Ms. HUANG Haibo for their contributions to the Bank, and express our warm welcome to Mr. Jackson P. TAI, Mr. ZHANG Xiangdong, Mr. ZHANG Qi and Mr. WANG Yongli for joining us.

2012 is a critical year for the implementation of China's 12th Five-Year Plan. It is also the final year of the first phase of our strategic development plan, and the first year of our second century of development. Standing at the new starting point, we are determined to carry forward the Bank's fine century-old traditions, seize new development opportunities and unswervingly implement our development strategy. We will build a new smart-bank model driven by technological innovation, constantly improve our services to meet the needs of the real economy, and move rapidly towards our goal of becoming a premier multinational banking group.

While celebrating the 100th anniversary of the Bank, I would like to express our heartfelt gratitude to our customers, peers and the public for their guidance, support and trust, and to our predecessors, colleagues and 300,000 employees across the globe for their diligent work and lasting contribution to the Bank. The time-honoured brand of the Bank rests on their effort and support. I believe, with our concerted efforts, Bank of China will create new heights along its new journey.

XIAO Gang
Chairman
29 March 2012

Message from the President

"Given future banking trend of market-driven, globalised and intelligentised operation, as a Global Systemically Important Financial Institution, the Bank will speed up its effort of establishing comprehensive and highly efficient product innovation capability as well as across-sector and advanced risk management capability, global service and marketing capability as well as global management and support capability, leading position of intelligentised service and management. Thus forming edges in strategy, competition, management and talent, the Bank will be better positioned itself to adapt to new challenges."

In 2011, the Bank has achieved excellent performance to honour its centenary year. According to International Financial Reporting Standards, the Bank's total assets, liabilities and equity attributable to shareholders of the Bank amounted to RMB11.83 trillion, RMB11.07 trillion and RMB0.72 trillion respectively at the end of 2011, representing a respective increase of 13.10%, 13.19% and 12.26% from the previous year-end. During the year, the Bank achieved an after-tax profit of RMB130.319 billion, a year-on-year increase of 18.81%. Profit attributable to equity holders of the Bank reached RMB124.182 billion, up 18.93% from the previous year. Return on average total assets stood at 1.17%, representing a year-on-year increase of 0.03 percentage points. The Bank's non-performing loan ratio decreased by 0.1 percentage points to 1.00%. The ratio of the allowance for loan impairment losses to non-performing loans increased by 24.08 percentage points to 220.75%.

The Bank's profitability continued to improve in 2011, driven primarily by the increases in net interest income and non-interest income, asset quality stabilisation and better operating efficiency. The Bank steadily expanded the scale of its assets and liabilities while continually optimising business structure. During the year, the Bank's net interest income rose to RMB228.064 billion, up 17.58% compared to the previous year, and net interest margin grew by 0.05 percentage points to 2.12%. Non-interest income continued to maintain rapid growth, with a year-on-year increase of 21.41%. Non-interest income contribution to the Group's overall operating income rose 0.67 percentage points to 30.53%. The non-performing loan ratio was kept steady with a slight decline, and the credit cost ratio was maintained at a low level of 0.32%. Thanks to stronger operating efficiency and the strict containment of operating expenses, the cost-to-income ratio dropped by 1.09 percentage points to 33.07%.

During the last year, the Bank adhered to the scientific development, and strived to further enhance its operation and management.

Streamlining structure and promoting innovation to intensify business transformation. Loans to customers experienced balanced and moderate growth. The Bank gave priority to highly profitable industries, customers and projects, and the proportion of loans to small-sized enterprises further went up. The Bank flexibly adjusted the scale and structure of its bond investments and constantly improved the profitability of its investment portfolios. The Bank further consolidated its leading position in international settlement, foreign exchange trading, and cross-border RMB settlement businesses, as well as advanced the development of emerging businesses such as bank cards, pensions, wealth management, fund custody and precious metals. Moreover, the Bank strongly empowered its overseas institutions to pursue independent growth, greatly improving their profitability. By implementing reform measures encouraging collaborated development of diversified operations, the Bank's subsidiaries became more self-reliant in funding and synergies across the Group were maximised.

Strengthening risk management and promoting balanced asset and liability management to reinforce Group's internal control. The Bank continuously improved the asset and liability structure and pressed forward its balanced and coordinated development. The loan to deposit ratio at the year-end went down by 2.95% to 68.77%, compared to the beginning of the year. The Bank enhanced its capital management, optimised the economic capital allocation as well as advanced the capital utilisation efficiency, by which its capital adequacy ratio reached 12.97%. The Bank strengthened proactive risk management, improved its market surveillance and analysis capability, and judgement on important issues regarding market trends and strategies. The Bank further intensified the credit risk management of loans granted to local government financing vehicles, overcapacity industries and the real estate sector to maintain a stable asset quality. By disposing of high-risk bonds issued by Ireland, Italy, Greece, Portugal and Spain, the market risk control was further stepped up. Moreover, the Bank completed its implementation plan for Basel II & III and made further preparations for their adoption. The Bank constantly strengthened its operational risk management to enhance the internal control efficiency and fraud prevention capabilities. The Bank further improved the CARPALs regulatory indicators and scored the first to reach the overall regulatory requirements.

Strengthening branch network and infrastructure construction to solidify foundations for future development. The Bank achieved a significant leap forward in its information and technology development through the successful completion of its IT Blueprint project and a new core banking system rolled out across all domestic institutions in 2011. A leading role of technology was brought into play in driving business development. The Bank promoted its branch network renovation and improved outlet operating efficiency. As a result, the Bank ranked first among large Chinese banks in terms of RMB and foreign currency deposits per domestic business outlet. The Bank continued to expand its customer base and improve customer structure, with a respective year-on-year increase in effective corporate and individual customers of 18.46% and 17.1%. The number of e-banking customers exceeded 130 million, an increase of 72.45% over the previous year-end, and the business substitution rate of electronic channels rose by 13.82 percentage points to 67.78%.

2012 marks a new starting point for the Bank as it enters the second century of its long operating history. Given future banking trend of market-driven, globalised and intelligentised operation, as a Global Systemically Important Financial Institution, the Bank will speed up its effort of establishing comprehensive and highly efficient product innovation capability as well as across-sector and advanced risk management capability, global service and marketing

Message from the President

capability as well as global management and support capability, leading position of intelligentised service and management. Thus forming edges in strategy, competition, management and talent, the Bank will be better positioned itself to adapt to new challenges.

The operating environment of 2012 will remain complex. The global financial crisis is still evolving, making the road to global economic recovery tortuous. China will keep steady and robust economic development while maintaining stability, nevertheless, institutional and structural problems are still considerable and underlying risks should not be neglected. The Bank will strengthen channel construction and improve operation efficiency of business outlets by leveraging on optimisation of its distribution channel, management capability and service quality. It will sharpen core competitiveness through technology, product, and process innovation and emphasis on technology advancement. The Bank will upgrade its global financial services system and increase the contribution of its overseas businesses and diversified platforms through improvement of its capabilities of global service, management and support. It will reinforce group-wide management and boost business development through enhancing its capabilities on balanced growth, risk management and operation support. The Bank will also improve its human resource management and strategy execution through cultivating management quality, professional talents and corporate culture. With all of these effective and efficient efforts, the Bank will be dedicated to stepping up its operation and management to lay a solid foundation for its new century.

On behalf of the management, I would like to conclude by expressing our heartfelt gratitude to our colleagues across the globe for your selfless efforts and invaluable contributions, to the Board of Directors and Board of Supervisors for your guidance and assistance, and to our investors and customers for your trust and support. Working shoulder by shoulder, let's make persistent efforts and forge ahead, to write another century of splendour for Bank of China.

LI Lihui
President
29 March 2012

Message from the Chairman of the Board of Supervisors

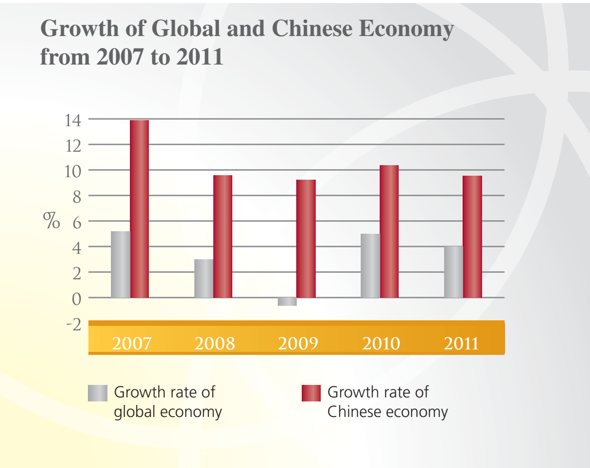
During 2011, the Board of Supervisors earnestly performed its duties in strict conformity with the provisions of state laws, the Bank's Articles of Association and the Bank's development strategy. By stepping up its efforts to transform its working methods and by supervising the duty performance, finances, risks and internal control of the Bank, the Board of Supervisors added significant momentum to the Bank's sustainable growth.

In 2011, the Board of Supervisors emphasised the advancement of institutional development. The Board of Supervisors continued to improve duty performance assessment by carrying out the supervision of duty performance in an increasingly orderly manner, and objectively and fairly assessed the duty performance of directors and senior management members in 2010. It also faithfully discharged its financial supervision duties by hearing regular reports about the compilation of financial reports, reviewing related audit opinions, as well as providing independent supervisory opinions accordingly. In addition, the Board intensified the daily supervision of the Bank's risk management and internal control, initiated in-depth research into key subjects, and made constructive recommendations regarding operational management, so as to streamline the Bank's business development.

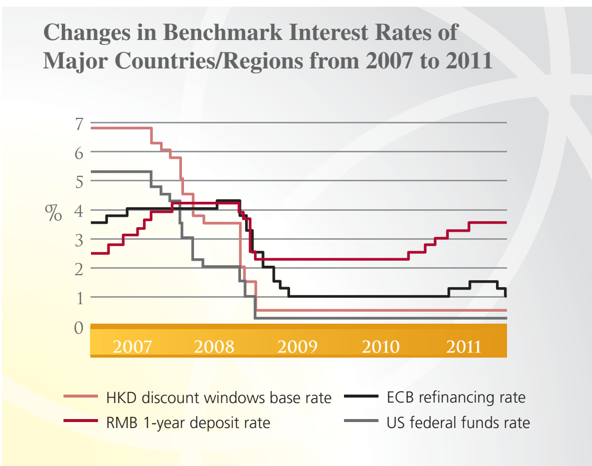
Throughout 2011, the Board of Supervisors maintained effective communication and close coordination with the Board of Directors and the senior management, receiving positive responses to its suggestions and recommendations. As a result, the checks and balances among the three bodies generated great synergies and significantly enhanced the Bank's corporate governance.

LI Jun
Chairman of the Board of Supervisors
29 March 2012

Management Discussion and Analysis — Financial Review



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



Source: Thomson Reuters EcoWin

Economic and Financial Environment

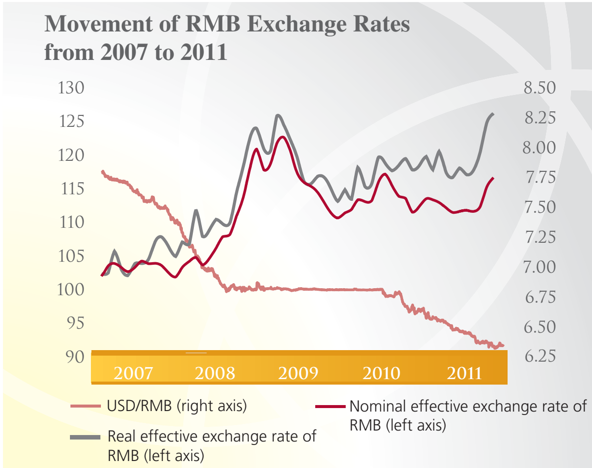
Global economic growth slowed to 3.8% in 2011. The United States and the European Union reported Gross Domestic Products ("GDP") growth rate of 1.8% and 1.6%, respectively, whereas Japan down by 0.9% and emerging markets fell to 6.4%. Unemployment rate remained high in developed countries, and emerging economies were faced with heavy inflationary pressure. International financial markets fluctuated drastically with increased volatility in global stock markets. Europe suffered an increasingly perilous sovereign debt crisis with soaring government bond yields in many European countries. Intensified risk aversion led to remarkable volatility in the foreign exchange market. The US dollar depreciated and then recovered, the Euro weakened and the Japanese yen continued to appreciate. Commodity prices rose sharply, notably for energy and grain, and international gold prices recorded highs.

In the face of complex and volatile domestic and overseas economic environment, the Chinese government strengthened and improved macro-control policy, consolidated and built upon the achievements in responding to the global financial crisis, prevented fast price rises and realised steady and fast growth of the economy. In 2011, GDP grew by 9.2%, Consumer Price Index ("CPI") increased by 5.4%, Total Retail Sales of Consumer Goods ("TRSCG") increased by 17.1%, Total Fixed Asset Investments ("TFAI") grew by 23.8%, and foreign trade volume grew by 22.5%.

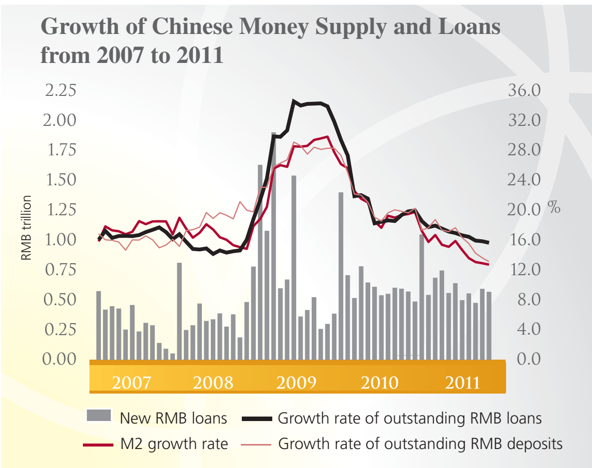
The Chinese government implemented the proactive fiscal policy and prudent monetary policy to align the steady and fast economic growth with economic restructure and inflation expectation management. The government enhanced its macroeconomic controls with focus on the extent and timing of the policy implementations, and continued to make the policies more targeted, flexible and forwardlooking. During 2011, the People's Bank of China ("PBOC") adjusted the required reserve ratio seven times and raised the benchmark interest rates of deposits and loans three times. Loan growth rate was slowed down and the money supply ("M2") grew by 13.6% in 2011, down by 6.1 percentage points compared with the prior year, and RMB-denominated loans of financial institutions increased by RMB7.5 trillion or 15.8%, down by 4.1 percentage points compared with the prior year. The stock market fluctuated remarkably with a drop of 21.7% of the composite index of SSE over the prior year-end. The bond market maintained healthy performance, with a steady expansion of bond issuance. In 2011, a total of RMB6.41 trillion of bonds (exclusive of central bank bills) were issued, an increase of 23.4% compared with the prior year. The RMB exchange rate continued to become more elastic, with the value of RMB against US dollar increasing by 5.11% to 6.3009 during the year.

By focusing on the effectiveness of regulation, China's financial authorities strengthened credit risk management in key areas such as local government financing vehicles ("LGFVs") and private lending, and further improved the capital regulatory framework. As at the end of 2011, the total assets of Chinese banking industry was RMB113.29 trillion, an increase of 18.9% compared with the prior year-end. China's commercial banks achieved a decrease in outstanding non-performing loans ("NPLs") and in the NPL ratio, thus enhancing their risk management. As at the end of 2011, the outstanding balance of NPLs was RMB427.9 billion, a decrease of RMB5.7 billion compared with the prior year-end, while the NPL ratio was 1.0%, down by 0.1 percentage points compared with the prior year-end.

Looking ahead, the global economy will remain complex in 2012, with likely increased uncertainty and instability in world economic recovery. The European debt crisis remains an open issue. Although the countries in the Eurozone reached unanimous position in enhancing fiscal discipline and launching rescue mechanism, the effectiveness of these actions needs to be observed. The sluggish European economy may spill over the risk to the world. The United States emerges a sign of economic recovery and maintains its quantitative easing monetary policy. Emerging economies face the dual pressures of inflation and slowing economic growth. There will be remarkable increases in economic conflict among inter-countries and costs of international trade. There is downward pressure on China's economic growth and prices remain high. Regulation of real estate market is at a crucial stage and potential risks exist in fiscal and financial field. The Chinese government set a guideline of "making stable improvement", will continue to follow a proactive fiscal policy and



Source: Thomson Reuters EcoWin



Source: Thomson Reuters EcoWin

a prudent monetary policy, and carry out timely and appropriate adjustments and fine-tuning, making the policies more targeted, flexible and forwardlooking, so as to maintain steady and robust economy development. In the new phase of development, the Chinese banking industry will seize new opportunities to accelerate restructuring, prevent risks effectively and achieve sustainable development.

Income Statement Analysis

In 2011, facing a complicated and challenging operational environment, the Bank focused on the transformation of its development model and continued to implement its strategic development plan in line with the scientific outlook. Following the principles of "streamlining structure, scaling up, managing risks and sharpening competitiveness", the Bank stepped up its efforts in innovative, transformative and cross-border development and achieved an excellent operating performance. The Group earned a profit for the year of RMB130.319 billion, and a profit attributable to equity holders of RMB124.182 billion, an increase of 18.81% and 18.93%, respectively, compared with the prior year. Return on average total assets ("ROA") stood at 1.17%, an increase of 0.03 percentage points compared with the prior year; return on average equity ("ROE") stood at 18.27%, a decrease of 0.60 percentage points compared with the prior year, which was largely attributable to the dilution effect of the rights issue of the Bank's shares in the fourth quarter of 2010.

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

Unit: RMB million

Items	2011	2010	2009
Net interest income	**228,064**	193,962	158,881
Non-interest income	**100,234**	82,556	73,689
Including: net fee and commission income	**64,662**	54,483	46,013
Operating income	**328,298**	276,518	232,570
Operating expenses	**(140,815)**	(122,409)	(107,307)
Impairment losses on assets	**(19,355)**	(12,993)	(14,987)
Operating profit	**168,128**	141,116	110,276
Profit before income tax	**168,644**	142,145	111,097
Income tax expense	**(38,325)**	(32,454)	(25,748)
Profit for the year	**130,319**	109,691	85,349
Profit attributable to equity holders of the Bank	**124,182**	104,418	80,819

Net Interest Income and Net Interest Margin

The Bank proactively responded to changes in the external operating environment by strengthening its asset and liability management, resulting in a steady increase in asset scale, constant optimisation of asset structure, stable growth in net interest income, and continual improvement in net interest margin.

In 2011, the Group earned net interest income of RMB228.064 billion, an increase of RMB34.102 billion or 17.58% compared with the prior year. Domestic RMB business contributed net interest income of RMB185.098 billion, an increase of RMB26.026 billion or 16.36% compared with the prior year. Domestic foreign currency-denominated business contributed net interest income of USD2.434 billion, up by USD650 million or 36.43% compared with the prior year.

The average balances[1] and average interest rates of the Group's major interest-earning assets and interest-bearing liabilities, as well as the year-on-year change are summarised in the following table:

Unit: RMB million, except percentages

Items	2011 Average balance	2011 Average interest rate	2010 Average balance	2010 Average interest rate	Change Average balance	Change Average interest rate
Group						
Interest-earning assets						
Loans	**6,096,396**	**4.87%**	5,396,751	4.22%	699,645	65 Bps
Investment debt securities[1]	**1,924,479**	**2.95%**	1,978,152	2.73%	(53,673)	22 Bps
Balances with central banks[2]	**1,820,127**	**1.38%**	1,308,553	1.42%	511,574	(4) Bps
Due from banks and other financial institutions	**902,570**	**3.80%**	708,476	1.89%	194,094	191 Bps
Total	**10,743,572**	**3.85%**	9,391,932	3.34%	1,351,640	51 Bps
Interest-bearing liabilities						
Due to customers	**8,180,446**	**1.71%**	7,223,062	1.28%	957,384	43 Bps
Due to banks and other financial institutions and due to central banks	**1,732,766**	**2.21%**	1,477,361	1.49%	255,405	72 Bps
Other borrowed funds[3]	**184,981**	**3.73%**	125,864	3.94%	59,117	(21) Bps
Total	**10,098,193**	**1.83%**	8,826,287	1.35%	1,271,906	48 Bps
Net interest margin		**2.12%**		2.07%		5 Bps
Domestic RMB businesses						
Interest-earning assets						
Loans	**4,405,534**	**5.80%**	3,895,037	5.07%	510,497	73 Bps
Investment debt securities	**1,378,485**	**3.11%**	1,435,273	2.78%	(56,788)	33 Bps
Balances with central banks	**1,418,663**	**1.58%**	1,123,481	1.54%	295,182	4 Bps
Due from banks and other financial institutions	**740,399**	**3.96%**	549,417	2.18%	190,982	178 Bps
Total	**7,943,081**	**4.41%**	7,003,208	3.81%	939,873	60 Bps
Interest-bearing liabilities						
Due to customers	**6,526,238**	**1.96%**	5,782,407	1.48%	743,831	48 Bps
Due to banks and other financial institutions and due to central banks	**857,823**	**3.69%**	836,546	2.16%	21,277	153 Bps
Other borrowed funds	**136,395**	**4.12%**	98,876	3.95%	37,519	17 Bps
Total	**7,520,456**	**2.19%**	6,717,829	1.60%	802,627	59 Bps
Net interest margin		**2.33%**		2.27%		6 Bps
Domestic foreign currency businesses				Unit: USD million, except percentages		
Interest-earning assets						
Loans	**94,945**	**2.85%**	97,207	1.88%	(2,262)	97 Bps
Investment debt securities	**23,388**	**2.16%**	24,296	2.56%	(908)	(40) Bps
Due from banks and other financial institutions	**25,383**	**1.34%**	25,400	0.84%	(17)	50 Bps
Total	**143,716**	**2.47%**	146,903	1.81%	(3,187)	66 Bps
Interest-bearing liabilities						
Due to customers	**61,162**	**0.82%**	62,420	0.66%	(1,258)	16 Bps
Due to banks and other financial institutions and due to central banks	**57,468**	**1.05%**	57,761	0.79%	(293)	26 Bps
Other borrowed funds	**108**	**7.41%**	100	8.00%	8	(59) Bps
Total	**118,738**	**0.94%**	120,281	0.73%	(1,543)	21 Bps
Net interest margin		**1.69%**		1.21%		48 Bps

Notes:

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

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

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

Unit: RMB million

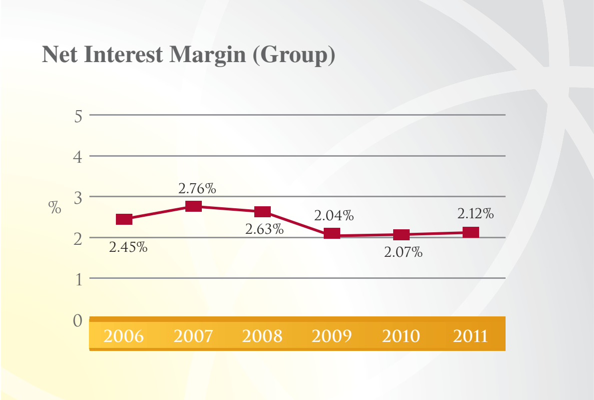
Items	2011	2010	Change	Analysis of net interest income variances[Note] Volume	Interest rate
Group					
Interest income					
Loans	**296,913**	227,529	69,384	29,525	39,859
Investment debt securities	**56,728**	53,987	2,741	(1,465)	4,206
Balances with central banks	**25,177**	18,604	6,573	7,264	(691)
Due from banks and other financial institutions	**34,284**	13,413	20,871	3,668	17,203
Total	**413,102**	313,533	99,569	38,992	60,577
Interest expense					
Due to customers	**139,905**	92,525	47,380	12,255	35,125
Due to banks and other financial institutions and due to central banks	**38,227**	22,086	16,141	3,806	12,335
Other borrowed funds	**6,906**	4,960	1,946	2,329	(383)
Total	**185,038**	119,571	65,467	18,390	47,077
Net interest income	**228,064**	193,962	34,102	20,602	13,500
Domestic RMB businesses					
Interest income					
Loans	**255,447**	197,630	57,817	25,882	31,935
Investment debt securities	**42,832**	39,902	2,930	(1,579)	4,509
Balances with central banks	**22,435**	17,249	5,186	4,546	640
Due from banks and other financial institutions	**29,284**	11,967	17,317	4,163	13,154
Total	**349,998**	266,748	83,250	33,012	50,238
Interest expense					
Due to customers	**127,616**	85,681	41,935	11,009	30,926
Due to banks and other financial institutions and due to central banks	**31,666**	18,093	13,573	460	13,113
Other borrowed funds	**5,618**	3,902	1,716	1,482	234
Total	**164,900**	107,676	57,224	12,951	44,273
Net interest income	**185,098**	159,072	26,026	20,061	5,965
Domestic foreign currency businesses					Unit: USD million
Interest income					
Loans	**2,705**	1,828	877	(43)	920
Investment debt securities	**505**	621	(116)	(23)	(93)
Due from banks and other financial institutions	**337**	214	123	–	123
Total	**3,547**	2,663	884	(66)	950
Interest expense					
Due to customers	**501**	413	88	(8)	96
Due to banks and other financial institutions and due to central banks	**604**	458	146	(2)	148
Other borrowed funds	**8**	8	–	1	(1)
Total	**1,113**	879	234	(9)	243
Net interest income	**2,434**	1,784	650	(57)	707

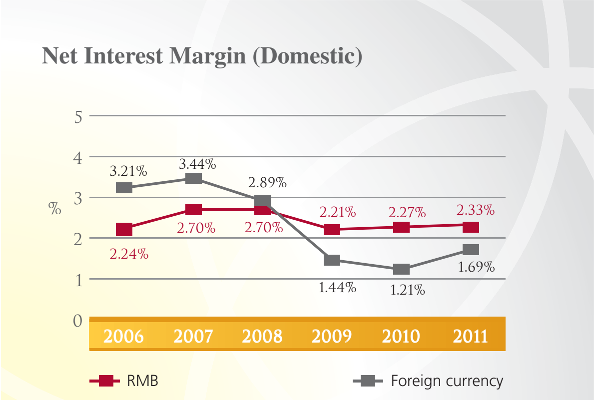
Note: The impact of changes in volume on interest income and expense is calculated based on the changes in average balances of interest-earning assets and interest-bearing liabilities during the reporting period. The impact of changes in interest rate on interest income and expense is calculated based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

In 2011, China implemented prudent monetary policies, with RMB liquidity tightening and market interest rates rising. Demand for foreign currency loans remained strong and interest spread kept widening. For the year 2011, the Group's net interest margin was 2.12%, an increase of 0.05 percentage points compared with the prior year. Net interest margin of domestic RMB businesses was 2.33%, an increase of 0.06 percentage points compared with the prior year, while that of domestic foreign currency businesses was 1.69%, an increase of 0.48 percentage points compared with the prior year.

The Bank has been proactively broadening its funding sources, with the deposit gradually expanded and liability structure constantly optimised. In 2011, the average balance of liabilities due to customers accounted for 86.78% of total RMB-denominated interest-bearing liabilities, up by 0.70 percentage points compared with the prior year. In addition, the proportion of demand deposits increased. The average balance of domestic RMB corporate and personal demand deposits accounted for 45.41% of total domestic RMB corporate and personal deposits, an increase of 1.14 percentage points compared with the prior year. The average balance of domestic foreign currency corporate and personal demand deposits accounted for 58.04% of total domestic foreign currency corporate and personal deposits, an increase of 4.58 percentage points compared with the prior year.

In light of the changing market conditions, the Bank optimised its asset and liability structure and put greater weight to its RMB-denominated businesses. As at the end of 2011, RMB-denominated assets accounted for 76.13% of the Bank's total assets, an increase of 0.28 percentage points compared with the prior year-end. In addition, the Bank allocated credit resources in a rational manner and improved its credit portfolio through granting more loans to profitable industries, clients and projects and providing more credit support to small and medium-sized enterprises ("SMEs"). The Bank also enhanced its pricing management mechanism, thus improving the pricing of RMB-denominated loans granted in 2011.





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

Unit: RMB million, except percentages

Items	2011 Average balance	2011 Average interest rate	2010 Average balance	2010 Average interest rate	Change Average balance	Change Average interest rate
Domestic RMB businesses						
Loans						
Corporate loans	**3,011,945**	**6.00%**	2,624,132	5.33%	387,813	67 Bps
Personal loans	**1,316,184**	**5.24%**	1,122,147	4.72%	194,037	52 Bps
Trade bills	**77,405**	**7.38%**	148,758	3.24%	(71,353)	414 Bps
Total	**4,405,534**	**5.80%**	3,895,037	5.07%	510,497	73 Bps
Including:						
Medium and long term loans	**3,186,630**	**5.78%**	2,693,845	5.22%	492,785	56 Bps
1-Year Short term loans and others	**1,218,904**	**5.85%**	1,201,192	4.74%	17,712	111 Bps
Due to customers						
Corporate demand deposits	**1,885,430**	**0.89%**	1,731,069	0.71%	154,361	18 Bps
Corporate time deposits	**1,539,553**	**2.66%**	1,413,398	2.08%	126,155	58 Bps
Personal demand deposits	**913,279**	**0.54%**	800,863	0.37%	112,416	17 Bps
Personal time deposits	**1,824,746**	**2.74%**	1,774,017	2.24%	50,729	50 Bps
Other	**363,230**	**4.09%**	63,060	2.00%	300,170	209 Bps
Total	**6,526,238**	**1.96%**	5,782,407	1.48%	743,831	48 Bps
Domestic foreign currency businesses			Unit: USD million, except percentages			
Loans	**94,945**	**2.85%**	97,207	1.88%	(2,262)	97 Bps
Due to customers						
Corporate demand deposits	**22,172**	**0.23%**	20,471	0.14%	1,701	9 Bps
Corporate time deposits	**7,253**	**2.10%**	7,781	1.42%	(528)	68 Bps
Personal demand deposits	**9,485**	**0.09%**	9,819	0.09%	(334)	–
Personal time deposits	**15,631**	**0.73%**	18,587	0.77%	(2,956)	(4) Bps
Other	**6,621**	**2.66%**	5,762	2.12%	859	54 Bps
Total	**61,162**	**0.82%**	62,420	0.66%	(1,258)	16 Bps

Note: "Due to customers – other" include structured deposits.

Non-interest Income

By fully leveraging the diversified business platform and implementing the comprehensive business development strategy, the Bank strengthened its traditional advantages and brew up new growth areas. The foundation for the development of business was further consolidated, and the proportion of non-interest income maintained at a high level.

The Group reported non-interest income of RMB100.234 billion in 2011, an increase of RMB17.678 billion or 21.41% compared with the prior year. Non-interest income represented 30.53% of operating income, up by 0.67 percentage points. The principal components of non-interest income are set out below.

Net Fee and Commission Income

The Group earned a net fee and commission income of RMB64.662 billion, an increase of RMB10.179 billion or 18.68% compared with the prior year. The Bank further built upon its strength of trade finance business, and coordinated development of traditional businesses, such as international settlement, and emerging businesses, such as cross-border RMB business and supply chain financing. The Bank also experienced a rapid growth in revenue from the letter of credit, factoring and trade finance-related businesses. In addition, the accelerated development of domestic settlement business promoted the income growth of settlement and clearing businesses. The Bank also grasped market opportunities to accelerate the development of its insurance agency and pension businesses, which resulted in a substantial increase in income related to agency commission fees.

Unit: RMB million

Items	2011	2010	2009
Group			
Credit commitment fees	**13,268**	10,178	8,364
Settlement and clearing fees	**12,389**	9,144	7,481
Agency commissions	**12,139**	11,021	11,211
Bank card fees	**10,747**	9,574	6,091
Spread income from foreign exchange business	**8,545**	8,114	7,264
Other	**12,930**	11,183	9,823
Fee and commission income	**70,018**	59,214	50,234
Fee and commission expense	**(5,356)**	(4,731)	(4,221)
Net fee and commission income	**64,662**	54,483	46,013
Domestic			
Credit commitment fees	**10,480**	7,686	6,039
Settlement and clearing fees	**10,905**	7,962	6,508
Agency commissions	**6,887**	4,920	5,049
Bank card fees	**8,126**	7,452	4,503
Spread income from foreign exchange business	**7,695**	7,562	6,938
Other	**11,229**	9,778	8,309
Fee and commission income	**55,322**	45,360	37,346
Fee and commission expense	**(1,690)**	(1,332)	(1,099)
Net fee and commission income	**53,632**	44,028	36,247

Other Non-interest Income

The Group realised other non-interest income of RMB35.572 billion, an increase of RMB7.499 billion or 26.71% compared with the prior year. The increase arose mainly from net trading gains and income from the sale of precious metals products. Since the fourth quarter of 2010, the PBOC has raised the benchmark interest rate several times, which led to a widening gap between the interest rates of RMB and US dollar. As a result, the interest spread income from foreign exchange derivatives positions put in place by the Bank for asset and liability management purpose has increased, driving net trading gains up by RMB4.367 billion compared with the prior year. Due to the rapidly rising price of commodities such as gold and continued strong demand in the precious metals market, revenue from the sales of precious metals products increased by RMB2.922 billion over the prior year. Please refer to Notes V.3, 4 to the Consolidated Financial Statements for detailed information.

Operating Expenses

Adhering to its principle of effectively managing costs, the Bank strived to control administrative and operating expenses, optimise expense structure and promote cost effectiveness by proactively innovating management measures.

Unit: RMB million

Items	2011	2010	2009
Staff costs	**60,793**	53,420	45,474
General operating and administrative expenses	**35,461**	30,816	26,911
Depreciation and amortisation	**12,257**	10,319	8,691
Business and other taxes	**18,581**	14,414	11,645
Insurance benefits and claims	**7,578**	8,937	8,195
Other	**6,145**	4,503	6,391
Total	**140,815**	122,409	107,307

In 2011, the Bank enhanced the human resources and infrastructure construction based on its strategic development plan. The Group recorded operating expenses of RMB140.815 billion, an increase of RMB18.406 billion or 15.04% compared with the prior year. The major factors driving this growth included: (1) The Bank further increased human resources input to its outlets, key regions and business lines across its domestic and overseas institutions and subsidiaries, which increased staff costs. (2) The Bank devoted significant supports to the rapid development in key regions, key businesses, key products and key projects, which resulted in higher general operating and administrative expenses. (3) The Bank continued to advance its outlet transformation programme and the development of e-channels and IT Blueprint, the outlet rentals, repair and maintenance cost, and depreciation and amortisation expenses of self-service banks and equipment such as ATMs went up accordingly. (4) The Bank controlled the administrative and operational management expenses, and optimised the expense structure, resulting in a slower growth rate of such expenses compared to that of the overall expenses.

Supported by its invested resources, the Bank boosted its business development with improving cost effectiveness and significantly higher growth rate of operating income than that of operating expenses. The Bank's cost to income ratio (calculated under domestic regulations) was 33.07%, down by 1.09 percentage points compared with the prior year. Please refer to Note V.5, 6 to the Consolidated Financial Statements for detailed information of operating expenses.

Impairment Losses on Assets

Impairment Losses on Loans and Advances

The Bank endeavoured to strengthen its proactive risk management, conduct comprehensive risk research, and improve its ability to make sound judgments on issues of long-term overarching importance. It implemented a prudent risk provision policy, which helped to enhance its overall risk mitigation capability. The Bank built up risk control in key business areas and adopted a comprehensive risk management, thus ensuring a stable credit asset quality.

In 2011, the impairment losses on loans and advances amounted to RMB19.272 billion, an increase of RMB3.708 billion compared with the prior year. Credit cost was 0.32%, an increase of 0.03 percentage points compared with the prior year. Specifically, collectively assessed impairment losses stood at RMB19.081 billion, an increase of RMB1.727 billion compared with the prior year, while individually assessed impairment losses stood at RMB0.191 billion, while that of the prior year was a net reversal of RMB1.790 billion. For more information on loan quality and allowance for loan impairment losses, please refer to the "Risk Management – Credit Risk" section and Note V.8 and Note VI.3 to the Consolidated Financial Statements.

Impairment Losses on Other Assets

In response to a complex and volatile financial environment, the Bank continued to reduce its holdings of high-risk securitised products and sold all high-risk bonds related to issuers in the five European Countries (Greece, Portugal, Ireland, Italy and Spain). In 2011, the Group's impairment loss on other assets was RMB83 million. For more details, please refer to Note V.8 and Note VI.3 to the Consolidated Financial Statements.

Income Tax Expense

In 2011, the Group incurred an income tax of RMB38.325 billion, an increase of RMB5.871 billion or 18.09% compared with the prior year. The Group's effective tax rate was 22.73%. The increase was primarily attributable to a rapid growth in operating profit. The reconciliation of the statutory income tax rate to the effective income tax rate is set forth in Note V.9 to the Consolidated Financial Statements.

Management Discussion and Analysis — Financial Review

Financial Position Analysis

In 2011, the Bank focused on improving asset and liability structure while boosting the stable growth of assets and liabilities. As at the end of 2011, the Group's total assets amounted to RMB11,830.066 billion, an increase of RMB1,370.201 billion or 13.10% from the prior year-end. The Group's total liabilities amounted to RMB11,074.172 billion, an increase of RMB1,290.457 billion or 13.19% from the prior year-end.

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

Unit: RMB million

Items	As at 31 December 2011	2010	2009
Assets			
Loans, net	**6,203,138**	5,537,765	4,797,408
Investment securities[1]	**2,000,759**	2,055,324	1,816,679
Balances with central banks	**1,919,651**	1,573,922	1,111,351
Due from banks and other financial institutions	**1,147,497**	800,620	618,199
Other assets	**559,021**	492,234	408,306
Total	**11,830,066**	10,459,865	8,751,943
Liabilities			
Due to customers	**8,817,961**	7,733,537	6,716,823
Due to banks and other financial institutions and due to central banks	**1,718,237**	1,580,030	1,152,424
Other borrowed funds[2]	**196,626**	151,386	88,055
Other liabilities	**341,348**	318,762	249,247
Total	**11,074,172**	9,783,715	8,206,549

Notes:

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

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

Loans and Advances to Customers

In 2011, in line with the government's prudent monetary policy and regulatory requirements, the Bank promoted balanced growth in its lending businesses by strengthening its credit scale management and strictly controlling the volume and timing of its lending. In addition, the Bank optimised its credit structure and provided more supports to the credit needs of SMEs, leading to a stable and healthy development of its loan business.

As at the end of 2011, the Group's loans and advances to customers amounted to RMB6,342.814 billion, an increase of RMB682.193 billion or 12.05% compared with the prior year-end. This included RMB-denominated loans of RMB4,775.494 billion, increased by RMB625.688 billion or 15.08% from the prior year-end. Foreign currency-denominated loans stood at USD248.745 billion, an increase of USD20.618 billion or 9.04% from the prior year-end.

The Bank intensified its proactive lending risk management and enhanced risk control in key business areas. The proportion of loans granted to LGFVs and industries with overcapacity fell, and the growth rate in property loans dropped significantly. In addition, the outstanding balance and overall proportion of non-performing credit assets across the Bank remained at a relatively low level. The ratio of allowance for loan impairment losses to non-performing loans continued to increase, thus enhancing the Bank's capability to mitigate risk.

As at the end of 2011, the balance of the Group's allowance for loan impairment losses reached RMB139.676 billion, an increase of RMB16.820 billion compared with the prior year-end. The ratio of allowance for loan impairment losses to non-performing loans was 220.75%, up by 24.08 percentage points from the prior year-end. The ratio of allowance to total loans of the domestic institutions stood at 2.56%, up by 0.11 percentage points compared with the prior year-end. For details about loan quality, please refer to "Risk Management – Credit Risk" section.

Investment Securities

In response to changes in global financial markets and its need for prudent asset and liability management, the Bank made timely adjustments to the scale and structure of its investment portfolio. Based on a comprehensive assessment of risk and return, the Bank properly increased the duration of its RMB-denominated investment portfolio, continued to reduce its holding of foreign currency-denominated structured bonds, and took effective measures to prevent sovereign risk of debts. As a result, the overall yield of the Bank's portfolio grew steadily.

As at the end of 2011, the Group held investment securities of RMB2,000.759 billion, a decrease of RMB54.565 billion compared with the prior year-end. RMB-denominated investment securities amounted to RMB1,468.404 billion, a decrease of RMB27.665 billion compared with the prior year-end. Foreign currency-denominated investment securities amounted to USD84.489 billion, an increase of USD44 million compared with the prior year-end.

The classification of the Group's investment securities portfolio as at the end of 2011 is shown below:

Unit: RMB million, except percentages

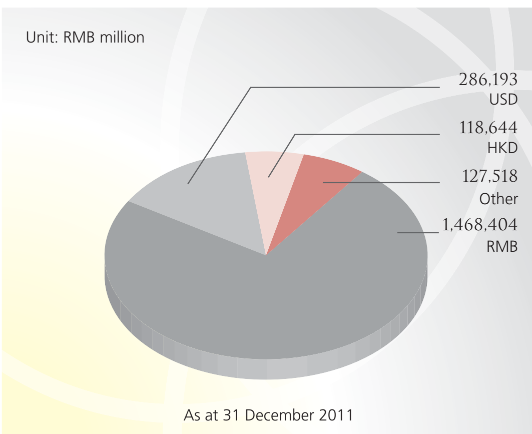
	As at 31 December					
	2011		2010		2009	
Items	**Amount**	**% of total**	Amount	% of total	Amount	% of total
Financial assets at fair value through profit or loss	**73,807**	**3.69%**	81,237	3.95%	61,897	3.40%
Securities available for sale	**553,318**	**27.65%**	656,738	31.95%	622,307	34.26%
Securities held to maturity	**1,074,116**	**53.69%**	1,039,386	50.57%	744,693	40.99%
Securities classified as loans and receivables	**299,518**	**14.97%**	277,963	13.53%	387,782	21.35%
Total	**2,000,759**	**100.00%**	2,055,324	100.00%	1,816,679	100.00%

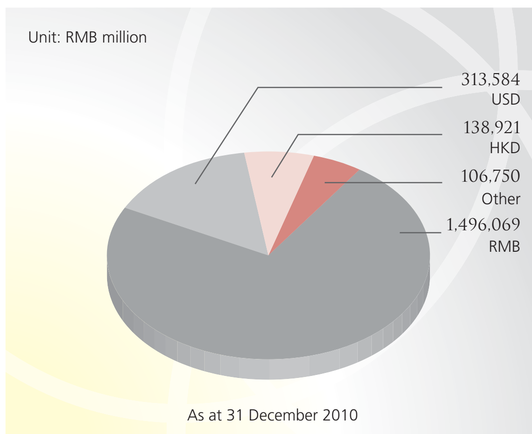
Investment Securities by Issuer Type

Unit: RMB million

Items	As at 31 December 2011	2010	2009
Debt securities			
Chinese mainland issuers			
Government	**736,515**	903,533	743,721
Public sector and quasi-governmental bodies	**20,593**	16,462	15,021
Policy banks	**327,971**	258,151	240,884
Financial institutions	**46,160**	44,422	42,239
Corporates	**199,025**	149,322	109,480
China Orient Asset Management Corporation	**160,000**	160,000	160,000
Sub-total	**1,490,264**	1,531,890	1,311,345
Overseas issuers			
Governments	**182,801**	152,895	138,030
Public sector and quasi-governmental bodies	**53,037**	56,929	71,643
Financial institutions	**203,457**	242,309	231,753
Corporates	**32,642**	37,446	43,335
Sub-total	**471,937**	489,579	484,761
Equity securities	**34,146**	32,683	19,325
Other	**4,412**	1,172	1,248
Total	**2,000,759**	2,055,324	1,816,679

Investment Securities by Currency





As at the end of 2011, the carrying value of US subprime-mortgage related debt securities, US Alt-A mortgage-backed securities and Non-Agency US mortgage-backed securities held by the Group amounted to USD1.563 billion (RMB9.848 billion), and the related impairment allowance was USD1.442 billion (RMB9.084 billion).

As at the end of 2011, the carrying value of debt securities issued by US agencies Freddie Mac and Fannie Mae held by the Group was USD10 million (RMB63 million). The carrying value of mortgage-backed securities guaranteed by these two agencies was USD53 million (RMB336 million). The principal and interest repayments of these debt securities are currently on schedule.

As at the end of 2011, the total carrying value of debt securities issued by European governments and institutions held by the Group was RMB81.121 billion, of which the total carrying value of debt securities issued by the UK, Germany, Netherlands, France and Switzerland was RMB77.853 billion, accounting for 95.97% of total European debt securities held by the Group. The Group did not hold any debt securities issued by Greece, Portugal, Ireland, Italy or Spain. The Bank will continue to keep an eye on the trends of international financial markets and prudently assess its allowances for impairment losses on related assets in accordance with the requirements of the relevant accounting standards.

Due to Customers

The Bank continued to boost the construction of its outlets and e-channels, upgrade the service functions of outlets, and step up efforts in developing businesses such as cash management platform, collection and payment clearing, and payroll payment agency service. The Bank also leveraged the role of trade finance and settlement products to deposits, expanded its customer base to upstream and downstream business of the Bank's core customers, and promoted the fund circulation within the Bank. As a result of these measures, customer deposit volume achieved rapid and sustainable growth.

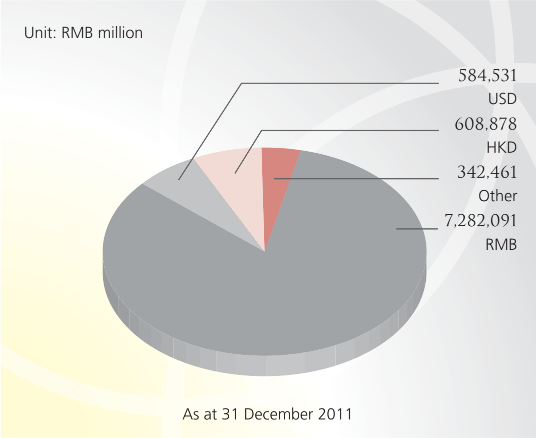
As at the end of 2011, the Group's deposits from customers amounted to RMB8,817.961 billion, an increase of RMB1,084.424 billion or 14.02% compared with the prior year-end. This included RMB-denominated deposits of RMB7,282.091 billion, an increase of RMB964.015 billion or 15.26% compared with the prior year-end. Foreign currency-denominated deposits were USD243.754 billion, an increase of USD30.025 billion or 14.05% from the prior year-end.

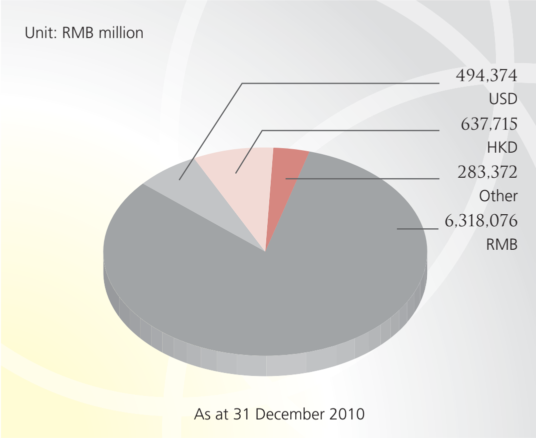
The following table sets forth the principal components of deposits from customers for the Group and its domestic institutions:

Unit: RMB million, except percentages

Items	As at 31 December					
	2011		2010		2009	
	Amount	**% of total**	Amount	% of total	Amount	% of total
Group						
Corporate deposits						
Demand deposits	**2,451,185**	**27.80%**	2,244,807	29.03%	1,948,036	29.00%
Time deposits	**2,021,651**	**22.93%**	1,739,924	22.50%	1,491,691	22.21%
Structured deposits	**221,479**	**2.51%**	78,775	1.02%	18,297	0.27%
Sub-total	**4,694,315**	**53.24%**	4,063,506	52.55%	3,458,024	51.48%
Personal deposits						
Demand deposits	**1,423,524**	**16.14%**	1,343,434	17.37%	1,194,533	17.78%
Time deposits	**2,171,950**	**24.63%**	2,109,872	27.28%	1,986,292	29.57%
Structured deposits	**339,608**	**3.86%**	115,607	1.49%	13,473	0.21%
Sub-total	**3,935,082**	**44.63%**	3,568,913	46.14%	3,194,298	47.56%
Certificates of deposit	**138,880**	**1.57%**	45,217	0.58%	–	–
Other deposits	**49,684**	**0.56%**	55,901	0.73%	64,501	0.96%
Total	**8,817,961**	**100.00%**	7,733,537	100.00%	6,716,823	100.00%
Domestic						
Corporate deposits						
Demand deposits	**2,199,660**	**29.59%**	2,011,048	30.55%	1,737,659	30.10%
Time deposits	**1,619,585**	**21.79%**	1,468,247	22.31%	1,337,614	23.17%
Structured deposits	**217,610**	**2.93%**	76,032	1.16%	13,777	0.25%
Sub-total	**4,036,855**	**54.31%**	3,555,327	54.02%	3,089,050	53.52%
Personal deposits						
Demand deposits	**1,086,552**	**14.62%**	964,549	14.65%	819,522	14.20%
Time deposits	**1,924,228**	**25.89%**	1,892,570	28.75%	1,786,878	30.96%
Structured deposits	**339,191**	**4.56%**	115,607	1.76%	13,473	0.23%
Sub-total	**3,349,971**	**45.07%**	2,972,726	45.16%	2,619,873	45.39%
Other deposits	**46,459**	**0.62%**	54,002	0.82%	63,108	1.09%
Total	**7,433,285**	**100.00%**	6,582,055	100.00%	5,772,031	100.00%

Customer Deposits by Currency





Equity

As at the end of 2011, the Group's total equity was RMB755.894 billion, an increase of RMB79.744 billion or 11.79% compared with the prior year-end. This change was primarily attributable to: (1) a profit for the year of RMB130.319 billion, with profit attributable to equity holders of the Bank of RMB124.182 billion in 2011; (2) a cash dividend of RMB40.756 billion paid in respect of the 2010 profit distribution plan approved at the Annual General Meeting. Please refer to the "Consolidated Statement of Changes in Equity" in the Consolidated Financial Statements for detailed information on equity movements.

Off-balance Sheet Items

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

The Group entered into various foreign exchange rates, interest rate, equity, credit, precious metals and other commodity related derivative financial instruments for trading, hedging and asset and liability management purposes. It also entered into such contracts on behalf of customers. Please refer to Note V.15 to the Consolidated Financial Statements for the contractual/notional amounts and fair values of derivative instruments.

Contingent liabilities and commitments include credit commitments, legal proceedings and arbitrations, assets pledged, collateral accepted, capital commitments, operating leases, treasury bonds redemption commitments and underwriting obligations, etc. Credit commitments were the largest component of the Bank's off-balance sheet items, totaling RMB2,311.872 billion as at the end of 2011. Please refer to Note V.40 to the Consolidated Financial Statements for more detailed information on contingent liabilities and commitments.

Cash Flow Analysis

As at the end of 2011, the balance of the Group's cash and cash equivalents was RMB1,017.368 billion, a net increase of RMB247.997 billion compared with the prior year-end.

Net cash flow from operating activities was an inflow of RMB214.357 billion, a decrease of RMB94.640 billion compared with the prior year. Cash inflows decreased by RMB306.815 billion compared with the prior year, which was mainly attributable to a smaller net increase in liabilities due to customers and due to banks and other financial institutions. Cash outflows decreased by RMB212.175 billion, mainly due to a smaller net increase in balances with central banks and due from banks and other financial institutions.

Net cash flow from investing activities was an inflow of RMB55.774 billion, an increase of RMB250.717 billion compared with the prior year. This was mainly attributable to an increase in proceeds from the disposal or maturity of investment securities and a decrease in the purchase of investment securities.

Management Discussion and Analysis — Financial Review

Net cash flow from financing activities was an outflow of RMB12.960 billion, while it was a net inflow of RMB76.029 billion in the prior year. This was mainly attributable to a substantial decrease in cash received from such financing activities as the issuance of bonds, and an increase in dividend payments to equity holders of the Bank compared with the prior year.

Segment Reporting by Geography

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

Unit: RMB million

Items	Chinese mainland		Hong Kong, Macau and Taiwan		Other countries		Elimination		Group	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Net interest income	**201,021**	171,161	**21,018**	18,577	**6,025**	4,224	**–**	–	**228,064**	193,962
Non-interest income	**69,263**	50,971	**29,608**	29,616	**2,939**	2,603	**(1,576)**	(634)	**100,234**	82,556
Including: net fee and commission income	**53,632**	44,028	**9,167**	8,866	**2,396**	2,001	**(533)**	(412)	**64,662**	54,483
Operating expenses	**(118,751)**	(96,596)	**(20,103)**	(24,031)	**(2,807)**	(2,416)	**846**	634	**(140,815)**	(122,409)
Impairment losses on assets	**(18,112)**	(11,669)	**(1,752)**	(472)	**509**	(852)	**–**	–	**(19,355)**	(12,993)
Profit before income tax	**133,421**	113,867	**29,287**	24,719	**6,666**	3,559	**(730)**	–	**168,644**	142,145
As at the year-end										
Assets	**9,612,881**	8,520,945	**1,868,982**	1,780,334	**904,756**	547,954	**(556,553)**	(389,368)	**11,830,066**	10,459,865
Liabilities	**9,025,576**	8,004,925	**1,720,769**	1,638,846	**884,219**	529,152	**(556,392)**	(389,208)	**11,074,172**	9,783,715

As at the end of 2011, total assets[2] of the Chinese mainland segment amounted to RMB9,612.881 billion, an increase of RMB1,091.936 billion or 12.81% from the prior year-end, representing 77.61% of the Group's total assets. In 2011, this segment recorded a profit before income tax of RMB133.421 billion, an increase of RMB19.554 billion or 17.17% compared with the prior year, representing 78.77% of the Group's profit before income tax for the year.

Total assets of the Hong Kong, Macau and Taiwan segment amounted to RMB1,868.982 billion, an increase of RMB88.648 billion or 4.98% compared with the prior year-end, representing 15.09% of the Group's total assets. This segment achieved a profit before income tax of RMB29.287 billion in 2011, an increase of 18.48% compared with the prior year, representing 17.29% of the Group's profit before income tax for the year.

Total assets of the other countries segment amounted to RMB904.756 billion, an increase of RMB356.802 billion or 65.12% compared with the prior year-end, representing 7.30% of the Group's total assets. This segment achieved a profit before income tax of RMB6.666 billion in 2011, up by 87.30% compared with the prior year.

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

Critical Accounting Estimates and Judgments

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

[2] The figures for segment assets, segment annual profit before income tax and their respective percentages are prior to intragroup elimination.

Consolidated Financial Statements for more detailed information related to the Group's accounting policies and accounting estimates.

Fair Value Measurement

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

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

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

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

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

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

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

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

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

Other Financial Information

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

Management Discussion and Analysis — Business Review

The following table sets forth the profit before tax for each line of business of the Group:

Unit: RMB million, except percentages

	2011		2010	
Items	Amount	% of total	Amount	% of total
Commercial banking business				
Including: Corporate banking business	**101,887**	**60.42%**	89,170	62.73%
Personal banking business	**37,523**	**22.25%**	32,980	23.20%
Treasury operations	**19,166**	**11.36%**	11,005	7.74%
Investment banking and insurance	**2,674**	**1.59%**	2,241	1.58%
Others and elimination	**7,394**	**4.38%**	6,749	4.75%
Total	**168,644**	**100.00%**	142,145	100.00%

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

Unit: RMB million, except percentages

Items	As at 31 December 2011	As at 31 December 2010	Change
Corporate deposits			
Domestic: RMB	**3,842,173**	3,374,811	13.85%
Foreign currency	**194,682**	180,517	7.85%
Hong Kong, Macau, Taiwan, and overseas operations:	**657,460**	508,178	29.38%
Sub-total	**4,694,315**	4,063,506	15.52%
Personal deposits			
Domestic: RMB	**3,165,161**	2,775,551	14.04%
Foreign currency	**184,810**	197,175	(6.27%)
Hong Kong, Macau, Taiwan, and overseas operations:	**585,111**	596,187	(1.86%)
Sub-total	**3,935,082**	3,568,913	10.26%
Corporate loans			
Domestic: RMB	**3,244,573**	2,910,239	11.49%
Foreign currency	**573,882**	630,446	(8.97%)
Hong Kong, Macau, Taiwan, and overseas operations:	**906,850**	703,698	28.87%
Sub-total	**4,725,305**	4,244,383	11.33%
Personal loans			
Domestic: RMB	**1,390,343**	1,217,171	14.23%
Foreign currency	**896**	729	22.91%
Hong Kong, Macau, Taiwan, and overseas operations:	**226,270**	198,338	14.08%
Sub-total	**1,617,509**	1,416,238	14.21%

Commercial Banking Business

Domestic Commercial Banking Business

In 2011, the Bank's domestic commercial banking business recorded a profit before income tax of RMB133.196 billion, an increase of RMB19.586 billion or 17.24% compared with the prior year. The details are set forth below:

Unit: RMB million, except percentages

Items	2011 Amount	2011 % of total	2010 Amount	2010 % of total
Corporate banking business	**90,176**	**67.70%**	81,628	71.85%
Personal banking business	**32,980**	**24.76%**	28,311	24.92%
Treasury operations	**10,393**	**7.80%**	3,619	3.19%
Others	**(353)**	**(0.26%)**	52	0.04%
Total profit before tax	**133,196**	**100.00%**	113,610	100.00%

Corporate Banking Business

The Bank pushed forward the transformation of its corporate banking business and expanded its customer base, further optimised its customer and industry mix and constantly improved its service delivery for customers. It maintained a keen focus on product innovation, promoted integration and consolidated its competitive strengths in trade finance. As a result, the Bank greatly enhanced the core competitiveness of its corporate banking business. In 2011, the domestic corporate banking business recorded a total profit of RMB90.176 billion, an increase of RMB8.548 billion or 10.47% compared with the prior year.

Corporate Deposits

The Bank actively boosted its supply chain financing business in key sectors such as the automotive, engineering machinery and steel industries. Focusing on core enterprises and key business projects, the Bank expanded its upstream and downstream deposit base and related idle funds. In addition, the Bank intensified product innovation and process reengineering, and took full advantage of its strengths in cash management, corporate wealth management and trade finance. By improving the service systems supporting its tailored products offering, the Bank maintained rapid growth in deposits from administrative institutions. At the same time, the Bank explored new funding sources by seizing opportunities on the financing of corporate bonds and the establishment of financial companies, thus achieving sustainable growth in corporate deposits.

As at the end of 2011, RMB-denominated corporate deposits in the Bank's domestic operations increased by RMB467.362 billion or 13.85% compared with the prior year-end, representing a market share among all financial institutions (hereafter referred to as "market share") of 9.51%. The Bank's foreign currency-denominated corporate deposits increased by USD3.640 billion, representing a market share of 26.84%. Both market shares have increased compared with the prior year-end.

Corporate Loans

The Bank exerted great effort towards supporting the key regions identified by the government's economic development plan and assisted in the development of China's strategic emerging industries, cultural industries, modern agriculture and other key industries. The Bank also achieved robust development in low-

Management Discussion and Analysis — Business Review

carbon finance, supporting energy conserving and environmental enterprises as well as new energy projects. It conducted intensified list management of loans granted to LGFVs and the real estate industry, and strictly controlled lending to industries experiencing overcapacity. It enhanced the corporate financial services offering of its outlets through improved marketing and new products launching and enhanced e-banking services, which led to balanced growth across its large-, medium- and small-sized customer bases. In addition, the Bank accelerated the integrated development of its domestic and overseas operations, growing its base of high-quality overseas corporate customers while continuing to support China's "Going Global" enterprises. The Bank also maintained its leading position in the Asia-Pacific overseas syndicated loan market thanks to on-going improvements to its overseas syndicated loan centre.

The Bank proactively developed its "Green Credit" business, improving measurement standards for environmental and social risk and actively adapting to market volatility in the energy conserving industry. By enhancing support to the green credit business, the Bank's credit scale increased steadily. As at the end of 2011, the balance of its outstanding green credits was RMB249.4 billion, exceeding the previous year's balance by RMB22.6 billion.

As at the end of 2011, RMB-denominated corporate loans of the Bank's domestic operations increased by RMB334.334 billion or 11.49% compared with the prior year-end. The balance of foreign currency-denominated corporate loans was USD91.079 billion, maintaining the Bank's market leading position. The Bank's customer structure further improved, with the number of key customers developed by the Head Office and branches increasing to nearly 2,000 and 7,000, respectively. In 2011, the Bank was awarded the "Best Development Bank" and the "Best Trading Bank" for its syndicated loans by the China Banking Association.

Domestic Settlement and Cash Management

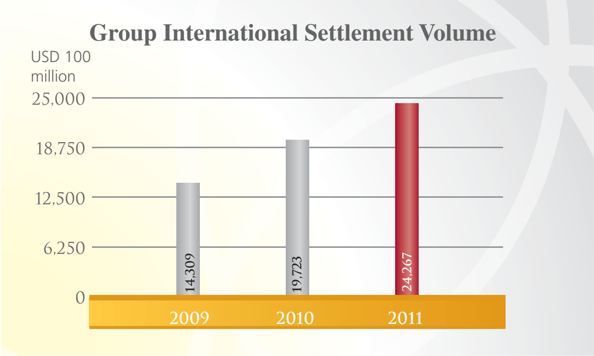
The Bank focused its efforts on product innovation and promotion, launching products such as "Credit on Checks", "Settlement Card for Corporate Customers", "Bills Pool" and "Bank Bill Acceptance Guaranteed by Margin and Interests", and promoting a series of domestic settlement services, such as " Online Capital Verification", "Agency Service for Central Treasury" and various service solutions for the retail industry. The Bank drew upon its globally integrated, multi-currency diversified business platform to optimise its "BOC Global Cash Management" service, which provides customers with an integrated global cash management solution including account services, payment and collection, liquidity management, investment and financing management and cross-border cash management. By offering efficient fund collection and allocation across its domestic and overseas operations, as well as an integrated display of customers' worldwide bank accounts, the Bank helped customers to improve the effectiveness and efficiency of their financial management. In 2011, the quality of the Bank's global cash management platform was widely recognised by the market, receiving such awards as the "Best Contributor to Cash Management Industry in China" and the "Best Cash Management Bank of 2011" from *TreasuryChina*, the "Best Cash Management Bank – Most Reliable Bank for Chinese CFOs (2011)" from *CFO*, and the "Best Liquidity Management Bank Partner" from *EuroFinance*.

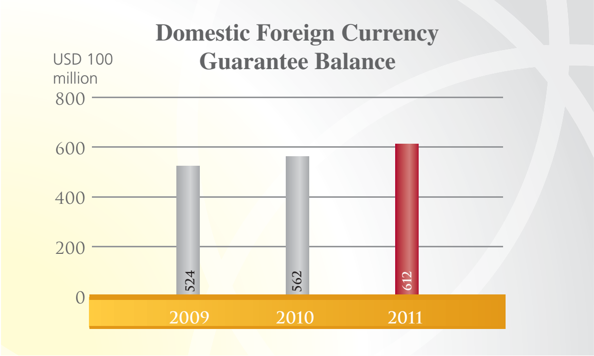
International Settlement and Trade Finance Business

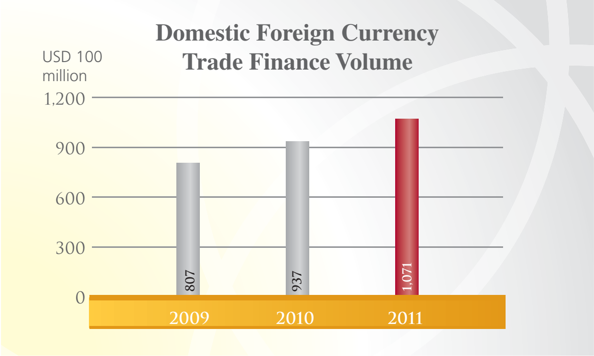
By leveraging the advantages of its group-wide integrated business operations, the Bank accelerated product innovation and enhanced its core competitiveness in trade finance. It thus maintained its leading position in the market by achieving a constantly rapid development in trade finance business despite a complicated environment and fierce market competition. The Bank was recognised as the "Best Chinese Trade Finance Bank" by various local and international media, such as *The Asset, FinanceAsia, Trade Finance* and *China Business*.

The Bank's international settlement business also developed steadily and continued to lead the market. In 2011, the transaction volume of international settlement business conducted by the Group reached USD2.43 trillion, an increase of 23.04% over the prior year. For domestic institutions, the transaction volume of the Bank's international settlement business rose by 24.84% and reached USD1.34 trillion, among which the volume of international trade settlement increased by 27.14% to USD1.15 trillion, highest among its peers. For overseas institutions, the transaction volume of international settlement business reached USD1.08 trillion, up by 20.87% compared with the prior year.

The Bank made full use of its distinct competitive advantages in the guarantee markets, and continued to maintain its leading position in the factoring market. As at the end of 2011, the balance of RMB-denominated and foreign currency-denominated letters of guarantee of the Bank's domestic institutions







was RMB383.771 billion and USD61.158 billion, respectively, up by 23.43% and 8.78% compared with the prior year-end, far ahead of its domestic peers. In 2011, the Bank's domestic institutions conducted USD29.598 billion of international factoring business, an increase of 48.29% compared with the prior year. Among this, the volume of "two-factor export factoring" was USD4.405 billion, leading the world for 46 consecutive months.

The Bank also maintained its leading position in the trade finance market and achieved substantial growth in its overseas trade finance volumes. As at the end of 2011, the balance of foreign currency-denominated trade finance conducted by the Bank's domestic institutions was USD47.227 billion, ranking top among its peers, while the balance of RMB-denominated trade finance conducted by the domestic institutions was RMB229.991 billion, up RMB69.090 billion over the prior year-end. The balance of trade finance conducted by the Bank's overseas institutions (excluding BOCHK) reached USD25.403 billion, up by USD11.522 billion compared with the prior year-end.

The Bank's brand value was further enhanced through constant innovation in its trade finance products. In response to changes in the market situation and in customer demand, the Bank successfully launched innovative products such as accounts receivable pool financing, Export Credit Agency (ECA) factoring, ECA Forfaiting and E-Taxation Guarantee. Moreover, the Bank grasped market opportunities arising from the rapid development of large-scale commodity trading across the world by offering financing solutions to support large-sized commodity trades in the petroleum and non-ferrous metals industries. The Bank developed the innovative business model of "Rong Huo Da + Forward Commodity Hedge against Inflation", and successfully launched the standard warehouse receipt pledge financing with a hedging component. The Bank also promoted the application of TSU (Trade Services Utility) globally and established the Forfaiting Centre (Singapore) and the Bulk Commodity Financing Centre (Singapore), so as to provide integrated trade finance services for global customers through its network of overseas institutions.

Financial Institutions Business

The Bank strengthened its cooperation with other financial institutions through innovation, experienced a steady growth in its RMB deposits from financial institutions, and led its peers in foreign currency deposits. The Bank's market share of bancassurance and third-party custodian business continued to rise, while its volume of B-share clearing led the market. The Bank also broke new ground in its cross-border businesses, ranking first in the domestic market in terms of incoming international settlement business volume directed to the Bank by overseas correspondent banks. In addition, overseas correspondent banks from a total of 67 countries and regions have opened 630 cross-border RMB-denominated clearing accounts with the Bank, further consolidating the Bank's leading position. The Bank vigorously promoted its "China Desk" model, with new China Desks established in the United Arab Emirates ("UAE") and Chile, in addition to those already in operation in Oman, Peru and Ghana, all providing tailored services to "Going Global" Chinese enterprises. Meanwhile, the Bank signed Memorandums of Understanding with eight banks in Taiwan, actively expanding its businesses in areas such as cross-border RMB trade settlement, syndicated loans, inter-bank lending and Qualified Foreign Institutional Investors ("QFII"). Cooperating with more than 2,600 domestic financial institutions, as well as 1,500 overseas correspondent banks and their Chinese branches and subsidiaries, the Bank continued to lead the market in terms of financial institution customer coverage.

Small Enterprises Business

The Bank earnestly developed its ability to meet the differentiated financial services needs of small-sized enterprises through product innovation and service upgrading. It developed products tailored to the specific characteristics of various small enterprises, such as "Zhongguancun Model", "Ying Shi Tong Bao", and "Mian Dai Tong Bao", which are designed to support the high-tech, cultural innovation, and agriculture-related small businesses respectively. The Bank also developed financing products to serve small enterprises based on their industry chain and supply chain. Brand recognition of the "BOC Credit Factory" continued to improve, with the Bank winning the "Outstanding Service Institution among Banks" award and the "Outstanding Service Products among Banks" award at the 2011 International Conference for the Outstanding SME Service Providers. As at the end of 2011, the number of small enterprise loan customers reached 38,600, an increase of 91.07% compared with the prior year-end. The Bank's outstanding loans to small enterprises increased by 62.34% to RMB388.597 billion from the prior year-end. NPLs amounted to RMB6.982 billion and the NPL ratio was 1.80%, a decrease of 1.00 percentage point compared with the prior year-end.

Investment Banking Business

In 2011, the Bank offered a comprehensive range of investment banking services including debt financing, commercial loans with embedded equity options, asset-backed structured financing and Mergers and Acquisitions ("M&A") advisory. In addition, the Bank prudently developed its wealth management services and continually transformed its wealth management products, thus improving their profitability. By integrating the operations of its domestic and overseas branches and subsidiaries, the Bank managed to

Cross-border RMB business

In 2011, accompanied by the increasing globalisation of RMB, the pilot-runs of cross-border RMB business in Chinese Mainland was broadened to the entire country. Policies for Overseas Direct Investments ("ODI") and Foreign Direct Investments ("FDI") by RMB have been initiated in order to set up the RMB globalisation regulatory mechanism in terms of "Trading + Investment + Off-shore Markets".

Fully taking advantages of its leading position and based on the fundamental cross-border RMB settlement and clearing businesses, the Bank actively promoted the construction of global RMB clearing network meanwhile leveraging the development of on-shore and off-shore business and steadily extending emerging businesses such as ODI and FDI, thus providing versatile products and services of RMB international businesses to clients in China and overseas.

The Bank's cross-border settlement business maintained leading position in the market. The Bank's domestic institutions conducted cross-border RMB settlement of nearly RMB780 billion, accounting for a market share of over 30%. Following the booming growth of off-shore RMB businesses and serving as clearing bank in Hong Kong, BOCHK transacted businesses valuing over RMB1.77 trillion and RMB550 billion as clearing bank and participating bank respectively, while the Bank's other overseas institutions handled more than RMB420 billion of businesses. The Bank's domestic institutions handled cross-border RMB settlement for tens of thousands of customers from over 100 countries and regions across telecom equipments, electronic products, transportation, chemical, manufacturing, wholesale and retail industries.

The Bank's global clearing network started to form. Through its domestic correspondent banks, Hong Kong and Macau clearing banks and overseas secondary clearing banks, the Bank had opened over 600 cross-border RMB clearing accounts for overseas participating banks from Asia, Europe, America, Oceania and Africa and established global clearing network preliminarily.

The underwriting and investment of RMB-denominated bonds has been growing rapidly. Choosing Hong Kong as business platform, the Bank engaged in 18 underwritings of RMB-denominated bonds in Hong Kong market, which amounted to RMB26.5 billion and accounting for 26% of market share. Hong Kong and Macau branch actively carried out the domestic RMB-denominated bond investment.

Products and services of overseas RMB related business kept flourishing. The Bank is enlarging its cash business from Asia-Pacific to the larger overseas areas with its RMB cash wholesaling business doubled in volume. BOCHK and the Bank's branches and subsidiaries in Macau, Sydney, Malaysia, etc. have been actively promoting the RMB credit card business with active credit cards issued reaching 45,000 by the end of 2011.

In the future, the globalisation of RMB business faces unique historical opportunities of development. The Bank will take full advantage of RMB clearing as main channel to effectively boost the all-around development of overseas RMB related businesses as clearing, exchanging, depositing, lending and treasury markets operation.

assist its key clients in issuing stocks and bonds and completing cross-border M&A projects. In 2011, the revenue of the Bank's investment banking business increased by 18.03% from the prior year to RMB24.443 billion. The brand reputation of the Bank's investment banking business was enhanced further. In 2011, the Bank was awarded with the "Best Financial Advisory Bank", the "Best M&A Project", and the "Best Innovation Bank" by the *Securities Times*.

Pension Business

The Bank committed itself to the development of China's national social security system and gradually enlarged the scope of its pension business, extending its product offering from corporate pensions to occupational pensions, social security, employee benefits planning and other fields. As at the end of 2011, the number of pension record-keeping contracts reached 2.8227 million, the capital under custody reached RMB32.901 billion, and the number of clients serviced exceeded 8,500. Newly-opened individual pension accounts reached 1.2101 million with new capital under custody reaching RMB7.773 billion, an increase of 75.70% and 30.93% compared with the prior year, respectively.

Personal Banking Business

The Bank grasped the opportunity of rapid growth in personal wealth in China by enlarging its customer base, with the focus on middle and high-end customers, and strengthening the innovation of its products and services. It deepened business transformation and channel construction and increased efforts in cross-border development, leading to significant improvement in the Bank's competitive position and steady growth in operating results. In 2011, the Bank's domestic personal banking business realised a profit before income tax of RMB32.980 billion, an increase of RMB4.669 billion or 16.49% compared with the prior year.

Personal Deposits

The Bank strengthened product innovation efforts in its deposits business so as to meet the diverse needs of its customers. The Bank comprehensively promoted the MoneyGram remittance business and extended coverage of its deposit account SMS notification service. By actively exploring the market in central and western China and cultivating new business growth areas, the Bank promoted the sustainable development of personal deposits. Together, this achieved further growth in the Bank's personal deposits business. As at the end of 2011, the number of domestic effective customers grew 17.10% to 153 million, the highest growth rate of recent years. The balance of RMB personal deposits amounted to RMB3,165.161 billion, an increase of RMB389.610 billion or 14.04% compared with the prior year. The balance of foreign currency personal deposits amounted to USD29.331 billion, maintaining the Bank's leading position among peers.

Personal Loans

The Bank actively implemented the Chinese government's macro-economic regulatory policies, strictly carried out differentiated housing loans policy and assisted residents in purchasing their first houses for own use. The Bank maintained its personal housing loans business at a steady level. It strived to consolidate its leading position in secondary residential mortgage loans, personal auto loans and sponsored student loans, and emphasised innovative products such as personal loans for commercial premises, personal business loans (including "Yi Nong Dai") and personal loans for studying abroad. By deeply exploring potential customer demand and constantly accelerating innovation, the Bank significantly enhanced its customer service capability and realised sustainable and healthy development in its personal loan business. By the end of 2011, RMB-denominated personal loans from domestic operations increased by RMB173.172 billion or 14.23% compared with the prior year-end.

Wealth Management and Private Banking

The Bank actively promoted the transformation of its wealth management and personal banking business into a comprehensive services model and accelerated the construction of service channels under its three-tier wealth management structure. By the end of 2011, the Bank had established 3,699 wealth management centres, 166 prestigious wealth management centres and 19 private banking centres in the Chinese mainland, while also making initial progress in developing Asia-Pacific and European wealth management platforms. It enriched its wealth management product lines to meet diversified client needs, introducing over 1000 financial products during the year, including the BOC-Changyu Wine Trust, and a series of alternative investments in assets such as chinaware, jade, and ceramics. The Bank established and further improved its advisory service offering and information platform so as to broaden its range of value-added services, which improved its expertise and service capabilities for middle and high-end customers.

The Bank made full use of its global service network, and provided clients with comprehensive, diversified and customised global services. The Bank built service networks in 19 key areas in the Chinese mainland, established private banking operations in Hong Kong and Macau, providing banking and non-banking customised financial products and services to high-end customers worldwide. By the end of 2011, the number of middle and high-end customers increased by more than 80%. Within that, the number of private banking customers grew by over 60%, while assets under management reached RMB300 billion. The Bank's wealth management and private banking business also won several awards, such as the "Best Wealth Management Bank" and the "Best Private Banking in China", from leading domestic and overseas mainstream media including *Euromoney, Asian Banker, Financial Times, Hexun.com, China Business News, 21st Century Business Herald*, etc.

Bank Cards Business

The Bank further improved its bank card products structure and enhanced the functions and services of its bank card products, providing unique and comprehensive services to its clients. The Bank leveraged the advantages of the Great Wall Global Card's multi-functional status in an effort to develop its customer base. The Bank was first to launch social security bank IC cards and promoted dual currency IC cards in Macau. The Bank also paid great attention to customer upgrades, vigorously promoting platinum cards and launching the Bank of China American Express Card, the first product in China to be specially designed for private banking customers. The Bank has also established a platform for overseas card issuance, with credit cards issued in UK and Thailand during 2011. To guarantee the safety of on-line transactions, the Bank took the lead in providing a series of new services including China UnionPay CNP and 3D Secure online payment. Through the application of credit scorecards, anti-fraud application scorecards and 7x24 transaction monitoring techniques, the Bank constantly improved the effectiveness of its risk-management. As at the end of 2011, the Bank's active credit cards totalled 30.86 million, a year-on-year increase of 42%, debit cards totalled 194 million, a year-on-year increase of 30.18%, and social security bank cards totalled 14.48 million. The trading volume was RMB464 billion, up 43% compared with the prior year. The volume of RMB card merchant acquiring transactions reached RMB1,728.7 billion, a year-on-year increase of 56%. The volume of foreign currency card merchant acquiring transactions amounted to RMB26.1 billion, a year-on-year increase of 25%.

Financial Markets Business

In 2011, the Bank continued to adjust its business structure, improve the operating effectiveness of its product lines, strengthen product innovation, cultivate new growth areas and promote its overseas RMB business, further consolidating the competitiveness of its financial markets business.

Investments

Throughout 2011, RMB-denominated bond yields traded at a higher level than historical averages. To take advantage of this, the Bank moderately increased its RMB-denominated bond investments, appropriately extended portfolio duration, increased the weighting of its investments in government bonds and purchased debenture bonds with high credit ratings, thus significantly improving the overall return of its investment portfolio. The Bank continued to reduce its holdings of foreign currency-denominated structured bonds, actively adopted effective measures to prevent sovereign risk and further optimised the structure of its foreign currency-denominated bond portfolio. The Bank strengthened centralised management of its overseas institutions' bond investment business and broadened the placement channel for overseas RMB funds to engage in domestic inter-bank bond market investments, so as to enhance the yield levels of overseas RMB funds.

Trading

The Bank strived to push forward its overseas RMB business as part of the RMB globalisation process. As part of this, the Bank developed a quotation service for RMB overseas trades and actively promoted the integrated development of its domestic and overseas RMB businesses. The Bank continued to refine its market-making quotation, client-based and proprietary trading business. It introduced a public quotation business for a variety of non-USD currencies against RMB into China's inter-bank market, including the first quotation for exchange rates between RMB and Thailand Baht in the regional inter-bank market. The Bank was one of the first banks licensed to deal RMB-foreign currency options with customers and to offer volatility quotes for RMB-foreign currency options in the inter-bank market. It also formally introduced a purchase and sale business for the spot exchange of RMB against the Kazakhstan Tenge. In 2011, the Bank accelerated the development of certain targeted products, such as foreign exchange forwards and precious metals. As a result, it advanced far ahead of its Chinese peers in terms of volumes for foreign exchange purchase and sale with customers. Its forward foreign exchange trading market share reached 33.31%, further consolidating its leading position. Meanwhile, its Gold Facility and Two-way Gold Facility volume increased by 125%, which led to the Bank ranking top in terms of transaction volumes on the Shanghai Gold Exchange.

Client Business

The Bank intensified market research, improved product functions, and introduced new products such as "RI JI YUE LEI – Monthly Scheme", which further satisfied the customers' increasing wealth management demands. Prudent and compliant in its operations, the Bank strengthened the coordinated and comprehensive management of its wealth management business. The Bank implemented a business strategy for the comprehensive development of its fee-based business and was one of the first banks to issue super commercial paper ("SCP") and private placement notes ("PPN"). It continued to strengthen product line construction and management, enhanced its professional competence in debt underwriting and built up its bond distribution network, significantly increasing its market competitiveness. The Bank ranked third in terms of publicly offered debt financing instruments, up by one position compared with the prior year. Moreover, the Bank successfully completed multiple cross-border risk management transactions and promoted its commodity hedging business to clients, further strengthening its overall customer service capacity.

Custody Business

The Bank further reinforced cooperation with key customers including fund management companies, the National Council for Social Security Fund ("NCSSF") and insurance companies, boosted custody service levels and information technology abilities and enhanced its overall customer relationship management performance. The Bank actively researched, developed and promoted innovative custody services for infrastructure debt investment planning, RMB Qualified Foreign Institutional Investors

("RQFII") and cross-border exchange traded funds. It was also the first in the Chinese banking industry to introduce a "one-stop" global custody service, and the first to provide a yield benchmark comparison service for enterprise annuities. Furthermore, it launched a global custody system in its key overseas branches. As at the end of 2011, assets under custody of the Group approached RMB3 trillion, leading its peers. The Bank was named the "2011 Best Custodian Bank" organised by the *Financial Money* in partnership with the Institute of Finance and Banking, Chinese Academy of Social Sciences.

Village Bank

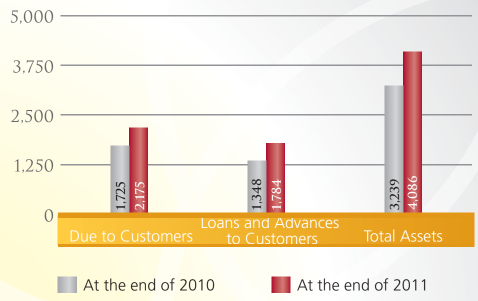
The Bank explored innovative business models to serve China's agriculture, rural areas and farmers, achieving remarkable progress. The Bank and its strategic investor Fullerton Financial Holdings had jointly established 18 BOC Fullerton Community Banks. Their business volumes grew steadily, with outstanding deposits reaching RMB880 million and outstanding loans reaching RMB460 million as at the end of 2011, with zero NPLs.

Adopting a "simple, convenient and fast" community banking model, BOC Fullerton Community Banks focused on providing world-class financial services to customers and with an emphasis on differentiated customer value proposition and business innovation. Regarding the specific financial needs of customers in rural areas, the Bank introduced three product series comprising a total of 14 products, namely, "Growth Loan", "Loan at Demand" and "Unsecured Loan", comprehensively covering the growth cycle of rural households, micro and small enterprises and individual customers, and effectively resolving their difficulties in obtaining letters of guarantee and loans. The Bank took specific steps to aid the development of new infrastructure for rural areas and demonstrated a strong sense of social care and responsibility by contributing to local communities, thus winning unanimous recognition and compliments from the public and media.

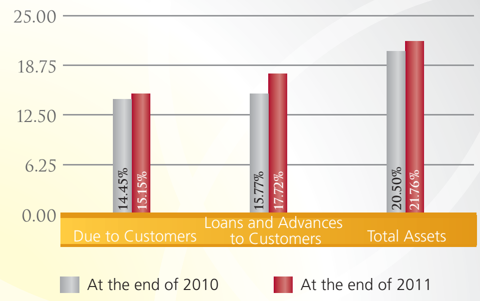
Commercial Banking Business in Hong Kong, Macau, Taiwan and Other Countries

In 2011, faced with complex and volatile international financial markets, the Bank's overseas businesses adhered to the approach of "specialised operations, intensive management, and integrated development of domestic and overseas businesses". Seizing the historic opportunities of the government's "Going Global" strategy and cross-border RMB business development, the Bank further leveraged its consolidated strengths and proactively transformed their business models, quickening the pace of global network extension and improving cross-border financial services. With strengthened core competitiveness and greater capability for sustainable development, the overall efficiency and market position of the Bank's overseas operations were enhanced.

Due to Customers, Loans and Advances to Customers and Total Assets of Hong Kong, Macau, Taiwan and other Coutries (USD 100 million)



Proportion of Due to Customers, Loans and Advances to Customers and Total Assets of Hong Kong, Macau, Taiwan and other Coutries (%)



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The Bank strengthened the balanced management of its overseas assets and liabilities, and optimised its business mix and customer structure. The Bank's customer deposits experienced noticeable growth through the continuous expansion of its overseas funding sources, while overseas customer loans experienced steady growth through the execution of "Going Global" projects and the loans to key local customers. The Bank's overseas institutions are increasingly capable of self-driven business growth and the Bank's development has become significantly more integrated and globalised. By the end of 2011, the Bank's commercial banking operations in Hong Kong, Macau, Taiwan and other countries achieved an increase of 26.15% on total assets, while amounts due to customers grew by 26.12% and loans and advances to customers surged by 32.36%, compared with the prior year-end. Profit before income tax was USD4.631 billion, an increase of USD1.331 billion or 40.34% compared with the prior year, and accounted for 17.30% of the Group's total profit before income tax, up by 1.93 percentage points compared with the prior year.

The Bank has proactively built up its globalised customer service model and improved its global relationship managers system with a view to widening its customer base. By deepening the globalised nature of its operations, the Bank was able to provide comprehensive services to the "Going Global" enterprises, Fortune 500 companies and other overseas enterprises. The Bank also continued to promote its traditional strengths in products such as overseas syndicated loans, export credit, trade finance and international settlement, while developing highly value added products and services. The Bank provided one-stop financial services for cross-border customers, including Chinese citizens working and studying abroad, business travellers, Chinese emigrants and visitors to China, by developing its overseas card business and integrating the resources underpinning its quality products and services. The Bank made a breakthrough in overseas RMB-denominated wealth management, with eight overseas institutions launching overseas wealth management products, among which six have introduced RMB-denominated wealth management products. The Bank also achieved significant progress in its key business platform development with the opening of Bulk Commodity Financing Centre (Singapore) and Forfaiting Centre (Singapore), becoming the first Chinese-funded bank that set up such platforms outside China. This helped the Bank further integrate regional business resources within the region and enhance its customer service capabilities.

In 2011, the Bank further improved its worldwide customer services platform and capabilities by establishing branches and "China Desk". During the year, the Bank set up a total of twelve new overseas institutions, including an Istanbul Representative Office in Turkey and secondary institutions in Japan, Canada, Australia, Indonesia, Kazakhstan, Hungary and Zambia, which enlarged a global network that now covering Hong Kong, Macau, Taiwan and thirty-two countries. The Bank also fully utilised the resources of its correspondent banks and successfully opened new China Desks in Oman, Ghana, Peru, the UAE and Chile.

Commemorative banknotes of Hong Kong and Macau,
and stamps in celebration of the Bank's centenary year

BOCHK

BOCHK continued to actively pursue its balanced growth strategy. It achieved broad-based growth by consolidating its strong advantages in traditional businesses, constructing new business platforms, and enhancing its productivity of various business channels. Closely following the "Going Global" strategy for RMB, BOCHK expanded its RMB fund deployment channels and further improved its competitiveness, reinforcing its leading position. Active collaboration was fostered within the Group and the Bank's one-stop service capability has been greatly enhanced. As a result, the Bank has experienced continual improvement in its operational efficiency. During the year, Standard & Poor's raised BOCHK's long-term credit rating from "A-" to "A+". In 2011, BOCHK achieved profit before income tax of RMB20.359 billion, up by 17.36% compared with the prior year.

BOCHK's core banking businesses experienced strong growth and its competitiveness was constantly enhanced. Amid keen market competition, BOCHK maintained a stable growth in total deposits by strengthening its marketing campaigns and optimising its product mix. BOCHK achieved a balanced and healthy growth in its lending business through a selective strategy and improved pricing on new loans. It maintained its leading position in residential mortgage and in the China UnionPay ("CUP") card issuing business. In 2011, BOCHK remained the top mandated arranger in the Hong Kong-Macau syndicated loan market and received the "SME's Best Partner Award" for the fourth consecutive year.

BOCHK continued to boost its RMB clearing business, strengthening its market leadership. In 2011, BOCHK was successfully reappointed as the designated clearing bank for RMB business in Hong Kong. By leveraging the unique advantage of being an RMB clearing bank, BOCHK has essentially established an offshore RMB clearing network covering major regions of the world. BOCHK also introduced value added services under the clearing bank business, including RMB Fiduciary Account Services and RMB Repo Facilities. Meanwhile, BOCHK actively expanded its RMB fund deployment channels and further improved its service platform. Consequently, the overall profitability and operational efficiency have been well enhanced.

BOCHK further expanded its product spectrum and enhanced its overall service capabilities. Fully leveraging opportunities from the offshore RMB business, it introduced a series of new products and services in Hong Kong, including RMB cash management, RMB insurance, innovative trade finance products, "BOC CUP Dual Currency Commercial Card", "BOCHK RMB Bond Fund" and "BOCHK RMB High Yield Bond Fund". BOCHK also extended its banknote business to the Asia-Pacific regions and other overseas areas in order to meet customers' full business needs. In addition, it optimised its automated banking service facilities and further enhanced the functions of its e-banking platform.

BOCHK continued to deepen customer relationships and enhanced its total solution services to its customers. Further linkage was made with respective business platforms within the Group, uplifting the one-stop service capability. It enhanced its business relationship with large corporations and optimised SME-related loan schemes. It also provided differentiated and customised services as well as cross-border wealth management services to its high-end customers.

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

Management Discussion and Analysis — Business Review

Diversified Business Platform

In 2011, the Bank's subsidiaries earnestly implemented its comprehensive strategy on operational reform and development and fully leveraged their professional expertise in order to maximise their benefit to the Group. Business platforms including investment banking, insurance and direct investment have continuously contributed to the Bank with diversified income source.

Investment Banking Business

BOCI

The Bank operates its investment banking business through BOCI, its wholly owned subsidiary incorporated in Hong Kong. In response to highly volatile capital markets, BOCI enhanced its collaboration with the Bank and fully promoted its marketing and project execution functions. These efforts enabled it to achieve a profit for the year of RMB1.205 billion in 2011.

BOCI's equity financing and financial advisory business showed steady development. In 2011, BOCI played the key role in nine initial public offerings ("IPOs") and four placements, and completed two M&A financial advisory projects. Among these projects was the IPO of Hui Xian REIT, the first RMB-denominated IPO in Hong Kong and a landmark in the process of RMB globalisation and in the development of Hong Kong as an RMB offshore trading centre.

The bond underwriting business recorded a decent growth in 2011. Acting as lead manager, BOCI completed twenty-five projects, including overseas USD-denominated bond offerings, overseas RMB-denominated bond offerings and debt reorganisations, far more than in the prior year. BOCI ranked third in USD-denominated investment grade corporate bond underwriting in Asia (excluding Japan). The securities business maintained steady development, transforming its business framework towards a model that integrates both investment banking and commercial banking business. Meanwhile, BOCI's private banking business developed rapidly and now promotes a wide range of financial products.

BOCI's asset management business continued to lead the market. BOCI-Prudential newly launched the "BOCIP Asset Management Investment Funds" series, as well as two Hong Kong-listed exchange traded funds tracking thematic indices for Chinese mainland-listed securities. BOCI's leveraged and structured finance businesses expanded prudently and realised satisfactory profits, assisting a number of enterprises with services such as pre-IPO financing, shareholding financing, red-chip restructuring, M&A financing and large project financial advisory services. BOCI's private equity business achieved a major milestone in 2011 by serving as the lead sponsor for the "China Culture Industrial Investment Fund". The fund is the only cultural industry-focused investment fund with the honour to carry the name "China". During the year, the Bohai Industrial Investment Fund and China Infrastructure Partners, L.P. also continued to deliver encouraging performance.

BOCI launched its global commodities business in 2011, which grew rapidly and recorded a profit in its first year. BOCI is the first Chinese clearing member of the Chicago Mercantile Exchange ("CME") Group, which includes the New York Mercantile Exchange ("NYMEX"), New York Commodity Exchange ("COMEX"), Chicago Mercantile Exchange ("CME") and Chicago Board of Trade ("CBOT").

BOCI China

As a crucial business platform of the Bank operating its domestic securities business, BOCI China achieved outstanding performance in 2011 by implementing its development strategy, integrating its management framework, re-engineering its business flows, and enhancing cooperation with other business platforms within the Group.

The competitive advantages inherent in its underwriting business were further strengthened. BOCI China, acting variously as a lead underwriter, sponsor and joint lead underwriter, successfully completed the year's largest initial public offering on the Main Board of SSE, the largest subordinated bonds issuance in terms of funds raised, and ranked fourth in the market for total equity and debt underwriting volumes in 2011. As well as maintaining its competitive advantages in large-scale equity and debt underwriting projects and achieving a strong underwriting income, BOCI China proactively expanded its SME business via its "large-medium-small" multi-level approach.

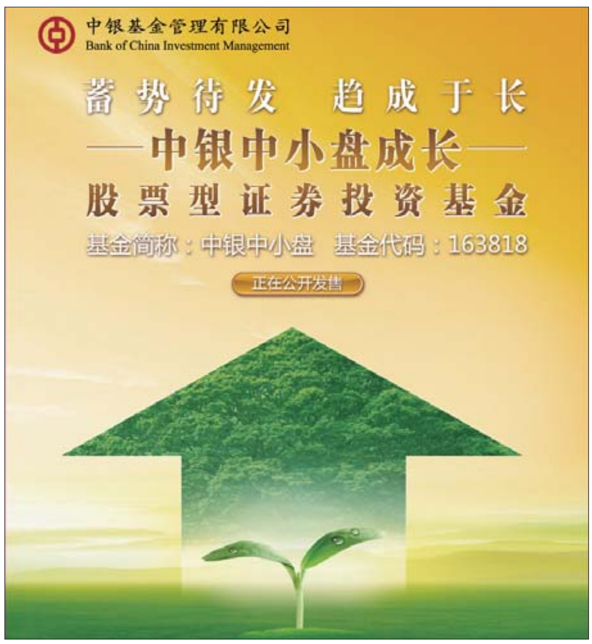
BOCI China extended and optimised its network of brokerage businesses. During the year, BOCI China established five new outlets, further expanding the coverage of its institutional sales function. In 2011, BOCI China was recognised as the "Best Institutional Sales Team" (NO.1) and the "Most Improved Institutional Sales Team" (NO.2) by the Fifth Crystal Ball Awards, organised by *Securities Market Weekly*.

BOCI China's asset management business expanded, with the total principal of entrusted funds under its management surging by RMB2.3 billion from the prior year-end. The asset management business enhanced its product development and completed the design of the "China-red Cash Fund" and the "China-red Bond Fund" collective asset management programmes. It further advanced its product research system to raise its support capabilities for various business segments. It was awarded the "Most Independent Research Institute" (NO.2), the "Most Innovative Research Institute" (NO.2) and the "Most Influential Research Institute" (NO.4) by the Fifth Crystal Ball Awards, organised by *Securities Market Weekly*.

In addition, BOCI China actively explored new avenues of business innovation with successful results. It launched a proprietary equity trading business and actively promoted the establishment of the "BOC SME Equity Fund" to broaden the offering of its direct investment business. BOCI China refined the strategic positioning of its futures business and developed an extensive financial futures capability. Meanwhile, preparations for a margin lending and short selling business proceeded smoothly.

BOCIM

BOCIM achieved sound business development in 2011 by further strengthening its abilities in four key areas: investment research, sales performance, product development and customer relationship management. During the year, BOCIM successfully launched eight new funds: four publicly offered funds, two "one-to-multi discretionary accounts" and two "one-to-one discretionary accounts". As at the end of 2011, its assets under management amounted to RMB54.5 billion, a rapid rise of 37%, over the prior year-end, well exceeding the market. BOCIM's brand reputation and image were also burnished, as evidenced by inclusion in the "Top 10 Golden Bull Investment Managers", the leading awards in the Chinese fund industry.



Management Discussion and Analysis — Business Review

Insurance Business

BOCG Insurance

The Bank engages in its insurance business through BOCG Insurance, its wholly owned subsidiary registered in Hong Kong. BOCG Insurance mainly operates general insurance business, as well as life assurance business through BOCG Life, which is jointly owned with BOCHK (Holdings). BOCG Insurance has five branches in Hong Kong and holds a dominant position in the Hong Kong property insurance market.

By strengthening its cooperation with correspondent banks, BOCG Insurance proactively promoted insurance products tailored to the Bank's customer demands as well as "low risk high return" personal insurance products, enhancing overall synergies. BOCG Insurance actively marketed its medical insurance products while improving the functionality of the related product system. Meanwhile, its distribution channel expanded into the online selling of personal insurance products, and renewals were enhanced by selecting quality insurance agents. In 2011, BOCG Insurance recorded a gross premium income of HKD1.619 billion, an increase of HKD61 million or 3.91% compared with the prior year.

BOCG Life

BOCG Life continued to implement the "needs-based sales" approach, strengthen its product innovation and optimise the product mix. With its significant efforts in developing various RMB insurance products, such as "Target 5 Years Insurance Plan Series", "Multi-Plus Savings Insurance Plan" and "RMB Universal Life Insurance Plan", BOCG Life successfully maintained its leadership in Hong Kong's RMB insurance business. In 2011, BOCG Life's gross premium income was HKD12.9 billion, an increase of 49% compared with the prior year.

BOC Insurance

The Bank operates its property insurance business via BOC Insurance in the Chinese mainland. BOC Insurance implemented its bancassurance development strategy in line with the principles of "professionalism, competence and uniqueness". Pressing a focus on the Bank's distribution channel, BOC Insurance strived to balance its development in either efficient and high-quality market channels or new channels and deepened the business transformation and optimisation of its business structure. During 2011, BOCI Insurance achieved a rapid growth in premium income and profitability, with a premium income of RMB2.928 billion and a year-on-year increase of 14.2%.

In 2011, it launched eight innovation bancassurance products, such as credit insurance (C) and domestic trade credit insurance (B) to meet the customers' diversified financial services demands in banking, insurance, etc. In order to support the Group's "Going Global" development strategy, BOC Insurance actively explored and promoted overseas channels and operations. BOC Insurance provided insurance cover for overseas construction projects such as Bata Port of Equator Guinea and Friendship Port of Mauritania, and boosted its involvement and brand awareness in the international insurance market.

Investment Business

BOCG Investment

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

In 2011, BOCG Investment actively adapted to changes in regulatory policy and the market environment, and reinforced its balanced management approach by enhancing its capabilities in asset portfolio management and product innovations. It continued to broaden its market-oriented financing channels and achieved further integration with the Group's overall business operations, thus maintaining healthy and stable business development. During 2011, BOCG Investment realised a profit for the year of HKD3.564 billion, an increase of HKD446 million or 14.31% compared with the prior year.

Cooperating more closely within the Group, BOCG Investment continued to expand its business by leveraging the Bank's strengths in the commercial banking in order to boost the Group's overall profitability. In 2011, BOCG Investment assisted in consolidating the Group's visa business, and invested CAD100 million in Sunshine Oilsands Ltd. of Canada. BOCG Investment accelerated the restructuring of its asset base and realized a recovery of HKD5.298 billion for the year. It also maximised the efficiency in capital utilisation through the progressive development of its businesses. Furthermore, BOCG Investment increased the proportion of high-performing quality assets and steadily pushed forward its non-performing asset investment and real estate investment business.

Integration of Domestic and Overseas Operations

In 2011, the Bank seized the opportunities brought by a more proactive opening-up policy implemented by the government, and made full use of the competitive advantages of its diversified business platform. In addition to the unification of its strategy, brand, customers and channels, it also increased its focus in innovation to satisfy the all-round needs of customers. In addition, the Bank enhanced its cross-border service ability and realised good operating efficiency.

The Bank solidified domestic customer base and seized opportunities for achieving success. Domestic commercial bank customers are the basis of the Bank's businesses and the source of the coordination between domestic and overseas operations. Guided by the "customer-centric" concept, the Bank built a cross-regional joint marketing mode to improve the response speed regarding customer's needs. It also obtained chances for the coordination of domestic and overseas operations by closely tracking the financial needs of customers, and established long-term mutually beneficial partnerships with their needs to response to the impact caused by economic cycles.

The Bank sharpened its competitive edge by focusing on its overseas business platform. Based on a global operational network and rich experiences in international finance as well as knowledge on relevant laws, regulations and taxation policies in different countries and regions, the Bank designed optimal financing methods, remittance routes and tax structures for "Going Global" enterprises, and also provided low-cost and highly effective financial service schemes helping them to solve legal and tax problems encountered during overseas operation.

The Bank leveraged the advantages of its connectivity with other industries to develop "win-win" proposition for the Bank and other enterprises. By effectively integrating its domestic and overseas operations and resources from its diversified business platforms, the Bank designed a range of products and provided a "one-stop" financial service for customers in the area of commercial banking, investment banking and insurance. The Bank constantly deepened and extended the cooperation between the Bank and enterprises, supported the "Going Global" strategy of domestic enterprises, and satisfied their diversified business needs in order to achieve mutual benefits.

In 2011, the Bank's commercial banking division recommended over 300 projects to diversified business platform, including listing and refinancing, debts issuances, M&A, direct equity investment and asset-backed structured financing. By completing equity investments, IPO projects, share placement projects and bonds issuance businesses, etc., the diversified business platform effectively propelled the growth of commercial banking businesses including deposit, fund transfer, foreign exchange settlement and guarantees.

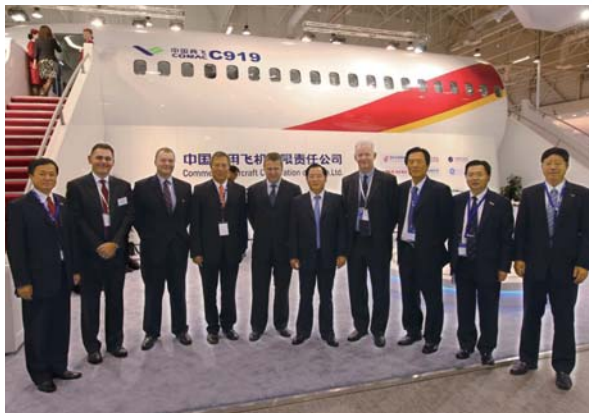
In the future, the Bank will further enhance its range of financial services offering and deepen its relationship with key customers to increase customers' loyalty and solidify competitive strength through enhancing business coordination and integration of its cross-border advantages.

Management Discussion and Analysis — Business Review

BOCG Investment took full advantage of the robust corporate demand for direct equity investment in the Chinese mainland, exploring new models and products for its equity investment business and improving its investment management capabilities. In 2011, the BOCGI Zheshang Investment Fund completed its first round of funding raising of RMB4.16 billion. The fund has invested in six projects so far with a total investment amounting to RMB659 million, and in 2011, became the first fund located outside of Beijing, Tianjin and Shanghai to obtain National Development and Reform Commission ("NDRC") approval. Its fund management company was also recognised as "Best Venture Capital Firm" of the year. In 2011, BOCG Investment received approval to invest USD100 million in PAG Asia I, USD50 million in Hony Capital Fund V, and prepared for the launch of the Northeastern China Industry Revitalisation Fund. Meanwhile, it developed asset-backed structured financing products and actively explored the possibility of setting up an overseas fund of funds ("FOF") and a USD-denominated fund.

BOC Aviation

The Bank engages in aviation leasing business through BOC Aviation, its wholly-owned subsidiary. In 2011, BOC Aviation took delivery of 28 aircraft, with its aircraft portfolio reaching 183 at the year-end, of which 158 were self-owned and 25 were managed on behalf of other parties. These aircraft were in service with 47 airlines operating in 29 countries worldwide. By promoting the Group's products to its aviation industry partners, BOC Aviation established sound financing relationships with airlines and manufacturers. In 2011, BOC Aviation achieved a profit for the year of USD201 million, an increase of 20% compared with the prior year, the highest in history. As at the end of 2011, total assets grew 14% to USD7.6 billion from the prior year-end.



Delegates from BOC Aviation visited COMAC's C919 mock-up during Paris Air Show in 2011

Channel Management

In 2011, guided by its strategic development plan, the Bank actively made full utilisation of advanced technology and industrial experience, endeavored in the reconstruction and upgrade of outlets and sped up the construction of innovative electronic service channels, aiming to build a safe and convenient service channel in order to provide diversified and customised financial services and channel experience for the customers. Traditional outlets and electronic service channels were developed in a coordinated manner, resulting in significant improvements in both efficiency and quality of customer service.

The construction of outlets was enhanced and the performance of outlets was improved. Based on the customer-oriented concept, the Bank built up large-middle full functional outlets by improving outlet function. The Bank improved its outlet management with a focus on performance management. In order to improve its marketing capacity, the Bank established a corporate customer marketing scheme through classifying outlets, differentiating customers, categorising products and separating responsibilities.

Operation and service processes were enhanced through the establishment of a centralised operation system and comprehensive account opening procedures for personal customer, which improved operational efficiency and notably reduced customer waiting time. In addition, the Bank optimised the strategic distribution of its outlets, emphasising in new towns, new communities, new industrial parks and targeted important counties. By the end of 2011, the number of domestic commercial banking outlets reached 10,225, of which over 1,500 were middle to large-sized full-functional outlets. The Bank was honoured with the "Best Branch Banking in Asia Pacific" award from *Asian Banker*.

The Bank provided more self-service facilities and equipped them with new functions. As at the end of 2011, the number of domestic ATMs and self-service terminals in operation reached 30,000 and 16,000, up by 6,000 and 2,000, from the prior year-end. The self-service bank was 9,400, increased by 1,800 from the prior year-end. Corporate and personal customers can now deposit funds into personal accounts via ATMs simply by typing in their account numbers, removing the need to use a passbook. The self-service terminals have upgraded to offer foreign exchange settlement and sales services using passbooks, and now accept IC cards. The Bank also set self-service machines for currency exchange. The self-service features have greatly enabled the Bank to diverge the customers from the traditional over-the-counter service and are undoubtedly a leading practice among industry peers.

The Bank continuously improved its e-banking channels to provide better online service. Keeping pace with the consistently improvement in traditional outlets, the Bank has further built up e-banking channels covering online banking, telephone banking, mobile banking, self-service banking and home banking and enriched its functions in providing safe, convenient and integrated online financial services, and thus achieved a rapid growth in its customer base. As at the end of 2011, the number of e-banking customers exceeded 130 million or up by 72.45% from the prior year-end, while the substitution ratio of e-banking channels for traditional outlets was 67.78%, up by 13.82 percentage points.

The Bank comprehensively upgraded its online banking system, driving a significant increase in business scale. Online corporate banking was enhanced to satisfy customers' needs, with improvements in services such as loan inquiry, credit card repayment, corporate wealth management products trading, accounts receivable financing application and international settlement documents services. Online personal banking was upgraded for the Bank's credit card and asset management services. The Bank also launched an online pension service and e-payment card business to improve customer experience. As at the end of 2011, online corporate banking customers exceeded 1.08 million, up by 158.86% from the prior year-end. Transaction volumes for online corporate banking exceeded RMB60 trillion, and the Bank maintained its leading position in the market for the online payment of customs duties. Online personal banking customers exceeded 55 million, up 121.67% from the prior year-end, and transaction volumes for online personal banking exceeded RMB6 trillion, increased by 47.32% compared with the prior year.

The Bank's mobile banking service was enhanced and the number of mobile users grew rapidly. A variety of new services were launched, including two-way transaction services for gold and foreign exchange, fund transfers to designated accounts, and wealth management products trading. A 3G customised WAP version of the mobile banking service was provided and applications for the Android and iPad were launched, which included the e-Map and Fidget services. By the end of 2011, mobile banking users exceeded 17 million, 27 times more than that of the prior year.

The Bank completed successful pilot runs for its home banking service and further expanded its scope and functions. In response to the China's three-network convergence strategy, the Bank rolled out its home banking service in Henan, Hunan and Yunnan provinces, following a successful trial run in Zhejiang Branch. The Bank launched a series of new home banking service functions, such as remittance, credit card and household investments in funds and bonds, on top of its traditional services of account inquiry, TV payment and bill payment service.

The Bank's e-Business offering was enriched and its product categories were expanded. B2C payment was developed to provide personal banking customers with more payment choices and a better payment experience, including wealth management direct payment, contract payment and BOC express payment. The express payment product was also added to the Bank's B2B payment service, which improved the Bank's overall e-business service ability.

Overseas e-Banking services were enhanced and became more widely available. With the launch of online banking in Phnom Penh and Brussels in 2011, the Bank's online banking service now covers 29 countries and regions. Online global account management services were launched in the UK and France, and the local online banking service was upgraded in the Netherlands, Singapore and Manila. In addition, the Bank launched a pilot programme for overseas mobile banking services in the UK.

In 2011, the Bank received 19 important awards, including the "Most Competitive Online Banking in China" from the China Financial Certification Authority, the "Mobile Financial Service Innovation" from the China Electronic Commerce Association, the "Excellent Competence e-Banking in 2011" from the *China Business Journal*, the "e-Banking of the Best Brand Value" from Tencent.com, the "Best e-Banking" award from Eastmoney.com, the "Best Corporate Online Banking in 2011" from Hexun.com, and the "Best Online Banking" and the "Best Mobile Banking" from the *Securities Times*.

IT Blueprint Implementation

In October 2011, the new core banking system of the Bank rolled out across all domestic institutions, providing operational services for the Head Office, 34 tier-one branches and over 10,000 outlets. This signalled the Bank's transformation from being "account-centric" to "customer-centric". It realised the system integration and the unification of data standards, and built up its "three centres in two regions" infrastructure platform. With the implementation of this system, the Bank has achieved a significant leap forward in IT and improved the integration of business and technology. The new system will allow technology to take a leading role in driving innovation in the Bank's business, services and management. The Bank received the sole "Outstanding Award" from the 2011 Banking Technological Development Awards hosted by the PBOC.

With the successful implementation of the IT Blueprint project, the core banking system and over 100 peripheral application systems of the Bank were replaced and upgraded. An application system framework was built covering the entire value chain of delivery channels, customer management, product management, finance and accounting and management information. The "customer-centric" service mode and uniform management system featuring centralised management for customer information was realised, which facilitated centralised business processing and customer account information enquiries, shortened business processing time and enhanced customer experience. The Bank built a flexible and comprehensive parameter customisation system that simplified the process of product research and development ("R&D"), customisation and launch, and thus helped the Bank respond more quickly to market developments. Moreover, the Bank completed a centralised accounting system through centralised clearance and financial reporting management, which enhanced real-time and effective fund transfer and remittance and improved internal fund management capabilities, resulting in further optimisation of the management process. In addition, the Bank improved its internal control management system. An all-round operational risk control system was built through centralised management of all tellers, comprehensive transaction control and flexible authorisation management, thus realising automated control in key business process and enhancing risk control capabilities. A basic IT framework for the implementation of the New Basel Capital Accord was also built, enhancing the technology supporting risk management.

The successful implementation of the IT Blueprint project accelerated the transformation of the Bank's business, thus promoting better internal control and higher service levels. It shifted certain front-office operations to the back-office, such as the processing of international remittances. Back-office operations became more centralised in areas such as international enquiry. The Bank prepared and executed schemes for centralising operations within the same city in order to reduce the pressure on tellers. The Bank also boosted the development of a uniform payment platform, cross-border RMB clearing system and group-wide whole-process internal control mechanism, and sped up the construction of the telephone banking system and customer service centres.

In the future, the Bank will fully leverage the business advantages arising from the new system, continue its efforts to improve system functions, and push forward the extension of the IT Blueprint overseas. By focusing on the integration of business and technology, the Bank will speed up process reengineering and foster strong and efficient back-office operational capability. The Bank will closely monitor the impact of changes in global industry, technology and customers development, with a view to enhancing management reform and business development, expanding its customer base and service coverage, improving customer experience and bolstering its service capability and competitiveness.

Management Discussion and Analysis — Risk Management

In 2011, the Bank intensely pushed forward the integration, refinement and specialisation of its risk management function with improved comprehensive risk management system and enhanced risk control ability to prevent and mitigate risks, and promoted its risk structure.

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

The risk management framework of the Bank is comprised of the Board of Directors and its Risk Policy Committee, the Risk Management and Internal Control Committee (which is in-charge of the Anti-Money Laundering Committee, the Securities Investment and Management Committee and the Asset Disposal Committee), the Risk Management Unit, the Financial Management Department and other related departments. The Board of Directors of the Bank is responsible for approving the overall risk management strategy and risk appetite, and supervises the management to carry out the strategy. The management is responsible for implementing the risk management strategy, risk preferences and policies determined by the Board of Directors, as well as monitoring and being accountable for the risks existing in the business undertakings. Departments with the risk management function are responsible for the daily management of various risks, and also dedicated to identifying, measuring, monitoring, controlling and reporting those risks. The Bank manages risk at the branch level through a vertical management model and manages risk at the business department level through a window management model. The Bank monitors and controls risk in its subsidiaries by delivering its risk management requirements through representatives to the subsidiaries' boards of directors and their risk policy committees.

Credit Risk

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

In 2011, the Bank closely tracked the changes in the macro economy and financial markets as well as changes in regulatory requirements. It improved its credit risk management policies, accelerated the adjustment of credit structure, restricted management of the credit process, and intensified its credit risk monitoring and analysis, with a view to fostering more proactive and forwardlooking risk management.

In perspective of corporate banking, the Bank stepped up its efforts in supervision on key industries and the adjustment of credit structure. It formulated the guidelines for industry credit granting of 2011 in accordance with the government's macro-economic regulatory measures and industrial policies. It improved its portfolio management plan and monitored its implementation on a monthly basis, thus guiding the optimisation of the industry structure across the Bank. Devoting more efforts to forwardlooking research and strictly following the evolving regulatory policies, it strengthened the management of loans granted to LGFVs. The Bank strictly controlled loan's gross scale and preference through credit limit management, standardised the criteria and process for the clean-up and reclassification of existing loans granted to LGFVs. It also launched a campaign across the Bank to examine LGFVs loan risks, and took multiple measures to mitigate risks. The Bank implemented the government's real estate control policies and regulatory measures, effectively controlling its real estate credit and optimising its credit structure. It also increased support to differentiated credits for the government's Affordable Housing Project. Meanwhile, the Bank studied the risk features of medium-sized enterprises, explored the differentiated credit approval model, supported the development of its supply chain financing business, improved and promoted "Credit Factory" mode designed for small and medium-sized enterprises.

In perspective of personal banking, the Bank rationally controlled personal lending and optimised its credit structure. To be in line with the state policies and regulatory requirements, the Bank implemented a differentiated personal housing loan policy, proactively supported the demand of first home mortgage for purchasing residential property, and boosted the healthy development of the personal housing mortgage business. It stepped up the monitoring and management of personal housing loans, kept a close eye on the trends in the real estate market, and carried out stress testing and risk investigation for personal housing loans to prevent cyclical risk. The Bank improved its risk management policies and product policies for personal credit, intensified the analysis and monitoring of personal credit risk, strengthened personal credit management, took precautions against duplicated credit and over credit, and followed the "three measures and one guidelines"[3] of the China Banking Regulatory Commission ("CBRC") to enhance comprehensive process management for its personal credit business. Moreover, the Bank paid special attention to and strengthened the risk management for credit card business, optimised the credit decision-making system, improved the dynamic monitoring of card issuance and usage, so as to curb credit card fraud risk.

The Bank enhanced credit process and asset quality management. It strengthened the monitoring of credit risk and assets quality and tightened post-lending control. The Bank carried out periodical inventory checks of its credit assets, and enhanced its risk early warning and active risk management. The Bank strengthened cross-border group customer management, improved the sovereign risk management systems, adjusted the limit determination method, and optimised the supporting management system.

The Bank measured and managed the quality of credit-bearing assets based on the *Guideline for Loan Credit Risk Classification* issued by the CBRC, which requires Chinese commercial banks to classify loans using the following five asset quality categories: pass, special-mention, substandard, doubtful and loss, among which loans classified in the substandard, doubtful and loss categories are regarded as NPLs. In 2011, the Bank continued its centralised management of loan classification across domestic operations, i.e., all corporate loan classifications are reviewed and approved by the Head Office and tier-one branches. To improve the refined risk management for credit assets, 13-tier risk classification system was implemented for domestic corporate loans. In classifying the loans, consideration was given to various factors that will affect the quality of loans with the core criteria being the probability of asset recovery and the extent of loss. To obtain a loan's final risk classification, the Bank must perform standardised process of classifying, checking, reviewing and approving. The loan classification may be revised when there are significant

3 Three measures are "Interim administrative measures for fixed assets loans", "Interim administrative measures for working capital loans" and "Interim administrative measures for private loans", one Guideline is "Guidelines for the project financing", issued by CBRC.

changes to its credit risk status. The *Guideline for Loan Credit Risk Classification* is also applicable to the overseas operations of the Bank. However, the Bank will classify credit assets in line with local applicable rules and requirements if they are stricter.

As at the end of 2011, the Group's NPLs totalled RMB63.274 billion, representing an increase of RMB0.804 billion from the prior year-end, and the ratio of non-performing loans to total loans dropped by 0.1 percentage points to 1.00% compared with the prior year-end. The Group's allowance for impairment losses on loans and advances was RMB139.676 billion, representing an increase of RMB16.820 billion from the prior year-end. Allowance for loan impairment losses to NPL ratio was 220.75%, an increase of 24.08 percentage points compared with the prior year-end. NPLs of domestic operations totalled RMB60.926 billion, representing an increase of RMB0.418 billion from the prior year-end. The ratio of NPLs to total loans dropped by 0.1 percentage points to 1.17% compared with the prior year-end. The Group's outstanding special-mention loans amounted to RMB192.504 billion, an increase of RMB44.459 billion compared with the prior year-end, accounting for 3.03% of total outstanding loans, up by 0.41 percentage points compared with the prior year-end.

Five-category Loan Classification

Unit: RMB million, except percentage

	As at 31 December 2011		As at 31 December 2010		As at 31 December 2009	
Items	**Amount**	**% of total**	Amount	% of total	Amount	% of total
Group						
Pass	**6,087,036**	**95.97%**	5,450,106	96.28%	4,696,573	95.65%
Special-mention	**192,504**	**3.03%**	148,045	2.62%	139,067	2.83%
Substandard	**26,153**	**0.41%**	28,603	0.50%	35,858	0.73%
Doubtful	**24,584**	**0.39%**	20,784	0.37%	26,148	0.53%
Loss	**12,537**	**0.20%**	13,083	0.23%	12,712	0.26%
Total	**6,342,814**	**100.00%**	5,660,621	100.00%	4,910,358	100.00%
NPLs	**63,274**	**1.00%**	62,470	1.10%	74,718	1.52%
Domestic						
Pass	**4,966,201**	**95.33%**	4,556,215	95.76%	3,965,698	95.20%
Special-mention	**182,567**	**3.50%**	141,862	2.97%	128,222	3.07%
Substandard	**24,964**	**0.48%**	27,142	0.57%	33,752	0.81%
Doubtful	**23,621**	**0.45%**	20,531	0.43%	25,655	0.62%
Loss	**12,341**	**0.24%**	12,835	0.27%	12,386	0.30%
Total	**5,209,694**	**100.00%**	4,758,585	100.00%	4,165,713	100.00%
NPLs	**60,926**	**1.17%**	60,508	1.27%	71,793	1.72%

Migration Ratio (%)

Items	2011	2010	2009
Pass	**2.56**	2.02	2.40
Special-mention	**12.94**	5.13	10.07
Substandard	**55.42**	23.05	25.60
Doubtful	**5.68**	15.66	9.76

In accordance with International Accounting Standard No.39 ("IAS 39"), loans and advances to customers are considered impaired, and allowances are made accordingly, if there is objective evidence of impairment resulting in a measurable decrease in estimated future cash flows from loans and advances. As at the end of 2011, the Group reported identified impaired loans totalled RMB63.306 billion, a decrease of RMB0.57 billion compared with the prior year-end. The Group's impaired loans to total loans ratio decreased by 0.13 percentage points to 1.00% compared with the prior year-end. The Bank's domestic operations reported identified impaired loans totalled RMB61.159 billion, a decrease of RMB1.052 billion compared with the prior year-end. The domestic impaired loans to total loans ratio was 1.17%, representing a reduction of 0.14 percentage points compared with the prior year-end. Operations in Hong Kong, Macau, Taiwan and other countries reported identified impaired loans of RMB2.147 billion and an impaired loans to total loans ratio of 0.19%, up by RMB0.482 billion and 0.01 percentage points compared with the prior year-end, respectively.

Movement of Identified Impaired Loans

Unit: RMB million

Items	2011	2010	2009
Group			
Balance at the beginning of the year	**63,876**	76,006	90,879
Increase during the year	**20,804**	20,780	28,676
Reduction during the year	**(21,374)**	(32,910)	(43,549)
Balance at the end of the year	**63,306**	63,876	76,006
Domestic			
Balance at the beginning of the year	**62,211**	73,680	87,352
Increase during the year	**19,726**	20,020	27,519
Reduction during the year	**(20,778)**	(31,489)	(41,191)
Balance at the end of the year	**61,159**	62,211	73,680

Loan and Identified Impaired Loans by Currency

Unit: RMB million

	As at 31 December					
	2011		2010		2009	
Items	Loans	Impaired loans	Loans	Impaired loans	Loans	Impaired loans
Group						
RMB	**4,775,494**	**50,541**	4,149,806	54,583	3,525,018	65,506
Foreign currency	**1,567,320**	**12,765**	1,510,815	9,293	1,385,340	10,500
Total	**6,342,814**	**63,306**	5,660,621	63,876	4,910,358	76,006
Domestic						
RMB	**4,634,915**	**50,056**	4,127,410	54,359	3,510,236	64,950
Foreign currency	**574,779**	**11,103**	631,175	7,852	655,477	8,730
Total	**5,209,694**	**61,159**	4,758,585	62,211	4,165,713	73,680

The Bank makes adequate and timely allowance for impairment losses in accordance with prudent and established principles. Allowances for impairment losses on loans consist of individually assessed and collectively assessed allowances. As at the end of 2011, domestic institutions' ratio of allowance for loan impairment losses to total loans was 2.56%. Please refer to Notes II.4 and VI.3 to the Consolidated Financial Statements for further discussion of the accounting policy in relation to allowances for impairment losses.

In 2011, the Group's impairment losses on loans and advances stood at RMB19.272 billion, an increase of RMB3.708 billion compared with the prior year, and the credit cost was 0.32%, an increase of 0.03 percentage points compared with the prior year. Impairment losses on loans and advances in domestic operations totalled RMB18.927 billion, an increase of RMB4.213 billion compared with the prior year, with the credit cost of 0.38%, an increase of 0.05 percentage points compared with the prior year.

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

Main regulatory ratios	Regulatory standard	As at 31 December 2011	As at 31 December 2010	As at 31 December 2009
Loan concentration ratio of the largest single borrower (%)	≤10	3.1	2.9	3.8
Loan concentration ratio of the ten largest borrowers (%)	≤50	18.9	20.2	28.0

Notes:

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

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

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

The following table sets forth the ten largest individual borrowers at 31 December 2011:

Unit: RMB million, except percentages

Borrower	Industry	Outstanding loans	% of total loans
Customer A	Water, environment and public utility management	26,428	0.42%
Customer B	Transportation and logistics	21,944	0.35%
Customer C	Water, environment and public utility management	20,000	0.32%
Customer D	Mining	18,135	0.29%
Customer E	Power, mining and agriculture	16,034	0.25%
Customer F	Business, services	13,862	0.22%
Customer G	Production and supply of electric power, gas and water	12,538	0.20%
Customer H	Water, environment and public utility management	12,111	0.19%
Customer I	Transportation and logistics	11,887	0.19%
Customer J	Manufacturing	10,086	0.16%

Market Risk

Market risks are the risks that may cause losses in both on and off-balance sheet assets and liabilities as a result of adverse changes in market prices (interest rates, exchange rates, stock prices and commodity prices).

In 2011, the Bank continued to intensify the monitoring and early warning system for market risk at the group level, and improved the management of interest rate risk in the banking book as well as the exchange rate risk. Through the implementation of Basel II & III, the Bank continuously optimised its limit structure and risk monitoring process, and hence further enhanced the market risk management.

In line with the principle of unified management, the Bank intensified the risk monitoring and analysis of its overall transactions business and enhanced the market risk management for its domestic and overseas branches and non-commercial bank subsidiaries. It reinforced the derivative management, improved relevant risk management policies, and stepped up forwardlooking analysis and active risk management of emerging hotspot issues in the markets. For more details regarding market risks, please refer to Note VI.4 to the Consolidated Financial Statements.

The Bank assessed the interest rate risk borne by the banking book mainly through analysis of interest rate re-pricing gaps. It made timely adjustment to the structure of assets and liabilities based on changes in the market situations, and controlled the fluctuations of net interest income within an acceptable range. At the same time, the Bank further intensified the unified management of the bond by adjusting bond investment strategies and strengthened the management of bond investment risk through the timely optimisation of the bond investment structure, reducing portfolio risk.

Assuming that yield curves of all major currencies were to shift up or down 25 basis points in parallel, the Group's banking book sensitivity analysis of net interest income on major currencies was as follows[4]:

Unit: RMB million

	As at 31 December 2011			As at 31 December 2010		
	RMB	**USD**	**HKD**	RMB	USD	HKD
Up 25 bps	**(2,184)**	**301**	**43**	(2,552)	242	(456)
Down 25 bps	**2,184**	**(301)**	**(43)**	2,552	(242)	456

In terms of the management of exchange rate risk, the Bank sought to achieve currency matching between fund resource and application, and managed the exchange rate risk through hedging transactions, hence effectively controlling the foreign exchange exposure.

4 This analysis is based on the approach prescribed by the CBRC, which includes all off-balance sheet positions. It is presented for illustrative purposes only, and is based on the Group's gap position as at the end of 2011 without taking into account any change in customer behaviour, basis risks or any prepayment options on debt securities. The table has only shown the potential impact on the Group's net interest income of interest rates moving up or down 25 basis points.

Liquidity Risk

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

In 2011, facing the tightening situation of RMB and foreign currency liquidity, the Bank adopted a proactive and forwardlooking liquidity management policy that stroke a balanced between security, liquidity and profitability, significantly improving the liquidity risk indicators. The Bank endeavoured to expand core deposits to enhance the stability of funding sources, and seized opportunities of low interest rates in overseas markets to broaden the channels of funding sources. The Bank also strengthened the control of internal funds and reasonably guided the direction of fund application. In addition, the Bank intensified the management of liquidity reserve and established a liquidity early warning system to prevent liquidity risk.

The Bank continued to refine its liquidity stress testing mechanism and conducted quarterly stress testing. The testing results showed that the Bank would be able to pay due debts and sustain its asset business in distressed scenarios. As at the end of 2011, the Bank's liquidity position, as shown in the table below, met regulatory requirements. (Liquidity ratio is the indicator of the Group's liquidity; excess reserve ratio and inter-bank ratios are the indicators of liquidity of the Bank's operations in the Chinese mainland)

Major regulatory ratios		Regulatory standard	**As at 31 December 2011**	As at 31 December 2010	As at 31 December 2009
Liquidity ratio (%)	RMB	≥25	**47.0**	43.2	45.3
	Foreign currency	≥25	**56.2**	52.2	55.6
Excess reserve ratio (%)	RMB	–	**2.9**	2.1	2.7
	Foreign currency	–	**24.3**	14.6	10.3
Inter-bank ratio (%)	Inter-bank borrowings ratio	≤4	**0.82**	1.00	1.04
	Inter-bank loans ratio	≤8	**2.25**	1.08	2.82

Notes:

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

Liquidity gap analysis is one of the methods used by the Bank to assess liquidity risk. Liquidity gap results are periodically calculated and monitored and used for sensitivity analysis and stress testing. As at 31 December 2011, the Bank's liquidity gap situation was as follows: (for details of the liquidity position, please refer to Note VI.5 to the Consolidated Financial Statements.)

Unit: RMB million

Items	As at 31 December 2011	As at 31 December 2010
Overdue	**12,777**	11,136
On demand	**(3,886,641)**	(3,770,963)
Up to 1 month	**625,317**	293,431
1–3 months	**(407,214)**	(107,056)
3–12 months	**372,733**	127,728
1–5 years	**1,417,396**	1,809,370
Over 5 years	**2,621,526**	2,312,504
Total	**755,894**	676,150

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

Reputational risk

In 2011, the Bank earnestly implemented the *Guidelines for Reputational Risk Management of Commercial Banks* of the CBRC, and followed its reputational risk management policy. It promoted reputational risk management tools, such as promoting the application of *Reputational Risk Reminder Cards* to timely monitor and report the information of reputational risk events, which enable the Bank to solve the reputational risk events smoothly. The Bank regularly analysed and studied reputational risk, and arranged for the Group's reputational risk management team to conduct researches and trainings. It also encouraged emergency drills on material reputational risk events, and built a related long-term prevention mechanism.

Internal Control and Operational Risk Management

Internal Control

In 2011, the Board of Directors, senior management and special committees earnestly performed the duties of internal control and supervision, and proactively enhanced the operational efficiency and effectiveness of the three internal control defence lines.

Branches, business departments and staff at various levels of the Bank are the first line of defence, responsible for internal control when promoting business development. Adhering to the Group's risk appetite and principles of management intensified and risk controllable, the Bank streamlined, optimised and integrated its grass-roots internal control measures and monitoring methods, thus improving the overall effectiveness of the first defence line.

The Risk Management Unit and the business management departments are the second line of defence. They are responsible for the overall planning of internal control policies, and for directing, examining, monitoring and assessing the work of the first line of defence. The Bank's second line of defence paid close attention to changes in internal and external risks, strengthened risk forewarning ability and actively responded to emergencies, making the Bank's risk management and internal control more forwardlooking. It closely tracked the status of the Bank's management over risks arising from the newly operated IT Blueprint system, and improved the risk control mechanism interface for outlets, accounts and tellers, achieving enhanced risk management. As part of its "Year for Deepening Internal Control and Case Prevention System Execution" campaign, the Bank carried out inspections to assess the implementation of its internal control system, especially at grass-roots outlets and counters. Focusing on fraud risk, it supervised the first line of defence in fulfilling its self-monitoring functions and implementing internal control polices and regulations.

The Internal Audit Department performed its responsibility as the third line of defence. It pushed forward audit transformation, innovated the working framework, rapidly responded to risk changes and enhanced overall professional duty performance. By carrying out several special audits and inspections, it constantly evaluated the implementation of the Bank's strategy and business transformation, as well as the establishment, execution and improvement of mechanisms for risk management and internal control. The Bank tracked risk changes and control measures in process reengineering following the implementation of the core banking system, intensified the audit supervision for the diversified operations, and strengthened risk control related to the large-scale development of its overseas businesses, which contributed to the continuous improvement of the risk management and control.

The Bank continued to implement the *Basic Rules on Enterprise Internal Control* and relevant implementation guidelines, and enacted the *Bank of China Implementation Plan on the Basic Rules on Enterprise Internal Control and the Implementation Guidelines*. In accordance with the guidelines of five factors of internal control, namely the control environment, risk assessment, control activities, information and communication, and internal supervision, the Bank further enhanced its governance structure, operating mechanisms, internal control policies, technical instruments and professional teams, and established and improved its internal control system in compliance with the requirements of the *Basic Rules on Enterprise Internal Control*.

The Bank strictly complied with the accounting regulations and developed its financial and accounting system. The Bank amended its accounting management policies and accounting measures for key businesses in response to the changes in financial and accounting regulations, the integration of internal management and the impacts of the new core banking system. In line with relevant accounting regulations, the Bank developed financial reporting and auditing management policies to standardise the procedures for the financial reporting and auditing process. These procedures and processes ensure the effectiveness of the Bank's internal controls over the financial reporting process. The financial statements of the Bank together with the relevant disclosure were prepared according to applicable accounting standards and regulations, and the accounting information disclosed in the financial statements fairly reflected the Bank's financial position, operating results and cash flows.

Operational Risk Management

The Bank defines operational risk as "losses caused by imperfect or problematic internal processes, personnel and systems or external events, including legal risk". Operational risk may occur in all business lines of the Bank, and the risks that may cause losses to the Bank include fraud and other external illegal activities, system failure or breakdown, business execution errors resulting from mistakes or malicious acts of internal personnel, and natural disasters.

The Bank manages its operational risk through a structure suitable to the scale and complexity of its businesses. The Operational Risk Department under the Risk Management Unit is responsible for the establishment and implementation of the Bank's operational risk management framework, which has improved the consistency and effectiveness of the Bank's operational risk management. All service lines, domestic and overseas institutions, constantly identify and monitor all operational risks and internal controls within their business scopes. The functional departments including legal compliance, IT, human resources, security and supervision provide professional technical support regarding operational risk management within their responsibilities and based on their expertise. The Internal Audit Department regularly inspects and assesses the effectiveness of the implementation of the Bank's operational risk management framework.

The Bank has built a uniform system of operational risk policies and regulations applicable to the entire Bank, in order to provide methods and guidelines for the professional, refined and standardised management of operational risk. The system is based on the following three aspects: (1) common classification standards for operational risk and unified the management language; (2) systematic management measures based on the management cycle of risk identification, assessment, mitigation, monitoring and reporting; and (3) a standardised management framework and operational mechanism for new products, business outsourcing and business continuity.

The Bank utilised a range of tools for managing operational risk, including: (1) conducting operational risk and control assessment ("RACA") in order to gain a dynamic understanding of the operational risk status of all business lines and institutions of the Bank, identify potential risks in business processes, systems and personnel, and take corrective measures for unacceptable risk exposure, (2) establishing Key Risk Indicators ("KRI"), by collecting statistics from its day-to-day business operations, and conducting quantitative monitoring and analysis of the likelihood, impact and effectiveness of certain controls for key risks, so as to give timely early warnings of any abnormities in KRIs and trigger investigation and rectification, and (3) engaging in operational Loss Data Collection ("LDC") across the Bank, allowing it to monitor the actual loss amounts and distribution of operational risks, conduct in-depth analysis into the causes of material operational risk events, and take appropriate rectification measures.

The Bank constantly monitored operational risk loss events occurred in domestic and overseas peers, analysed risk prevention problems arising from external events and enhanced its risk control ability. The Bank launched internal control inspections into high-risk business areas, recorded risk control problems identified in internal and external inspections, and adopted an internal control rectification mechanism featuring centralised management and unified follow-up, thus fostering the constant improvement in risk control. During 2011, 102 cases valuing RMB301.2879 million were successfully intercepted and no internal cases were reported, indicating an effective control of various operational risk issues. Meanwhile, the Bank successfully coped with the impacts of such material emergencies as the earthquake and nuclear leakage in Japan, effectively guaranteeing the sustainable and stable operation of its businesses.

Compliance Management

The Bank conducted proactive monitoring of compliance risk to strengthen its compliance control capability. It monitored compliance information such as the latest requirements, sanctions, inspections and assessments issued by relevant regulators, carried out comprehensive assessment and research into compliance risk, and established an early warning, rectification and mitigation mechanism for material compliance risk via the coordination of its business departments and legal and compliance departments. The Bank stressed the importance of group-wide sharing of compliance information and ensured the circulation and reporting of the overall and material compliance risk status of the Group. The Bank also formulated schemes for assessing the compliance management capabilities of its subsidiaries, enhancing the consolidated compliance risk management ability.

The Bank strengthened anti-money laundering control across the Group by successfully putting domestic anti-money laundering monitoring and analysis system into operation, and optimising its functions. The Bank comprehensively assessed the quality of customer anti-money laundering risk classification and due diligence investigation. The bank also stepped up monitoring for the report quality of suspicious transactions, established an off-site monitoring mechanism for reporting of domestic suspicious transaction data, and guided branches to strengthen manual identification and reduce redundant reports. In addition, the Bank pushed forward the cultivation of anti-money laundering experts, and launched a centralised identification model for suspicious transactions on a trial basis. By conducting multi-tiered, diversified and targeted anti-money laundering trainings and publicity, the Bank enhanced the anti-money laundering awareness of its staff and the risk monitoring capabilities of its outlet employees.

The Bank conducted comprehensive management of its connected transactions and internal transactions. It pushed forward the construction of a connected transactions monitoring system, updated databases of its related parties, and amended the *Administrative Measures for Connected Transactions*. All of these gradually improved the monitoring mechanism for connected transactions and the management quality and efficiency of related party information. The Bank issued the *Administrative Measures for Internal Transactions* to establish overall arrangements for the control of the internal transactions, and began to build an information reporting platform for internal transactions, thus making foundation for the information monitoring and reporting of the Group's internal transactions.

Management Discussion and Analysis — Risk Management

Basel II & III Implementation

The Bank paid close attention to the Basel II & III implementation, basing its overall implementation plans around the principles of "adaptability and applicability". By following regulatory requirements, enhancing risk management capability and boosting its transformation, the Bank pushed forward its preparations on various fronts and made remarkable progress.

The Bank has established the measurement management system for the three risks of Pillar I. The credit risk measurement module covers the exposure of corporate, financial institution, retail and sovereign risks. The overall verification of major models and supporting systems for this module has been completed. A regulatory capital system based on an internal model approach has been established for market risk, and the application of RACA, KRI and LDC with respect to operational risk has helped to improve the efficiency and effectiveness of the Bank's embedded management model. The Bank formulated the risk appetite quantification plan, and developed a material risk assessment model and an internal capital adequacy assessment model. It also continually improved stress testing technologies for credit risk, enhanced the timeliness and accuracy of information disclosure, and realised the coordinated advancement of Pillars I, II and III. The Bank made constant efforts to improve the internal rating system governance mechanism and the risk measurement supporting system. Its corporate credit management system was granted the "First Award of Technological Development of Banks" by the PBOC. The Bank implemented the pre-assessment rectification requirements, and completed the follow-up assessment of the CBRC.

Through the timely implementation of Basel II & III into its day-to-day risk management, the Bank has deepened and extended the application of internal rating results and risk parameter valuations to its strategy, its portfolio and its individual business units. In terms of strategy, the Bank strengthened the communication of the risk appetite, deepened performance evaluation of economic capital, Economic Value Added ("EVA") and Risk Adjusted Return On Capital ("RAROC") based on the internal rating approach, and guided business development based on capital, risk and income. With regard to its portfolio, the Bank conducted risk limit management, formulated detailed credit policy guidelines and portfolio management strategies, established a quantitative analysis and reporting system for Basel II & III risks, and promoted the optimisation of its asset structure. As for its individual businesses, the Bank enhanced the material effect of such risk quantification tools as the two-dimensional rating matrix, the RAROC measurement tool and risk mitigation measurement tool in the overall process of credit granting. The Bank gave full weight to the three major roles of Basel II & III as "a platform for coordinating various risks, a bridge connecting capital and risk, and a basis for communicating the Bank's strategy and risk appetite". The implementation of Basel II & III has supported the overall enhancement of the Bank's risk management and given further momentum to the Bank's strategic implementation and business transformation.

The Bank attached great strategic importance to tracking international and domestic regulatory reforms, and continued to study key systematic, global and overall issues with a view to making its risk management function more forwardlooking and proactive. It conducted in-depth research into the influence of Basel III and regulatory reform on G-SIFIs, formulated implementation plans for new regulatory standards and accelerated the implementation of the advanced approaches of Basel I, II & III. In light of the current domestic and overseas macroeconomic situations and the sovereign debt crisis, the Bank carried out sovereign risk internal rating so as to enhance the capability of its sovereign risk research. It also devoted more resources towards the training of risk measurement experts and the research into technical topics, and formed a professional team with the ability to develop independent models.

Capital Management

In 2011, in line with its medium and long-term capital planning, the Bank strengthened capital management, solidified its capital base and further enhanced its capital strength. As at the end of 2011, the Group's capital adequacy ratio and core capital adequacy ratio was 12.97% and 10.07%, respectively, both within target range. Its return on economic capital increased steadily, satisfying regulatory requirements and realising a sustained appreciation in shareholder value.

The Bank focused on the continuity and steadiness of its capital management and took steps to make it more forwardlooking and targeted. First, the Bank strengthened its capital restraint mechanism so as to promote intensive capital development. It improved its management of capital planning, strengthened the assessment of capital returns and limit indicators and guided the entire Bank to actively adjust business structures and continue to seek cost-effective capital allocation. Second, the Bank replenished its capital, having already made advanced preparations to do so. The Bank issued RMB32 billion of RMB subordinated bonds in the national inter-bank bond market, further improving its capital strength. Third, the Bank closely tracked changes in capital regulation and continued to follow up on and study the latest regulatory developments. The Bank carried out in-depth analysis of the impacts of changes in regulatory policy, proactively adapted to the regulatory requirements of G-SIFIs, and constantly improved its capital management capability.

The Bank held the Global Systemically Important Banks Forum in Beijing on 3 February, 2012

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

Organisational Management[5]

As at the end of 2011, the Bank had a total of 10,951 domestic and overseas branches, subsidiaries and outlets, including 10,365 branches, subsidiaries and outlets in the Chinese mainland and 586 branches, subsidiaries and representative offices in Hong Kong, Macau, Taiwan and other countries. For the commercial banking business in the Chinese mainland, there were 37 tier-one and direct branches, 296 tier-two branches and 9,891 outlets.

In 2011, the Bank actively pushed forward the construction of its Shanghai RMB Trading Unit to promote the professionalised operations and rapid business development. The Bank strengthened the logical integration of major Units such as the Corporate Banking Unit, the Personal Banking Unit, the Financial Markets Unit, the Risk Management Unit and the Operation Service Unit, so as to enhance management efficiency. The Bank accelerated the construction of an innovative management system, enhanced its research and innovative mechanisms, and further deepened comprehensive reform of the business operations and management patterns of its related subsidiaries.

Geographic distribution of organisations and employees

Unit: RMB million/unit/person, except percentages

	Assets		Organisations		Employees	
Items	Total assets	% of total	Number	% of total	Number	% of total
Northern China	4,925,502	35.22%	1,624	14.83%	51,107	17.63%
Northeastern China	570,983	4.08%	919	8.39%	25,271	8.72%
Eastern China	2,808,353	20.08%	3,462	31.61%	89,088	30.72%
Central and Southern China	1,941,179	13.88%	2,733	24.96%	67,606	23.32%
Western China	965,857	6.91%	1,627	14.86%	35,758	12.33%
Hong Kong, Macau and Taiwan	1,868,982	13.36%	493	4.50%	18,161	6.26%
Other countries	904,756	6.47%	93	0.85%	2,960	1.02%
Elimination	(2,155,546)					
Total	11,830,066	100.00%	10,951	100.00%	289,951	100.00%

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

Human Resources Development and Management

As at the end of 2011, the Bank had 289,951 employees. There were 268,830 employees in the Chinese mainland, which included 265,563 employees (containing 66,855 external contractual staff) in the domestic commercial banking business. There were 21,121 employees in Hong Kong, Macau, Taiwan and other countries. As at the end of 2011, the Bank had incurred retirement expenses for a total of 6,658 retirees.

[5] The statistic on number of organisation was adjusted in 2011, which excluded the non-operating outlets (except representative offices) and non-financial institutions. The total employees were adjusted by using the same approach. Due to the equity transfer of BOC Insurance, all the sub-entities of BOC Insurance was counted domestically, according to the new approach, there was an increase of 19 branches, subsidiaries and representative offices in Hong Kong, Macau, Taiwan and other countries over the previous year.

In 2011, in line with the development strategy and the Bank's priorities, the Bank focused on promoting talent cultivation and improving its quality of human resources, and focused upon optimising resource allocation. The Bank accelerated human resources management transformation and improved human resources management service system.

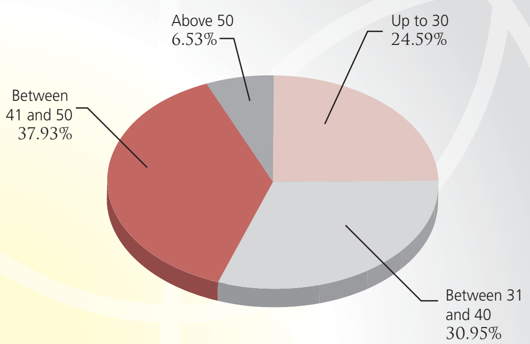
The Bank continued to cultivate its managerial, professional and operational teams via talent development projects such as the "Golden Collar Project" for international financial management talents and the "Superior Professional Project" for professional talents. The Bank made substantial efforts in training, running 54,452 training sessions with 2,073,768 participants in 2011.

The Bank continued to strengthen headcount management by maintaining reasonable personnel levels in its outlets, key business lines, overseas institutions and subsidiaries according to their business development needs; reinforced the performance-based cost allocation and guided its branches to constantly enhance business efficiency. Meanwhile, the Bank increased its human resources allocation to strategically important businesses and regions; properly increasing the total number of institutions, especially focused on increasing proportions of institutions in important regions, cities and counties.

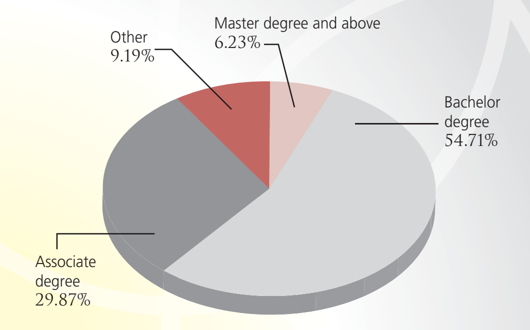
The Bank made active efforts to improve its human resources management service system. In its overseas institutions and subsidiaries, the Bank further standardised human resources management responsibilities, authority, process and decision-making mechanisms and optimised human resources management systems with improved incentive mechanisms.

The Bank continued to construct the Human Resources Shared Services Centre, and put the eHR system 1.0 version into operation smoothly, effectively enhancing the IT-based human resources management service level of the Group.

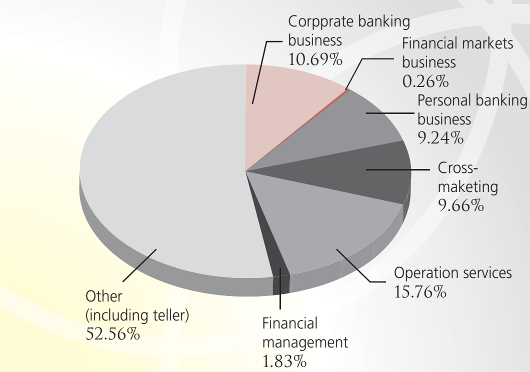
Composition of contracted staff by age group



Composition of contracted staff by education level



Composition of staff by job function



Note: The data were calculated based on the Bank's domestic commercial banking business.

Management Discussion and Analysis — Corporate Social Responsibilities

In 2011, the Bank continued to earnestly fulfill its corporate social responsibilities. It honoured and satisfied its social obligations by actively participating in the building of a harmonious society, making remarkable contributions to alleviating poverty and supporting the development of education, arts and culture.

The Bank took important and necessary steps to help eliminate poverty and promote the harmonious socioeconomic development. It continued to financially support educational development through the provision of government-sponsored student loans. In 2011, the Bank remained the sole lender of government-sponsored student loans for universities under central ministries. As at the end of 2011, it granted RMB17.9 billion of government-sponsored student loans to over one million students from 476 colleges and universities nationwide.

The Bank stepped up its efforts to support cultural undertakings. It continued to promote exchange and cooperation between Chinese and Western cultures through its position on the Board of Directors of the Lincoln Centre for the Performing Arts, and gave on-going support to the "Beauty of China, Show the World: the Culture-Based Development Goodwill Action for Ethnic Minorities in China", a programme launched by the United Nations Development Programme (UNDP) and Ms. Zhu Zheqin (a.k.a. Dadawa). It also embarked on a new round of cooperation with the National Centre for the Performing Arts on the "Classical Arts — Arts by Your Side" programme and supported the Chinese New Year celebrations held in London's Trafalgar Square.

The Bank's fulfillment of its social responsibilities was widely recognised by all sections of society. In 2011, the China Banking Association sponsored the first industry-wide appraisal of social responsibility reports in Chinese banking. The Bank outshone its peers, receiving the "Green Finance of the Year", the "Social Responsibility Innovation of the Year" and the "Social Responsibility Report of the Year". In addition, it was granted the "2011 Best Corporate Citizenship Award" by the *21st Century Business Herald*, the "CBN Corporate Social Responsibility Contribution Award" by *China Business News*, and the "Distinguished Contribution Enterprise Award" by Nanfang Media Group.

The Bank cooperated with National Centre for the Performing Arts to organise the "Bank of China 2012 New Year Performing Festival"


London Branch invited overseas Chinese students to practise in the bank

The Bank's staff explained to the community on the credit information system

- The Bank organised family activities for customers
- Employees from New York Branch participated in a dragon-boat race
- A charity walk held by Macau Branch
- The Bank's Chairman, President, Chairman of the Board of Supervisors and senior management joined with staff to celebrate the 100th anniversary of the founding of the Bank

Management Discussion and Analysis — Outlook

In 2012, faced with a complicated external environment, the Bank will continue to adopt a scientific outlook on development and earnestly implement the requirements of the Central Economic Work Conference and National Financial Work Conference. Carrying forward its fine, century-old traditions, the Bank will follow its strategic development plan, adhere to the principles of "streamlining structure, scaling up, managing risks and sharpening competitiveness", and promote innovative, transformative and cross-border development, all in the pursuit of balanced and sustainable growth. By establishing a customer-centric, market-oriented and technology-led global service system, the Bank will build up its leading capability for intelligent service and management, develop its business on a global scale and refine its service offering to meet the needs of the real economy. It will seize new opportunities with alacrity, sound judgment and precision, forging ahead towards its goal of becoming a premier multinational banking group.

Deepen channel construction and improve outlet efficiency. In order to realise stronger and better co-ordinated channel construction, the Bank will optimise outlet distribution, build up its self-service channels and call centers and strive for a leapfrog development in e-banking. To enhance channel management, the Bank will push foward the tiered and differentiated system of outlet management, upgrade its IT function and improve risk management and internal control efficiency. To improve service quality, the Bank will uphold its customer-centric principle, rapidly developing new products and optimising its outlet service and marketing procedures.

Reinforce technological advancement and sharpen core competitiveness. The Bank will establish a business development mechanism driven by technology and make in-depth analysis of data derived from the full range of its global and diversified business platforms. The Bank will set up a new innovation management system for its products, refine the new product development process, and integrate its group-wide product management. The Bank will further streamline its business process through simplifying front office operations to improve efficiency, strengthening middle office management to control risk, and centralising back office processes to reduce costs, so as to serve customers more efficiently and make its outlets operating more effectively.

Establish a global service system and achieve integrated development of domestic and overseas business. The Bank will build up its global and comprehensive service capacity by improving its global system of customer managers and establishing globally integrated product platforms and distribution channels. The Bank will strengthen its global management through a more unified and differentiated approach to its overseas institutions, rational allocation of financial and human resources, and better comprehensive risk management. Moreover, the Bank will upgrade its global support capabilities by pushing forward the development and implementation of the core banking system and its peripheral systems worldwide, in order to build up a globally integrated operation and service system.

Strengthen integrated management and promote business development. The Bank will pursue balanced growth and establish a resource-efficient development model, thus achieving a stronger asset and liability structure, enhanced cost effectiveness and well-developed sources of interest and non-interest income. In 2012, the Bank's domestic RMB-denominated loans will grow by approximately 12%. The Bank will make its risk management stronger and more forwardlooking by reinforcing analysis of systemic, regional and global risk. At the same time, it will accelerate its implementation of the New Basel Capital Accord and map out a plan to meet new regulatory standards for Global Systematically Important Financial Institutions. The Bank will improve its operational service capability through the construction of shared services centres, to provide its customers and frontline staff with a unified service standard across different products, services and regions.

Changes in Share Capital and Shareholdings of Substantial Shareholders

Disclosure of Shareholding under A-Share Regulation

Changes in Share Capital during the Reporting Period

Unit: Share

		1 January 2011		Increase/decrease during the reporting period					31 December 2011	
		Number of shares	Percentage	Issuance of new shares	Bonus shares	Shares transferred from the surplus reserve	Others	Sub-total	Number of shares	Percentage
I.	**Shares subject to selling restrictions**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.	State-owned shares									
2.	Shares held by state-owned legal persons									
3.	Shares held by other domestic investors									
4.	Shares held by foreign investors									
II.	**Shares not subject to selling restrictions**	**279,147,223,195**	**100.00%**	**-**	**-**	**-**	**110,384**	**110,384**	**279,147,333,579**	**100.00%**
1.	RMB-denominated ordinary shares	195,524,946,800	70.04%	–	–	–	110,384	110,384	195,525,057,184	70.04%
2.	Domestically listed foreign shares									
3.	Overseas listed foreign shares	83,622,276,395	29.96%	–	–	–	–	–	83,622,276,395	29.96%
4.	Others									
III.	**Total**	**279,147,223,195**	**100.00%**	**-**	**-**	**-**	**110,384**	**110,384**	**279,147,333,579**	**100.00%**

Notes:

1. As at 31 December 2011, the Bank had issued a total of 279,147,333,579 shares, including 195,525,057,184 A Shares and 83,622,276,395 H Shares.

2. As at 31 December 2011, none of the Bank's A Shares and H Shares were subject to selling restrictions.

3. During the reporting period, 110,384 shares were converted from the A-Share Convertible Bonds of the Bank.

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

Changes in Share Capital and Shareholdings of Substantial Shareholders

Issuance and Listing of Securities in the Past Three Years

The Bank issued RMB40 billion A-Share Convertible Bonds on 2 June 2010. Please refer to the section headed "Convertible Bonds" for details.

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

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

In addition to the increase in number of shares due to the rights issues mentioned above, the converting period of the BOC Convertible Bonds (code 113001) commenced from 2 December 2010. As at 31 December 2011, an aggregate of 6,380 Convertible Bonds had been converted into A Shares of the Bank, representing an aggregate of 170,848 A Shares.

As of the end of the reporting period, as a result of the rights issues mentioned above and the conversion of BOC Convertible Bonds (code 113001), the issued share capital of the Bank has increased to RMB279,147,333,579, with 279,147,333,579 shares.

For details of the issuance and listing of the A-Share Convertible Bonds, A Share and H Share rights issues and the changes in shareholding structure of the Bank, please refer to the related announcements on the websites of SSE (www.sse.com.cn), HKEx (www.hkexnews.hk) and the Bank (www.boc.cn).

Please refer to Note V.29 to the Consolidated Financial Statements for details of the issuance of subordinated bonds by the Bank.

Please refer to Note V.29 to the Consolidated Financial Statements for details of the issuance of RMB-denominated bonds by the Bank in Hong Kong.

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

Changes in Share Capital and Shareholdings of Substantial Shareholders

Number of Shareholders and Shareholdings

Number of shareholders as at 31 December 2011: 1,107,015 (including 874,563 A-Share Holders and 232,452 H-Share Holders)

Number of shareholders as at 29 February 2012: 1,093,899 (including 862,758 A-Share Holders and 231,141 H-Share Holders)

Top ten shareholders as at 31 December 2011:

Unit: Share

No.	Name of shareholder	Number of shares held as at the end of reporting period	Percentage of total share capital	Number of shares subject to selling restrictions	Number of shares pledged or frozen	Type of shareholder	Type of shares
1	Central Huijin Investment Ltd.	188,701,419,541	67.60%	–	None	State	A
2	HKSCC Nominees Limited	81,318,854,581	29.13%	–	Unknown	Foreign legal person	H
3	The Bank of Tokyo-Mitsubishi UFJ Ltd.	520,357,200	0.19%	–	Unknown	Foreign legal person	H
4	China Life Insurance Company Limited – dividend – personal dividend – 005L – FH002Shanghai	429,218,309	0.15%	–	None	State-owned legal person	A
5	Asian Development Bank	304,007,461	0.11%	–	Unknown	Foreign legal person	H
6	PICC Property and Casualty Company Limited – traditional – ordinary insurance products – 008C – CT001Shanghai	195,759,432	0.07%	–	None	State-owned legal person	A
7	China Life Insurance Company Limited – traditional – ordinary insurance products – 005L – CT001Shanghai	147,201,482	0.05%	–	None	State-owned legal person	A
8	Sino Life Insurance Co., Ltd. – traditional – ordinary insurance products	115,983,491	0.04%	–	None	Domestic non state-owned legal person	A
9	Shenhua Group Corporation Limited	99,999,900	0.04%	–	None	State-owned legal person	A
9	Aluminum Corporation of China	99,999,900	0.04%	–	None	State-owned legal person	A

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

During the reporting period, Central Huijin Investment Ltd. ("Huijin") increased its shareholding of the Bank by 148,067,536 shares.

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

HKSCC Nominees Limited acted as the nominee for all institutional and individual investors that maintain an account with it as at 31 December 2011. The aggregate number of H Shares held by HKSCC Nominees Limited included the shares held by NCSSF and Temasek Holdings (Private) Limited ("Temasek").

Changes in Share Capital and Shareholdings of Substantial Shareholders

Convertible Bonds

Overview of Convertible Bonds Issuance

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

Convertible Bondholders and Guarantors

Number of Convertible Bondholders as at 31 December 2011: 18,445

Guarantor of the Bank's Convertible Bonds: None

Top ten convertible bondholders as at 31 December 2011:

No.	Name of convertible bondholders	Amount of Convertible Bonds held as at the end of the reporting period (RMB)	Percentage of total issued Convertible Bonds
1	China Life Insurance Company Limited – dividend – personal dividend – 005L – FH002Shanghai	2,116,015,000	5.29%
2	China Life Insurance Company Limited – traditional – ordinary insurance products – 005L – CT001Shanghai	1,189,906,000	2.97%
3	New China Life Insurance Company Limited – dividend – group dividend – 018L – FH001Shanghai	1,131,788,000	2.83%
4	AnBang Property & Casualty Insurance Co., Ltd. – traditional insurance products	1,067,039,000	2.67%
5	CITIC Securities Co., Ltd.	921,827,000	2.30%
6	ICBC Credit Suisse Credit Value-added Debt Securities Investment Fund	914,596,000	2.29%
7	ICBC Credit Suisse Asset Management Co., Ltd. – ICBC – Specific Client Asset Management	816,757,000	2.04%
8	Bosera Convertible Bond Enhanced Debt Securities Investment Fund	756,292,000	1.89%
9	Fullgoal Convertible Bond Securities Investment Fund	730,000,000	1.83%
10	China Credit Trust Co., Ltd. – BoComm Fixed Income Stand Alone Trust	677,194,000	1.69%

Changes in Convertible Bonds during the Reporting Period

Unit: RMB

Name of Convertible Bond	Before the change	Increase/decrease Conversion	Redemption	Back-sell	Others	After the change
Bank of China A-Share Convertible Bond	39,999,773,000	411,000	–	–	–	39,999,362,000

Changes in Share Capital and Shareholdings of Substantial Shareholders

Accumulated Conversion of Convertible Bonds during the Reporting Period

Amount of conversion during the reporting period (RMB)	411,000
Number of converted shares during the reporting period (share)	110,384
Accumulated converted shares (share)	170,848
Proportion of accumulated converted shares to total shares before conversion	0.000063%
Amount of remaining Convertible Bonds not converted (RMB)	39,999,362,000
Proportion of unconverted Convertible Bonds to total issued Convertible Bonds	99.9984%

Previous Adjustments of Conversion Price

Effective date of adjusted conversion price	Conversion price after adjustment	Disclosure date	Reasons of adjustments	Media of disclosure
4 June 2010	RMB3.88 per share	31 May 2010	2009 profit distribution	*China Securities, Shanghai Securities, Securities Times* and the websites of SSE, HKEx and the Bank
16 November 2010	RMB3.78 per share	11 November 2010	A Share rights issue	
16 December 2010	RMB3.74 per share	13 December 2010	H Share rights issue	
10 June 2011	RMB3.59 per share	3 June 2011	2010 profit distribution	
Conversion price at the end of reporting period		RMB3.59 per share		

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

Dagong International Credit Rating Co., Ltd. ("Dagong International") has evaluated the Bank's Convertible Bonds and provided an updated credit rating report (Da Gong Bao SD [2011] No.53) which reaffirmed an AAA credit rating for the Bank's Convertible Bonds. Dagong International believes that the Bank has a significantly strong ability to repay its issued bonds.

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

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

Changes in Share Capital and Shareholdings of Substantial Shareholders

Disclosure of Shareholding under H-Share Regulation

Substantial Shareholder Interests

The register maintained by the Bank pursuant to section 336 of the *Securities and Futures Ordinance*, Hong Kong (the "SFO") recorded that, as at 31 December 2011, the following entities were substantial shareholders (as defined in the SFO) having the following interests in the Bank:

Name of shareholder	Capacity	Number of shares held/Number of underlying shares (unit: share)	Type of shares	Percentage of total issued A Shares	Percentage of total issued H Shares	Percentage of total issued share capital
Central Huijin Investment Ltd.[1]	Beneficial owner	188,553,352,005	A	96.43%	–	67.55%
National Council for Social Security Fund	Beneficial owner	9,160,229,441	H	–	10.95%	3.28%
Temasek Holdings (Private) Limited [2]	Attributable interest	5,914,493,996	H	–	7.07%	2.12%

Notes:

1. The above interest of Huijin reflects its latest disclosure of interest made pursuant to the SFO, which does not reflect its increase in holding of the Bank's A Shares in 2011.

2. Temasek holds the entire issued share capital of Fullerton Management Pte. Ltd. ("Fullerton Management"), which in turn holds the entire issued share capital of Fullerton Financial Holdings Pte. Ltd. ("Fullerton Financial"). Accordingly, Temasek and Fullerton Management are deemed to have the same interests in the Bank as Fullerton Financial under the SFO. Fullerton Financial holds 5,766,518,206 H Shares of the Bank. Temasek also has an interest in 147,975,790 H Shares of the Bank through other legal entities controlled by it.

All the interests stated above represented long positions. Save as disclosed above, as at 31 December 2011, no other interests or short positions were recorded in the register maintained by the Bank under section 336 of the SFO.

Controlling Shareholder of the Bank

Central Huijin Investment Ltd.

Huijin is a state-owned investment company established under the *Company Law of the People's Republic of China*. Established on 16 December 2003, Huijin has a registered capital of RMB828.209 billion and a paid-in capital of RMB828.209 billion. Its legal representative is Mr. LOU Jiwei. Wholly-owned by China Investment Corporation, Huijin makes equity investments in key state-owned financial institutions, as authorised by the State. To the extent of its capital contribution, Huijin exercises the rights and fulfils the obligations as an investor on behalf of the State, in accordance with applicable laws aimed at preserving and enhancing the value of state-owned financial assets. Huijin neither engages in other business activities nor intervenes in the daily operation of the key state-owned financial institutions under its control.

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

As at 31 December 2011, no other legal-person shareholders held 10% or more of the shares issued by the Bank (excluding HKSCC Nominees Limited).

Directors, Supervisors and Senior Management

Basic Information

Name	Year of birth	Gender	Position	Term of office
XIAO Gang	1958	Male	Chairman	From August 2004 to the date of the Annual General Meeting in 2013
LI Lihui	1952	Male	Vice Chairman and President	From August 2004 to the date of the Annual General Meeting in 2013
LI Zaohang	1955	Male	Executive Director and Executive Vice President	From August 2004 to the date of the Annual General Meeting in 2013
WANG Yongli	1964	Male	Executive Director and Executive Vice President	From February 2012 to the date of the Annual General Meeting in 2015
CAI Haoyi	1954	Male	Non-executive Director	From August 2007 to the date of the Annual General Meeting in 2013
SUN Zhijun	1955	Female	Non-executive Director	From October 2010 to the date of the Annual General Meeting in 2013
LIU Lina	1955	Female	Non-executive Director	From October 2010 to the date of the Annual General Meeting in 2013
JIANG Yansong	1963	Female	Non-executive Director	From October 2010 to the date of the Annual General Meeting in 2013
ZHANG Xiangdong	1957	Male	Non-executive Director	From July 2011 to the date of the Annual General Meeting in 2014
ZHANG Qi	1972	Male	Non-executive Director	From July 2011 to the date of the Annual General Meeting in 2014
Anthony Francis NEOH	1946	Male	Independent Non-executive Director	From August 2004 to the date of the Annual General Meeting in 2013
Alberto TOGNI	1938	Male	Independent Non-executive Director	From June 2006 to the date of the Annual General Meeting in 2012
HUANG Shizhong	1962	Male	Independent Non-executive Director	From August 2007 to the date of the Annual General Meeting in 2013
HUANG Danhan	1949	Female	Independent Non-executive Director	From November 2007 to the date of the Annual General Meeting in 2013
CHOW Man Yiu, Paul	1946	Male	Independent Non-executive Director	From October 2010 to the date of the Annual General Meeting in 2013
Jackson P. TAI	1950	Male	Independent Non-executive Director	From March 2011 to the date of the Annual General Meeting in 2014
LI Jun	1956	Male	Chairman of the Board of Supervisors	From March 2010 to the date of the Annual General Meeting in 2013
WANG Xueqiang	1957	Male	Supervisor	From August 2004 to the date of the Annual General Meeting in 2013
LIU Wanming	1958	Male	Supervisor	From August 2004 to the date of the Annual General Meeting in 2013
DENG Zhiying	1959	Male	Employee Supervisor	From August 2010 to the date of 2013 Employee Delegates' Meeting
LI Chunyu	1959	Male	Employee Supervisor	From December 2004 to the date of 2011 Employee Delegates' Meeting
MEI Xingbao	1949	Male	External Supervisor	From May 2011 to the date of the Annual General Meeting in 2014
BAO Guoming	1951	Female	External Supervisor	From May 2011 to the date of the Annual General Meeting in 2014
ZHANG Lin	1956	Female	Secretary of Party Discipline Committee	From August 2004
CHEN Siqing	1960	Male	Executive Vice President	From June 2008
ZHU Shumin	1960	Male	Executive Vice President	From August 2010
YUE Yi	1956	Male	Executive Vice President	From August 2010
CHIM Wai Kin	1960	Male	Chief Credit Officer	From March 2007
LIU Yanfen	1953	Female	Chief Audit Officer	From December 2011
ZHANG Bingxun	1949	Male	Secretary to the Board of Directors	From May 2008

Notes:

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

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

Directors, Supervisors and Senior Management

Compensation for Directors, Supervisors and Senior Management Paid in 2011

Unit: RMB ten thousand

Name	Fees	Remuneration paid	Contribution by the employer to compulsory insurances, housing allowances, etc	Total compensation before tax for 2011 (see notes)	Whether also compensated by a controlling shareholder company or other associated companies
XIAO Gang	–	77.55	28.70	106.25	No
LI Lihui	–	69.79	27.35	97.14	No
LI Zaohang	–	66.96	26.66	93.62	No
ZHOU Zaiqun	–	27.95	10.97	38.92	No
HONG Zhihua	–	–	–	–	Yes
HUANG Haibo	–	–	–	–	Yes
CAI Haoyi	–	–	–	–	Yes
SUN Zhijun	–	–	–	–	Yes
LIU Lina	–	–	–	–	Yes
JIANG Yansong	–	–	–	–	Yes
ZHANG Xiangdong	–	–	–	–	Yes
ZHANG Qi	–	–	–	–	Yes
Anthony Francis NEOH	55.00	–	–	55.00	No
Alberto TOGNI	95.47	–	–	95.47	Yes
HUANG Shizhong	–	–	–	–	No
HUANG Danhan	35.00	–	–	35.00	No
CHOW Man Yiu, Paul	35.00	–	–	35.00	No
Jackson P. TAI	27.27	–	–	27.27	No
LI Jun	–	67.86	24.93	92.79	No
WANG Xueqiang	–	56.42	22.62	79.04	No
LIU Wanming	–	56.42	22.17	78.59	No
DENG Zhiying	–	59.90	21.31	81.21	No
LI Chunyu	–	32.30	15.65	47.95	No
JIANG Kuiwei	–	50.33	11.03	61.36	No
QIN Rongsheng	10.40	–	–	10.40	No
BAI Jingming	8.80	–	–	8.80	No
MEI Xingbao	9.27	–	–	9.27	No
BAO Guoming	13.39	–	–	13.39	No
ZHANG Lin	–	65.24	26.03	91.27	No
WANG Yongli	–	65.41	24.85	90.26	No
CHEN Siqing	–	65.52	25.43	90.95	No
ZHU Shumin	–	65.39	29.77	95.16	No
YUE Yi	–	65.39	29.38	94.77	No
CHIM Wai Kin	–	493.93	70.87	564.80	No
NG Peng Khian	–	120.34	23.67	144.01	No
ZHANG Bingxun	–	61.25	27.18	88.43	No

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

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

Notes:

1. Non-executive Directors receive compensation in accordance with the Resolution of the 2007 Annual General Meeting. External Supervisors receive compensation in accordance with the Resolution of the 2009 Annual General Meeting. Compensation for Supervisors representing shareholders is proposed by the Personnel and Remuneration Committee under the Board of Directors, reviewed by the Board of Directors and approved by the Shareholders' Meeting. Employee Supervisors receive compensation as staff in accordance with the staff compensation scheme of the Bank.

2. Non-executive Directors HONG Zhihua, HUANG Haibo, CAI Haoyi, SUN Zhijun, LIU Lina, JIANG Yansong, ZHANG Xiangdong and ZHANG Qi and Independent Non-executive Director HUANG Shizhong signed an agreement in 2011 to waive their 2011 director's fees.

3. Mr. Jackson P. TAI began to serve as an Independent Non-executive Director of the Bank in March 2011. In May 2011, Mr. ZHOU Zaiqun ceased to serve as an Executive Director of the Bank, Ms. HONG Zhihua and Ms. HUANG Haibo ceased to serve as Non-executive Directors of the Bank, Mr. QIN Rongsheng and Mr. BAI Jingming ceased to serve as External Supervisors of the Bank, and Mr. MEI Xingbao and Ms. BAO Guoming began to serve as External Supervisors of the Bank. Mr. ZHANG Xiangdong and Mr. ZHANG Qi began to serve as Non-executive Directors of the Bank in July 2011. The above persons' compensation are calculated on the basis of their actual time working as the Directors or Supervisors of the Bank in 2011.

4. Mr. NG Peng Khian ceased to serve as Chief Audit Officer of the Bank in August 2011. His compensation is calculated on the basis of his actual time working as the senior management member of the Bank in 2011.

5. Ms. LIU Yanfen began to serve as Chief Audit Officer of the Bank in December 2011 and did not receive any compensation as the senior management member with the Bank in 2011.

The Bank has incurred RMB23.26 million in compensation to its Directors, Supervisors and senior management members' services in 2011.

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

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

Save as disclosed above, in 2011, none of the Bank's Directors, Supervisors or senior management members held any position in the shareholding companies of the Bank.

Directors

1
2 3 4

1 XIAO Gang
Chairman

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

2 LI Lihui
Vice Chairman and President

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

3 LI Zaohang
Executive Director and Executive Vice President

Executive Director of the Bank since August 2004. He joined the Bank in November 2000 and has served as Executive Vice President since then. From November 1980 to November 2000, Mr. LI served in various positions at China Construction Bank, including branch general manager, general manager of various departments of the head office, and Executive Vice President. Mr. LI has been serving as a Non-executive Director of BOCHK (Holdings) since June 2002, and as President of Shanghai RMB Trading Unit of the Bank since March 2012. Mr. LI graduated from Nanjing University of Information Science and Technology in 1978.

4 WANG Yongli
Executive Director and Executive Vice President

Executive Director of the Bank since February 2012. Mr. WANG joined the Bank in 1989 and has been serving as Executive Vice President since August 2006. From November 2003 to August 2006, Mr. WANG served as Executive Assistant President of the Bank. From April 1999 to January 2004, Mr. WANG held various positions in the Bank, including General Manager of the Asset-Liability Management Department of the Bank, Acting Deputy General Manager and General Manager of the Fujian Branch, and General Manager of the Hebei Branch. Mr. WANG graduated from Renmin University of China with a Master's degree in 1987 and obtained a Doctor's degree from Xiamen University in 2005.

Directors



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5 CAI Haoyi

Non-executive Director

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

6 SUN Zhijun

Non-executive Director

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

7 LIU Lina

Non-executive Director

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

8 JIANG Yansong

Non-executive Director

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

9 ZHANG Xiangdong

Non-executive Director

Non-executive Director of the Bank since July 2011. Mr. ZHANG served as a non-executive director of China Construction Bank Corporation from November 2004 to June 2010, and served as Chairman of the Risk Management Committee under its Board of Directors from April 2005 to June 2010. From August 2001 to November 2004, Mr. ZHANG worked as Vice President of the PBOC's Haikou Central Sub-branch and concurrently served in the SAFE as Deputy Director General of Hainan Province Branch and Deputy Director General and Inspector of the General Affairs Department. Mr. ZHANG served as a member of the Stock Offering Approval Committee of the CSRC from September 1999 to September 2001. Mr. ZHANG holds the professional title of senior economist and is qualified to practise law in China. He served as an arbitrator for the China International Economic and Trade Arbitration Commission from January 2004 to December 2008. Mr. ZHANG graduated from Renmin University of China with a Bachelor's degree in law in 1986. He completed his post-graduate studies in International Economic Law at Renmin University of China in 1988, and was awarded a Master's degree in Law in 1990.

10 ZHANG Qi

Non-executive Director

Non-executive Director of the Bank since July 2011. Mr. ZHANG worked in Central Expenditure Division One, the Comprehensive Division of the Budget Department, and the Ministers' Office of the General Office of Ministry of Finance, as well as the Operation Department of China Investment Corporation, serving as Deputy Director, Director and Senior Manager from 2001 to 2011. Mr. ZHANG studied in the Investment and Finance Departments of China Northeast University of Finance and Economics from 1991 to 2001, and obtained the Bachelor's degree, Master's degree and Doctorate in Economics respectively in 1995, 1998 and 2001.






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11 Anthony Francis NEOH

Independent Non-executive Director

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

12 Alberto TOGNI

Independent Non-executive Director

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

13 HUANG Shizhong

Independent Non-executive Director

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

14 HUANG Danhan

Independent Non-executive Director

Independent Non-executive Director of the Bank since November 2007. Ms. HUANG graduated from the Law School of Robert Schuman University of Strasbourg, France with a State Doctor's degree in Law in 1987, being the first PRC scholar receiving such a degree in France in a social science discipline. Since her return to China, Ms. HUANG has worked successively in the Ministry of Foreign Trade and Economic Cooperation (now the Ministry of Commerce), universities, law firms, state-owned foreign trade companies and financial institutions, including as General Manager of the Legal Department of China Construction Bank from August 1999 to March 2001, and General Counsel of China Galaxy Securities Company Limited from April 2001 to September 2004. Ms. HUANG also served as a member of the First Session of the Public Offering Examination and Approval Commission under the CSRC from 1993 to 1995 and as Senior Expert for Trade in Services to the EU-China Trade Project (2004-2009). Ms. HUANG is currently Key Expert for Trade in Services to the EU-China Trade Project II (2010-2015), and a Senior Advisor for Sinobridge PRC Lawyers. Ms. HUANG has been serving as the PRC Director of West African Development Bank since September 2007 and her current term of office will expire in August 2013.

15 CHOW Man Yiu, Paul

Independent Non-executive Director

Independent Non-executive Director of the Bank since October 2010. Mr. CHOW was an executive director and Chief Executive of Hong Kong Exchanges and Clearing Limited from April 2003 to January 2010. Hong Kong Exchanges and Clearing Limited is listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. CHOW currently serves as the Treasurer and a member of the Council and the Court of the University of Hong Kong, Chairman of Hong Kong Cyberport Management Company Limited and the Chairman of Plan International Hong Kong. Mr. CHOW served as the Chief Executive, Asia Pacific Region (ex-Japan) of HSBC Asset Management (Hong Kong) Limited from 1997 to 2003. From 1992 to 1997 and 2003 to January 2010, Mr. CHOW was a member of the Standing Committee on Company Law Reform of the Government of the Hong Kong Special Administrative Region ("HKSAR Government"). Mr. CHOW also served as a Director of World Federation of Exchanges from 2003 to January 2010 and became Chairman of its Working Committee in 2007 and 2008 and then its Vice-chairman in 2009. From 2001 to 2007, he was a member of the Advisory Committee of the Hong Kong Securities and Futures Commission. Mr. CHOW graduated from the University of Hong Kong with a Bachelor's degree in Science (Engineering) in 1970. He obtained a Diploma in Management Studies and a Master's degree in Business Administration in 1979 and 1982, respectively, from the University of Hong Kong. He also obtained a Diploma in Finance (Distinction) from the Chinese University of Hong Kong in 1987, and was conferred the Doctor of Social Science, honoris causa by the Open University of Hong Kong in 2010. He was awarded the title of Justice of the Peace, the Silver Bauhinia Star and the Gold Bauhinia Star by the HKSAR Government in 2003, 2005 and 2010, respectively. Mr. CHOW is a Distinguished Fellow of the Hong Kong Computer Society, an Honorary University Fellow of the University of Hong Kong, an Honorary Fellow of the Hong Kong University of Science and Technology, a Fellow of the Hong Kong Institute of Chartered Secretaries, a Fellow of the Institute of Chartered Secretaries and Administrators, an Honorary Fellow of Hong Kong Securities Institute and a Certified General Accountant (Honorary) of the Canadian Certified General Accountants Association of Hong Kong.

16 Jackson P. TAI

Independent Non-Executive Director

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

Supervisors

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1 LI Jun
Chairman of the Board of Supervisors

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

2 WANG Xueqiang
Supervisor

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

3 LIU Wanming
Supervisor

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

4 DENG Zhiying
Employee Supervisor

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

5 LI Chunyu
Employee Supervisor

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

6 MEI Xingbao
External Supervisor

External Supervisor of the Bank since May 2011. Mr. MEI is now a member of the 11th CPPCC National Committee. From October 2003 to May 2010, Mr. MEI served as Vice President and President of China Orient Asset Management Corporation. He previously served as Vice Mayor of People's Municipal Government of Zhangjiajie in Hunan Province, Deputy Director General of Economic and Trade Commission of Hunan Province, Head of the Science and Education Group of the Research Office of the General Office of the CPC Central Committee, Director General of the General Office of the Central Financial Working Commission, and Director General of the Propaganda Department of the CBRC. Majoring in agricultural economic management, Mr. MEI graduated from Renmin University of China in 1982 with a Bachelor's degree in Economics. He obtained his Doctorate in Management from Renmin University of China in 1999.

7 BAO Guoming
External Supervisor

External Supervisor of the Bank since May 2011. Ms. BAO is now Vice President and Secretary-General of China Institute of Internal Audit. In 1999, Ms. BAO was transferred to the National Audit Office and worked in several positions, including Deputy Director General, Director General of Cadres Training Centre and Director General of the Administrative Audit Department. She is a former professor of the Accounting Department of Nankai University. She concurrently acts as a part-time professor in Nankai University, the Research Institute for Fiscal Science under the Ministry of Finance, Beijing Institute of Technology and other universities and research institutions, as an executive director of the China Audit Academy, and as a member of the Senior Auditor Certification Examination and Review Committee of the National Audit Office. Ms. BAO is a Certified Public Accountant of Chinese Institute of Certified Public Accountants and a Certified International Internal Auditor and receives the Government Special Allowance of the State Council. Ms. BAO graduated from Tianjin University of Finance and Economics in 1985 and received a Master's degree in Economics.

Senior Management

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1 LI Lihui
Vice Chairman and President

Please refer to the section "Directors".

2 LI Zaohang
Executive Director and Executive Vice President

Please refer to the section "Directors".

3 ZHANG Lin
Secretary of Party Discipline Committee

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

4 WANG Yongli
Executive Director and Executive Vice President

Please refer to the section "Directors".

5 CHEN Siqing
Executive Vice President

Executive Vice President of the Bank since June 2008. Mr. CHEN joined the Bank in 1990 and worked in the Hunan Branch of the Bank before he was seconded to the Hong Kong Branch of China and South Sea Bank Ltd. as Assistant General Manager. Mr. CHEN held various positions in the Bank from June 2000 to May 2008, including Assistant General Manager and Vice General Manager of the Fujian Branch, General Manager of the Risk Management Department of the Head Office and General Manager of the Guangdong Branch. Since December 2011, Mr. CHEN has been serving as a Non-executive Director of BOCHK (Holdings) and Chairman of the Board of Directors of BOC Aviation. Mr. CHEN graduated from Hubei College of Finance and Economics in 1982. He obtained an MBA from Murdoch University, Australia in 1999.

6 ZHU Shumin
Executive Vice President

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

7 YUE Yi
Executive Vice President

Executive Vice President of the Bank since August 2010. Mr. YUE joined the Bank in 1980 and served as Global Head of Financial Markets Business of the Bank from March 2009 to July 2010. From March 2008 to March 2009, Mr. YUE served as Global Head of Personal Banking Business of the Bank. From February 2005 to August 2008, Mr. YUE served as General Manager of the Personal Banking Department. Mr. YUE previously held various positions in the Retail Banking Department of the Head Office, the Seoul Branch and the Beijing Branch of the Bank. Mr. YUE has been serving as Chairman of Bank of China (UK) Limited since September 2010, and as Chairman of the Board of Directors of BOC International Holdings Limited ("BOCI") since November 2011. He received his Master's degree in Finance from Wuhan University in 1999.

Senior Management

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8 CHIM Wai Kin
Chief Credit Officer

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

9 LIU Yanfen
Chief Audit Officer

Chief Audit Officer since December 2011. Ms. LIU joined the Bank in 1982 and served as General Manager of the Singapore Branch of the Bank from June 2007 to December 2011. From June 1998 to February 2007, Ms. LIU served as General Manager of the Financial Management Department of the Head Office. Ms. LIU previously held various positions, including General Manager of Dongfang Trust and Investment Corporation, and Deputy General Manager of the Financial Management Department of the Head Office. Ms. LIU graduated from Liaoning College of Finance and Economics with a Bachelor's degree in 1982, and obtained a Master's degree in Finance from Wuhan University in 1999. She is a Certified Public Accountant.

10 ZHANG Bingxun
Secretary to the Board of Directors

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

Changes in Directors, Supervisors and Senior Management

Changes in the Bank's Directors were as follows:

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

Mr. ZHOU Zaiqun ceased to serve as an Executive Director of the Bank as of 28 May 2011. Ms. HONG Zhihua and Ms. HUANG Haibo ceased to serve as Non-executive Directors of the Bank as of 28 May 2011.

Mr. ZHANG Xiangdong and Mr. ZHANG Qi began to serve as Non-executive Directors of the Bank as of 8 July 2011.

Mr. WANG Yongli began to serve as an Executive Director of the Bank as of 15 February 2012.

The Board of Directors of the Bank approved at its meeting on 29 March 2012 the nomination of Dr. Arnout Henricus Elisabeth Maria WELLINK as an Independent Non-executive Director and will submit it to the 2011 Annual General Meeting of the Bank for review and approval.

Changes in the Bank's Supervisors were as follows:

According to the relevant government regulations, Mr. QIN Rongsheng and Mr. BAI Jingming resigned as External Supervisors of the Bank as of 28 May 2011.

Mr. MEI Xingbao and Ms. BAO Guoming were elected and approved to be External Supervisors of the Bank at the Bank's 2010 Annual General Meeting held on 27 May 2011, with a term of office of three years until the date of the Bank's Annual General Meeting in 2014.

Mr. JIANG Kuiwei resigned as Employee Supervisor of the Bank as of 21 February 2012.

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

Mr. ZHOU Zaiqun ceased to serve as Executive Vice President of the Bank as of 28 May 2011.

Mr. NG Peng Khian ceased to serve as Chief Audit Officer of the Bank as of 17 August 2011.

Ms. LIU Yanfen began to serve as Chief Audit Officer of the Bank as of 14 December 2011.

Corporate Governance

In 2011, the Bank strictly complied with state laws and regulations, closely observed regulatory changes, further improved its corporate governance mechanisms and boosted corporate governance efficiency. The Board of Directors focused its attention on "making key decisions, developing core strategies and monitoring systemic risks" and continued to improve the efficiency and quality of its decision-making.

1. **Improving corporate governance systems and efficiency**

   During the reporting period, the Bank approved a proposal to delegate authority for issuing ordinary financial bonds to the Board of Directors, further optimised the power and responsibility mechanism of the Board of Directors, Board of Supervisors, Shareholders' Meeting and senior management and improved the efficiency of its business management. The Bank attaches great importance to the role of independent directors in corporate governance, and strictly regulates the structure of the Board of Directors accordingly. As such, it approved a proposal to amend the Articles of Association to include the provision that independent directors shall account for no less than one-third of the members of the Board of Directors. The Bank prepared and implemented the *Working Rules of Board Secretary,* the *Management Measures on Responsibility Investigation on Material Information Disclosure Errors of Regular Reports,* and the *Investor Relations Management Policy,* further improving its corporate governance regulations.

2. **Complying with external regulations and proactively exploring new trends in corporate governance**

   During 2011, the Bank continued to enhance its corporate governance mechanisms by ensuring total compliance with the relevant regulatory requirements and by actively seeking out best practices. As such, the Bank kept well appraised of changes to regulatory policies and explored new and developing trends in corporate governance.

   In 2011, the Bank conducted a comprehensive gap analysis with reference to the *Principles for Enhancing Corporate Governance* issued by the Basel Committee on Banking Supervision in October 2010, and explored new directions for further improving corporate governance by considering the latest changes in regulatory policies. In October 2011, the Hong Kong Stock Exchange issued the amendments to the *Code on Corporate Governance Practices* as set out in Appendix 14 to the Hong Kong Listing Rules and to the related rules under the Hong Kong Listing Rules. The Board of Directors reviewed and approved the Bank's plan for implementing the amendments according to existing policies and practices.

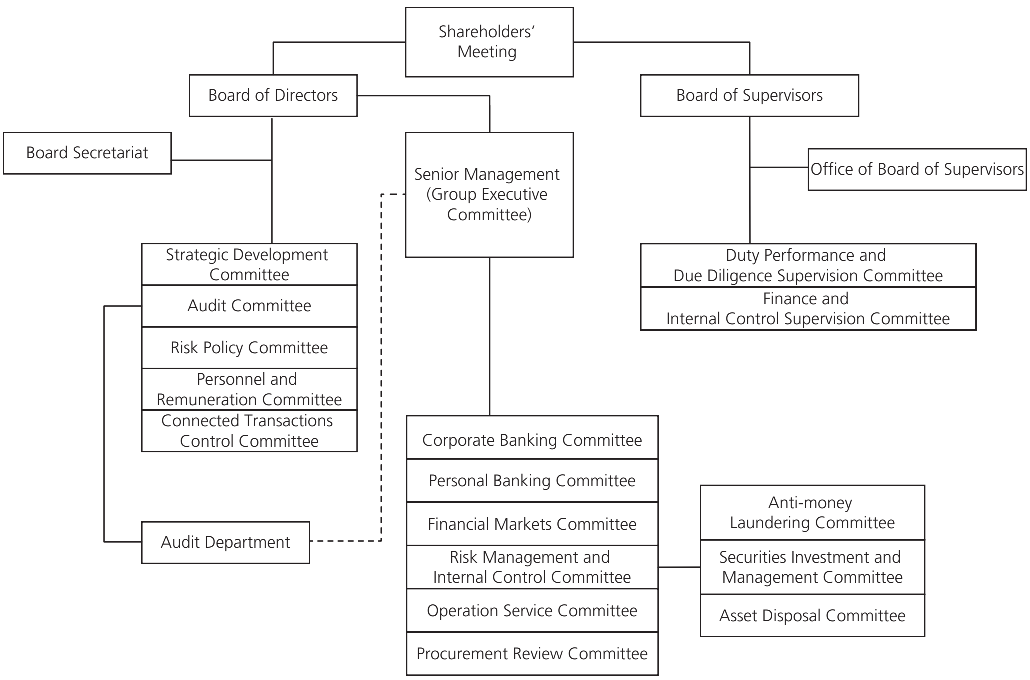
3. **Focusing on scientific decision-making and effective duty performance**

   The Bank further increased its training efforts in 2011, with the Directors taking part in 19 training sessions involving 87 participants. These sessions, provided both by regulators and the Bank itself, covered external regulatory rules, the macroeconomic situation and banking management. In addition, Board Members have actively carried out on-site research exercises in order to better understand the Bank's operations. There were a total of 14 such research exercises and surveys in 2011, involving 45 participants. Moreover, the Directors have focused more intently on external regulation and increased communication with regulators. Thanks to these efforts, the Board of Directors has further enhanced the efficiency and scientific nature of its decision-making and effectively performed its responsibilities.

In 2011, the Bank continued to receive praise and recognition from regulators, capital markets, academic institutions and the media for its corporate governance. The Bank won a number of awards such as the "Corporate Governance Award of Chinese Companies — Information Disclosure Award 2011" conferred by SSE, the "Best Board of Directors Award" from the *Directors & Boards*, a publication on corporate governance, the "Hong Kong Corporate Governance Excellence Award" jointly selected by the Chamber of Hong Kong Listed Companies and Hong Kong Baptist University, the "Top 10 Financial Institutions" in the "Corporate Governance Assessment of the Top 100 Chinese Listed Companies" co-sponsored by the Chinese Academy of Social Sciences, China National School of Administration and Protiviti Consulting Private Limited, and the "Finance 50 Index — Top Ten Corporate Governance" selected by CCTV.

Corporate Governance Framework

The Bank's corporate governance framework is shown below:



Code on Corporate Governance Practices

During the reporting period, the Bank strictly observed the *Code on Corporate Governance Practices* (the "Code") as set out in Appendix 14 to the Hong Kong Listing Rules. The Bank has complied with all code provisions of the Code and has substantially complied with most of the recommended best practices set out in the Code. In October 2011, the Hong Kong Stock Exchange announced forthcoming amendments to the Code. The Bank has already taken steps to address these amendments prior to their coming into effect, and has proactively adopted the recommended best practices specified by the amended Code.

Corporate Governance

Shareholders and Shareholders' Rights

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

In 2011, when implementing the profit distribution plan, the Bank properly addressed the impact on the individual H-Share Holders caused by the change of taxation policy, thus safeguarding the legitimate interest of the shareholders.

Shareholders' right to convene a shareholders' meeting

According to the Articles of Association of the Bank, shareholders ("Proposing Shareholders") individually or in aggregate holding a total of 10% or more of the shares of the Bank have the right to request in writing to the Board of Directors to convene an extraordinary shareholders' meeting. Two or more shareholders holding a total of 10% or more of the shares carrying voting rights of the Bank may sign one or more written requests of identical form and substance requesting the Board of Directors to convene a meeting of shareholders of different categories and stating the subject of the meeting. If the Board of Directors fails to issue a notice of such a meeting within 30 days after having received the written request of convening an extraordinary shareholders' meeting or a meeting of shareholders of different categories submitted by the Proposing Shareholders, the Proposing Shareholders may themselves convene the meeting within four months after the Board of Directors received the request. The procedures according to which they convene such meeting shall, to the extent possible, be identical to the procedures according to which shareholders' meetings are to be convened by the Board of Directors. Where the Proposing Shareholders convene and hold a meeting because the Board of Directors failed to convene such meeting pursuant to a request as mentioned above, the reasonable expenses incurred by such shareholders shall be borne by the Bank and shall be deducted from the sums owed by the Bank to the negligent directors.

Shareholders' right to propose resolutions at shareholders' meetings

According to the Articles of Association of the Bank, any shareholders who hold, individually or in aggregate, 3% or more voting shares of the Bank shall have the right to propose a resolution in a shareholders' meeting. Any shareholders who hold, individually or in aggregate, 3% or more voting shares of the Bank shall have the right to propose and submit in writing to the Board of Directors interim proposals 10 days prior to the convening of shareholders' meeting. When the Board of Directors decides not to put proposals of shareholders' meeting onto the meeting's agenda, it shall explain and clarify the reasons in the shareholders' meeting. When the Proposing Shareholders dissent with the Board of Directors' decision of excluding the proposal raised by the Proposing Shareholders on the agenda of shareholders' meeting, they may request to call for an extraordinary shareholders' meeting by themselves based on the relevant procedures stipulated in the Articles of Association of the Bank.

Shareholders' right to present enquiries

According to the Articles of Association of the Bank, any shareholder who holds severally or jointly with others 5% or more of voting shares of the Bank shall have right to present enquiries to a shareholders' meeting. The Board of Directors, the Board of Supervisors, or other relevant senior management personnel shall attend the shareholders' meeting, accept enquiries, and answer or explain accordingly.

Please refer to the Articles of Association of the Bank for details of entitled rights of the shareholders. In case shareholders need to contact the Board of Directors regarding the aforementioned items or for other enquiries to the Board of Directors, please refer to "Reference for Shareholders — Investor Enquiry" for the means of contact.

Shareholders' Meeting

The Bank held its 2011 First Extraordinary General Meeting in Beijing on 28 January 2011, which reviewed and approved a proposal on the election of Mr. Jackson P. TAI as an Independent Non-executive Director of the Bank, and a proposal in relation to the issuance of RMB-denominated bonds by the Bank in Hong Kong for an aggregate amount of not more than RMB20 billion by the end of 2012, among others.

On 27 May 2011, the Bank held its 2010 Annual General Meeting in Beijing and Hong Kong by way of video conference, which reviewed and approved proposals related to the 2010 Work Report of the Board of Directors, the 2010 Work Report of the Board of Supervisors, the profit distribution plan for 2010, the election of Non-executive Directors, the election of External Supervisors, and the delegation of authority for the issuance of ordinary financial bonds by Shareholders' Meeting to the Board of Directors.

The Bank held its 2012 First Extraordinary General Meeting in Beijing on 6 January 2012, which reviewed and approved proposals related to an amendment to the Articles of Association of the Bank, the election of Mr. WANG Yongli as an Executive Director of the Bank, and the remuneration plan for the Directors and Supervisors.

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

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

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

According to the proposal on electing Directors and External Supervisors approved by the 2011 First Extraordinary General Meeting and the 2010 Annual General Meeting, the relevant approval and filing procedures have been concluded with the regulatory authorities.

According to the profit distribution plan for 2010 approved by the 2010 Annual General Meeting, the Board of Directors diligently carried out the profit distribution implementation scheme and effectively served the shareholders' interests. The profit distribution was completed in July 2011.

Corporate Governance

According to the approval of the 2010 Annual General Meeting, the Board of Directors has completed the reappointment of PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers as external auditors of 2011.

In 2010, the Bank carried out refinancing plans through the issuance of A-Share Convertible Bonds and rights issues of A Shares and H Shares. According to the authorisation of the 2010 First Extraordinary General Meeting held on 19 March 2010, the 2010 Second Extraordinary General Meeting, the 2010 First A-Share Holders Class Meeting and the 2010 First H-Share Holders Class Meeting held on 20 August 2010, the Bank made amendments to the relevant provisions of the Articles of Association regarding the share capital, the shareholding structure and the registered capital of the Bank in 2011 and issued an announcement with the approval of the CBRC on 23 March 2011.

Directors and the Board of Directors

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

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

The Board of Directors has set up the Strategic Development Committee, Audit Committee, Risk Policy Committee, Personnel and Remuneration Committee, and Connected Transactions Control Committee to assist the Board in performing different aspects of its functions. The positions of Chairman and President are assumed by two persons. The Bank renewed the directors and officers' liability insurance for members of the Board in 2011 to provide protection against claims arising from the lawful discharge of duties by the directors, thus encouraging the directors to fully perform their duties.

Convening of Board Meetings

In 2011, the Bank convened six on-site meetings of the Board of Directors, on 24 March, 28 April, 27 May, 24 August, 26 October and 8 December, respectively. At these meetings, the Board of Directors reviewed and approved proposals related to the amendment of the dividend distribution policy of the Bank, the 2010 internal control self-assessment report, the 2010 corporate social responsibility report, the 2010 Work Report of the Board of Directors, the delegation of authority for the issuance of ordinary financial bonds, the Bank's periodic reports, the profit distribution plan, performance evaluation results of senior management and remuneration distribution plans, the appointment of Directors, the appointment of Chief Audit Officer, the reappointment of Chief Credit Officer, the amendment of the Articles of Association of the Bank, the *Working Rules of Board Secretary, the Management Measures on Responsibility Investigation on Material Information Disclosure Errors of Regular Reports*, and the *Investor Relations Management Policy* of the Bank. The Board of Directors also reviewed reports related to the implementation progress of the IT Blueprint project and the amendments to the Hong Kong Listing Rules and relevant recommendations for compliance.

In 2011, the Bank convened twelve meetings of the Board of Directors via written resolutions. At these meetings, the Board of Directors reviewed such matters as the establishment of a business presence in Taiwan, the establishment of Luanda Representative Office in Angola and the appointment of its Chief Representative, and the announcement on the approval of issuance of subordinated bonds, etc.

The average attendance rate of the meetings of the Board of Directors in 2011 was 99%. The attendance rate of each director is given below:

Director	Number of meetings attended/Number of meetings convened during term of office
XIAO Gang	17/18
LI Lihui	18/18
LI Zaohang	18/18
ZHOU Zaiqun	10/10
HONG Zhihua	10/10
HUANG Haibo	10/10
CAI Haoyi	18/18
SUN Zhijun	18/18
LIU Lina	18/18
JIANG Yansong	18/18
ZHANG Xiangdong	6/6
ZHANG Qi	6/6
Anthony Francis NEOH	18/18
Alberto TOGNI	17/18
HUANG Shizhong	18/18
HUANG Danhan	18/18
CHOW Man Yiu, Paul	17/18
Jackson P. TAI	14/14

Notes:

1. In 2011, the Bank's Board of Directors convened a total of eighteen meetings, comprising six on-site meetings and twelve meetings via written resolutions.

2. Chairman Mr. XIAO Gang was not able to attend the Board Meeting in person on 26 October 2011 due to other business engagements. He authorised another director to attend and vote at the meeting as his proxy.

3. Mr. ZHOU Zaiqun ceased to serve as an Executive Director of the Bank as of 28 May 2011. Ms. HONG Zhihua and Ms. HUANG Haibo ceased to serve as Non-executive Directors of the Bank as of 28 May 2011.

4. Mr. ZHANG Xiangdong and Mr. ZHANG Qi began to serve as Non-executive Directors of the Bank as of 8 July 2011.

5. Independent Non-executive Director Mr. Alberto TOGNI was not able to attend the Extraordinary Board Meeting in person on 27 May 2011. He authorised another director to attend and vote at the meeting as his proxy.

6. Independent Non-executive Director Mr. CHOW Man Yiu, Paul was not able to attend the Extraordinary Board Meeting in person on 27 May 2011. He authorised another director to attend and vote at the meeting as his proxy.

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

The Strategic Development Committee

The Strategic Development Committee comprises ten members, including Chairman Mr. XIAO Gang, Executive Director Mr. LI Lihui, Non-executive Directors Mr. CAI Haoyi, Ms. SUN Zhijun, Ms. LIU Lina, Ms. JIANG Yansong, Mr. ZHANG Xiangdong, Mr. ZHANG Qi and Independent Non-executive Directors Mr. Alberto TOGNI and Mr. Jackson P. TAI. The committee is chaired by Chairman Mr. XIAO Gang. The committee is mainly responsible for reviewing the strategic development plans presented by the management and advising the Board accordingly; reviewing the annual budget of the Bank in accordance with the strategic development plan, and advising the Board accordingly; reviewing decisions on strategic capital allocation (policies on capital structure, capital adequacy ratio and risk-reward trade-off) and the objectives of asset-liability management, and advising the Board accordingly; coordinating strategy on the overall development of the various financial businesses, and advising the Board accordingly; and designing and formulating key investment and financing plans, reviewing and approving the plans presented by senior management under the Board's authorisation, and advising the Board accordingly.

The Strategic Development Committee held three meetings in 2011. At these meetings, the committee approved proposals covering amendments to the Bank's dividend policy, the Bank's profit distribution for 2010, the *Regulations Governing Internal Capital Adequacy Assessment Process of Bank of China*, the progress report on the village bank project and the Bank's business plans and financial budget for 2012.

The average attendance rate of the meetings of the Strategic Development Committee in 2011 reached 100%. The attendance rate of each director is given below:

Director	Number of meetings attended/Number of meetings convened during term of office
XIAO Gang	3/3
LI Lihui	3/3
HONG Zhihua	1/1
HUANG Haibo	1/1
CAI Haoyi	3/3
SUN Zhijun	3/3
LIU Lina	3/3
JIANG Yansong	3/3
ZHANG Xiangdong	2/2
ZHANG Qi	2/2
Alberto TOGNI	3/3
Jackson P. TAI	3/3

Notes:

1. Ms. HONG Zhihua and Ms. HUANG Haibo ceased to serve as members of the Strategic Development Committee of the Bank as of 28 May 2011.

2. Non-executive Directors Mr. ZHANG Xiangdong and Mr. ZHANG Qi began to serve as members of the Strategic Development Committee of the Bank as of 8 July 2011.

The Audit Committee

The Audit Committee comprises eight members, including Non-executive Directors Ms. SUN Zhijun, Mr. ZHANG Xiangdong, and Independent Non-executive Directors Mr. Anthony Francis NEOH, Mr. Alberto TOGNI, Mr. HUANG Shizhong, Ms. HUANG Danhan, Mr. CHOW Man Yiu, Paul and Mr. Jackson P. TAI. Mr. HUANG Shizhong serves as Chairman of the Audit Committee. The committee is mainly responsible for reviewing financial reports and other significant accounting policies and regulations put forward by the senior management; reviewing the external auditors' audit opinion, annual audit plan and the recommendation on management; approving the Internal Audit Charter, internal audit development plan, annual audit priorities, annual audit plan and budget; appraising the duty performance and work quality of the internal and external auditors and monitoring their independence; recommending the engagement, reappointment and audit fee of the external auditor; appointing, dismissing and appraising the performance of the Chief Audit Officer; and overseeing the Bank's internal control function, reviewing significant defects in internal control design and implementation by the senior management and investigating fraud cases.

The Audit Committee held five meetings in 2011, in which it mainly reviewed and discussed such proposals as the Bank's financial statements, the self-assessment report on internal control, the integrated audit plan, the report on the pilot implementation of the "Internal Control Assessment Standards of Bank of China", the report on fraud cases related to the Bank of 2010, the appointment, audit scope, plans and audit fee of the external auditors for 2012, the 2010 internal audit work summary, the revised *Policies of Selection, Rotation and Dismissal for External Auditors of Bank of China Limited (2011 edition)*, and implementation rules and procedures for the engagement of external auditors. It also approved such proposals as the internal audit's work plan and budget for 2011, the internal audit priorities of Bank of China for 2012. The committee also continuously monitored the work progress related to the implementation of New Basel Capital Accord and the *Basic Standard for Enterprise Internal Control*.

The average attendance rate of Audit Committee meetings in 2011 reached 100%. The attendance rate of each director is given below:

Director	Number of meetings attended/Number of meetings convened during term of office
HUANG Shizhong	5/5
HUANG Haibo	2/2
SUN Zhijun	5/5
ZHANG Xiangdong	3/3
Anthony Francis NEOH	5/5
Alberto TOGNI	5/5
HUANG Danhan	5/5
CHOW Man Yiu, Paul	5/5
Jackson P. TAI	5/5

Notes:

1. Ms. HUANG Haibo ceased to serve as a member of Audit Committee of the Bank as of 28 May 2011.
2. Non-executive Director Mr. ZHANG Xiangdong began to serve as a member of the Audit Committee of the Bank as of 8 July 2011.
3. Independent Non-executive Director Mr. Jackson P. TAI began to serve as a member of the Audit Committee of the Bank as of 11 March 2011.

According to the *Procedure Rules on the Preparation of Annual Report of the Board Audit Committee of Bank of China Limited*, pending the start of audit work by the auditors, the Audit Committee confirmed with the auditors the details of the 2011 audit plan, including the audit focuses for the 2011 Annual Report, risk assessment and identification methods, the application of accounting standards, tests of internal control and fraud, and allocation of human resources. In particular, the committee reminded the auditors to report any differences of judgment between the auditors and senior management during the audit, as well as the process and results of reconciling such differences.

The Audit Committee received and reviewed reports from senior management concerning the Bank's operating and major financial data, and gave comments and recommendations accordingly. The committee also requested that senior management submit the annual financial statements to the auditors in a timely manner, to allow sufficient time for the annual audit. During the audit, the committee maintained independent discussions with the auditors and arranged independent meetings between the auditors and the independent directors. At its first meeting of 2012, the Audit Committee reviewed and approved the Bank's 2011 financial statements and submitted them to the Board of Directors for approval.

In accordance with the *Policies of Selection, Rotation and Dismissal for External Auditors of Bank of China Limited*, the 2011 summary report was submitted by the external auditors and appraised by the Bank's senior management. Based on this appraisal, the Audit Committee conducted its own assessment of the auditors' performance in 2011, as well as a special review on their independence. After deliberation about the reappointment of auditors, the Audit Committee decided to submit to the Board of Directors a proposal to reappoint PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the Bank's domestic auditor and internal control auditor for 2012, and PricewaterhouseCoopers as the Bank's international auditor for 2012.

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

The Board proactively promotes the establishment and development of the Group's internal control system and is dedicated to cultivating a sound internal control and compliance culture. Under the Board's efforts on regularly hearing and reviewing reports from senior management concerning operational management, risk management and internal control, and providing effective guidance to the Bank's internal control and compliance work, the Group's risk mitigation ability and level of operational compliance have continuously been enhanced.

The Audit Committee of the Board of Directors has paid close attention to the overall condition of the Group's internal control, including the establishment and operation of the internal control systems for financial reporting and non-financial reporting. The Audit Committee heard and reviewed, on a regular and ad hoc basis, the findings, recommendations and rectifications regarding internal control put forth by external auditors and internal audit function, the prevention and control of material fraud cases and non-compliance, so as to urge the senior management to continually improve internal control systems. The Audit Committee has attached great importance to the Bank's implementation of the *Basic Standard for Enterprise Internal Control* and its supporting guidelines. During the reporting period, the Bank released the *Plan of Bank of China Limited for Implementing the Basic Standard for Enterprise Internal Control and Its Supporting Guidelines*, and launched relevant works across the Group.

Moreover, members of the Board of Directors and the Audit Committee conducted site visits to branches and outlets. With facts and data collected from these on-site inspections, they offered advice in response to the business operations, risk management, internal control and the building of internal control culture of such business offices.

The Bank, under the guidance of the Audit Committee, further refined its internal control assessment system. The assessment system, which consists of assessment standards, methods, tools and system platforms, etc., covers the domestic and overseas institutions at all levels, subsidiaries, and all business modules and lines of the Group and provides a more comprehensive perspective for the Bank to monitor and analyse the operation of the Group's internal control system.

In line with the Group's implementation of strategies to mitigate systemic and material risks, the Audit Committee closely tracked changes in the domestic and overseas economic and financial environment and guided the internal audit function to set inspection priorities and conduct inspection works, thus improving the effectiveness and efficiency of the Group's operations and corporate governance. With regard to the development and operation of the IT Blueprint and the implementation of the New Basel Capital Accord, the Audit Committee guided the internal audit function to closely follow up the relevant works and provide suggestions on improving internal control from an independent third-party perspective.

During the reporting period, the Bank followed the relevant requirements of the *Basic Standard for Enterprise Internal Control* and its supporting guidelines, and performed internal control self-assessment in accordance with the *Standards of Internal Control Assessment of Bank of China Limited* and the *Standards of Recognising Internal Control Deficiencies of Bank of China Limited*, during which no material defect was found in the internal control of the Bank, regarding both financial reporting and non-financial reporting premises. Please refer to the announcement of the Bank dated 29 March 2012 for the relevant reports.

The Risk Policy Committee

The Risk Policy Committee of the Bank comprises seven members, including Executive Director Mr. WANG Yongli, Non-executive Directors Ms. LIU Lina and Ms. JIANG Yansong, and Independent Non-executive Directors Mr. Anthony Francis NEOH, Mr. Alberto TOGNI, Mr. HUANG Shizhong and Mr. CHOW Man Yiu, Paul. Mr. Anthony Francis NEOH acts as the Chairman of the committee. The committee is mainly responsible for reviewing the Bank's risk management strategies, policies, procedures and systems, and providing suggestions to the Board of Directors; reviewing the Bank's major risk activities, and exercising its veto power in a reasonable manner over any transaction that will or may lead to debts to the Bank and/or expose the Bank to market risk in excess of the single transaction risk limit or the accumulated transaction risk limit approved by the Risk Policy Committee or the Board of Directors; monitoring the implementation of the Bank's risk management strategies, policies and procedures, and providing suggestions to the Board of Directors; reviewing the Bank's risk management situation and regularly assessing the duty performance of risk management and internal control by the senior management, departments and institutions of the Bank, including regularly hearing their reports and requesting improvements.

The Risk Policy Committee held six meetings in 2011, at which it mainly reviewed and approved the risk appetite quantification proposal report, the implementation plan of new regulatory standard of CBRC by the Bank, market risk management policy, valuation policy for financial instruments at fair value, country risk management procedures and relevant country risk limits, market risk limit, material risk assessment results of the Bank for 2012, as well as credit proposals whose amounts exceeded the approval authority of senior management. The Risk Policy Committee also reviewed progress reports on the Bank's implementation of the New Basel Capital Accord, and reports on consolidation management.

In addition, the Risk Policy Committee paid constant attention to hot issues, including the Bank's securities investment and the loans to LGFVs, in response to the changes in global economic and financial conditions, the adjustment of the government's macro policies and the release of new regulatory standards. The committee members contributed important opinions and suggestions for further improving and enhancing the Bank's risk governance mechanism and effective risk prevention and control.

The average attendance rate of Risk Policy Committee meetings in 2011 reached 100%. The attendance rate of each director is given below:

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

Notes:

1. Mr. ZHOU Zaiqun ceased to serve as a member of the Risk Policy Committee of the Bank as of 28 May 2011.

2. Following the approval of the Board of Directors, Executive Director Mr. WANG Yongli began to serve as a member of the Risk Policy Committee of the Bank as of 2 March 2012.

The Personnel and Remuneration Committee

The Personnel and Remuneration Committee comprises six members, including Non-executive Directors Mr. CAI Haoyi, Mr. ZHANG Qi, and Independent Non-executive Directors Mr. Anthony Francis NEOH, Mr. HUANG Shizhong, Ms. HUANG Danhan and Mr. CHOW Man Yiu, Paul. Mr. CHOW Man Yiu, Paul serves as Chairman of the committee. The committee is mainly responsible for assisting the Board of Directors in reviewing the Bank's human resources and remuneration strategies and overseeing their implementation; studying and reviewing the standards and procedures for selecting, nominating and appointing directors, members of the Bank's Board committees and senior management, and performing the duties of related nomination, review and supervision; reviewing and monitoring the remuneration and incentive policies of the Bank; and setting the performance appraisal standards for the senior management of the Bank and evaluating the performance of the directors, supervisors and members of the senior management.

The Personnel and Remuneration Committee held six meetings, and held one meeting by written resolutions in 2011. At these meetings, the committee approved several proposals, including proposals on the performance evaluation and remuneration distribution plan for the Chairman of the Board of Directors, the President and the senior management members for 2010, 2011 performance targets for the Group, performance targets for the Chairman of the Board of Directors, the President and the senior management members in 2011, the *Management Measures on Sound Compensation Practices of Bank of China Limited*, a proposal on the reappointment of Chief Credit Officer and the appointment of Chief Audit Officer of the Bank, proposals on the nomination and appointment of executive directors, and a proposal on adjustments to the membership of the Board committees. The committee also reviewed the remuneration distribution plan of the Chairman of the Board of Supervisors and the supervisors for 2010. In 2011, the Personnel and Remuneration Committee earnestly performed its duties of selecting and nominating directors. The committee conducted preliminary examination on the qualifications and conditions of the candidates in strict accordance with the external regulatory requirements and provisions of the Bank's Article of Association, and submitted the proposals on appointing the directors to the Shareholders' Meeting for discussion and approval after the deliberation of the Board of Directors.

The average attendance rate of the meetings of the Personnel and Remuneration Committee in 2011 reached 97%. The attendance rate of each director is given below:

Director	Number of meetings attended/Number of meetings convened during term of office
CAI Haoyi	7/7
HONG Zhihua	5/5
ZHANG Qi	2/2
Anthony Francis NEOH	6/7
HUANG Shizhong	7/7
HUANG Danhan	7/7

Notes:

1. Non-executive Director Ms. HONG Zhihua ceased to serve as a member of the Personnel and Remuneration Committee as of 28 May 2011.

2. Non-executive Director Mr. ZHANG Qi began to serve as a member of the Personnel and Remuneration Committee as of 8 July 2011.

3. Independent Non-executive Director Mr. Anthony Francis NEOH was not able to attend the meeting of Personnel and Remuneration Committee on 23 August 2011 in person. He authorised another director to attend and vote at the meeting as his proxy.

4. Independent Non-executive Director Mr. CHOW Man Yiu, Paul began to serve as a member of the Personnel and Remuneration Committee as of 29 March 2012.

The Connected Transactions Control Committee

The Connected Transactions Control Committee comprises seven members, including Executive Director Mr. LI Zaohang, and Independent Non-executive Directors Mr. Anthony Francis NEOH, Mr. Alberto TOGNI, Mr. HUANG Shizhong, Ms. HUANG Danhan, Mr. CHOW Man Yiu, Paul and Mr. Jackson P. TAI. Mr. Alberto TOGNI serves as Chairman of the committee. The committee is mainly responsible for administering connected transactions of the Bank in accordance with the provisions of relevant laws and regulations and formulating the administrative system with regard to connected transactions; defining connected transactions of the Bank in accordance with the provisions of relevant laws, regulations and the Articles of Association of the Bank; examining connected transactions of the Bank pursuant to the provisions of relevant laws and regulations, as well as the business principles of justice and fairness; and examining and approving information disclosure matters related to the significant connected transactions of the Bank.

The Connected Transactions Control Committee held four meetings in 2011, at which the committee discussed and approved several proposals, including the Bank's representation letter on continuing connected transactions in 2010, the *Measures of Bank of China Limited for Administration of Connected Transactions (2011 edition)*, and reviewed such proposals as the report on the *Implementation Guide to Listed Companies' Connected Transactions* issued by SSE and the work report on the management of connected transactions in 2011.

The average attendance rate of the meetings of the Connected Transactions Control Committee reached 97% in 2011. The attendance rate of each director is given below:

Director	Number of meetings attended/Number of meetings convened during term of office
Alberto TOGNI	4/4
LI Zaohang	4/4
ZHOU Zaiqun	1/1
Anthony Francis NEOH	3/4
HUANG Shizhong	4/4
HUANG Danhan	4/4
CHOW Man Yiu, Paul	4/4
Jackson P. TAI	4/4

Notes:

1. Independent Non-executive Director Mr. Anthony Francis NEOH was not able to attend the meeting of the Connected Transactions Control Committee in person on 23 August 2011. He authorised Mr. Alberto TOGNI, chairman of the committee, to attend and vote at the meeting as his proxy.

2. Mr. ZHOU Zaiqun ceased to serve as a member of the Connected Transactions Control Committee as of 28 May 2011.

3. Independent Non-executive Director Mr. Jackson P. TAI began to serve as a member of the Connected Transactions Control Committee as of 11 March 2011.

Independent Non-executive Directors

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

In 2011, the Bank's independent non-executive directors attended meetings of the Board of Directors, reviewed proposals, participated in discussions and offered their professional opinions independently, objectively and diligently, in accordance with the Articles of Association of the Bank, the *Procedural Rules for Board of Directors of Bank of China Limited* and the *Work Rules of Independent Directors of Bank of China Limited*.

In 2011, the independent non-executive directors did not raise any objection to the resolutions of the Bank's Board of Directors or its special committees.

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

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

The guarantee business is one of the Bank's ordinary business activities. It has been approved by the PBOC and CBRC and does not fall within the scope of guarantees as defined in the *Circular on Regulating Guarantee Businesses of Listed Companies*. The Bank has formulated specific management measures, operational processes and approval procedures in light of the risks of the guarantee business and carried out this business accordingly. The Bank's guarantee business comprises principally letters of guarantee. As at 31 December 2011, the outstanding amount of letters of guarantee issued by the Bank was RMB769.124 billion.

Supervisors and Board of Supervisors

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

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

Two special committees, namely the Duty Performance and Due Diligence Supervision Committee and the Finance and Internal Control Supervision Committee, have been set up under the Board of Supervisors. They are responsible to the Board of Supervisors, and assist it in performing the duties under its authorisation. Members of the special committees are supervisors, and each committee shall have at least three members.

In 2011, the Board of Supervisors and its special committees earnestly performed their supervisory responsibilities and reviewed relevant proposals through detailed discussion. The Board of Supervisors held six meetings and made related resolutions. The Duty Performance and Due Diligence Supervision Committee held one meeting, while the Finance and Internal Control Supervision Committee held four meetings. For the performance of and supervisory opinions from the Board of Supervisors within the reporting period, please refer to the section "Report of the Board of Supervisors" in this annual report.

Senior Management

In 2011, the senior management of the Bank, in accordance with the powers bestowed upon them by the Articles of Association of the Bank and the rights delegated to them by the Board of Directors, drove forward the Bank's various businesses in line with the annual performance goals set by the Board of Directors, showing composure in face of various challenges.

During the reporting period, the senior management of the Bank held 29 regular meetings and 125 special meetings in which it discussed and decided upon a series of significant operating and management matters, including the Bank's business development plan, assets and liabilities management, risk management, the progress of the IT Blueprint, the integration of business processes and human resources management, etc.

The senior management of the Bank presides over the Corporate Banking Committee, the Personal Banking Committee, the Financial Markets Committee, the Risk Management and Internal Control Committee (which governs the Anti-money Laundering Committee, the Securities Investment and Management Committee and the Asset Disposal Committee), the Operation Service Committee and the Procurement Review Committee. During the reporting period, all committees diligently fulfilled their duties and responsibilities as per the power specified in their *Committee Charters* and the rights delegated by the Group Executive Committee.

Securities Transactions by Directors and Supervisors

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

Responsibility Statement of Directors on Financial Reports

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

Corporate Governance

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

Appointment of External Auditors

At the 2010 Annual General Meeting of the Bank, shareholders of the Bank approved the appointments of PricewaterhouseCoopers Zhong Tian CPAs Limited Company as its domestic auditor and internal control auditor for 2011, and PricewaterhouseCoopers as its international auditor for 2011.

Fees paid to PricewaterhouseCoopers and its member firms for the audit of the financial statements of the Group, including those of the Bank's overseas subsidiaries and branches, were RMB215 million for the year ended 31 December 2011.

PricewaterhouseCoopers was not engaged in significant non-auditing services with the Bank. The Bank incurred RMB8 million for non-auditing services performed by PricewaterhouseCoopers for the year ended 31 December 2011.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers have provided audit services to the Bank for nine years. Mr. WU Weijun and Mr. HU Liang are the certified public accountants who signed the auditor's report on the Group's financial statements prepared in accordance with the CAS for the year ended 31 December 2011.

The Board will table a resolution at the forthcoming 2011 Annual General Meeting for discussion and approval regarding the proposal to appoint PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers as external auditors of the Bank for 2012, being respectively responsible for audit services in relation to CAS and IFRS reporting; and to appoint PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the Bank's internal control auditor for 2012.

Investor Relations and Information Disclosure

With the commitment to full capital market compliance and pursuing best practices in corporate governance, the Board and senior management of the Bank devote continuing efforts to the improvement of its investor relations and information disclosure function, in line with the principles of timeliness, proactivity, openness and fairness. In 2011, confronted with an unfavourable global economic and financial environment, the Bank proactively broadened its working approach to investor relations and information disclosure, which helped to improve effective communication with the market and also ensured that information disclosure was authentic, accurate and complete.

In 2011, after the 2010 annual results and 2011 interim results announcements, the Bank successfully organised non-deal roadshows, in which the senior management explained the Bank's strategy and operating performance to investors from different countries and regions including the Chinese mainland, Hong Kong, Europe and North America, while also listening earnestly to investors' concerns and feedback. Such dynamic exchanges were warmly welcomed by investors. During the reporting period, the Bank's senior management and representatives of major departments held and attended over 200 meetings with worldwide institutional investors and analysts, effectively promoting the investment community's understanding of the Bank's investment value. Furthermore, the Bank explored other proactive means of investor relations activities such as reverse roadshows, corporate day events and other activities revolving around hot issues including foreign exchange business, cross-border RMB business and risk management. Through those activities, the Bank actively highlighted its investment value and its differentiated competitive advantages to the market.

In addition, the Bank's investor relations department continues to closely communicate with analysts from buy side and sell side, which enables the timely exchange of views on major market concerns. The Bank also continually improves its communication channels including investor relations webpage, telephone hotline and email, for catering the market's demand on the Bank's information.

In the meantime, the Bank proactively implemented regulatory requirements, and kept close watch on the influence of credit rating on the market and various institutions. The Bank has comprehensively improved the management of its external credit rating, through in-depth research on their rating methodologies, professional communication with the agencies, as well as consolidated management of the Group's use of the rating. In 2011, the investor relations department of the Bank fostered the effective communication with rating agencies at multi-levels in respect of the Bank's risk profile, operating performance and development strategy. During the reporting period, rating agencies, including Moody's Investors Services, Fitch Ratings and Rating and Investment Information, reaffirmed the Bank's credit ratings, while Standard & Poor's announced in November raising the Bank's long term/short term counterparty credit ratings to 'A/A-1', with a stable outlook on the long-term rating. The stable and improved credit rating will help the Bank by enhancing its market influence and investors' confidence, and lowering its financing cost.

In 2011, the Bank further optimised its three-tier information disclosure management system, including disclosure policies, management measures and the operation manual. The Bank formulated and implemented the *Management Measures on Responsibility Investigation on Material Information Disclosure Errors of Regular Reports of Bank of China Limited (Trial, 2011 Edition)*. Through vigilant compliance with regulatory requirements and the *Rules Governing Persons with Knowledge of Inside Information of Bank of China Limited*, the Bank strictly implemented the registration and filing of persons with inside information, improved the self-inspection mechanism and prevented the occurrence of insider trading. During the reporting period, the Bank reinforced the accountability systems and information correspondence mechanism across the Head Office departments, domestic and overseas branches and subsidiaries. It further enhanced group-wide information disclosure management through organising regular training sessions, conducting on-site investigations on principal subsidiary, coordinating disclosure affairs with listed subsidiary and strengthening internal control and assessment. With a focus on following regulatory changes and examining case studies, the Bank constantly builds up its professional capabilities in information disclosure through exploiting different resources and taking advantage of various opportunities.

In 2011, the Bank's achievements in investor relations and information disclosure once again received wide recognition. At the 10th China Corporate Governance Forum organised by SSE, the Bank was granted the "Information Disclosure Award 2011" in recognition of its continuously improving policy systems, well-organised day-to-day operations and innovative practices in information disclosure management. The Bank was the only listed commercial bank to receive the honour. The Bank's 2010 Annual Report won the "Gold Award" in the overall category of the LACP (League of American Communications Professionals) annual report competition. It was also awarded "Top 20 Chinese Annual Reports of 2010" and "Top 50 Annual Reports in the Asia-Pacific Region". In the Seventh China Capital Market Annual Conference organised by the *Securities Daily*, the Bank was granted the "Golden Tripod Award".

In the future, the Bank shall continue to enhance its commitment to investor relations and information disclosure, increase the transparency of its corporate information and conduct more diversified investor relations programmes so as to better serve the needs of the investors and analysts.

Report of the Board of Directors

The Board of Directors is pleased to present its report together with the audited consolidated financial statements of the Bank and its subsidiaries (the "Group") for the year ended 31 December 2011.

Principal Activities

The Group provides a range of banking and related financial services, including commercial banking, investment banking, insurance, direct investment and investment management, fund management and aircraft leasing business.

Major Customers

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

Results and Profit Distribution

The results of the Group for 2011 are set out in the financial statements and notes thereof. The Board of Directors has recommended a final dividend of RMB0.155 per share (before tax), subject to the approval of the shareholders at the forthcoming Annual General Meeting scheduled on Wednesday, 30 May 2012. If approved, the 2011 final dividend of the Bank will be denominated and declared in RMB and paid in RMB or Hong Kong dollars. For such conversion, RMB will be converted into Hong Kong dollars based on the average exchange rate as announced by the PBOC prevailing one week before 30 May 2012 (inclusive), being the date of the Bank's Annual General Meeting. No capitalisation of the capital reserve to share capital is proposed in this profit distribution.

At the 2010 Annual General Meeting held on 27 May 2011, a final dividend of RMB0.146 per share (before tax) was approved for payment. The distribution plan was accomplished in July 2011 and the actual distributed amount was RMB40.756 billion. No interim dividend was paid for the period ended on 30 June 2011 by the Bank. The Bank did not propose any capitalisation of the capital reserve to share capital in 2011.

Dividend Payout for the Past Three Years

Unit: RMB million (except percentages)

	2010	2009	2008
Total dividends	40,756	35,537	32,999
Payout ratio	39%	44%	52%

Notes:

1. Total dividends are the amount before-tax.
2. Payout ratio = total dividend ÷ profit attributable to equity holders of the Bank.

Formulation and Implementation of Cash Dividend Policy

The Bank formulated the *Dividend Distribution Policy of Bank of China Limited* before its listing and has since made amendments to accommodate changes in external regulatory requirements and its operating environment. In 2009, the Bank amended its Articles of Association by clearly stating that the Bank should maintain the continuity and stability of its profit distribution policy. Faced with escalating regulatory demands over capital requirements and the development opportunities brought about by the China's 12th Five-year Plan, the Board of Directors held an onsite meeting on 24 March 2011 to again amend dividend distribution policy. After due deliberation and thorough discussion, the Board of Directors unanimously agreed that dividend would be distributed at 35%–45% of the Group's yearly net profit from year 2010 to 2013. This Board resolution has been duly disclosed. The procedure to amend dividend distribution policy is compliant and transparent, in line with the requirements of the Articles of Association and other rules and regulations.

After taking into account the legitimate rights and interests of all shareholders and the Bank's business development needs, the Board of Directors determined the Bank's profit distribution plan in accordance with the *Dividend Distribution Policy of Bank of China Limited, Capital Management Plan of Bank of China Limited* and the prevailing laws and regulations and regulatory requirements applicable to the Bank, and submitted the distribution plan for the approval of the shareholders' meeting. The Bank guarantees that each shareholder has an equal right to attend the shareholders' meeting and vote on the proposals, and that the legitimate rights and interests of minority shareholders are well respected and protected.

In 2011, the Bank distributed the dividends for year 2010 in strict compliance with its Articles of Association, dividend distribution policy and shareholders' meeting resolution on profit distribution.

Closure of Register of H-Share Holders

The H-Share register of members of the Bank will be closed from Friday, 8 June to Tuesday, 12 June 2012 (both days inclusive) for the purpose of determining the list of shareholders entitled to the final dividend. For such entitlements, H-Share Holders who have not registered the related transfer documents are required to lodge them, together with the relevant share certificates, with the H-Share Registrar of the Bank, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, 7 June 2012. The ex-dividend date of the Bank's shares will be on Wednesday, 6 June 2012.

Donations

Charitable and other donations made by the Group during the reporting period amounted to approximately RMB40.5390 million.

Share Capital

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

Reserves

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

Distributable Reserves

Please refer to Note V.37 to the Consolidated Financial Statements for details of distributable reserves of the Bank.

Fixed Assets

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

Financial Summary

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

Connected Transactions

Under the Hong Kong Listing Rules, transactions between the Bank and its connected persons (as defined under the Hong Kong Listing Rules) constitute connected transactions to the Bank. Such transactions are monitored and administered by the Bank in accordance with the Hong Kong Listing Rules. In 2011, the Bank has regularly engaged in a number of connected transactions with its connected persons in the ordinary and usual course of its business. Such transactions are exempted from the reporting, annual review, announcement and independent shareholders' approval requirement according to the Hong Kong Listing Rules 14A.31 or 14A.33.

Directors' Interests in Competing Businesses

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

Emoluments of Directors, Supervisors and Senior Management Members

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

Directors' and Supervisors' Service Contracts

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

Directors' and Supervisors' Interests in Contracts of Significance

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

Directors' and Supervisors' Rights to Acquire Shares

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

Particulars of the outstanding options granted to the Director of the Bank under the Pre-Listing Share Option Scheme as at 31 December 2011 are set out below:

				Number of share options					
Name of director	Date of grant	Exercise price per share (HK$)	Exercisable period	Granted on 5 July 2002	Balance as at 1 January 2011	Exercised during the year	Surrendered during the year	Lapsed during the year	Balance as at 31 December 2011
LI Zaohang	5 July 2002	8.50	25 July 2003 to 4 July 2012	1,446,000	1,446,000	–	–	–	1,446,000

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

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

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

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

Save as disclosed above, to the best knowledge of the Bank, as at 31 December 2011, none of the Directors or Supervisors of the Bank or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Bank pursuant to Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the *Model Code for Securities Transactions by Directors of Listed Issuers* as set out in Appendix 10 of the Hong Kong Listing Rules.

Financial, Business and Family Relations among Directors

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

Substantial Shareholder Interests

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

Management Contracts

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

Share Appreciation Rights Plan and Share Option Scheme

Please refer to Note V.33 to the Consolidated Financial Statements for details of the share appreciation rights plan and share option schemes of the Group.

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

Purchase, Sale or Redemption of the Bank's Shares

As at 31 December 2011, approximately 10.98 million shares of the Bank were held as treasury shares. Please refer to Note V.36 to the Consolidated Financial Statements for details of purchase, sale or redemption of the Bank's shares by the Bank and its subsidiaries.

Pre-emptive Rights

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

Use of Raised Funds

All proceeds raised from the IPOs, the rights issue of A Shares and H Shares, the issuances of subordinated bonds and Convertible Bonds of the Bank have been used to replenish the Bank's capital and step up the level of capital adequacy of the Bank. The use of raised funds in the recent three years is as follows:

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

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

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

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

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

Tax Relief

A-Share Holders

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

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

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

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

H-Share Holders

In accordance with the relevant People's Republic of China tax regulations, the dividend received by overseas resident individual shareholders from the stocks issued by domestic non-foreign investment enterprises in Hong Kong is subject to the payment of individual income tax, which shall be withheld by the withholding agents. However, overseas resident individual shareholders of the stocks issued by domestic non-foreign investment enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements signed between the countries in which they are residents and China, or to the tax arrangements between the Chinese mainland and Hong Kong and Macau. Accordingly, the Bank will withhold 10% of the dividend to be distributed to the individual H-Share Holders as individual income tax unless otherwise specified by the relevant tax regulations and tax agreements.

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

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

Shareholders are taxed and/or enjoy tax relief in accordance with the aforementioned and/or newly published tax regulations and shall seek professional advice from their tax and legal advisors.

Auditors

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

On behalf of the Board
XIAO Gang
Chairman
29 March 2012

Report of the Board of Supervisors

Meetings of the Board of Supervisors

In 2011, the Board of Supervisors held six meetings, in which it reviewed and made decisions on 23 items including financial reports, the self-assessment report on internal control, profit distribution plan, work plan of the Board of Supervisors, and evaluation opinions on the duty performance of the Directors and senior management members of the Bank; conducted special research on how to implement the *Measures on Duty Performance Evaluation for Directors of Commercial Banks (Trial)* of the CBRC, and heard progress reports related to various special investigations of the Office of the Board of Supervisors.

1 The first meeting (on 17 January) studied the performance of the Board of Supervisors, and discussed on the *Work Plan of the Board of Supervisors of Bank of China Limited* for 2011.

2 The second meeting (on 24 March) examined and approved the *2010 Annual Report of Bank of China Limited*, the *2010 Profit Distribution Plan of Bank of China Limited*, the *Self-assessment Report on Internal Control in 2010 of Bank of China Limited*, the *2010 Corporate Social Responsibility Report of Bank of China Limited*, the *Proposal on Evaluation Opinions of the Board of Supervisors on Duty Performance of the Board of Directors, the Senior Management and Its Members for 2010*, the *Work Plan of the Board of Supervisors of Bank of China Limited for 2011*, the *Report of the Board of Supervisors of Bank of China Limited for 2010*; examined the qualifications and conditions of Mr. MEI Xingbao and Ms. BAO Guoming and agreed to nominate them as the candidates of External Supervisors for submission to the Shareholders' Meeting for deliberation.

3 The third meeting (on 28 April) examined and approved the *2011 First Quarter Report of Bank of China Limited*.

4 The fourth meeting (on 26 July) heard the *2011 Interim Report of the Board of Supervisors* and the investigation report regarding the precious metals business of the Bank.

5 The fifth meeting (on 24 August) examined and approved the *2011 Interim Report of Bank of China Limited*.

6 The sixth meeting (on 26 October) examined and approved the *2011 Third Quarter Report of Bank of China Limited*, and the *Measures on the Evaluation of the Board of Supervisors of Bank of China Limited over the Responsibility Performance of the Board of Directors, the Senior Management and Its Members (Revised)*, and heard reports on research projects related to real estate credit risk management, management on loans to LGFVs and the capital management of the Bank.

The average attendance rate of the meetings of the Board of Supervisors in 2011 reached 98%. The attendance rate of each Supervisor is given below:

Supervisor	Number of meetings attended/Number of meetings convened during term of office
LI Jun	6/6
WANG Xueqiang	6/6
LIU Wanming	6/6
DENG Zhiying	6/6
LI Chunyu	6/6
JIANG Kuiwei	5/6
QIN Rongsheng	3/3
BAI Jingming	3/3
MEI Xingbao	3/3
BAO Guoming	3/3

Notes:

1 Supervisor Mr. JIANG Kuiwei was not able to attend the meeting of the Board of Supervisors on 24 August

2011 in person. He authorised another Supervisor to attend and vote at the meeting as his proxy. Mr. JIANG Kuiwei ceased to serve as Employee Supervisor of the Bank as of 21 February 2012.

2 Mr. QIN Rongsheng and Mr. BAI Jingming ceased to serve as External Supervisors of the Bank as of 28 May 2011.

3 Mr. MEI Xingbao and Ms. BAO Guoming began to serve as External Supervisors of the Bank as of 27 May 2011.

The Duty Performance and Due Diligence Supervision Committee of the Board of Supervisors held one meeting in 2011, examined and approved the *Proposal on Evaluation Opinions of the Board of Supervisors on Duty Performance of the Board of Directors, the Senior Management and Its Members for 2010*, and the *Proposal on Nominating Mr. MEI Xingbao and Ms. BAO Guoming as the Candidates of External Supervisors*.

The Finance and Internal Control Supervision Committee of the Board of Supervisors held four meetings in 2011. At these meetings, the committee examined and approved the *2010 Annual Report of Bank of China Limited*, the *2010 Profit Distribution Plan of Bank of China Limited*, the *Self-assessment Report on Internal Control in 2010 of Bank of China Limited*, the *2010 Corporate Social Responsibility Report of Bank of China Limited*, the *2011 First Quarter Report of Bank of China Limited*, the *2011 Interim Report of Bank of China Limited* and the *2011 Third Quarter Report of Bank of China Limited*.

Performance of Supervision and Inspection by the Board of Supervisors

In 2011, the Board of Supervisors earnestly performed its supervisory duties in line with the provisions of the *Company Law*, the Articles of Association of the Bank, relevant regulatory requirements and the Bank's development strategy. The Board of Supervisors actively transformed and optimised its supervisory function, conducted special investigations and oversaw the Bank's duty performance, finance, and risk management and internal control activities. These efforts contributed significantly to the sustainable growth and sound development of the Bank.

Conducting day-to-day duty performance supervision and delivering an annual appraisal on the duty performance of Directors and senior management members in a fair and objective manner. Pursuant to the *Measures on Duty Performance Evaluation for Directors of Commercial Banks (Trial)* promulgated by the CBRC, the Board of Supervisors amended the *Measures on the Evaluation of the Board of Supervisors of Bank of China Limited over the Responsibility Performance of the Board of Directors, the Senior Management and Its Members,* and devised the *Work Plan for the Evaluation of the Board of Supervisors over the Responsibility Performance of the Board of Directors, the Senior Management and Its Members for 2011*, so as to supervise duty performance in a systematic and orderly manner. The Board of Supervisors developed a deep and multi-dimensional understanding of the day-to-day duty performance of the Board of Directors and senior management through analysis of their keynote speeches, instructions and meeting minutes, and by participating in their meetings and shareholders' meetings in a non-voting capacity. Such an understanding helped the Board of Supervisors form an objective basis for the annual appraisal on duty performance. In addition, the Board of Supervisors scrutinised the duty performance reports of the Directors and senior management members and discussed their annual duty performance with them by such means as interviews. Through all of these efforts, the evaluation of duty performance of the Board of Directors, the senior management and its members for 2010 was completed smoothly.

Report of the Board of Supervisors

Performing financial supervision duties and strengthening the review of financial reports. The Board of Supervisors held seven meetings with relevant departments of the Head Office and the external auditors surrounding the compilation of quarterly, interim and annual financial reports. These meetings included presentations on the preparation of financial reports, changes in the Bank's risk assets, the provision of reserves and audit opinions of PricewaterhouseCoopers Zhong Tian CPAs Limited Company. Moreover, the Board of Supervisors put forth opinions, based on in-depth analysis, regarding the applicability and accuracy of Group's accounting policies, the reasonableness of its accounting valuation methods and major risk events.

Transforming the supervision function and conducting various special investigations. Conducting comprehensive special investigations is one of the key means by which the Board of Supervisors is transforming its work scope and function. Aiming to integrate relevant regulatory requirements into the Bank's strategic development plans and paying special attention to important affairs in corporate governance and operational management, the Board of Supervisors initiated special investigations into such topics as the physical precious metals business, the risk control of real estate credit, the management of loans to LGFVs, the capital management of the Bank, the competitiveness of the Bank's overseas institutions and the implementation of substitution system for persons in charge of front line business units, etc. Moreover, investigation teams of the Board of Supervisors studied how the Head Office's decisions were implemented throughout the Group by conducting in-depth investigations at the relevant departments of the Head Office, eleven tier-one branches, several tier-two branches, and five overseas branches and subsidiaries. These teams identified achievements and deficiencies in the business development and risk control of these offices, and put forth supervision proposals and investigation reports. The Chairman of the Board of Directors and senior management of the Bank highly valued such feedback, and the relevant departments of the Head Office and branches implemented the Supervisors' suggestions and promptly rectified the problems.

Intensifying the supervision of risk management and internal control to promote the sound operation of the Bank. The Board of Supervisors utilised internal and external supervisory resources in order to strengthen the supervision of the Bank's risk management and internal control. It heard reports and conducted off-site monitoring and on-site investigations, looking in depth at such issues as security controls for online banking, treatment of non-performing corporate loans, management of internal transitional fund accounts and the aircraft leasing business, and put forth suggestions and opinions. Meanwhile, the Board of Supervisors constantly tracked and analysed key data related to the Bank's risk management and internal control and received relevant working reports. This allowed it to set appropriate priorities for supervision and sharpen the focus of risk and internal control oversight.

Establishing multiple communication channels to improve the supervision mechanism. The Board of Supervisors maintained effective communication within the Bank by developing a communication mechanism with the Board of Directors and the senior management which enables it to provide timely feedback to the senior management regarding supervisory information, as well as further mechanisms between its special committees and the Head Office's departments which allow it to hear special reports regularly, receive timely updates on operational management matters and discuss key issues in depth. Meanwhile, the Board of Supervisors sought to improve contact with shareholders and regulators by attending seminars for the boards of supervisors from banks controlled or held by Huijin, as well as the CBRC's joint meetings for the chairmen of the boards of supervisors from large banks. Through sharing experiences and best practices with its peers, the Board of Supervisors better understood the latest changes and trends in regulatory requirements, adjusted its supervision priorities and enhanced its innovative approach to supervision.

Enhancing its own development and duty performance capabilities. The Board of Supervisors has constantly improved its rules and regulations, organisational structure and professional training, so as to provide strong support for effective duty performance. It amended the *Measures on the Evaluation of the Board of Supervisors of Bank of China Limited over the Responsibility Performance of the Board of Directors, the Senior Management and Its Members*, completed the re-election of External Supervisors and the adjustment of members of the special committees. Furthermore, it strengthened training provision for the Bank's Supervisors, improving their duty performance capabilities through training courses, seminars and meetings on business supervision organised both internally and by regulators.

The work of the Board of Supervisors was well recognised and supported by the Board of Directors and the senior management in 2011. The Board of Supervisors fully realised its role as checks and balances within the Bank's structure, which further enhanced the Bank's corporate governance capacity.

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

1 Operations in accordance with laws

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

2 Financial position

The financial statements contained in the 2011 Annual Report of the Bank reflect truthfully and fairly the Bank's financial position and business performance for the reporting period.

3 Use of capital raised

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

4 Purchase and sale of assets

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

5 Related party transactions

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

6 Internal control

The Bank further enhanced and improved its internal control during the reporting period. The Board of Supervisors examined and approved the *Report of Bank of China Limited on Internal Control Assessment for 2011*.

Significant Events

Material Litigation and Arbitration

The Bank was involved in certain litigation and arbitration cases in its regular course of business. In addition, because of the scope and scale of the Bank's international operations, the Bank is subject from time to time to a variety of claims of a sensitive nature made by plaintiffs under the laws of various jurisdictions in which the Bank operates, including allegations of involvement in money laundering. After consulting legal professionals, the senior management holds that none of the litigation and arbitration cases will have a significant adverse impact on the financial position or operating results of the Bank at the current stage.

Purchase and Sale, and Merger and Acquisition of Assets

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

Implementation of Stock Incentive Plan during the Reporting Period

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

Significant Related Party Transactions

The Bank had no significant related party transactions during the reporting period. For the details of the related party transactions as defined by the relevant accounting standards by the end of the reporting period, please refer to Note V.42 of the Consolidated Financial Statements.

Major Contracts and the Enforcement thereof

Material Custody, Sub-contracts and Leases

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

Material Guarantee Business

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

Material Cash Assets of the Bank Entrusted to Others for Management

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

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

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

Undertakings

Huijin made a "non-competing commitment" when the Bank launched its IPO to the effect that, so long as Huijin continues to hold any of the Bank's shares or is deemed to be a controlling shareholder or a connected person of a controlling shareholder in accordance with the laws or listing rules of the Peoples' Republic of China, or of the place where the Bank's shares are listed, it will not engage or participate in any competing commercial banking activities, including but not limited to extending loans, taking deposits and providing settlement, or providing fund custodian, bank card and currency exchange services. However, Huijin may, through its investments in other commercial banks, undertake or participate in certain competing businesses. To that regard, Huijin has undertaken that it will: (i) treat its investment in commercial banks on an equal footing and not take advantage of its status as a holder of the Bank's shares or take advantage of the information obtained by virtue of such status to make decisions or judgements against the Bank and in favour of other commercial banks; and (ii) exercise its shareholder's rights in the Bank's best interests. During the reporting period, there was no breach of material undertakings by Huijin.

At the time of its IPO, the Bank committed to appoint more independent directors so that independent directors will account for more than one-third of the total board members. At present, there are 16 directors serving the Bank, among which 6 of them are independent directors, surpassing one-third of the total number of directors. Furthermore, the Bank has specified in its Articles of Association that "the independent directors shall account for at least one-third of the total board members", which sets a strict requirement on the composition of the Board of Directors.

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

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

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

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

Significant Issues in relation to Environment or Social Security

During the reporting period, there were no significant environmental or social security issues in relation to the Bank.

Other Significant Events

Investment Securities

No.	Type of securities	Securities code	Company/securities name	Initial investment cost (unit: RMB)	Securities held	Carrying value at period end (unit: RMB)	Proportion of the total investment securities at period end	Gains/(losses) during the reporting period (unit: RMB)
1	Fund	–	Fortis-Flex III China Fund I	2,104,048,079	253,455	2,221,052,222	34.68%	94,925,979
2	Stock	823 HK	Link REIT	268,190,558	18,701,019	431,328,124	6.73%	64,244,449
3	Fund	–	BOCHK RMB Bond Fund	260,134,793	2,600,000	263,334,451	4.11%	3,199,658
4	Stock	939 HK	CCB	131,726,501	43,024,334	188,883,438	2.95%	(25,367,800)
5	Stock	MA	MasterCard Inc.	–	55,679	130,755,707	2.04%	52,116,231
6	Stock	1398 HK	ICBC	83,484,080	20,898,415	78,104,211	1.22%	(4,566,131)
7	Convertible Bond	XS0283693447	Sinopec Corp.	46,407,711	10,000	45,905,888	0.72%	(323,591)
8	Stock	883 HK	CNOOC	47,088,533	3,600,876	39,643,146	0.62%	(5,808,271)
9	Convertible Bond	XS0284704441	Gainlead International Ltd.	37,601,887	8,000	37,211,130	0.58%	(1,071,137)
10	Stock	13 HK	Hutchison Whampoa Limited	37,025,094	677,186	35,712,144	0.56%	(12,396,776)
Other investment securities held at period end				2,062,304,467	–	2,933,118,709	45.79%	560,317,802
Gains/(losses) of investment securities sold during the reporting period				–	–	–	–	(701,560,320)
Total				5,078,011,703	–	6,405,049,170	100%	23,710,093

Notes:

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

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

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

4 The units of measures are "share" for stocks, "unit" for funds and "issue" for convertible bonds.

Stocks of Other Listed Companies Held by the Group

Stock code	Company name	Initial investment cost (unit: RMB)	Proportion of total capital of the invested company	Carrying value at period end (unit: RMB)	Gains during the reporting period (unit: RMB)	(Decrease) / increase of the equity during the reporting period (unit: RMB)	Accounting classification	Source of shares
2008 HK	Phoenix Satellite Television Holdings Limited	315,971,569	8.30%	647,976,296	26,580,388	(227,125,712)	Available for sale equity investment	Joint-stock reform
549 HK	Jilin Qifeng Chemical Fiber Co., Ltd.	56,043,246	10.95%	42,903,608	–	15,223,861	Available for sale equity investment	Joint-stock reform
Total		372,014,815	–	690,879,904	26,580,388	(211,901,851)	–	–

Notes:

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

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

Significant Events

Equity Investments in Unlisted Financial Companies Held by the Group

Company name	Initial investment cost (unit: RMB)	Equity held (unit: share)	Proportion of total capital of the invested company	Carrying value at period end (unit: RMB)	Gains during the reporting period (unit: RMB)	Decrease of the equity during the reporting period (unit: RMB)	Accounting classification	Source of shares
JCC Finance Company Limited	47,283,583	–	20%	132,770,698	36,168,701	–	Investment in associates and joint ventures	Investment
China Bond Insurance Co., Ltd.	986,065,760	–	14%	1,053,131,379	–	(20,510,050)	Available for sale equity investment	Investment
The Debt Management Company Limited	13,458	1,660	11%	13,458	–	–	Available for sale equity investment	Investment
Hunan Valin Iron & Steel Group Finance Co., Ltd.	58,352,891	–	10%	80,756,432	8,767,681	–	Investment in associates and joint ventures	Investment
Total	1,091,715,692	–	–	1,266,671,967	44,936,382	(20,510,050)	–	–

Notes:

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

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

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

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

Trading of Stocks of Other Listed Companies during the Reporting Period

	Shares held at period beginning (unit: share)	Shares purchased during the reporting period (unit: share)	Shares sold during the reporting period (unit: share)	Shares held at period end (unit: share)	Amount of funds used (unit: RMB)	Losses during the reporting period (unit: RMB)
Trading of stocks of other listed companies	1,697,235,937	275,751,250	(331,758,319)	1,250,385,708	2,235,212,893	(341,237,206)

Independent Auditor's Report

羅兵咸永道

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

We have audited the consolidated financial statements of Bank of China Limited (the "Bank") and its subsidiaries (together, the "Group") set out on pages 133 to 347, which comprise the consolidated and the Bank's statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matters

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2012

Consolidated Financial Statements

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CONTENTS (Continued)

Consolidated Income Statement

For the year ended 31 December 2011 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2011	2010
Interest income	V.1	**413,102**	313,533
Interest expense	V.1	**(185,038)**	(119,571)
Net interest income		**228,064**	193,962
Fee and commission income	V.2	**70,018**	59,214
Fee and commission expense	V.2	**(5,356)**	(4,731)
Net fee and commission income		**64,662**	54,483
Net trading gains	V.3	**7,858**	3,491
Net gains on investment securities		**3,442**	3,380
Other operating income	V.4	**24,272**	21,202
Operating income		**328,298**	276,518
Operating expenses	V.5	**(140,815)**	(122,409)
Impairment losses on assets	V.8	**(19,355)**	(12,993)
Operating profit		**168,128**	141,116
Share of results of associates and joint ventures	V.19	**516**	1,029
Profit before income tax		**168,644**	142,145
Income tax expense	V.9	**(38,325)**	(32,454)
Profit for the year		**130,319**	109,691
Attributable to:			
Equity holders of the Bank		**124,182**	104,418
Non-controlling interests		**6,137**	5,273
		130,319	109,691
Earnings per share for profit attributable to equity holders of the Bank during the year (Expressed in RMB per ordinary share)	V.10		
— Basic		**0.44**	0.39
— Diluted		**0.43**	0.39

For details of the dividends paid or proposed please refer to Note V.37.3.

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011 (Amount in millions of Renminbi, unless otherwise stated)

	Year ended 31 December	
	2011	2010
Profit for the year	**130,319**	109,691
Other comprehensive income:		
Fair value gains on available for sale financial assets:		
Amount taken to equity	**2,642**	4,660
Less: related income tax impact	**(546)**	(756)
Amount transferred to income statement	**(3,228)**	(6,163)
Less: related income tax impact	**555**	1,117
Subtotal	**(577)**	(1,142)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	**254**	97
Less: related income tax impact	**–**	1
Subtotal	**254**	98
Exchange differences on translating of foreign operations	**(6,430)**	(2,973)
Less: net amount transferred to income statement from other comprehensive income	**647**	120
Subtotal	**(5,783)**	(2,853)
Other	**95**	140
Other comprehensive losses for the year, net of tax	**(6,011)**	(3,757)
Total comprehensive income for the year	**124,308**	105,934
Total comprehensive income attributable to:		
Equity holders of the Bank	**119,640**	101,358
Non-controlling interests	**4,668**	4,576
	124,308	105,934

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

Consolidated Statement of Financial Position

As at 31 December 2011 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December	
		2011	2010 (Restated)*
ASSETS			
Cash and due from banks and other financial institutions	V.11	**590,964**	636,126
Balances with central banks	V.12	**1,919,651**	1,573,922
Placements with and loans to banks and other financial institutions	V.13	**618,366**	213,716
Government certificates of indebtedness for bank notes issued	V.26	**56,108**	42,469
Precious metals		**95,907**	86,218
Financial assets at fair value through profit or loss	V.14	**73,807**	81,237
Derivative financial assets	V.15	**42,757**	39,974
Loans and advances to customers, net	V.16	**6,203,138**	5,537,765
Investment securities	V.17	**1,926,952**	1,974,087
— available for sale		**553,318**	656,738
— held to maturity		**1,074,116**	1,039,386
— loans and receivables		**299,518**	277,963
Investment in associates and joint ventures	V.19	**13,293**	12,631
Property and equipment	V.20	**138,234**	123,568
Investment properties	V.21	**14,616**	13,839
Deferred income tax assets	V.34	**19,516**	24,041
Other assets	V.22	**116,757**	100,272
Total assets		**11,830,066**	10,459,865

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

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

Consolidated Statement of Financial Position (Continued)

As at 31 December 2011 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December	
		2011	2010 (Restated)*
LIABILITIES			
Due to banks and other financial institutions	V.24	**1,370,943**	1,275,814
Due to central banks	V.25	**81,456**	73,415
Bank notes in circulation	V.26	**56,259**	42,511
Placements from banks and other financial institutions	V.27	**265,838**	230,801
Derivative financial liabilities	V.15	**35,473**	35,711
Due to customers	V.28	**8,817,961**	7,733,537
— at amortised cost		**8,256,874**	7,539,155
— at fair value		**561,087**	194,382
Bonds issued	V.29	**169,902**	131,887
Other borrowings	V.30	**26,724**	19,499
Current tax liabilities	V.31	**29,353**	22,775
Retirement benefit obligations	V.32	**6,086**	6,440
Deferred income tax liabilities	V.34	**4,486**	3,919
Other liabilities	V.35	**209,691**	207,406
Total liabilities		**11,074,172**	9,783,715
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Share capital	V.36.1	**279,147**	279,147
Capital reserve	V.36.1	**115,359**	114,988
Treasury shares	V.36.2	**(25)**	(138)
Statutory reserves	V.37.1	**52,165**	40,227
General and regulatory reserves	V.37.2	**81,243**	71,195
Undistributed profits		**209,816**	148,355
Reserve for fair value changes of available for sale securities	V.38	**3,642**	4,015
Currency translation differences		**(18,185)**	(13,624)
		723,162	644,165
Non-controlling interests	V.39	**32,732**	31,985
Total equity		**755,894**	676,150
Total equity and liabilities		**11,830,066**	10,459,865

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

Approved and authorised for issue by the Board of Directors on 29 March 2012.

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

XIAO Gang
Director

LI Lihui
Director

Statement of Financial Position

As at 31 December 2011 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December	
		2011	2010 (Restated)*
ASSETS			
Cash and due from banks and other financial institutions	V.11	**576,155**	620,979
Balances with central banks	V.12	**1,785,152**	1,282,532
Placements with and loans to banks and other financial institutions	V.13	**577,233**	245,333
Government certificates of indebtedness for bank notes issued	V.26	**2,691**	2,486
Precious metals		**91,642**	83,100
Financial assets at fair value through profit or loss	V.14	**31,887**	17,814
Derivative financial assets	V.15	**20,969**	19,157
Loans and advances to customers, net	V.16	**5,546,805**	4,951,171
Investment securities	V.17	**1,587,371**	1,639,785
— available for sale		**271,364**	392,480
— held to maturity		**1,025,620**	984,127
— loans and receivables		**290,387**	263,178
Investment in subsidiaries	V.18	**83,789**	79,933
Investment in associates and joint ventures	V.19	**48**	45
Property and equipment	V.20	**74,529**	65,494
Investment properties	V.21	**1,280**	1,285
Deferred income tax assets	V.34	**19,648**	24,359
Other assets	V.22	**79,638**	75,066
Total assets		**10,478,837**	9,108,539

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

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

Statement of Financial Position (Continued)

As at 31 December 2011 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December 2011	2010 (Restated)*
LIABILITIES			
Due to banks and other financial institutions	V.24	**1,273,561**	1,098,337
Due to central banks	V.25	**73,847**	65,120
Bank notes in circulation	V.26	**2,842**	2,527
Placements from banks and other financial institutions	V.27	**304,309**	255,776
Derivative financial liabilities	V.15	**17,387**	17,232
Due to customers	V.28	**7,806,900**	6,793,418
— at amortised cost		**7,249,861**	6,601,698
— at fair value		**557,039**	191,720
Bonds issued	V.29	**148,271**	116,283
Current tax liabilities	V.31	**26,527**	20,181
Retirement benefit obligations	V.32	**6,086**	6,440
Deferred income tax liabilities	V.34	**124**	177
Other liabilities	V.35	**133,769**	122,772
Total liabilities		**9,793,623**	8,498,263
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Share capital	V.36.1	**279,147**	279,147
Capital reserve	V.36.1	**113,670**	114,368
Statutory reserves	V.37.1	**50,487**	38,777
General and regulatory reserves	V.37.2	**76,515**	67,604
Undistributed profits		**166,950**	111,380
Reserve for fair value changes of available for sale securities	V.38	**604**	(2)
Currency translation differences		**(2,159)**	(998)
Total equity		**685,214**	610,276
Total equity and liabilities		**10,478,837**	9,108,539

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

Approved and authorised for issue by the Board of Directors on 29 March 2012.

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

XIAO Gang	**LI Lihui**
Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011 (Amount in millions of Renminbi, unless otherwise stated)

		Attributable to equity holders of the Bank									
	Note	Share capital	Capital reserve	Statutory reserves	General and regulatory reserves	Undistributed profits	Reserve for fair value changes of available for sale securities	Currency translation differences	Treasury shares	Non-controlling interests	Total
As at 1 January 2011		**279,147**	**114,988**	**40,227**	**71,195**	**148,355**	**4,015**	**(13,624)**	**(138)**	**31,985**	**676,150**
Profit for the year		**–**	**–**	**–**	**–**	**124,182**	**–**	**–**	**–**	**6,137**	**130,319**
Other comprehensive income		**–**	**392**	**–**	**–**	**–**	**(373)**	**(4,561)**	**–**	**(1,469)**	**(6,011)**
Total comprehensive income for the year		**–**	**392**	**–**	**–**	**124,182**	**(373)**	**(4,561)**	**–**	**4,668**	**124,308**
Appropriation to statutory reserves	V.37.1	**–**	**–**	**11,922**	**–**	**(11,922)**	**–**	**–**	**–**	**–**	**–**
Appropriation to general reserve and regulatory reserve	V.37.2	**–**	**–**	**–**	**10,054**	**(10,054)**	**–**	**–**	**–**	**–**	**–**
Dividends	V.37.3	**–**	**–**	**–**	**–**	**(40,756)**	**–**	**–**	**–**	**(3,978)**	**(44,734)**
Net change in treasury shares	V.36.2	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**113**	**–**	**113**
Other		**–**	**(21)**	**16**	**(6)**	**11**	**–**	**–**	**–**	**57**	**57**
As at 31 December 2011		**279,147**	**115,359**	**52,165**	**81,243**	**209,816**	**3,642**	**(18,185)**	**(25)**	**32,732**	**755,894**
As at 1 January 2010		253,839	76,710	30,391	60,328	100,758	4,750	(11,741)	(43)	30,402	545,394
Profit for the year		–	–	–	–	104,418	–	–	–	5,273	109,691
Other comprehensive income		–	139	–	–	(3)	(1,313)	(1,883)	–	(697)	(3,757)
Total comprehensive income for the year		–	139	–	–	104,415	(1,313)	(1,883)	–	4,576	105,934
Rights issue		25,308	33,991	–	–	–	–	–	–	–	59,299
Issuance of convertible bonds	V.29	–	4,148	–	–	–	–	–	–	–	4,148
Appropriation to statutory reserves	V.37.1	–	–	9,837	–	(9,837)	–	–	–	–	–
Appropriation to general reserve and regulatory reserve	V.37.2	–	–	–	10,874	(10,874)	–	–	–	–	–
Dividends	V.37.3	–	–	–	–	(35,537)	–	–	–	(3,283)	(38,820)
Exercise of subsidiary share options		–	–	–	–	–	–	–	–	6	6
Net change in treasury shares	V.36.2	–	–	–	–	–	–	–	(95)	–	(95)
Other		–	–	(1)	(7)	(570)	578	–	–	284	284
As at 31 December 2010		279,147	114,988	40,227	71,195	148,355	4,015	(13,624)	(138)	31,985	676,150

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2011 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2011	2010 (Restated)*
Cash flows from operating activities			
Profit before income tax		**168,644**	142,145
Adjustments:			
Impairment losses on assets		**19,355**	12,993
Depreciation of property and equipment		**10,301**	8,684
Amortisation of intangible assets and other assets		**1,956**	1,635
Net gains on disposal of property and equipment, intangible assets and other long-term assets		**(372)**	(341)
Net gains on disposal of investment in subsidiaries, associates and joint ventures		**(7)**	(128)
Share of results of associates and joint ventures		**(516)**	(1,029)
Interest income arising from investment securities		**(54,600)**	(51,936)
Dividends arising from investment securities		**(188)**	(165)
Net gains on de-recognition of investment securities		**(3,442)**	(3,380)
Interest expense arising from bonds issued		**6,554**	4,676
Net changes in operating assets and liabilities:			
Net increase in balances with central banks		**(356,193)**	(259,151)
Net increase in due from and placements with and loans to banks and other financial institutions		**(88,624)**	(263,656)
Net increase in precious metals		**(9,689)**	(26,563)
Net increase in financial assets at fair value through profit or loss		**(597)**	(17,630)
Net increase in loans and advances to customers		**(683,599)**	(755,998)
Net (increase)/decrease in other assets		**(14,303)**	30,067
Net increase in due to banks and other financial institutions		**95,129**	371,648
Net increase in due to central banks		**8,041**	11,800
Net increase in placements from banks and other financial institutions		**35,037**	44,158
Net increase in due to customers		**1,084,424**	1,016,715
Net increase in other borrowings		**7,225**	8,242
Net increase in other liabilities		**17,810**	64,462
Cash inflow from operating activities		**242,346**	337,248
Income tax paid		**(27,989)**	(28,251)
Net cash inflow from operating activities		**214,357**	308,997

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

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

	Note	Year ended 31 December	
		2011	2010 (Restated)*
Cash flows from investing activities			
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		**3,949**	2,977
Proceeds from disposal of investment in subsidiaries, associates and joint ventures		**471**	471
Dividends received		**380**	467
Interest income received from investment securities		**54,882**	51,077
Proceeds from disposal/maturity of investment securities		**1,336,845**	1,210,766
Increase in investment in subsidiaries, associates and joint ventures		**(1,200)**	(1,834)
Purchase of property and equipment, intangible assets and other long-term assets		**(32,455)**	(23,990)
Purchase of investment securities		**(1,307,098)**	(1,434,877)
Net cash inflow/(outflow) from investing activities		**55,774**	(194,943)
Cash flows from financing activities			
Proceeds from issuance of bonds		**36,841**	85,711
Proceeds from rights issue		**–**	59,299
Repayments of debts issued		**(793)**	(26,928)
Cash payments for interest on bonds issued		**(4,444)**	(3,406)
Dividend payments to equity holders of the Bank		**(40,756)**	(35,537)
Dividend payments to non-controlling interests		**(3,978)**	(3,283)
Other net cash flows from financing activities		**170**	173
Net cash (outflow)/inflow from financing activities		**(12,960)**	76,029
Effect of exchange rate changes on cash and cash equivalents		**(9,174)**	(7,031)
Net increase in cash and cash equivalents		**247,997**	183,052
Cash and cash equivalents at beginning of year		**769,371**	586,319
Cash and cash equivalents at end of year	V.41	**1,017,368**	769,371

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

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

Notes to the Consolidated Financial Statements

(Amount in millions of Renminbi, unless otherwise stated)

I GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

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

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

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

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

The parent company is Central Huijin Investment Limited ("Huijin"), a wholly owned subsidiary of China Investment Corporation ("CIC"), which owned 67.60% of the ordinary shares of the Bank as at 31 December 2011 (31 December 2010: 67.55%).

These consolidated financial statements have been approved by the Board of Directors on 29 March 2012.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

1 Basis of preparation

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

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

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

1.1 Standards, amendments and interpretations effective in 2011

International Accounting Standard ("IAS") 24 Revised – Related Party Disclosures clarifies and simplifies the definition of a related party, provides a partial exemption from the disclosure requirements for transactions with government-related entities, and requires for additional disclosure such as commitments with related parties. The Group has adopted the partial exemption regarding disclosure requirements for transactions with government-related entities in the consolidated financial statements for the year ended 31 December 2010. Full adoption of IAS 24 Revised effective from 1 January 2011 has resulted in revised scope of related parties and additional disclosures for commitments with related parties.

The standards, amendments and interpretations effective in 2011 as noted below are relevant to the Group but had no material impact on the consolidated annual financial statements of the Group.

IAS 1 Amendment	Presentation of Financial Statements: Clarification of Statement of Changes in Equity
IAS 21, IAS 28 and IAS 31 Amendment	Transition Requirements for Amendments Arising as a Result of IAS 27
IAS 34 Amendment	Interim Financial Reporting: Significant Events and Transactions
IFRS 3 Amendment	Business Combinations: Contingent Consideration, Measurement of Non-controlling Interest and Share-based Payment
The International Financial Reporting Interpretations Committee ("IFRIC") 13 Amendment	Customer Loyalty Programmes: Fair Value of Award Credits
IFRIC 14 Amendment	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

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

The standards, amendments and interpretations noted below are relevant to the Group but are not yet effective and have not been early adopted by the Group in 2011.

		Effective for annual period beginning on or after
IAS 1 Amendment	Presentation of Financial Statements: Other Comprehensive Income	1 July 2012
IAS 12 Amendment	Deferred Tax: Recovery of Underlying Assets	1 January 2012
IAS 19 Amendment	Employee Benefits	1 January 2013
IAS 32 Amendment	Financial Instruments: Presentation	1 January 2014
IFRS 7 Amendment	Disclosure: Offsetting Financial Assets and Financial Liabilities	1 January 2013
IFRS 7 Amendment	Disclosures: Transfers of Financial Assets	1 July 2011
IFRS 9, IFRS 9 Amendments and IFRS 7 Amendment	Financial Instruments and Financial Instruments: Disclosures	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IAS 27 Revised	Separate Financial Statements	1 January 2013
IAS 28 Revised	Investments in Associates and Joint Ventures	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013

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

IAS 12 Amendment provides a practical approach for measuring deferred tax assets and liabilities related to investment properties measured using the fair value model under IAS 40 Investment Property.

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

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

IAS 32 Amendment provides additional application guidance to clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. IFRS 7 – Disclosure: Offsetting Financial Assets and Financial Liabilities is also amended to require disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

IFRS 7 Amendment – Disclosures: Transfers of Financial Assets introduces new disclosure requirements to help users of financial statements evaluate the risk exposures relating to transfer of financial assets and the effect of those risks on an entity's financial position.

IFRS 9 and IFRS 9 Amendments replaced those parts of IAS 39 relating to the classification, measurement and de-recognition of financial assets and financial liabilities with key changes mainly related to the classification and measurement of financial assets and certain types of financial liabilities. Together with the amendments to IFRS 9, IFRS 7 – Financial Instruments: Disclosures is also amended to require additional disclosures on transition from IAS 39 to IFRS 9.

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

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

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

The Group is considering the impact of these new standards and amendments on the consolidated and separate financial statements of the Group and the Bank respectively.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Consolidation

2.1 Subsidiaries

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

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. If there is any indication that goodwill is impaired, recoverable amount is estimated and the difference between carrying amount and recoverable amount is recognised as an impairment charge. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

2.1 Subsidiaries (Continued)

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

2.2 Associates and joint ventures

Associates are all entities over which the Group has significant influence but no control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

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

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

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

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

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

2.3 Transactions with Non-controlling interests

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

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

3 Foreign currency translation

3.1 Functional and presentation currency

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

3.2 Transactions and balances

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

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

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

3 Foreign currency translation (Continued)

3.2 Transactions and balances (Continued)

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

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

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

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

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

4 Financial instruments

4.1 Classification

The Group classifies its financial assets into the following four categories:

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

Financial liabilities are classified into two categories:

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

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.1 Classification (Continued)

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

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

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

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

- The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases; or
- A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally on that basis to key management personnel; or
- Financial assets and financial liabilities containing one or more embedded derivatives which significantly modify the cash flows and for which separation of the embedded derivative is not prohibited on initial consideration.

(2) Held to maturity investments

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

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.1 Classification (Continued)

(3) Loans and receivables

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

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

(4) Available for sale investments

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

(5) Other financial liabilities

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

4.2 Initial recognition

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

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

4.3 Subsequent measurement

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.3 Subsequent measurement (Continued)

Gains and losses arising from changes in the fair value of the financial assets and financial liabilities at fair value through profit or loss category are included in the income statement in the period in which they arise. Dividends on equity instruments of this category are also recognised in the income statement when the Group's right to receive payments is established.

Gains and losses arising from changes in the fair value of available for sale assets are recognised in other comprehensive income and ultimately in the equity item of "Reserve for fair value changes of available for sale securities", until the financial asset is de-recognised or impaired. At this time the cumulative gain or loss previously recognised in the "Reserve for fair value changes of available for sale securities" is reclassified from equity to the income statement. Interest on available for sale debt instruments calculated using the effective interest method as well as dividends on equity instruments of this category when the Group's right to receive such payments is established are recognised in the income statement.

4.4 Determination of fair value

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

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

4.5 De-recognition of financial instruments

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

On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in equity through other comprehensive income is recognised in the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.5 De-recognition of financial instruments (Continued)

Financial liabilities are de-recognised when they are extinguished — that is, when the obligation is discharged, cancelled or expires. The difference between the carrying amount of a financial liability de-recognised and the consideration paid is recognised in the income statement.

4.6 Impairment of financial assets

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

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

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

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

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

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

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

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

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment of financial assets (Continued)

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

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

(1) Assets carried at amortised cost

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

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

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment of financial assets (Continued)

(1) Assets carried at amortised cost (Continued)

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

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

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

(2) Assets classified as available for sale

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

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

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.7 Derivative financial instruments and hedge accounting

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

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

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. For derivatives not designated or qualified as hedging instruments, including those are intended to provide effective economic hedges of specific interest rate and foreign exchange risks, but do not qualify for hedge accounting, changes in the fair value of these derivatives are recognised in "Net trading gains" in the income statement.

The Group documents, at inception, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. These criteria should be met before a hedge can be qualified to be accounted for under hedge accounting.

(1) Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect income statement.

The changes in fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in fair value of the hedged item attributable to the hedged risk. The net result is included as ineffectiveness in the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.7 Derivative financial instruments and hedge accounting (Continued)

(1) Fair value hedge (Continued)

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. If the hedged item is de-recognised, the unamortised carrying value adjustment is recognised immediately in the income statement.

(2) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction that could ultimately affect income statement.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in equity in the "Capital reserve". The ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the same periods when the hedged item affects the income statement.

When a hedging instrument expires or is sold, or the hedge designation is revoked or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument existing in equity at that time remains in equity and is reclassified to the income statement when the forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity is immediately transferred to the income statement.

(3) Net investment hedge

Net investment hedge is a hedge of a net investment in a foreign operation.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of as part of the gain or loss on the disposal.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.8 Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the hybrid (combined) instrument vary in a way similar to a stand-alone derivative.

The Group separates embedded derivatives from the host contract and accounts for these as derivatives, if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

These embedded derivatives separated from the host contract are measured at fair value with changes in fair value recognised in the income statement.

4.9 Convertible bonds

Convertible bonds comprise of the liability and equity components. The liability component, representing the obligation to make fixed payments of principal and interest, is classified as liability and initially recognised at the fair value, calculated using the market interest rate of a similar liability that does not have an equity conversion option, and subsequently measured at amortised cost using the effective interest method. The equity component, representing an embedded option to convert the liability into common shares, is initially recognised in "Capital reserve" as the difference between the proceeds received from the convertible bonds as a whole and the amount of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds.

On conversion of the bonds into shares, the amount transferred to share capital is calculated as the par value of the shares multiplied by the number of shares converted. The difference between the carrying value of the related component of the converted bonds and the amount transferred to Share capital is recognised in capital surplus under "Capital reserve".

4.10 Offsetting financial instruments

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

5 Precious metals and precious metals swaps

Precious metals comprise gold, silver and other precious metals. The Group retains all risks and rewards of ownership related to precious metals deposited with the Group as precious metals deposits, including the right to freely pledge or transfer, and it records the precious metals received as an asset. A liability to return the amount of precious metals deposited is also recognised. Precious metals that are not related to the Group's precious metals market making and trading activities are initially measured at acquisition cost and subsequently measured at lower of cost and net realisable value. Precious metals that are related to the Group's market making and trading activities are initially recognised at fair value and subsequent changes in fair value included in "Net trading gains" are recognised in the income statement.

Consistent with the substance of the transaction, if the precious metals swaps are for financing purpose, they are accounted for as precious metals subject to collateral agreements. Precious metals collateralised are not de-recognised and the related counterparty liability is recorded in "Placements from banks and other financial institutions". If precious metal swaps are for trading purpose, they are accounted for as derivatives transactions.

6 Repurchase agreements, agreements to re-sell and securities lending

Securities and bills sold subject to repurchase agreements ("Repos") continue to be recognised, and are recorded as "Investment securities". The counterparty liability is included in "Placements from banks and other financial institutions" and "Due to central banks". Securities and bills purchased under agreements to re-sell ("Reverse repos") are not recognised. The receivables are recorded as "Placements with and loans to banks and other financial institutions" or "Balances with central banks", as appropriate.

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

Securities lending transactions are generally secured, with collateral taking the form of securities or cash. Securities lent to counterparties by the Group are recorded in the consolidated financial statements. Securities borrowed from counterparties by the Group are not recognised in the consolidated financial statements of the Group. Cash collateral received or advanced is recognised as a liability or an asset in the consolidated financial statements.

7 Property and equipment

The Group's fixed assets mainly comprise buildings, equipment and motor vehicles, aircraft and construction in progress. When the costs attributable to the land use rights cannot be reliably measured and separated from that of the building at inception, the costs are included in the cost of properties and buildings and recorded in "Property and equipment".

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Such initial cost includes expenditure that is directly attributable to the acquisition of the assets.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

7 Property and equipment (Continued)

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

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

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

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

7.1 Buildings, equipment and motor vehicles

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

Type of assets	Estimated useful lives	Estimated residual value rate	Annual depreciation rate
Buildings	15-50 years	3%	1.9%-6.5%
Equipment	3-15 years	3%	6.4%-32.4%
Motor vehicles	4-6 years	3%	16.1%-24.3%

7.2 Aircraft

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase to an estimated residual value rate of 15%.

7.3 Construction in progress

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

8 Leases

8.1 *Lease classification*

Leases of assets where substantially all the risks and rewards of ownership have been transferred are classified as finance leases. Title may or may not eventually be transferred. All leases other than finance leases are classified as operating leases.

8.2 *Finance leases*

When the Group is a lessee under finance leases, the leased assets are capitalised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in "Other liabilities". Finance charges are charged over the term of the lease using an interest rate which reflects a constant rate of return.

The Group adopts the same depreciation policy for the finance leased assets as those for which it has title rights. If the Group can reasonably determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over their useful life. If there is no reasonable certainty that the Group can determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over the shorter of the lease term and useful life.

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

8.3 *Operating leases*

When the Group is the lessee under an operating lease, rental expenses are charged to "Operating expenses" in the income statement on a straight-line basis over the period of the lease.

When the Group is the lessor under operating leases, the assets subject to the operating lease are accounted for as the Group's assets. Rental income is recognised as "Other operating income" in the income statement on a straight-line basis over the lease term net of any incentives given to lessees.

9 Investment properties

Investment properties, principally consisting of office buildings, are held to generate rental income or earn capital gains or both and is not occupied by the Group. Investment properties are carried at fair value and changes in fair value are recorded in the income statement, representing the open market value determined periodically by independent appraisers.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

10 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, including options and firm orders for aircraft, computer software and other intangible assets.

Options and firm orders for aircraft which arose from the acquisition of a subsidiary were initially recorded at fair value at the date of acquisition. The value of such options and firm orders are not amortised and will be added to the cost of aircraft when the related aircraft are purchased.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the income statement.

The value of intangible assets is reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The recoverable amount of an intangible asset is the higher of the asset's fair value less costs to sell and value in use.

11 Repossessed assets

Repossessed assets are initially recognised at fair value plus related costs when they are obtained as the compensation for the loans principal and interest. When there are indicators that the recoverable amount is lower than carrying amount, the carrying amount is written down immediately to its recoverable amount.

12 Employee benefits

12.1 Defined contribution plans

In accordance with the policies of relevant state and local governments, employees in Chinese mainland participate in various defined contribution retirement schemes administered by local Labour and Social Security Bureaus. Operations in Chinese mainland contribute to pension and insurance schemes administered by the local pension and insurance agencies using applicable contribution rates stipulated in the relevant local regulations. Upon retirement, the local Labour and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees. In addition to these basic staff pension schemes, employees in Chinese mainland who retire after 1 January 2004 can also voluntarily participate in a defined contribution plan established by the Bank ("the Annuity Plan"). The Bank contributes to the Annuity Plan based on certain percentages of the employees' gross salaries.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

12 Employee benefits (Continued)

12.1 Defined contribution plans (Continued)

All eligible employees in operations in Hong Kong, Macau, Taiwan and other countries and regions participate in local defined contribution schemes. Above operations contribute to these defined contribution plans based on certain percentages of the employees' basic salaries.

Contributions made by the Group to the retirement schemes described above are recognised as "Operating expenses" in the income statement as incurred. Forfeited contributions by those employees who leave the schemes prior to the full vesting of their contributions are used to reduce the existing level of contributions or retained in the retirement schemes in accordance with the requirements of the respective defined contribution plans.

12.2 Retirement benefit obligations

The Group pays supplemental retirement benefits to employees in Chinese mainland who retired prior to 31 December 2003 and early retirement benefits to those employees who accepted an early retirement arrangement.

Supplemental retirement benefits include supplemental pension payments and medical expense coverage.

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

The liability related to the above supplemental benefit obligations and early retirement obligations existing at each financial reporting date, is calculated by independent actuaries using the projected unit credit method and is recorded as a liability under "Retirement benefit obligations" in the statement of financial position. The present value of the liability is determined through discounting the estimated future cash outflows using interest rates of RMB treasury bonds which have terms to maturity approximating the terms of the related liability. The gains or losses including those arising from the changes in actuarial assumptions and amendments to pension plans are charged or credited to the income statement immediately as "Operating expenses" when they occur.

12.3 Housing funds

Pursuant to local government regulations, all employees in Chinese mainland participate in various local housing funds administered by local governments. Operations in Chinese mainland contribute on a monthly basis to these funds based on certain percentages of the salaries of the employees. These payments are recognised as "Operating expenses" in the income statement as incurred.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

12 Employee benefits (Continued)

12.4 Share-based compensation

(1) *Equity-settled share-based compensation schemes*

The fair value of the employee services received in exchange for the grant of the options under these schemes is recognised as an expense over the vesting period, with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. The fair value of the equity instruments is measured at grant date, and is not subsequently re-measured. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each financial reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement over the remaining vesting period, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to "Share capital" and "Capital reserve" when the options are exercised.

(2) *Cash-settled share-based compensation scheme*

The related cost of services received from the employees and the liability to pay for such services are measured at fair value and recognised over the vesting period as the employees render services. Fair value is established at the grant date, re-measured at each financial reporting date with any changes in fair value recognised as "Operating expenses" in the income statement for the period and de-recognised when the liability is settled.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the rights granted, excluding the impact of any non-market vesting conditions. Non-market conditions are included in the assumptions about the number of rights that are expected to vest. At each financial reporting date, the Group revises its estimates of the number of rights that are expected to vest. It recognises the impact of the revision to original estimates, if any, as "Operating expenses" in the income statement, with a corresponding adjustment to liability.

12.5 Bonus plans

The Group recognises a liability and an expense for bonuses, taking into consideration its business performance and profit attributable to the Bank's equity holders. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

13 Provisions

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

14 Insurance contracts

14.1 Insurance contract classification

The Group's insurance subsidiaries issue insurance contracts that transfer significant insurance risk. The Group perform significant insurance risk test at the contract initial recognition date. Insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. The Group issues non-life insurance contracts, which cover casualty and property insurance risk, and life insurance contracts, which insure events associated with human life (for example death, or survival) over a long duration.

The Group does not separately measure embedded derivatives that itself meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

14.2 Insurance contract recognition and measurement

(1) Non-life insurance contracts

Premiums on non-life insurance contracts are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the financial reporting date is reported as the unearned premium liability in "Other liabilities".

Claims and loss adjustment expenses are charged to the income statement as "Operating expenses" when incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the financial reporting date even if they have not yet been reported to the Group.

(2) Life insurance contracts

Premiums on life insurance contracts are recognised as revenue when they become payable by the contract holders. Benefits and claims are recorded as an expense when they are incurred. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised. For certain long-term insurance contracts (linked long-term insurance contracts) with embedded derivatives linking payments on the contract to units of an investment fund set up by the Group with the consideration received from the contract holders, the liability is adjusted for all changes in the fair value of the underlying assets, and includes a liability for contractual benefits that are expected to be incurred in the future which is recorded when the premiums are recognised.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

14 Insurance contracts (Continued)

14.3 Liability adequacy test

At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities (including unearned premium in the case of non-life insurance contracts). In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the income statement and reported as "Operating expenses", with a provision established for losses arising from the liability adequacy test.

15 Treasury shares

Where the Bank or other members of the Group purchase the Bank's ordinary shares, "Treasury shares" are recorded at the amount of consideration paid and deducted from total equity holders' equity until they are cancelled, sold or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in capital and reserves attributable to equity holders of the Bank.

16 Contingent liabilities

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

17 Financial guarantee contracts

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

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement less amortisation calculated and the best estimate of the expenditure required to settle any financial obligation arising at the financial reporting date. Any increase in the liability relating to guarantees is taken to the income statement. These estimates are determined based on experience of similar transactions, historical losses and by the judgement of management.

18 Fiduciary activities

The Group acts as a custodian, trustee or in other fiduciary capacities, that result in its holding or placing of assets on behalf of individuals, securities investment funds, social security funds, insurance companies, qualified foreign institutional investors, annuity schemes and other customers. These assets are not included in the statement of financial position of the Group, as they are not assets of the Group.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

18 Fiduciary activities (Continued)

The Group also administers entrusted loans on behalf of third-party lenders. In this regard, the Group grants loans to borrowers, as an intermediary, at the direction of third-party lenders, who fund these loans. The Group has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans, including their purposes, amounts, interest rates, and repayment schedule. The Group charges a commission related to its activities in connection with the entrusted loans, but the risk of loss is borne by the third-party lenders. Entrusted loans are not recognised in the statement of financial position of the Group.

19 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except derivatives, are recognised within "Interest income" and "Interest expense" in the income statement using the effective interest method. Interest income and expense for derivatives is recognised in "Net trading gains" in the income statement.

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

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

20 Fee and commission income

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

21 Income taxes

Income taxes comprise current income tax and deferred income tax. Tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In these cases, tax is also recognised in other comprehensive income or directly in equity, respectively.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

21 Income taxes (Continued)

21.1 Current income tax

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the financial reporting date, and any adjustment to tax payable in respect of previous years.

21.2 Deferred income tax

Deferred income tax is provided in full, and recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the financial reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from asset impairment allowances, revaluation of certain financial assets and financial liabilities including derivative contracts, revaluation of investment properties, depreciation of property and equipment, provisions for pension, retirement benefits and salary payable.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised except the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

For deductible temporary differences associated with investment in subsidiaries, associates and joint ventures, a deferred tax asset is recognised to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilised.

Deferred tax liabilities shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

Deferred income tax liabilities on taxable temporary differences arising from investment in subsidiaries, associates and joint ventures are recognised, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

22 Segment reporting

The Group reviews the internal reporting in order to assess performance and allocate resources. Segment information is presented on the same basis as the Group's management and internal reporting.

23 Comparatives

In 2011, the Group and the Bank reclassified structured deposits, special purpose fundings and certain other deposits from "Financial liabilities at fair value through profit or loss", "Other borrowings" and "Other liabilities" respectively, to "Due to customers"; and combined the short position in debt securities into "Other liabilities", to be consistent with industry practice. After the reclassifications, "Due to customers" carried at amortised cost and at fair value have been presented separately on the statements of financial position. For details please refer to Note V.28. Items in the consolidated and the Bank's statements of financial position affected by the reclassification are as follows:

	As at 31 December 2010			
	Group		Bank	
	Before restatement	Restated	Before restatement	Restated
Financial liabilities at fair value through profit or loss	215,874	–	191,720	–
Due to customers	7,483,254	7,733,537	6,546,663	6,793,418
Other borrowings	42,620	19,499	23,121	–
Other liabilities	218,694	207,406	154,686	122,772

	As at 1 January 2010			
	Group		Bank	
	Before restatement	Restated	Before restatement	Restated
Financial liabilities at fair value through profit or loss	44,234	–	27,258	–
Due to customers	6,620,552	6,716,822	5,824,279	5,915,104
Other borrowings	37,186	11,257	25,929	–
Other liabilities	187,924	161,817	132,005	94,367

The items in the consolidated statement of cash flows have also been reclassified accordingly.

The reclassifications have no impact on the consolidated income statement, the consolidated statement of comprehensive income or the consolidated statement of changes in equity.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and judgements that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group has taken into consideration the impact of the economic environment on the industries and territories in which the Group operates when determining critical accounting estimates and judgements in applying accounting policies.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred below.

1 Impairment allowances on loans and advances

The Group reviews its loans and advances to assess impairment on a periodic basis, unless known circumstances indicate that impairment may have occurred as of an interim date.

In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements and assumptions when calculating loan impairment allowances related to loans and advances. These allowances, which reflect the difference between the carrying amount of a loan, or a portfolio of similar loans, and the present value of estimated future cash flows, are assessed individually, for significant loans, and collectively, for smaller portfolios of similar loans.

The estimate of future cash flows is most significantly related to impaired loans for which the impairment loss is assessed individually. Factors affecting this estimate include, among other things, the granularity of financial information related to specific borrowers, the availability of meaningful information related to industry competitors and the relevance of sector trends to the future performance of individual borrowers. China continues to experience rapid economic growth and these facts are not as well established as those in more developed markets. The effect of these factors requires significant judgement to be applied in the estimation of future cash flows. This is especially true in emerging sectors.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

1 Impairment allowances on loans and advances (Continued)

Significant judgement is also applied to the calculation of collectively assessed impairment allowances. The Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and advances before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The Group has considered the impact of the changes and uncertainty in the macro-economic environments in which the Group operates when assessing the methodology and assumptions used for loss estimates and made adjustments where appropriate.

2 Fair value of derivatives and other financial instruments

The Group establishes fair value of financial instruments with reference to a quoted market price in an active market or, if there is no active market, using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. Whenever possible these models use observable market inputs and data including, for example, interest rate yield curves, foreign currency rates and option volatilities. The results of using valuation techniques are calibrated against industry practice and observable current market transactions in the same or similar instruments.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date.

With respect to PRC government obligations related to large-scale policy directed financing transactions, fair value is determined using the stated terms of the related instrument and with reference to terms determined by the PRC government in similar transactions engaged in or directed by the PRC government. In this regard, there are no other relevant market prices or yields reflecting arm's length transactions of a comparable size and tenor.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

3 Impairment of available for sale investment securities and held to maturity investment securities

The Group follows the guidance of IAS 39 to determine when an available for sale or held to maturity investment security is impaired and when impairment on a debt security is reversed. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, the extent to which changes in fair value relate to credit events, and the financial health of and near-term business outlook for the investee/underlying portfolio, including factors such as industry and sector performance, technological innovations, credit ratings, delinquency rates, loss coverage ratios and counterparty risk.

4 Held to maturity securities

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity date as held to maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

5 Provisions

The Group uses judgement to assess whether the Group has a present legal or constructive obligation as a result of past events at each financial reporting date, and judgement is used to determine if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and to determine a reliable estimate of the amount of the obligation and relevant disclosure in the consolidated financial statements.

6 Employee retirement benefit obligations

As described in Note II.12.2 and Note V.32, the Bank has established liabilities in connection with benefits payable to certain retired and early retired employees. The amounts of employee benefit expense and these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, pension benefit inflation rates, medical benefit inflation rates, and other factors. Actual results that differ from the assumptions are recognised immediately and, therefore, affect recognised expense in the year in which such differences arise. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect the Bank's expense related to its employee retirement benefit obligations.

7 Taxes

The Group is subject to income and business taxes in numerous jurisdictions, principally in Chinese mainland and Hong Kong. There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Group has made estimates for items of uncertainty and application of new tax legislation taking into account existing tax legislation and past practice, in particular, the treatment of supplementary PRC tax applied to results of overseas operations.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

7 Taxes (Continued)

Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax, deferred income tax, and business tax in the period during which such a determination is made.

8 Impairment of non-financial assets

Non-financial assets are periodically reviewed for impairment and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

When estimating the value in use of aircraft held by subsidiaries, the Group estimates expected future cash flows from the aircraft and uses a suitable discount rate to calculate present value. The Group obtains valuations of aircraft from independent appraisers for which the principal assumptions underlying aircraft value are based on current market transactions for similar aircraft in the same location and condition. The Group also uses the fair value of aircraft obtained from independent appraisers in its assessment of the recoverable amount of intangible assets and the goodwill arising from the purchase of the Group's aircraft leasing subsidiary.

IV TAXATION

The principal income and other taxes to which the Group is subject are listed below:

		Statutory rates	
		Year ended 31 December	
Taxes	**Tax basis**	**2011**	2010
Chinese mainland			
Corporate income tax	Taxable income	**25%**	25%
Business tax	Business income	**5%**	5%
City construction and maintenance tax	Turnover tax paid	**1%-7%**	1%-7%
Education surcharges	Turnover tax paid	**3%-3.5%**	3%-3.5%
Hong Kong			
Hong Kong profits tax	Assessable profits	**16.5%**	16.5%

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Year ended 31 December	
	2011	2010
Interest income		
Loans and advances to customers	**296,913**	227,529
Investment securities and financial assets at fair value through profit or loss (1)	**56,728**	53,987
Due from central banks	**25,177**	18,604
Due from and placements with and loans to banks and other financial institutions	**34,284**	13,413
Subtotal	**413,102**	313,533
Interest expense		
Due to customers	**(139,905)**	(92,525)
Due to and placements from banks and other financial institutions	**(38,227)**	(22,086)
Bonds issued and other	**(6,906)**	(4,960)
Subtotal	**(185,038)**	(119,571)
Net interest income (2)	**228,064**	193,962
Interest income accrued on impaired financial assets (included within interest income)	**666**	965

(1) Interest income on "Investment securities" and "Financial assets at fair value through profit or loss" is principally derived from debt securities listed on China Domestic Interbank Bond Market and unlisted debt securities in Hong Kong, Macau, Taiwan and other countries and regions.

(2) Included within "Interest income" and "Interest expense" are RMB410,913 million (2010: RMB311,425 million) and RMB169,535 million (2010: RMB117,925 million) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 Net fee and commission income

	Year ended 31 December	
	2011	2010
Credit commitment fees	**13,268**	10,178
Settlement and clearing fees	**12,389**	9,144
Agency commissions	**12,139**	11,021
Bank card fees	**10,747**	9,574
Spread income from foreign exchange business	**8,545**	8,114
Consultancy and advisory fees	**6,507**	4,385
Custodian and other fiduciary service fees	**1,809**	1,491
Other	**4,614**	5,307
Fee and commission income	**70,018**	59,214
Fee and commission expense	**(5,356)**	(4,731)
Net fee and commission income	**64,662**	54,483

3 Net trading gains

	Year ended 31 December	
	2011	2010
Net gains from foreign exchange and foreign exchange products (1)	**9,618**	3,072
Net losses from interest rate products	**(1,983)**	(332)
Net (losses)/gains from equity products	**(235)**	394
Net gains from commodity products	**458**	357
Total (2)	**7,858**	3,491

(1) The net gains from foreign exchange and foreign exchange products for the year ended 31 December 2011 include losses in connection with the retranslation of foreign currency denominated monetary assets and liabilities of RMB9,051 million (2010: losses of RMB661 million), and net realised and unrealised gains on foreign exchange derivatives (including the foreign exchange derivatives entered into in conjunction with the Group's asset and liability management and funding arrangements) of RMB18,782 million (2010: gains of RMB3,733 million).

(2) Included in "Net trading gains" above for the year ended 31 December 2011 are gains of RMB88 million in relation to financial assets and financial liabilities designated at fair value through profit or loss (2010: gains of RMB903 million).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4 Other operating income

	Year ended 31 December	
	2011	2010
Insurance premiums [1]	**7,678**	8,526
Revenue from sale of precious metals products	**6,955**	4,033
Aircraft leasing income	**3,804**	3,509
Gains on disposal of property and equipment, intangible assets and other assets	**436**	417
Dividend income	**248**	207
Changes in fair value of investment properties	**1,864**	1,649
Gains on disposal of subsidiaries, associates and joint ventures	**7**	128
Other	**3,280**	2,733
Total	**24,272**	21,202

(1) Details of insurance premium income are as follows:

	Year ended 31 December	
	2011	2010
Life insurance contracts		
Gross earned premiums	**10,702**	7,532
Less: gross written premiums ceded to reinsurers	**(5,997)**	(1,886)
Net insurance premium income	**4,705**	5,646
Non-life insurance contracts		
Gross earned premiums	**3,521**	3,329
Less: gross written premiums ceded to reinsurers	**(548)**	(449)
Net insurance premium income	**2,973**	2,880
Total	**7,678**	8,526

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5 Operating expenses

	Year ended 31 December	
	2011	2010
Staff costs (Note V.6)	**60,793**	53,420
General operating and administrative expenses (1)	**35,461**	30,816
Business and other taxes	**18,581**	14,414
Depreciation and amortisation	**12,257**	10,319
Insurance benefits and claims		
— Life insurance contracts	**5,673**	6,955
— Non-life insurance contracts	**1,905**	1,982
Cost of sale of precious metals products	**6,310**	3,664
Allowance for litigation losses	**21**	127
Losses on disposal of property and equipment	**64**	76
Lehman Brothers related products (2)	**(2,316)**	78
Other	**2,066**	558
Total	**140,815**	122,409

(1) Included in the general operating and administrative expenses are principal auditors' remuneration of RMB215 million for the year ended 31 December 2011 (2010: RMB213 million), of which RMB48 million was for Hong Kong, Macau, Taiwan and other countries and regions of the Group (2010: RMB46 million).

Included in the general operating and administrative expenses are operating lease expenses of RMB4,517 million and other premises and equipment related expenses (mainly comprised of property management and building maintenance expenses) of RMB9,479 million (2010: RMB3,724 million and RMB8,384 million, respectively).

(2) The final resolution of certain series of Lehman Brothers minibonds was announced on 15 June 2011. The net amount of RMB2,394 million recovered by BOC Hong Kong Group from the underlying collateral of the Lehman Brothers minibonds, after deducting the ex gratia payments and provision for trustee expenses, was credited to operating expenses in 2011.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6 Staff costs

	Year ended 31 December	
	2011	2010
Salary, bonus and subsidy	**44,429**	37,848
Staff welfare	**1,591**	2,967
Retirement benefits (Note V.32)	**626**	571
Social insurance, including:		
Medical	**1,984**	1,583
Pension	**4,130**	3,553
Annuity	**920**	802
Unemployment	**325**	213
Injury at work	**102**	75
Maternity insurance	**120**	92
Housing funds	**3,331**	2,769
Labour union fee and staff education fee	**1,558**	1,343
Reimbursement for cancellation of labour contract	**23**	17
Other	**1,654**	1,587
Total	**60,793**	53,420

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Directors', supervisors' and senior management's emoluments

Details of the directors' and supervisors' emoluments are as follows:

For the year ended 31 December 2011

	Fees	Remuneration paid	Contributions to pension schemes	Benefits in kind	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
XIAO Gang [3]	–[2]	775	60	227	1,062
LI Lihui [3]	–[2]	698	63	210	971
LI Zaohang [3]	–[2]	670	62	204	936
ZHOU Zaiqun [3][4]	–[2]	279	28	82	389
Non-executive directors					
HONG Zhihua [1][4]	–	–	–	–	–
HUANG Haibo [1][4]	–	–	–	–	–
CAI Haoyi [1]	–	–	–	–	–
SUN Zhijun [1]	–	–	–	–	–
LIU Lina [1]	–	–	–	–	–
JIANG Yansong [1]	–	–	–	–	–
ZHANG Xiangdong [1][5]	–	–	–	–	–
ZHANG Qi [1][5]	–	–	–	–	–
Independent non-executive directors					
Anthony Francis NEOH	550	–	–	–	550
Alberto TOGNI	955	–	–	–	955
HUANG Shizhong [1]	–	–	–	–	–
HUANG Danhan	350	–	–	–	350
CHOW Man Yiu, Paul	350	–	–	–	350
Jackson P. TAI [5]	273	–	–	–	273
Supervisors					
LI Jun [3]	–	679	43	206	928
WANG Xueqiang [3]	–	564	53	173	790
LIU Wanming [3]	–	564	52	170	786
DENG Zhiying [3]	–	599	48	165	812
LI Chunyu [3]	–	323	45	112	480
JIANG Kuiwei [3]	–	503	41	70	614
MEI Xingbao [5]	93	–	–	–	93
BAO Guoming [5]	134	–	–	–	134
QIN Rongsheng [4]	104	–	–	–	104
BAI Jingming [4]	88	–	–	–	88
	2,897	5,654	495	1,619	10,665

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Directors', supervisors' and senior management's emoluments (Continued)

For the year ended 31 December 2010

	Fees	Basic salaries	Contributions to pension schemes	Benefits in kind	Discretionary bonuses [3] Paid	Discretionary bonuses [3] Deferred	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors							
XIAO Gang [3]	–[2]	428	52	212	506	508	1,706
LI Lihui [3]	–[2]	385	54	202	456	457	1,554
LI Zaohang [3]	–[2]	370	53	197	437	439	1,496
ZHOU Zaiqun [3]	–[2]	370	56	195	435	437	1,493
Non-executive directors							
HONG Zhihua [1]	–	–	–	–	–	–	–
HUANG Haibo [1]	–	–	–	–	–	–	–
CAI Haoyi [1]	–	–	–	–	–	–	–
SUN Zhijun [1]	–	–	–	–	–	–	–
LIU Lina [1]	–	–	–	–	–	–	–
JIANG Yansong [1]	–	–	–	–	–	–	–
ZHANG Jinghua [1]	–	–	–	–	–	–	–
WANG Gang [1]	–	–	–	–	–	–	–
LIN Yongze [1]	–	–	–	–	–	–	–
SEAH Lim Huat Peter	300	–	–	–	–	–	300
Independent non-executive directors							
Anthony Francis NEOH	550	–	–	–	–	–	550
Alberto TOGNI	1,085	–	–	–	–	–	1,085
HUANG Shizhong	550	–	–	–	–	–	550
HUANG Danhan	350	–	–	–	–	–	350
CHOW Man Yiu, Paul	68	–	–	–	–	–	68
Supervisors							
LI Jun [3]	–	312	36	157	369	371	1,245
LIU Ziqiang [3]	–	94	19	48	111	111	383
WANG Xueqiang [3]	–	386	46	158	573	–	1,163
LIU Wanming [3]	–	386	45	156	539	–	1,126
DENG Zhiying [3]	–	142	14	51	474	–	681
LI Chunyu [3]	–	268	39	100	208	–	615
JIANG Kuiwei [3]	–	325	34	40	593	–	992
QIN Rongsheng	112	–	–	–	–	–	112
BAI Jingming	95	–	–	–	–	–	95
	3,110	3,466	448	1,516	4,701	2,323	15,564

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Directors', supervisors' and senior management's emoluments (Continued)

(1) For the years ended 31 December 2011 and 2010, these non-executive directors of the Bank signed agreements to waive the emoluments for their services to the Bank. For the year ended 31 December 2011, the independent non-executive director of the Bank HUANG Shizhong signed an agreement to waive the emoluments for his service to the Bank.

(2) For the years ended 31 December 2011 and 2010, these executive directors of the Bank did not receive any fees.

(3) The total compensation packages for executive directors and supervisors for the year ended 31 December 2011 including discretionary bonus have not yet been finalised in accordance with relevant regulations of the PRC authorities. The amount of the compensation not provided for is not expected to have any significant impact on the Group's and the Bank's 2011 financial statements. The final compensation for the year ended 31 December 2011 will be disclosed in a separate announcement when determined.

The compensation amounts for these directors and supervisors for the year ended 31 December 2010 were restated based on the finalised amounts determined during 2011 as disclosed in the Bank's announcement dated 27 May 2011.

A portion of the discretionary bonus payments for executive directors and the chairman of the Board of Supervisors are deferred for a minimum of 3 years contingent upon the future performance in accordance with relevant regulations of the PRC authorities.

(4) ZHOU Zaiqun ceased to be executive director effective from 28 May 2011. HONG Zhihua and HUANG Haibo ceased to be non-executive directors effective from 28 May 2011. QIN Rongsheng and BAI Jingming ceased to be external supervisors effective from 28 May 2011.

(5) ZHANG Xiangdong and ZHANG Qi were elected to be non-executive directors effective from 8 July 2011. Jackson P. TAI was elected to be an independent non-executive director effective from 11 March 2011. MEI Xingbao and BAO Guoming were elected to be external supervisors effective from 27 May 2011.

In July 2002, options to purchase shares of BOCHK Holdings were granted to several directors of the Bank under the Pre-Listing Share Option Scheme. During the years ended 31 December 2011 and 2010, no such options were exercised by any director.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Directors', supervisors' and senior management's emoluments (Continued)

Five highest paid individuals

Of the five individuals with the highest emoluments, none of them are directors or supervisors whose emoluments are disclosed above.

The emoluments payable to the five individuals whose emoluments were the highest in the Group for the years ended 31 December 2011 and 2010 respectively are as follows:

	Year ended 31 December	
	2011	2010
Basic salaries and allowances	**16**	26
Discretionary bonuses	**42**	22
Contributions to pension schemes and others	**5**	2
	63	50

Emoluments of the individuals were within the following bands:

	Year ended 31 December	
Amounts in RMB	**2011**	2010
7,500,001–8,000,000	**–**	1
8,500,001–9,000,000	**–**	1
9,500,001–10,000,000	**1**	1
10,000,001–10,500,000	**1**	–
10,500,001–11,000,000	**–**	1
12,000,001–12,500,000	**1**	–
12,500,001–13,000,000	**–**	1
14,500,001–15,000,000	**1**	–
16,000,001–16,500,000	**1**	–

The above five highest paid individuals' emoluments are based on best estimates of discretionary bonuses. Discretionary bonuses include portions of payments that are deferred to future periods.

During the years ended 31 December 2011 and 2010, the Group has not paid any emoluments to the directors, supervisors, or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8 Impairment losses on assets

	Year ended 31 December	
	2011	2010
Loans and advances [1]		
— Individually assessed	**191**	(1,790)
— Collectively assessed	**19,081**	17,354
Subtotal	**19,272**	15,564
Investment securities [1] [2]		
Available for sale		
— Debt securities	**(711)**	(2,884)
— Equity securities and fund investments	**647**	468
	(64)	(2,416)
Held to maturity	**58**	(69)
Loans and receivables	**10**	(1)
Subtotal	**4**	(2,486)
Other	**79**	(85)
Total	**19,355**	12,993

(1) Details of new allowances and reversal of impairment losses on loans and advances and investment securities are disclosed in Notes V.16 and V.23, respectively.

(2) Impairment charges/(reversal) on investment securities:

	Year ended 31 December	
	2011	2010
US Subprime mortgage related debt securities	**(434)**	(1,526)
US Alt-A mortgage-backed securities	**(108)**	(411)
US Non-Agency mortgage-backed securities	**(221)**	(647)
Other securities	**767**	98
Net charges/(reversal)	**4**	(2,486)

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9 Income tax expense

	Year ended 31 December	
	2011	2010
Current income tax		
— Chinese mainland income tax	**28,795**	28,082
— Hong Kong profits tax	**3,289**	2,701
— Macau, Taiwan and other countries and regions taxation	**1,458**	1,207
Subtotal	**33,542**	31,990
Deferred income tax (Note V.34)	**4,783**	464
Total	**38,325**	32,454

The principal tax rates applicable to the Group are set out in Note IV.

The provision for Chinese mainland income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Bank and each of the subsidiaries established in the Chinese mainland, and supplementary PRC tax on overseas operations as determined in accordance with the relevant PRC income tax rules and regulations (Note III.7).

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

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

	Year ended 31 December	
	2011	2010
Profit before income tax	**168,644**	142,145
Tax calculated at applicable statutory tax rate	**42,161**	35,536
Effect of different tax rates on Hong Kong, Macau, Taiwan and other countries and regions	**(2,208)**	(2,149)
Supplementary PRC tax on overseas income	**1,527**	1,080
Income not subject to tax [(1)]	**(4,707)**	(3,439)
Items not deductible for tax purposes [(2)]	**1,749**	2,074
Other	**(197)**	(648)
Income tax expense	**38,325**	32,454

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

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

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 Earnings per share (basic and diluted)

Basic earnings per share

Basic earnings per share was computed by dividing the profit attributable to the equity holders of the Bank by the weighted average number of ordinary shares in issue during the period.

	Year ended 31 December	
	2011	2010
Profit attributable to equity holders of the Bank	**124,182**	104,418
Weighted average number of ordinary shares in issue (in million shares)	**279,123**	264,393
Basic earnings per share (in RMB per share)	**0.44**	0.39

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

	Year ended 31 December	
	2011	2010
Issued ordinary shares as at 1 January	**279,147**	253,839
Weighted average number of shares from rights issue	**–**	10,575
Conversion of the bond into shares (Note V.29)	**–**	–
Weighted average number of treasury shares	**(24)**	(21)
Weighted average number of ordinary shares in issue	**279,123**	264,393

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 Earnings per share (basic and diluted) (Continued)

Diluted earnings per share

Diluted earnings per share was computed by dividing the adjusted profit attributable to the equity holders of the Bank based on assuming conversion of all dilutive potential shares for the year by the adjusted weighted average number of ordinary shares in issue. The Bank has convertible bonds as dilutive potential ordinary shares.

	Year ended 31 December	
	2011	2010
Profit attributable to equity holders of the Bank	**124,182**	104,418
Add: interest expense on convertible bonds, net of tax, outstanding as at 31 December	**949**	521
Profit used to determine diluted earnings per share	**125,131**	104,939
Adjusted weighted average number of ordinary shares in issue (in million shares)	**279,123**	264,393
Add: weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	**10,946**	6,241
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	**290,069**	270,634
Diluted earnings per share (in RMB per share)	**0.43**	0.39

11 Cash and due from banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Cash	**61,833**	49,222	**55,830**	44,811
Due from banks in Chinese mainland	**416,233**	563,578	**385,164**	552,281
Due from other financial institutions in Chinese mainland	**3,541**	1,459	**3,378**	1,448
Due from banks in Hong Kong, Macau, Taiwan and other countries and regions	**109,306**	21,867	**131,735**	22,439
Due from other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	**51**	–	**48**	–
Total [(1)]	**590,964**	636,126	**576,155**	620,979

(1) Included in the Bank's due from banks and other financial institutions are balances with the Bank's subsidiaries (Note V.42.7).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 Balances with central banks

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Mandatory reserves (1)	**1,467,139**	1,109,878	**1,457,962**	1,104,652
Surplus reserves (2)	**181,020**	111,501	**179,390**	110,378
Other deposits (3)	**271,492**	352,543	**147,800**	67,502
Total	**1,919,651**	1,573,922	**1,785,152**	1,282,532

(1) The Group places mandatory reserve funds with the People's Bank of China (the "PBOC") and the central banks of Hong Kong, Macau, Taiwan and other countries and regions where it has operations. As at 31 December 2011, mandatory reserve funds placed with the PBOC were calculated at 21.0% (31 December 2010: 18.5%) and 5.0% (31 December 2010: 5.0%) of qualified RMB deposits and foreign currency deposits from customers of branches in Chinese mainland of the Bank respectively. The mandatory reserve funds placed with the central bank of domestic subsidiaries of the Group is determined by the PBOC. The amount of mandatory reserve funds placed with the central banks of other jurisdiction is determined by local regulations.

(2) This mainly represented the surplus reserve funds placed with the PBOC by branches in Chinese mainland of the Group.

(3) This mainly represented balances, other than mandatory reserves and surplus reserves, placed with central banks by operations in Hong Kong, Macau, Taiwan and other countries and regions.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13 Placements with and loans to banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Placements with and loans to:				
Banks in Chinese mainland	**410,655**	91,752	**359,284**	76,584
Other financial institutions in Chinese mainland	**112,629**	83,188	**112,629**	83,188
Banks in Hong Kong, Macau, Taiwan and other countries and regions [(1)]	**95,320**	39,019	**83,086**	56,146
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions [(1)]	**–**	–	**22,472**	29,658
Subtotal [(2)]	**618,604**	213,959	**577,471**	245,576
Allowance for impairment losses	**(238)**	(243)	**(238)**	(243)
Total	**618,366**	213,716	**577,233**	245,333
Impaired placements	**238**	243	**238**	243
Percentage of impaired placements to total placements with and loans to banks and other financial institutions	**0.04%**	0.11%	**0.04%**	0.10%

(1) Included in the Bank's placements with and loans to "Banks in Hong Kong, Macau, Taiwan and other countries and regions" and "Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions" are loans to the Bank's subsidiaries (Note V.42.7).

(2) "Placements with and loans to banks and other financial institutions" include balances arising from reverse repo agreements and collateralised financing agreements. These are presented by collateral type as follows:

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Debt securities				
— Governments	**90,925**	43,692	**88,596**	42,297
— Policy banks	**72,773**	29,778	**72,297**	29,778
— Financial institutions	**–**	3,262	**–**	2,547
Total	**163,698**	76,732	**160,893**	74,622

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Financial assets at fair value through profit or loss

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Trading financial assets				
Trading debt securities				
Issuers in Chinese mainland				
— Government	**6,355**	5,477	**5,931**	5,420
— Policy banks	**2,135**	1,936	**1,803**	1,032
— Financial institutions	**204**	333	**40**	30
— Corporate	**2,054**	1,012	**1,436**	348
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	**15,127**	29,472	**–**	–
— Public sector and quasi-governments	**153**	203	**–**	–
— Financial institutions	**417**	1,353	**–**	61
— Corporate	**4,723**	4,585	**–**	–
	31,168	44,371	**9,210**	6,891
Other trading financial assets				
Fund investments	**409**	429	**–**	–
Equity securities	**729**	3,863	**–**	–
Subtotal	**32,306**	48,663	**9,210**	6,891

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Financial assets at fair value through profit or loss (Continued)

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Financial assets designated at fair value through profit or loss				
Debt securities designated at fair value through profit or loss				
Issuers in Chinese mainland				
— Government	**69**	174	**69**	23
— Policy banks	**1,822**	1,666	**1,822**	1,666
— Financial institutions	**–**	347	**–**	–
— Corporate	**327**	347	**–**	–
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	**–**	242	**–**	–
— Public sector and quasi-governments	**463**	462	**393**	416
— Financial institutions	**26,690**	20,206	**14,276**	6,276
— Corporate	**3,936**	3,745	**1,705**	1,370
	33,307	27,189	**18,265**	9,751
Other financial assets designated at fair value through profit or loss				
Fund investments	**3,115**	2,577	**–**	–
Loans [(1)]	**4,412**	1,172	**4,412**	1,172
Equity securities	**667**	1,636	**–**	–
Subtotal	**41,501**	32,574	**22,677**	10,923
Total [(2)] [(3)]	**73,807**	81,237	**31,887**	17,814
Analysed as:				
Listed in Hong Kong	**9,463**	7,735	**4,475**	2,346
Listed outside Hong Kong [(4)]	**29,693**	22,640	**22,688**	13,971
Unlisted	**34,651**	50,862	**4,724**	1,497
Total	**73,807**	81,237	**31,887**	17,814

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Financial assets at fair value through profit or loss (Continued)

(1) There was no significant change during the years ended 31 December 2011 and 2010 and cumulatively, in the fair value of the loans that was attributable to changes in the credit risk of the loans.

(2) As at 31 December 2011, the Group and the Bank held bonds issued by the Ministry of Finance of PRC ("MOF") and bills issued by the PBOC included in "Financial assets at fair value through profit or loss" with the carrying value and the related interest rate range on such bonds and bills as follows:

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Carrying value	**6,424**	5,651	**6,000**	5,443
Interest rate range	**0.72%–4.33%**	1.60%–9.00%	**2.71%–4.33%**	3.07%–4.48%

(3) Included in the Group's "Financial assets at fair value through profit or loss" were certificates of deposit held of RMB1,377 million (31 December 2010: RMB2,062 million).

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

15 Derivative financial instruments and hedge accounting

The Group enters into foreign currency exchange rate, interest rate, equity, credit or precious metals and other commodity related derivative financial instruments for trading, hedging, asset and liability management and on behalf of customers.

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

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Derivative financial instruments and hedge accounting (Continued)

15.1 Derivative financial instruments

Group

	As at 31 December 2011			As at 31 December 2010		
	Contractual/ notional amount	Fair value Assets	Fair value Liabilities	Contractual/ notional amount	Fair value Assets	Fair value Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps (1)	1,930,235	31,615	(21,687)	1,979,959	30,763	(23,829)
Currency options	17,404	203	(50)	4,585	24	(25)
Subtotal	1,947,639	31,818	(21,737)	1,984,544	30,787	(23,854)
Interest rate derivatives						
Interest rate swaps	618,375	9,027	(11,390)	532,670	7,308	(10,081)
Interest rate options	2,201	1	(18)	85	–	–
Interest rate futures	3,424	1	(1)	7,388	8	(3)
Subtotal	624,000	9,029	(11,409)	540,143	7,316	(10,084)
Equity derivatives	3,991	102	(98)	8,684	123	(183)
Commodity derivatives	77,347	1,808	(2,229)	33,415	1,744	(1,590)
Credit derivatives	315	–	–	331	4	–
Total	2,653,292	42,757	(35,473)	2,567,117	39,974	(35,711)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Derivative financial instruments and hedge accounting (Continued)

15.1 Derivative financial instruments (Continued)

Bank

	As at 31 December 2011			As at 31 December 2010		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps [(1)]	**1,506,582**	**15,637**	**(9,501)**	1,471,850	13,164	(10,162)
Currency options	**8,730**	**102**	**(25)**	1,090	15	(15)
Subtotal	**1,515,312**	**15,739**	**(9,526)**	1,472,940	13,179	(10,177)
Interest rate derivatives						
Interest rate swaps	**262,617**	**4,337**	**(6,360)**	253,521	5,113	(6,229)
Interest rate options	**945**	**–**	**(14)**	–	–	–
Interest rate futures	**–**	**–**	**–**	290	–	–
Subtotal	**263,562**	**4,337**	**(6,374)**	253,811	5,113	(6,229)
Equity derivatives	**107**	**–**	**–**	583	2	(1)
Commodity derivatives	**40,143**	**893**	**(1,487)**	21,679	859	(825)
Credit derivatives	**315**	**–**	**–**	331	4	–
Total	**1,819,439**	**20,969**	**(17,387)**	1,749,344	19,157	(17,232)

(1) These exchange rate derivatives primarily include foreign exchange transactions with customers; foreign exchange transactions to manage foreign currency exchange risks arising from customers; and foreign currency exchange transactions entered into as part of asset and liability management and funding requirements.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Derivative financial instruments and hedge accounting (Continued)

15.2 Hedge accounting

Included in the derivative financial instruments above are those designated as hedging instruments by the Group as follows (the Bank: Nil):

Group

	As at 31 December 2011			As at 31 December 2010		
	Contractual/ notional amount	**Fair value Assets**	**Fair value Liabilities**	Contractual/ notional amount	Fair value Assets	Fair value Liabilities
Derivatives designated as hedging instruments in fair value hedges						
Cross-currency interest rate swaps	**1,121**	**26**	**–**	1,012	183	(1)
Interest rate swaps	**28,040**	**2,389**	**(900)**	39,435	740	(1,568)
Subtotal (1)	**29,161**	**2,415**	**(900)**	40,447	923	(1,569)
Derivatives designated as hedging instruments in cash flow hedges						
Cross-currency interest rate swaps	**3,432**	**48**	**(81)**	3,776	48	(63)
Interest rate swaps	**576**	**–**	**(16)**	8,354	92	(106)
Subtotal (2)	**4,008**	**48**	**(97)**	12,130	140	(169)
Total	**33,169**	**2,463**	**(997)**	52,577	1,063	(1,738)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Derivative financial instruments and hedge accounting (Continued)

15.2 Hedge accounting (Continued)

(1) Fair value hedges

The Group uses cross-currency interest rate swaps and interest rate swaps to hedge against changes in fair value of bonds issued and debt securities available for sale arising from changes in foreign exchange rates and interest rates.

Gains or losses on fair value hedges are as follows:

	Year ended 31 December	
	2011	2010
Net gains/(losses) on		
— hedging instruments	**1,158**	(177)
— hedged items	**(1,275)**	113
Ineffectiveness recognised in Net trading gains	**(117)**	(64)

(2) Cash flow hedges

The Group uses cross-currency interest rate swaps and interest rate swaps to hedge against exposure to cash flow variability primarily from foreign exchange rates and interest rate risks of debt securities held and variable rate borrowings.

For the year ended 31 December 2011, a net gain from cash flow hedges of RMB9 million was recognised in "Capital reserve" through other comprehensive income (2010: net gain of RMB25 million), and there was no ineffectiveness for the year ended 31 December 2011 (2010: loss of RMB62 million).

There were no transactions for which cash flow hedge accounting had to be ceased in the year ended 31 December 2011 or 2010 as a result of the highly probable cash flows no longer being expected to occur.

(3) Net investment hedges

The Group's consolidated statement of financial position is affected by exchange differences between the functional currencies of respective holding companies and functional currencies of their branches and subsidiaries. The Group hedges such exchange exposures only in limited circumstances. Hedging is undertaken using deposits taken in the same currencies as the functional currencies of related branches and subsidiaries which are accounted for as hedges of certain net investment in foreign operations.

For the year ended 31 December 2011, a net gain from the hedging instrument of RMB826 million was recognised in "Currency translation differences" through other comprehensive income on net investment hedges (2010: net gain of RMB681 million), and there was no ineffectiveness for the years ended 31 December 2011 and 2010.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Loans and advances to customers, net

16.1 Analysis of loans and advances to customers

	As at 31 December					
	Group		Bank		Chinese mainland	
	2011	2010	**2011**	2010	**2011**	2010
Corporate loans and advances						
Loans and advances	**4,628,846**	4,143,775	**4,168,833**	3,733,290	**3,733,643**	3,445,891
Discounted bills	**96,459**	100,608	**93,551**	98,487	**84,812**	94,794
Subtotal	**4,725,305**	4,244,383	**4,262,384**	3,831,777	**3,818,455**	3,540,685
Personal loans						
Mortgages	**1,213,322**	1,089,006	**1,050,046**	940,226	**1,025,988**	921,373
Credit cards	**97,659**	60,833	**89,828**	53,827	**89,453**	53,487
Other	**306,528**	266,399	**281,199**	245,733	**275,798**	243,040
Subtotal	**1,617,509**	1,416,238	**1,421,073**	1,239,786	**1,391,239**	1,217,900
Total loans and advances	**6,342,814**	5,660,621	**5,683,457**	5,071,563	**5,209,694**	4,758,585
Allowance for impairment losses						
Individually assessed	**(36,265)**	(36,834)	**(35,749)**	(36,427)	**(35,228)**	(35,985)
Collectively assessed	**(103,411)**	(86,022)	**(100,903)**	(83,965)	**(98,282)**	(80,814)
Total allowance for impairment losses	**(139,676)**	(122,856)	**(136,652)**	(120,392)	**(133,510)**	(116,799)
Loans and advances to customers, net	**6,203,138**	5,537,765	**5,546,805**	4,951,171	**5,076,184**	4,641,786

16.2 Analysis of loans and advances to customers by geographical area, industry, collateral type and analysis of overdue loans and advances to customers by collateral type is presented in Note VI. 3.5.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Loans and advances to customers, net (Continued)

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

Group

	Loans and advances for which allowance is collectively assessed (1)	Identified impaired loans and advances (2)			Total	Identified impaired loans and advances as % of total loans and advances
		for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal		
As at 31 December 2011						
Total loans and advances	**6,279,508**	**12,842**	**50,464**	**63,306**	**6,342,814**	**1.00%**
Allowance for impairment losses	**(95,052)**	**(8,359)**	**(36,265)**	**(44,624)**	**(139,676)**	
Loans and advances to customers, net	**6,184,456**	**4,483**	**14,199**	**18,682**	**6,203,138**	
As at 31 December 2010						
Total loans and advances	5,596,745	13,152	50,724	63,876	5,660,621	1.13%
Allowance for impairment losses	(77,447)	(8,575)	(36,834)	(45,409)	(122,856)	
Loans and advances to customers, net	5,519,298	4,577	13,890	18,467	5,537,765	

Bank

	Loans and advances for which allowance is collectively assessed (1)	Identified impaired loans and advances (2)			Total	Identified impaired loans and advances as % of total loans and advances
		for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal		
As at 31 December 2011						
Total loans and advances	**5,621,032**	**12,790**	**49,635**	**62,425**	**5,683,457**	**1.10%**
Allowance for impairment losses	**(92,573)**	**(8,330)**	**(35,749)**	**(44,079)**	**(136,652)**	
Loans and advances to customers, net	**5,528,459**	**4,460**	**13,886**	**18,346**	**5,546,805**	
As at 31 December 2010						
Total loans and advances	5,008,245	13,095	50,223	63,318	5,071,563	1.25%
Allowance for impairment losses	(75,415)	(8,550)	(36,427)	(44,977)	(120,392)	
Loans and advances to customers, net	4,932,830	4,545	13,796	18,341	4,951,171	

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Loans and advances to customers, net (Continued)

16.3 Analysis of loans and advances to customers by collective and individual allowance assessments (Continued)

Chinese mainland

	Loans and advances for which allowance is collectively assessed (1)	Identified impaired loans and advances (2)				Identified impaired loans and advances as % of total loans and advances
		for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal	Total	
As at 31 December 2011						
Total loans and advances	**5,148,535**	**12,620**	**48,539**	**61,159**	**5,209,694**	**1.17%**
Allowance for impairment losses	**(90,012)**	**(8,270)**	**(35,228)**	**(43,498)**	**(133,510)**	
Loans and advances to customers, net	**5,058,523**	**4,350**	**13,311**	**17,661**	**5,076,184**	
As at 31 December 2010						
Total loans and advances	4,696,374	13,053	49,158	62,211	4,758,585	1.31%
Allowance for impairment losses	(72,284)	(8,530)	(35,985)	(44,515)	(116,799)	
Loans and advances to customers, net	4,624,090	4,523	13,173	17,696	4,641,786	

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

(2) Identified impaired loans and advances are loans for which objective evidence of impairment exists and which have been identified as bearing an impairment loss and assessed either:

- individually (including mainly significant corporate loans and advances over a certain amount which are impaired); or

- collectively (portfolios of individually insignificant homogenous loans which share similar credit risk characteristics, including insignificant corporate loans and advances and personal loans which are impaired).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Loans and advances to customers, net (Continued)

16.4 Reconciliation of allowance for impairment losses on loans and advances to customers by individual and collective assessments

	Year ended 31 December					
	2011			2010		
	Individually assessed allowance	**Collectively assessed allowance**	**Total**	Individually assessed allowance	Collectively assessed allowance	Total
Group						
As at 1 January	**36,834**	**86,022**	**122,856**	42,415	70,535	112,950
Impairment losses for the year	**12,066**	**41,425**	**53,491**	10,136	35,444	45,580
Reversal	**(11,875)**	**(22,344)**	**(34,219)**	(11,926)	(18,090)	(30,016)
Written off and transfer out	**(949)**	**(860)**	**(1,809)**	(4,079)	(1,438)	(5,517)
Recovery of loans and advances written off in previous years	**589**	**21**	**610**	631	135	766
Unwind of discount on allowance	**(98)**	**(216)**	**(314)**	(162)	(233)	(395)
Exchange differences	**(302)**	**(637)**	**(939)**	(181)	(331)	(512)
As at 31 December	**36,265**	**103,411**	**139,676**	36,834	86,022	122,856
Bank						
As at 1 January	**36,427**	**83,965**	**120,392**	41,611	68,755	110,366
Impairment losses for the year	**11,760**	**40,655**	**52,415**	10,075	34,924	44,999
Reversal	**(11,490)**	**(22,280)**	**(33,770)**	(11,290)	(18,043)	(29,333)
Written off and transfer out	**(876)**	**(744)**	**(1,620)**	(3,915)	(1,312)	(5,227)
Recovery of loans and advances written off in previous years	**314**	**1**	**315**	269	100	369
Unwind of discount on allowance	**(97)**	**(214)**	**(311)**	(155)	(233)	(388)
Exchange differences	**(289)**	**(480)**	**(769)**	(168)	(226)	(394)
As at 31 December	**35,749**	**100,903**	**136,652**	36,427	83,965	120,392
Chinese mainland						
As at 1 January	**35,985**	**80,814**	**116,799**	41,311	66,335	107,646
Impairment losses for the year	**11,657**	**39,902**	**51,559**	9,809	34,201	44,010
Reversal	**(11,444)**	**(21,188)**	**(32,632)**	(11,253)	(18,043)	(29,296)
Written off and transfer out	**(876)**	**(727)**	**(1,603)**	(3,850)	(1,289)	(5,139)
Recovery of loans and advances written off in previous years	**275**	**–**	**275**	269	–	269
Unwind of discount on allowance	**(97)**	**(214)**	**(311)**	(143)	(233)	(376)
Exchange differences	**(272)**	**(305)**	**(577)**	(158)	(157)	(315)
As at 31 December	**35,228**	**98,282**	**133,510**	35,985	80,814	116,799

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Loans and advances to customers, net (Continued)

16.5 Reconciliation of allowance account for impairment losses on loans and advances to customers by customer type

	Year ended 31 December					
	2011			2010		
	Corporate	Personal	Total	Corporate	Personal	Total
Group						
As at 1 January	**101,376**	**21,480**	**122,856**	92,028	20,922	112,950
Impairment losses for the year	**50,248**	**3,243**	**53,491**	44,165	1,415	45,580
Reversal	**(34,135)**	**(84)**	**(34,219)**	(29,965)	(51)	(30,016)
Written off and transfer out	**(1,197)**	**(612)**	**(1,809)**	(4,880)	(637)	(5,517)
Recovery of loans and advances written off in previous years	**577**	**33**	**610**	721	45	766
Unwind of discount on allowance	**(140)**	**(174)**	**(314)**	(210)	(185)	(395)
Exchange differences	**(874)**	**(65)**	**(939)**	(483)	(29)	(512)
As at 31 December	**115,855**	**23,821**	**139,676**	101,376	21,480	122,856
Bank						
As at 1 January	**99,252**	**21,140**	**120,392**	89,744	20,622	110,366
Impairment losses for the year	**49,414**	**3,001**	**52,415**	43,791	1,208	44,999
Reversal	**(33,722)**	**(48)**	**(33,770)**	(29,333)	–	(29,333)
Written off and transfer out	**(1,129)**	**(491)**	**(1,620)**	(4,727)	(500)	(5,227)
Recovery of loans and advances written off in previous years	**315**	**–**	**315**	369	–	369
Unwind of discount on allowance	**(137)**	**(174)**	**(311)**	(203)	(185)	(388)
Exchange differences	**(761)**	**(8)**	**(769)**	(389)	(5)	(394)
As at 31 December	**113,232**	**23,420**	**136,652**	99,252	21,140	120,392
Chinese mainland						
As at 1 January	**95,928**	**20,871**	**116,799**	87,229	20,417	107,646
Impairment losses for the year	**48,706**	**2,853**	**51,559**	42,887	1,123	44,010
Reversal	**(32,632)**	**–**	**(32,632)**	(29,296)	–	(29,296)
Written off and transfer out	**(1,128)**	**(475)**	**(1,603)**	(4,655)	(484)	(5,139)
Recovery of loans and advances written off in previous years	**275**	**–**	**275**	269	–	269
Unwind of discount on allowance	**(137)**	**(174)**	**(311)**	(191)	(185)	(376)
Exchange differences	**(577)**	**–**	**(577)**	(315)	–	(315)
As at 31 December	**110,435**	**23,075**	**133,510**	95,928	20,871	116,799

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Investment securities available for sale				
Debt securities available for sale				
Issuers in Chinese mainland				
— Government	**56,338**	122,199	**49,384**	111,334
— Public sector and quasi-governments	**1,872**	2,790	**1,368**	2,771
— Policy banks	**48,667**	95,121	**39,270**	90,818
— Financial institutions	**13,294**	20,617	**3,136**	8,268
— Corporate	**67,116**	57,483	**59,303**	56,374
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	**133,912**	90,437	**55,691**	38,469
— Public sector and quasi-governments	**34,175**	45,429	**5,385**	17,615
— Financial institutions	**148,506**	174,496	**50,058**	53,173
— Corporate	**20,212**	23,988	**6,133**	12,298
	524,092	632,560	**269,728**	391,120
Equity securities	**23,281**	19,142	**1,636**	1,360
Fund investments and other	**5,945**	5,036	**–**	–
Total investment securities available for sale (1)	**553,318**	656,738	**271,364**	392,480
Debt securities held to maturity				
Issuers in Chinese mainland				
— Government	**575,744**	689,539	**562,103**	684,474
— Public sector and quasi-governments	**16,220**	13,672	**16,220**	13,672
— Policy banks	**270,346**	146,428	**270,000**	145,714
— Financial institutions	**23,182**	19,584	**21,368**	16,128
— Corporate	**123,828**	90,480	**123,120**	90,124
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	**33,762**	32,744	**29,475**	28,066
— Public sector and quasi-governments	**5,443**	7,785	**195**	1,233
— Financial institutions	**22,590**	34,257	**2,543**	4,224
— Corporate	**3,355**	5,335	**930**	888
	1,074,470	1,039,824	**1,025,954**	984,523
Allowance for impairment losses	**(354)**	(438)	**(334)**	(396)
Total debt securities held to maturity (2)	**1,074,116**	1,039,386	**1,025,620**	984,127

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities (Continued)

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Debt securities classified as loans and receivables				
Issuers in Chinese mainland				
— China Orient Bond [3]	**160,000**	160,000	**160,000**	160,000
— PBOC Special Bills [4]	**–**	82	**–**	82
— PBOC Target Bills [5]	**22,291**	–	**22,291**	–
— Special Purpose Treasury Bond [6]	**42,500**	42,500	**42,500**	42,500
— Financial institutions	**14,480**	16,541	**14,480**	15,660
— Certificate and Saving-type Treasury Bonds and other [7]	**41,483**	43,639	**41,483**	43,639
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Public sector and quasi-governments	**12,845**	3,094	**9,124**	1,374
— Financial institutions	**5,410**	12,184	**–**	–
— Corporate	**584**	–	**584**	–
	299,593	278,040	**290,462**	263,255
Allowance for impairment losses	**(75)**	(77)	**(75)**	(77)
Total debt securities classified as loans and receivables	**299,518**	277,963	**290,387**	263,178
Total investment securities [8] [9]	**1,926,952**	1,974,087	**1,587,371**	1,639,785

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities (Continued)

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Analysed as follows:				
Investment securities available for sale				
Debt securities				
— Listed in Hong Kong	**14,294**	11,800	**5,560**	5,228
— Listed outside Hong Kong	**262,669**	405,093	**179,857**	308,776
— Unlisted	**247,129**	215,667	**84,311**	77,116
Equity, fund and other				
— Listed in Hong Kong	**5,138**	5,748	**–**	–
— Listed outside Hong Kong	**340**	274	**–**	–
— Unlisted	**23,748**	18,156	**1,636**	1,360
Debt securities held to maturity				
— Listed in Hong Kong	**2,206**	2,269	**1,204**	1,468
— Listed outside Hong Kong	**1,010,958**	971,645	**998,511**	954,533
— Unlisted	**60,952**	65,472	**25,905**	28,126
Debt securities classified as loans and receivables				
— Unlisted	**299,518**	277,963	**290,387**	263,178
Total	**1,926,952**	1,974,087	**1,587,371**	1,639,785
Listed in Hong Kong	**21,638**	19,817	**6,764**	6,696
Listed outside Hong Kong	**1,273,967**	1,377,012	**1,178,368**	1,263,309
Unlisted	**631,347**	577,258	**402,239**	369,780
Total	**1,926,952**	1,974,087	**1,587,371**	1,639,785

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities (Continued)

Group

	As at 31 December			
	2011		2010	
	Carrying value	**Market value**	Carrying value	Market value
Debt securities held to maturity				
Listed in Hong Kong	**2,206**	**2,288**	2,269	2,375
Listed outside Hong Kong	**1,010,958**	**1,012,649**	971,645	958,476

Bank

	As at 31 December			
	2011		2010	
	Carrying value	**Market value**	Carrying value	Market value
Debt securities held to maturity				
Listed in Hong Kong	**1,204**	**1,254**	1,468	1,528
Listed outside Hong Kong	**998,511**	**1,000,082**	954,533	941,193

(1) The Group's accumulated impairment charge on debt and equity securities available for sale held as at 31 December 2011 amounted to RMB9,135 million and RMB3,788 million, respectively (31 December 2010: RMB15,931 million and RMB3,480 million, respectively).

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

(3) The Bank transferred certain non-performing assets to China Orient Asset Management Corporation ("China Orient") in 1999 and 2000. On 1 July 2000, China Orient issued a ten-year bond ("Orient Bond") with a par value of RMB160,000 million and interest rate of 2.25% to the Bank as consideration. During the year ended 31 December 2010, the maturity of this bond was extended to 30 June 2020 with the other terms unchanged. The MOF shall continue to provide funding support for the principal and interest of the Orient Bond held by the Bank pursuant to Caijin [2004] No. 87 "Notice of the MOF Regarding Relevant Issues Relating to the Principal and Interest of Debt Securities of Financial Asset Management Companies Held by Bank of China and China Construction Bank". There was no exchange of cash on the date of extension of the Orient Bond.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Investment securities (Continued)

(4) The Special Bills issued by the PBOC on 22 June 2006 amounted to RMB82 million matured in 2011 and the Bank received the principal and interest amount in full.

(5) The PBOC Target Bills held by the Bank with face value of RMB23,000 million were issued at a discount with original term of one year. Without the approval of the PBOC, these PBOC bills are non-transferable and may not be used as collateral for borrowings.

(6) On 18 August 1998, a Special Purpose Treasury Bond was issued by the MOF with a par value of RMB42,500 million maturing on 18 August 2028. This bond was originally issued with an annual coupon rate of 7.20% and its coupon rate was restructured to 2.25% per annum from 1 December 2004.

(7) The Group underwrites certain Treasury bonds issued by the MOF and undertakes the role of a distributor of these Treasury bonds through its branch network earning commission income on bonds sold. The investors of these bonds have a right to redeem the bonds at any time prior to maturity and the Bank is committed to redeem these Treasury bonds. The balance of these bonds held by the Group and the Bank as at 31 December 2011 amounted to RMB33,217 million (31 December 2010: RMB43,562 million). During the year, the total distribution of these Treasury bonds amounted to RMB16,800 million (2010: RMB39,600 million) and commission income amounted to RMB231 million (2010: RMB295 million).

(8) As at 31 December 2011, the Group and the Bank held bonds issued by the MOF and bills issued by the PBOC included in investment securities with the carrying value and the related interest rate range on such bonds and bills as follows:

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Carrying value	**639,751**	832,924	**619,156**	816,995
Interest rate range	**1.12% – 4.92%**	1.38% – 6.80%	**1.12% – 4.92%**	1.38% – 6.80%

(9) Included in the Group's investment securities were certificates of deposit held amounting to RMB40,402 million as at 31 December 2011 (31 December 2010: RMB29,086 million).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Investment in subsidiaries

The carrying amount by principal subsidiary was as follows, and further details are disclosed in Note V.42.7. These principal subsidiaries are unlisted companies. All holdings are in the ordinary share capital of the undertaking concerned, and the ability of the subsidiary to transfer funds to the Group and the Bank is not restricted.

	As at 31 December	
	2011	2010
BOC Hong Kong (Group) Limited	**36,915**	36,915
BOC Group Investment Limited	**29,633**	28,281
BOC Group Insurance Company Limited	**4,509**	4,509
BOC International Holdings Limited	**3,753**	3,753
BOC (UK) Limited	**2,126**	2,126
BOC Insurance Company Limited (1)	**1,998**	–
Tai Fung Bank Limited	**82**	82
Other	**4,773**	4,267
Total	**83,789**	79,933

(1) BOC Insurance Company Limited was an indirect wholly-owned subsidiary of the Group held through BOC Group Insurance Company Limited up until 5 December 2011, when the shareholdings in this company were transferred to the Bank upon the completion of a restructuring.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19 Investment in associates and joint ventures

	Year ended 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
As at 1 January	**12,631**	10,668	**45**	18
Additions	**1,335**	1,834	**–**	–
Disposals	**(464)**	(343)	**–**	–
Share of results, net of tax	**516**	1,029	**6**	28
Share of reserve movement	**254**	97	**–**	–
Dividends received	**(192)**	(302)	**–**	–
Exchange differences and other	**(787)**	(352)	**(3)**	(1)
As at 31 December	**13,293**	12,631	**48**	45

Investment in associates and joint ventures of the Group and the Bank comprise of ordinary shares of unlisted companies, and the ability of associates and joint ventures to transfer funds to the Group and the Bank is not restricted. The carrying amount by principal investees was as follows:

	As at 31 December	
	2011	2010
Huaneng International Power Development Corporation	**4,665**	4,524
BOC International (China) Limited	**2,273**	2,037
AVIC International Holding Corporation	**1,540**	1,466
Ningxia Electric Power Group Company Limited	**981**	981
Hong Kong Bora Holdings Limited	**785**	727
CGN Phase I Private Equity Fund Company Limited	**731**	20
Guangdong Small and Medium Enterprises Equity Investment Fund Company Limited	**637**	240
Farun Glass Industry Company Limited	**475**	543
Zheshang Investment Fund	**169**	–
JCC Financial Company Limited	**133**	91
Other	**904**	2,002
Total	**13,293**	12,631

Further details are disclosed in Note V.42.4.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment

Group

	Year ended 31 December				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 1 January 2011	74,058	40,752	12,806	43,707	171,323
Additions	1,331	8,337	14,069	6,791	30,528
Transfer from/(to) investment properties, net (Note V.21)	706	–	(10)	–	696
Reclassification	4,561	542	(6,860)	1,757	–
Disposals	(765)	(1,977)	(16)	(3,604)	(6,362)
Exchange differences	(902)	(239)	(149)	(2,067)	(3,357)
As at 31 December 2011	78,989	47,415	19,840	46,584	192,828
Accumulated depreciation					
As at 1 January 2011	(19,378)	(23,942)	–	(3,371)	(46,691)
Depreciation charge	(2,275)	(6,420)	–	(1,606)	(10,301)
Disposals	666	1,875	–	406	2,947
Exchange differences	168	170	–	160	498
As at 31 December 2011	(20,819)	(28,317)	–	(4,411)	(53,547)
Allowance for impairment losses					
As at 1 January 2011	(798)	–	(257)	(9)	(1,064)
Impairment losses	–	–	–	(11)	(11)
Disposals	23	–	5	–	28
Exchange differences	–	–	–	–	–
As at 31 December 2011	(775)	–	(252)	(20)	(1,047)
Net book value					
As at 1 January 2011	53,882	16,810	12,549	40,327	123,568
As at 31 December 2011	57,395	19,098	19,588	42,153	138,234

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

Group

	Year ended 31 December				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 1 January 2010	68,622	33,403	11,680	38,260	151,965
Additions	492	8,021	7,766	6,699	22,978
Transfer from/(to) investment properties, net (Note V.21)	3,349	–	(4)	–	3,345
Reclassification	2,905	1,127	(6,452)	2,420	–
Disposals	(894)	(1,609)	(88)	(2,540)	(5,131)
Exchange differences	(416)	(190)	(96)	(1,132)	(1,834)
As at 31 December 2010	74,058	40,752	12,806	43,707	171,323
Accumulated depreciation					
As at 1 January 2010	(18,000)	(20,625)	–	(2,288)	(40,913)
Depreciation charge	(2,190)	(5,008)	–	(1,486)	(8,684)
Disposals	730	1,556	–	337	2,623
Exchange differences	82	135	–	66	283
As at 31 December 2010	(19,378)	(23,942)	–	(3,371)	(46,691)
Allowance for impairment losses					
As at 1 January 2010	(819)	–	(279)	–	(1,098)
Impairment losses	–	–	–	(9)	(9)
Disposals	21	–	22	–	43
Exchange differences	–	–	–	–	–
As at 31 December 2010	(798)	–	(257)	(9)	(1,064)
Net book value					
As at 1 January 2010	49,803	12,778	11,401	35,972	109,954
As at 31 December 2010	53,882	16,810	12,549	40,327	123,568

As at 31 December 2011, the net book amount of aircraft owned by the Group acquired under finance lease arrangements was RMB477 million (31 December 2010:RMB2,258 million).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

As at 31 December 2011, the net book amount of aircraft leased out by the Group under operating leases was RMB41,287 million (31 December 2010: RMB39,394 million).

As at 31 December 2011, the net book amount of aircraft owned by the Group that has been pledged for loan facilities was RMB31,998 million (31 December 2010: RMB34,813 million) (Note V.30).

Bank

	Year ended 31 December			
	Buildings	Equipment and motor vehicles	Construction in progress	Total
Cost				
As at 1 January 2011	57,727	36,051	9,743	103,521
Additions	335	7,985	8,784	17,104
Transfer from investment properties, net (Note V.21)	16	–	–	16
Reclassification	4,253	124	(4,377)	–
Disposals	(667)	(1,741)	(15)	(2,423)
Exchange differences	(180)	(33)	–	(213)
As at 31 December 2011	61,484	42,386	14,135	118,005
Accumulated depreciation				
As at 1 January 2011	(16,307)	(20,665)	–	(36,972)
Depreciation charge	(1,919)	(5,855)	–	(7,774)
Disposals	567	1,658	–	2,225
Exchange differences	47	25	–	72
As at 31 December 2011	(17,612)	(24,837)	–	(42,449)
Allowance for impairment losses				
As at 1 January 2011	(798)	–	(257)	(1,055)
Impairment losses	–	–	–	–
Disposals	23	–	5	28
Exchange differences	–	–	–	–
As at 31 December 2011	(775)	–	(252)	(1,027)
Net book value				
As at 1 January 2011	40,622	15,386	9,486	65,494
As at 31 December 2011	43,097	17,549	13,883	74,529

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

Bank

	Year ended 31 December			
	Buildings	Equipment and motor vehicles	Construction in progress	Total
Cost				
As at 1 January 2010	55,111	28,813	8,595	92,519
Additions	378	7,651	5,064	13,093
Transfer from investment properties, net (Note V.21)	217	–	–	217
Reclassification	2,814	1,011	(3,825)	–
Disposals	(809)	(1,414)	(91)	(2,314)
Exchange differences	16	(10)	–	6
As at 31 December 2010	57,727	36,051	9,743	103,521
Accumulated depreciation				
As at 1 January 2010	(15,094)	(17,588)	–	(32,682)
Depreciation charge	(1,865)	(4,454)	–	(6,319)
Disposals	649	1,371	–	2,020
Exchange differences	3	6	–	9
As at 31 December 2010	(16,307)	(20,665)	–	(36,972)
Allowance for impairment losses				
As at 1 January 2010	(819)	–	(279)	(1,098)
Impairment losses	–	–	–	–
Disposals	21	–	22	43
Exchange differences	–	–	–	–
As at 31 December 2010	(798)	–	(257)	(1,055)
Net book value				
As at 1 January 2010	39,198	11,225	8,316	58,739
As at 31 December 2010	40,622	15,386	9,486	65,494

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Property and equipment (Continued)

According to relevant PRC laws and regulations, after conversion into a joint stock limited liability company, the Bank is required to re-register its property and equipment under the name of Bank of China Limited. As at 31 December 2011, the process of re-registration has not been completed. However, this registration process does not affect the rights of Bank of China Limited to these assets.

The carrying value of buildings is analysed based on the remaining terms of the leases as follows:

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Held in Hong Kong				
on long-term lease (over 50 years)	**4,003**	4,177	**–**	–
on medium-term lease (10–50 years)	**7,777**	7,960	**–**	–
on short-term lease (less than 10 years)	**8**	–	**8**	–
Subtotal	**11,788**	12,137	**8**	–
Held outside Hong Kong				
on long-term lease (over 50 years)	**4,538**	4,601	**3,901**	4,387
on medium-term lease (10–50 years)	**40,568**	36,471	**38,687**	35,839
on short-term lease (less than 10 years)	**501**	673	**501**	396
Subtotal	**45,607**	41,745	**43,089**	40,622
Total	**57,395**	53,882	**43,097**	40,622

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Investment properties

	Year ended 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
As at 1 January	**13,839**	15,952	**1,285**	1,384
Additions	**502**	–	**–**	–
Transfer to property and equipment, net (Note V.20)	**(696)**	(3,345)	**(16)**	(217)
Disposals	**(273)**	(94)	**–**	–
Fair value changes (Note V.4)	**1,864**	1,649	**100**	88
Exchange differences	**(620)**	(323)	**(89)**	30
As at 31 December	**14,616**	13,839	**1,280**	1,285

The Group's investment properties are located in active real estate markets, and external appraisers make reasonable estimation of fair value using market prices of the same or similar properties from the real estate market.

Investment properties are mainly held by BOCHK Holdings and BOCGI, subsidiaries of the Group. The carrying value of investment properties held by BOCHK Holdings and BOCGI as at 31 December 2011 amounted to RMB7,529 million and RMB5,791 million, respectively (31 December 2010: RMB6,794 million and RMB5,745 million). The valuation of these investment properties as at 31 December 2011 were principally performed by either Savills Valuation and Professional Services Limited or Knight Frank Petty Limited based on open market price.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Investment properties (Continued)

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Held in Hong Kong				
on long-term lease (over 50 years)	**2,086**	2,150	**–**	–
on medium-term lease (10-50 years)	**6,004**	5,498	**–**	–
on short-term lease (less than 10 years)	**–**	–	**–**	–
Subtotal	**8,090**	7,648	**–**	–
Held outside Hong Kong				
on long-term lease (over 50 years)	**1,829**	2,611	**714**	1,084
on medium-term lease (10-50 years)	**4,502**	3,379	**371**	–
on short-term lease (less than 10 years)	**195**	201	**195**	201
Subtotal	**6,526**	6,191	**1,280**	1,285
Total	**14,616**	13,839	**1,280**	1,285

22 Other assets

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Interest receivable (1)	**54,817**	42,025	**50,174**	38,254
Accounts receivable and prepayments (2)	**38,245**	35,377	**13,235**	20,943
Intangible assets (3)	**2,602**	2,342	**2,406**	2,161
Land use rights (4)	**9,353**	9,023	**8,561**	8,889
Repossessed assets (5)	**1,057**	1,531	**712**	988
Goodwill (6)	**1,752**	1,851	**–**	–
Other	**8,931**	8,123	**4,550**	3,831
Total	**116,757**	100,272	**79,638**	75,066

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(1) Interest receivable

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Debt securities	**22,494**	22,668	**19,957**	19,916
Loans and advances to customers	**22,164**	14,811	**20,982**	13,939
Due from and placements with and loans to banks, other financial institutions and central banks	**10,159**	4,546	**9,235**	4,399
Total	**54,817**	42,025	**50,174**	38,254

The movements of interest receivable are as follows:

	Year ended 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
As at 1 January	**42,025**	34,390	**38,254**	31,258
Accrued during the year	**411,650**	311,239	**384,370**	289,761
Received during the year	**(398,858)**	(303,604)	**(372,450)**	(282,765)
As at 31 December	**54,817**	42,025	**50,174**	38,254

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(2) Accounts receivable and prepayments

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Accounts receivable and prepayments	**40,209**	37,496	**15,122**	22,988
Impairment allowance	**(1,964)**	(2,119)	**(1,887)**	(2,045)
Net value	**38,245**	35,377	**13,235**	20,943

Accounts receivable and prepayments mainly include items in the process of clearing and settlement. The analysis of the aging of accounts receivable and prepayments is as follows:

Group

	As at 31 December			
	2011		2010	
	Balance	**Impairment allowance**	Balance	Impairment allowance
Within 1 year	**35,299**	**(92)**	33,632	(229)
Between 1 to 3 years	**1,705**	**(270)**	1,138	(901)
Over 3 years	**3,205**	**(1,602)**	2,726	(989)
Total	**40,209**	**(1,964)**	37,496	(2,119)

Bank

	As at 31 December			
	2011		2010	
	Balance	**Impairment allowance**	Balance	Impairment allowance
Within 1 year	**11,803**	**(80)**	19,489	(216)
Between 1 to 3 years	**322**	**(257)**	982	(877)
Over 3 years	**2,997**	**(1,550)**	2,517	(952)
Total	**15,122**	**(1,887)**	22,988	(2,045)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(3) Intangible assets

	Year ended 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Cost				
As at 1 January	**4,172**	3,935	**3,741**	3,076
Additions	**907**	819	**728**	678
Disposals	**(95)**	(540)	**(3)**	(7)
Exchange differences	**(40)**	(42)	**(9)**	(6)
As at 31 December	**4,944**	4,172	**4,457**	3,741
Accumulated amortisation				
As at 1 January	**(1,830)**	(1,524)	**(1,580)**	(1,318)
Amortisation charge	**(538)**	(324)	**(481)**	(270)
Disposals	**6**	7	**3**	4
Exchange differences	**20**	11	**7**	4
As at 31 December	**(2,342)**	(1,830)	**(2,051)**	(1,580)
Allowance for impairment losses				
As at 1 January	**–**	–	**–**	–
Impairment losses	**–**	–	**–**	–
Disposals	**–**	–	**–**	–
Exchange differences	**–**	–	**–**	–
As at 31 December	**–**	–	**–**	–
Net book value				
As at 1 January	**2,342**	2,411	**2,161**	1,758
As at 31 December	**2,602**	2,342	**2,406**	2,161

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(4) Land use rights

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

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Held outside Hong Kong				
on long-term lease (over 50 years)	**189**	202	**189**	202
on medium-term lease (10-50 years)	**8,969**	8,767	**8,177**	8,633
on short-term lease (less than 10 years)	**195**	54	**195**	54
	9,353	9,023	**8,561**	8,889

(5) Repossessed assets

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

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Commercial properties	**1,246**	1,876	**821**	1,126
Residential properties	**136**	260	**80**	146
Other	**730**	1,115	**559**	943
	2,112	3,251	**1,460**	2,215
Allowance for impairment	**(1,055)**	(1,720)	**(748)**	(1,227)
Repossessed assets, net	**1,057**	1,531	**712**	988

The total book value of repossessed assets disposed of during the year ended 31 December 2011 amounted to RMB1,346 million (2010: RMB1,339 million). The Group plans to dispose of the repossessed assets held at 31 December 2011 by auction, bidding or transfer.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Other assets (Continued)

(6) Goodwill

Group

	Year ended 31 December	
	2011	2010
As at 1 January	**1,851**	1,929
Addition through acquisition of subsidiaries	**–**	39
Decrease resulting from disposal of subsidiaries	**–**	(63)
Exchange differences	**(99)**	(54)
As at 31 December	**1,752**	1,851

The goodwill mainly arose from the acquisition of BOC Aviation Pte. Ltd. on 15 December 2006 amounting to USD241 million (equivalent to RMB1,519 million).

23 Impairment allowance

Group

	As at 1 January 2011	Additions	Decrease: Reversal	Decrease: Write-off and transfer out	Exchange differences	As at 31 December 2011
Impairment allowance						
— Placements with and loans to banks and other financial institutions	243	–	–	(5)	–	238
— Loans and advances to customers [(1)]	122,856	53,491	(34,219)	(1,513)	(939)	139,676
— Investment securities						
— available for sale (Note V.17)	19,411	1,027	(1,091)	(5,679)	(745)	12,923
— held to maturity	438	121	(63)	(123)	(19)	354
— loans and receivables	77	10	–	(11)	(1)	75
— Property and equipment	1,064	11	–	(28)	–	1,047
— Repossessed assets	1,720	32	(86)	(598)	(13)	1,055
— Land use rights	23	–	–	(1)	–	22
— Accounts receivable and prepayments	2,119	506	(529)	(90)	(42)	1,964
— Other	267	145	–	(32)	(13)	367
Total	148,218	55,343	(35,988)	(8,080)	(1,772)	157,721

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Impairment allowance (Continued)

Group

	As at 1 January 2010	Additions	Decrease: Reversal	Decrease: Write-off and transfer out	Exchange differences	As at 31 December 2010
Impairment allowance						
— Placements with and loans to banks and other financial institutions	366	–	(85)	(38)	–	243
— Loans and advances to customers [1]	112,950	45,580	(30,016)	(5,146)	(512)	122,856
— Investment securities						
— available for sale (Note V.17)	27,461	724	(3,140)	(4,975)	(659)	19,411
— held to maturity	534	61	(130)	(15)	(12)	438
— loans and receivables	108	–	(1)	(30)	–	77
— Property and equipment	1,098	9	–	(43)	–	1,064
— Repossessed assets	2,168	29	(91)	(375)	(11)	1,720
— Land use rights	46	–	–	(23)	–	23
— Accounts receivable and prepayments	2,318	749	(900)	(40)	(8)	2,119
— Other	281	204	–	(204)	(14)	267
Total	147,330	47,356	(34,363)	(10,889)	(1,216)	148,218

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Impairment allowance (Continued)

Bank

	As at 1 January 2011	Additions	Decrease: Reversal	Decrease: Write-off and transfer out	Exchange differences	As at 31 December 2011
Impairment allowance						
— Placements with and loans to banks and other financial institutions	243	–	–	(5)	–	238
— Loans and advances to customers (1)	120,392	52,415	(33,770)	(1,616)	(769)	136,652
— Investment securities						
— available for sale	15,794	351	(1,039)	(5,401)	(605)	9,100
— held to maturity	396	9	(53)	–	(18)	334
— loans and receivables	77	10	–	(11)	(1)	75
— Property and equipment	1,055	–	–	(28)	–	1,027
— Repossessed assets	1,227	32	(84)	(414)	(13)	748
— Land use rights	23	–	–	(1)	–	22
— Accounts receivable and prepayments	2,045	490	(526)	(82)	(40)	1,887
— Other	19	3	–	(22)	–	–
Total	141,271	53,310	(35,472)	(7,580)	(1,446)	150,083

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Impairment allowance (Continued)

Bank

	As at 1 January 2010	Additions	Decrease: Reversal	Decrease: Write-off and transfer out	Exchange differences	As at 31 December 2010
Impairment allowance						
— Placements with and loans to banks and other financial institutions	365	–	(85)	(37)	–	243
— Loans and advances to customers (1)	110,366	44,999	(29,333)	(5,246)	(394)	120,392
— Investment securities						
— available for sale	23,683	149	(2,852)	(4,620)	(566)	15,794
— held to maturity	436	50	(79)	–	(11)	396
— loans and receivables	108	–	(1)	(30)	–	77
— Property and equipment	1,098	–	–	(43)	–	1,055
— Repossessed assets	1,522	3	(88)	(199)	(11)	1,227
— Land use rights	46	–	–	(23)	–	23
— Accounts receivable and prepayments	2,246	733	(877)	(32)	(25)	2,045
— Other	25	–	–	(6)	–	19
Total	139,895	45,934	(33,315)	(10,236)	(1,007)	141,271

(1) Included within "Write-off and transfer out" on loans and advances to customers are amounts relating to loans and advances written-off, transferred out, recovery of loans and advances written-off in previous years and unwind of discount on allowance.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24 Due to banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Due to:				
Banks in Chinese mainland	**717,084**	578,990	**666,886**	545,442
Other financial institutions in Chinese mainland	**538,677**	496,755	**539,188**	497,015
Banks in Hong Kong, Macau, Taiwan and other countries and regions	**110,376**	197,297	**54,859**	47,149
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	**4,806**	2,772	**12,628**	8,731
Total [(1)]	**1,370,943**	1,275,814	**1,273,561**	1,098,337

(1) Included in the Bank's due to banks and other financial institutions are balances with the Bank's subsidiaries (Note V.42.7).

25 Due to central banks

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Foreign exchange deposits	**73,825**	62,513	**73,825**	62,513
Other	**7,631**	10,902	**22**	2,607
Total	**81,456**	73,415	**73,847**	65,120

26 Government certificates of indebtedness for bank notes issued and bank notes in circulation

Bank of China (Hong Kong) Limited and Bank of China Macau Branch are note issuing banks for Hong Kong Dollar and Macau Pataca notes in Hong Kong and Macau, respectively. Under local regulations, these two entities are required to place deposits with the Hong Kong and Macau governments, respectively to secure the currency notes in circulation.

Bank notes in circulation represent the liabilities in respect of Hong Kong Dollar notes and Macau Pataca notes in circulation, issued respectively by Bank of China (Hong Kong) Limited and Bank of China Macau Branch.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27 Placements from banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Placements from:				
Banks in Chinese mainland	**101,453**	96,103	**95,800**	91,954
Other financial institutions in Chinese mainland	**50,229**	38,280	**49,862**	38,280
Banks in Hong Kong, Macau, Taiwan and other countries and regions	**110,378**	95,968	**150,452**	119,600
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	**3,778**	450	**8,195**	5,942
Total (1) (2)	**265,838**	230,801	**304,309**	255,776

(1) Included in the Bank's "Placements from banks and other financial institutions" are balances with the Bank's subsidiaries (Note V.42.7).

(2) Included in "Placements from banks and other financial institutions" are amounts received from counterparties under repurchase agreements and collateral agreements as follows:

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Repurchase debt securities (i)	**34,640**	75,244	**33,993**	63,240

(i) Debt securities used as collateral under repurchase agreements were principally government bonds and were included in the amount disclosed under Note V.40.2.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28 Due to customers

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
At amortised cost				
Demand deposits				
Corporate deposits	**2,451,185**	2,244,807	**2,259,344**	2,053,060
Personal deposits	**1,423,524**	1,343,434	**1,118,250**	999,477
Subtotal	**3,874,709**	3,588,241	**3,377,594**	3,052,537
Time deposits				
Corporate deposits	**2,021,651**	1,739,924	**1,717,473**	1,516,181
Personal deposits	**2,171,950**	2,109,872	**1,965,971**	1,929,170
Subtotal	**4,193,601**	3,849,796	**3,683,444**	3,445,351
Certificates of deposit	**138,880**	45,217	**139,986**	48,775
Other deposits (1)	**49,684**	55,901	**48,837**	55,035
Total due to customers at amortised cost	**8,256,874**	7,539,155	**7,249,861**	6,601,698
At fair value				
Structured deposits (1)				
Corporate deposits	**221,479**	78,775	**217,848**	76,113
Personal deposits	**339,608**	115,607	**339,191**	115,607
Total due to customers at fair value (2)	**561,087**	194,382	**557,039**	191,720
Total due to customers (3)	**8,817,961**	7,733,537	**7,806,900**	6,793,418

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28 Due to customers (Continued)

(1) The Group reclassified certain balances to "Due to customers" in 2011 as described in Note II.23. Details are as follows:

(i) Special purpose fundings have been reclassified from "Other borrowings" to "Due to customers".

Special purpose fundings are long-term fundings provided in multiple currencies from foreign governments and/or entities in the form of export credit, foreign government and other subsidised credit. These special purpose fundings are normally used to finance projects with a special commercial purpose in the PRC as determined by the foreign governments or entities and the Bank is obliged to repay these fundings when they fall due.

As at 31 December 2011, the remaining maturity of special purpose fundings ranges from 15 days to 36 years. The interest bearing special purpose fundings bear floating and fixed interest rates ranging from 0.15% to 7.59% (31 December 2010: 0.15% to 7.59%). These terms are consistent with those related development loans granted to customers.

(ii) Other deposits in the process of settlement have been reclassified from "Other liabilities" to "Due to customers".

(iii) Structured deposits have been reclassified from the former account caption "Financial liabilities at fair value through profit or loss" to "Due to customers".

(2) "Due to customers" measured at fair value are structured deposits designated at fair value through profit or loss at inception.

There were no significant changes in the Group's or the Bank's credit risk and therefore there were no significant gains or losses attributable to changes in the Group's or the Bank's credit risk for these financial liabilities designated at fair value through profit or loss during the years ended 31 December 2011 and 2010.

(3) "Due to customers" include margin deposits for security received by the Group and the Bank as at 31 December 2011 of RMB445,289 million and RMB428,650 million, respectively (31 December 2010: RMB394,231 million and RMB379,518 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 Bonds issued

	Issue date	Maturity date	Annual interest rate	As at 31 December			
				Group		Bank	
				2011	2010	**2011**	2010
Subordinated bonds issued							
2005 RMB Debt Securities [1]							
Second Tranche (fixed rate)	18 February 2005	4 March 2020	5.18%	**9,000**	9,000	**9,000**	9,000
2009 RMB Debt Securities [2]							
First Tranche (fixed rate)	6 July 2009	8 July 2019	3.28%	**14,000**	14,000	**14,000**	14,000
	6 July 2009	8 July 2024	4.00%	**24,000**	24,000	**24,000**	24,000
First Tranche (floating rate)	6 July 2009	8 July 2019	Floating interest rate	**2,000**	2,000	**2,000**	2,000
2010 RMB Debt Securities [3]	9 March 2010	11 March 2025	4.68%	**24,930**	24,930	**24,930**	24,930
2010 US Dollar Subordinated notes issued by BOCHK	11 February 2010	11 February 2020	5.55%	**17,521**	16,677	**–**	–
2011 RMB Debt Securities [4]	17 May 2011	19 May 2026	5.30%	**32,000**	–	**32,000**	–
Subtotal [5]				**123,451**	90,607	**105,930**	73,930
Convertible bonds issued							
2011 RMB Convertible Bond [6]	2 June 2010	2 June 2016	Step-up interest rate	**37,201**	36,206	**37,201**	36,206

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 Bonds issued (Continued)

	Issue date	Maturity date	Annual interest rate	As at 31 December Group 2011	Group 2010	Bank 2011	Bank 2010
Other bonds issued							
1994 US Dollar Debt Securities	10 March 1994	15 March 2014	8.25%	**140**	147	**140**	147
2008 RMB Debt Securities issued in Hong Kong							
Tranche B	22 September 2008	22 September 2011	3.40%	**–**	725	**–**	1,000
2010 RMB Debt Securities issued in Hong Kong							
Tranche A	30 September 2010	30 September 2012	2.65%	**1,806**	1,717	**2,200**	2,200
Tranche B	30 September 2010	30 September 2013	2.90%	**2,479**	2,485	**2,800**	2,800
2011 US Dollar Debt Securities issued by BOCHK	8 November 2011	8 November 2016	3.75%	**4,721**	–	**–**	–
Other				**104**		**–**	–
Subtotal				**9,250**	5,074	**5,140**	6,147
Total bonds issued [7]				**169,902**	131,887	**148,271**	116,283

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 Bonds issued (Continued)

(1) The fixed rate portion of the second tranche of the subordinated bonds issued on 18 February 2005 has a maturity of 15 years, with a fixed coupon rate of 5.18%, paid annually. The Bank has the option to redeem all or part of the bonds at face value on 4 March 2015. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3%, and shall remain fixed until the maturity date.

(2) The subordinated bonds issued on 6 July 2009 comprise two fixed rate portions and one floating rate portion.

The first portion of fixed rate bonds has a maturity of 10 years, with a fixed coupon rate of 3.28%, paid annually. The Bank has the option to early redeem all of the bonds at face value on 8 July 2014. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3%, and shall remain fixed until the maturity date.

The second portion of fixed rate bonds has a maturity of 15 years, with a fixed coupon rate of 4.00%, paid annually. The Bank has the option to early redeem all of the bonds at face value on 8 July 2019. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3%, and shall remain fixed until the maturity date.

The floating rate bonds has a maturity of 10 years, with a floating rate based on the specified 1-year deposit interest rate published by the PBOC, paid annually. The Bank has the option to redeem all of the bonds at face value on 8 July 2014. If the Bank does not exercise this option, the floating rate for the remaining 5-year period shall be the original floating rate plus 3%.

(3) The subordinated bonds issued on 9 March 2010 have a maturity of 15 years, with a fixed coupon rate of 4.68%, paid annually. The Bank has the option to redeem all of the bonds at face value on 11 March 2020. If the Bank does not exercise this option, the coupon rate of the bonds for the third 5-year period shall be the original coupon rate plus 3%, and shall remain fixed until the maturity date.

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

(5) Subordinated bonds are subordinated to all other claims on the assets of the Group, except those of the equity holders. In the calculation of the Group's capital adequacy ratio, these bonds are qualified for inclusion as supplementary capital in accordance with the relevant guidelines issued by the CBRC.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 Bonds issued (Continued)

(6) Pursuant to the approval by relevant PRC authorities, on 2 June 2010, the Bank issued A-share convertible bonds with a total principal amount of RMB40 billion. The convertible bonds have a maturity term of six years from 2 June 2010 and bear a fixed interest rate of 0.5% for the first year, with an annual increase of 0.3% through the remaining term. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price during the period ("Conversion Period") beginning six months after the date of issuance until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 106% of par value, including interest for the sixth year.

During the Conversion Period, if the closing price of the Bank's A Shares is not lower than or equal to 130% of the prevailing conversion price in at least 15 trading days out of any 30 consecutive trading days, the Bank has the right to redeem all or part of the outstanding convertible bonds at par value plus accrued interest on the first day on which the redemption criteria is met. This right may be exercised only once in any year. Subject to the Board approval, the Bank also has the right to redeem all the convertible bonds at par value plus accrued interest should the total outstanding amount be less than RMB30 million.

The conversion price of the convertible bonds will be adjusted, subject to terms and formulae provided for in the bond contracts, to adjust for the dilutive effects of distributions of cash dividends and specified increases in share capital. During the term of the convertible bonds, if the closing price of the A Shares in 15 trading days out of any 30 consecutive trading days is lower than 80% of the prevailing conversion price of the convertible bonds, the Board may also propose downward adjustments to the conversion price for the Shareholders' approval. During the period from the date of issuance to 31 December 2011, the conversion price was adjusted from RMB4.02 per share to RMB3.59 per share, as a result of paid cash dividends distribution and rights issue of A Share and H Share.

Interest paid by the Bank related to the convertible bonds was RMB200 million for the year ended 31 December 2011 (2010: Nil).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 Bonds issued (Continued)

The details of convertible bonds are as follows:

Group and Bank

Initial recognition:	
Face value of convertible bonds issued on 2 June 2010	40,000
Less: issuance cost	(224)
equity component	(4,148)
Liability component	35,628

	Year ended 31 December	
	2011	2010
Liability component as at 1 January/upon initial recognition	**36,206**	35,628
Accretion	**995**	578
Amounts converted to shares [(i)]	**–**	–
Liability component as at 31 December	**37,201**	36,206

(i) Convertible bonds in the principal amount of RMB411,000 were converted into 110,384 ordinary A shares during the year ended 31 December 2011 as verified by PricewaterhouseCoopers Zhong Tian CPAs Limited Company (Verification Report PwC ZT YZ [2012] No.018, see Note V.36.1).

(7) During the years ended 31 December 2011 and 2010, the Group did not default on any principal, interest or redemption amounts with respect to its bonds issued.

30 Other borrowings

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Term loans and other borrowings [(1)]	**26,724**	19,499	**–**	–

(1) These term loans and other borrowings relate to the financing of the aircraft leasing business of BOC Aviation Pte. Ltd., a wholly owned subsidiary of the Bank.

As at 31 December 2011, these term loans and other borrowings have a maturity ranging from 3 days to 12 years and bear floating and fixed interest rates ranging from 0.60% to 2.70% (31 December 2010: 0.63% to 2.09%). The term loans and other borrowings of RMB24,940 million (31 December 2010: RMB18,553 million) are secured by aircraft of the Group (Note V.20).

During the years ended 31 December 2011 and 2010, the Group did not default on any principal, interest or redemption amounts with respect to its other borrowings.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 Current tax liabilities

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Corporate Income Tax	**23,405**	18,068	**20,757**	15,648
Business Tax	**5,041**	3,759	**4,925**	3,656
City Construction and Maintenance Tax	**336**	254	**334**	252
Education Surcharges	**235**	143	**234**	142
Other	**336**	551	**277**	483
Total	**29,353**	22,775	**26,527**	20,181

32 Retirement benefit obligations

As at 31 December 2011, the actuarial liabilities existing in relation to the retirement benefit obligations for employees who retired prior to 31 December 2003 and the early retirement obligations for employees who early retired were RMB2,597 million (31 December 2010: RMB2,495 million) and RMB3,489 million (31 December 2010: RMB3,945 million) respectively, which were assessed by Hewitt Associates LLC, using the projected unit credit method.

The movements of the net liabilities recognised in the statements of financial position are as follows:

Group and Bank

	Year ended 31 December	
	2011	2010
As at 1 January	**6,440**	6,867
Amounts recognised in the income statement:		
Interest cost	**223**	214
Net actuarial loss recognised in the year	**403**	357
Benefits paid	**(980)**	(998)
As at 31 December	**6,086**	6,440

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32 Retirement benefit obligations (Continued)

Primary assumptions used:

Group and Bank

	As at 31 December	
	2011	2010
Discount rate		
— Normal retiree	**3.64%**	4.09%
— Early retiree	**3.01%**	3.50%
Pension benefit inflation rate		
— Normal retiree	**6.0%~4.0%**	6.0%~4.0%
— Early retiree	**8.0%~4.0%**	8.0%~4.0%
Medical benefit inflation rate	**8.0%**	6.0%
Retiring age		
— Male	**60**	60
— Female	**50/55**	50/55

Assumptions regarding future mortality experience are based on the China Life Insurance Mortality Table (published historical statistics in China).

33 Share option schemes

33.1 Share Appreciation Rights Plan

In November 2005, the Bank's Board of Directors and equity holders approved and adopted a Share Appreciation Rights Plan under which eligible participants including directors, supervisors, management and other personnel designated by the Board, will be granted share appreciation rights, up to 25% of which will be exercisable each year beginning on the third anniversary date from the date of grant. The share appreciation rights will be valid for seven years from the date of grant. Eligible participants will be entitled to receive an amount equal to the difference, if any, between the average closing market price of the Bank's H shares in the ten days prior to the date of grant and the average closing market price of the Bank's H shares in the 12 months prior to the date of exercise as adjusted for any change in the Bank's equity. The plan provides cash-settled share-based payment only and accordingly, no shares will be issued under the share appreciation rights plan.

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

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 Share option schemes (Continued)

33.2 Share Option Scheme and Sharesave Plan

On 10 July 2002, the equity holders of BOCHK Holdings approved adoption of two share option schemes, namely, the Share Option Scheme and the Sharesave Plan.

Since the establishment of the Share Option Scheme and the Sharesave Plan, no options were granted.

33.3 BOCHK Holdings Pre-listing Share Option Scheme

On 5 July 2002, certain of the Bank's directors, senior management personnel and employees of the Group were granted options by BOC Hong Kong (BVI) Limited ("BOCHK (BVI)"), the immediate holding company of BOCHK Holdings, pursuant to a Pre-listing Share Option Scheme to purchase from BOCHK (BVI) an aggregate of 31,132,600 previously issued and outstanding shares of BOCHK Holdings for HKD8.50 per share. These options, with a ten-year term, vest ratably over four years from 25 July 2002. No further offers to grant any options under the Pre-listing Share Option Scheme will be made. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The Group has taken advantage of the transitional provision of IFRS 2 under which the required recognition and measurements have not been applied to the options granted to employees of the Group on or before 7 November 2002.

Details of the movement of share options outstanding are as follows:

Unit: Share

	Key management personnel	Other employees	Other [(1)]	Total number of share options
As at 1 January 2011	**3,976,500**	**247,300**	**–**	**4,223,800**
Transferred	**(2,530,500)**	**1,084,500**	**1,446,000**	**–**
As at 31 December 2011	**1,446,000**	**1,331,800**	**1,446,000**	**4,223,800**
As at 1 January 2010	3,976,500	1,074,300	–	5,050,800
Less: share options exercised during the year [(2)]	–	(827,000)	–	(827,000)
As at 31 December 2010	3,976,500	247,300	–	4,223,800

(1) These represent share options held by former directors or former employees of BOCHK Holdings.

(2) Regarding the share options exercised during the year ended 31 December 2010 the weighted average share price of BOCHK Holdings' shares at the time of exercise was HKD22.73 (equivalent to RMB19.79).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34 Deferred income taxes

34.1 Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes are related to the same fiscal authority. The table below includes the deferred income tax assets and liabilities of the Group and the Bank after offsetting qualifying amounts and related temporary differences.

Group

	As at 31 December			
	2011		2010	
	Temporary difference	**Deferred tax assets/ (liabilities)**	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets	**74,364**	**19,516**	92,416	24,041
Deferred income tax liabilities	**(24,887)**	**(4,486)**	(23,203)	(3,919)
	49,477	**15,030**	69,213	20,122

Bank

	As at 31 December			
	2011		2010	
	Temporary difference	**Deferred tax assets/ (liabilities)**	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets	**77,625**	**19,648**	96,520	24,359
Deferred income tax liabilities	**(640)**	**(124)**	(769)	(177)
	76,985	**19,524**	95,751	24,182

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34 Deferred income taxes (Continued)

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

Group

	As at 31 December			
	2011		2010	
	Temporary difference	**Deferred tax assets/ (liabilities)**	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets				
Asset impairment allowances	**84,060**	**21,018**	83,360	20,885
Pension, retirement benefits and salary payable	**19,363**	**4,841**	17,329	4,332
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	**15,181**	**3,796**	14,524	3,631
Fair value changes of available for sale investment securities credited to equity	**379**	**92**	832	209
Other temporary differences	**3,797**	**961**	2,395	628
Subtotal	**122,780**	**30,708**	118,440	29,685
Deferred income tax liabilities				
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	**(20,132)**	**(5,035)**	(16,796)	(4,209)
Fair value changes of available for sale investment securities charged to equity	**(2,407)**	**(587)**	(3,126)	(713)
Depreciation of property and equipment	**(8,025)**	**(1,378)**	(7,179)	(1,218)
Revaluation of property and investment properties	**(16,514)**	**(3,045)**	(15,054)	(2,591)
Other temporary differences	**(26,225)**	**(5,633)**	(7,072)	(832)
Subtotal	**(73,303)**	**(15,678)**	(49,227)	(9,563)
Net	**49,477**	**15,030**	69,213	20,122

As at 31 December 2011, deferred tax liabilities relating to temporary differences of RMB30,895 million associated with the Group's investments in subsidiaries have not been recognised (31 December 2010: RMB25,729 million). See Note II.21.2.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34 Deferred income taxes (Continued)

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

Bank

	As at 31 December			
	2011		2010	
	Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets				
Asset impairment allowances	81,467	20,525	81,289	20,494
Pension, retirement benefits and salary payable	19,363	4,841	17,329	4,332
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	15,181	3,796	14,523	3,631
Fair value changes of available for sale investment securities credited to equity	246	64	813	203
Other temporary differences	1,552	389	640	161
Subtotal	117,809	29,615	114,594	28,821
Deferred income tax liabilities				
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	(20,132)	(5,035)	(16,790)	(4,208)
Fair value changes of available for sale investment securities charged to equity	(1,065)	(257)	(794)	(203)
Other temporary differences	(19,627)	(4,799)	(1,259)	(228)
Subtotal	(40,824)	(10,091)	(18,843)	(4,639)
Net	76,985	19,524	95,751	24,182

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34 Deferred income taxes (Continued)

34.3 The movements of the deferred income tax account are as follows:

	Year ended 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
As at 1 January	**20,122**	20,132	**24,182**	23,988
Charged to income statement (Note V.9)	**(4,783)**	(464)	**(4,452)**	(386)
Credited/(charged) to equity	**9**	362	**(193)**	549
Other	**(318)**	92	**(13)**	31
As at 31 December	**15,030**	20,122	**19,524**	24,182

34.4 The deferred income tax charge in the income statement comprises the following temporary differences:

	Year ended 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Asset impairment allowances	**133**	(506)	**31**	(640)
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	**(661)**	(163)	**(662)**	(145)
Pension, retirement benefits and salary payable	**509**	576	**509**	576
Other temporary differences	**(4,764)**	(371)	**(4,330)**	(177)
Total	**(4,783)**	(464)	**(4,452)**	(386)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Other liabilities

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Items in the process of clearance and settlement	**27,848**	33,461	**22,030**	32,831
Interest payable (1)	**75,352**	58,665	**73,809**	57,758
Insurance liabilities				
— Life insurance contracts	**38,281**	33,872	**–**	–
— Non-life insurance contracts	**5,054**	4,376	**–**	–
Salary and welfare payable (2)	**19,938**	17,761	**18,481**	15,768
Provision (3)	**2,396**	1,372	**2,087**	1,109
Short position in debt securities (4)	**2,106**	21,492	**–**	–
Other (5)	**38,716**	36,407	**17,362**	15,306
Total	**209,691**	207,406	**133,769**	122,772

(1) Interest payable

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Due to customers	**64,531**	52,143	**63,045**	51,394
Due to and placements from banks and other financial institutions	**7,110**	3,938	**7,419**	4,137
Bonds issued and other	**3,711**	2,584	**3,345**	2,227
Total	**75,352**	58,665	**73,809**	57,758

The movements of interest payable are as follows:

	Year ended 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
As at 1 January	**58,665**	49,555	**57,758**	49,282
Accrued during the year	**185,038**	119,571	**177,384**	115,533
Paid during the year	**(168,351)**	(110,461)	**(161,333)**	(107,057)
As at 31 December	**75,352**	58,665	**73,809**	57,758

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Other liabilities (Continued)

(2) Salary and welfare payable

Group

	As at 1 January 2011	Accrual	Payment	As at 31 December 2011
Salary, bonus and subsidy	15,771	44,429	(42,378)	17,822
Staff welfare	–	1,591	(1,591)	–
Social insurance, including:				
Medical	370	1,984	(1,891)	463
Pension	84	4,130	(4,155)	59
Annuity	3	920	(923)	–
Unemployment	8	325	(326)	7
Injury at work	1	102	(102)	1
Maternity insurance	1	120	(120)	1
Housing funds	26	3,331	(3,337)	20
Labour union fee and staff education fee	1,389	1,558	(1,500)	1,447
Reimbursement for cancellation of labour contract	15	23	(19)	19
Other	93	1,654	(1,648)	99
Total (i)	17,761	60,167	(57,990)	19,938

	As at 1 January 2010	Accrual	Payment	As at 31 December 2010
Salary, bonus and subsidy	12,513	37,848	(34,590)	15,771
Staff welfare	–	2,967	(2,967)	–
Social insurance, including:				
Medical	248	1,583	(1,461)	370
Pension	76	3,553	(3,545)	84
Annuity	–	802	(799)	3
Unemployment	7	213	(212)	8
Injury at work	1	75	(75)	1
Maternity insurance	1	92	(92)	1
Housing funds	26	2,769	(2,769)	26
Labour union fee and staff education fee	1,088	1,343	(1,042)	1,389
Reimbursement for cancellation of labour contract	17	17	(19)	15
Other	162	1,587	(1,656)	93
Total (i)	14,139	52,849	(49,227)	17,761

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Other liabilities (Continued)

(2) Salary and welfare payable (Continued)

Bank

	As at 1 January 2011	Accrual	Payment	As at 31 December 2011
Salary, bonus and subsidy	13,790	37,845	(35,250)	16,385
Staff welfare	–	1,399	(1,399)	–
Social insurance, including:				
Medical	370	1,981	(1,890)	461
Pension	83	4,122	(4,149)	56
Annuity	3	920	(923)	–
Unemployment	8	325	(326)	7
Injury at work	1	102	(102)	1
Maternity insurance	1	120	(120)	1
Housing funds	26	3,328	(3,336)	18
Labour union fee and staff education fee	1,389	1,549	(1,494)	1,444
Reimbursement for cancellation of labour contract	15	13	(9)	19
Other	82	670	(663)	89
Total (i)	15,768	52,374	(49,661)	18,481

	As at 1 January 2010	Accrual	Payment	As at 31 December 2010
Salary, bonus and subsidy	10,897	30,839	(27,946)	13,790
Staff welfare	–	2,785	(2,785)	–
Social insurance, including:				
Medical	248	1,582	(1,460)	370
Pension	76	3,549	(3,542)	83
Annuity	–	802	(799)	3
Unemployment	7	213	(212)	8
Injury at work	1	75	(75)	1
Maternity insurance	1	92	(92)	1
Housing funds	26	2,767	(2,767)	26
Labour union fee and staff education fee	1,088	1,343	(1,042)	1,389
Reimbursement for cancellation of labour contract	16	16	(17)	15
Other	153	667	(738)	82
Total (i)	12,513	44,730	(41,475)	15,768

(i) There was no overdue payment for staff salary and welfare payables as at 31 December 2011 and 2010.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Other liabilities (Continued)

(3) Provision

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Allowance for litigation losses (Note V.40.1)	**700**	750	**689**	656
Other	**1,696**	622	**1,398**	453
Total	**2,396**	1,372	**2,087**	1,109

Provision movements:

	Year ended 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
As at 1 January	**1,372**	1,510	**1,109**	1,227
Provision/(reversal) for the year, net (i)	**1,094**	96	**985**	(69)
Utilised during the year	**(70)**	(234)	**(7)**	(49)
As at 31 December	**2,396**	1,372	**2,087**	1,109

(i) Provision during the year ended 31 December 2011 principally related to off-balance sheet credit exposures.

(4) Short position in debt securities has been reclassified from the former account caption "Financial liabilities at fair value through profit or loss" to "Other liabilities" (Note II.23). Short position in debt securities is measured at fair value through profit or loss.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Other liabilities (Continued)

(5) Other

Other includes finance lease payments which are principally related to aircraft held by BOC Aviation Pte. Ltd. under finance lease.

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Within 1 year (inclusive)	**50**	188	**1**	1
1 year to 2 years (inclusive)	**50**	187	**–**	1
2 years to 3 years (inclusive)	**51**	186	**–**	–
Over 3 years	**355**	1,291	**–**	–
Total minimum rental payments	**506**	1,852	**1**	2
Unrecognised finance charge	**(50)**	(302)	**–**	–
Finance lease payments, net	**456**	1,550	**1**	2

36 Share capital, capital reserve and treasury shares

36.1 Share capital and capital reserve

For the year ended 31 December 2011, the movement of the Bank's share capital was as follows:

Unit: Share

	Domestic listed A shares, par value RMB1.00 per share	Overseas listed H shares, par value RMB1.00 per share	Total
As at 1 January 2011	**195,524,946,800**	**83,622,276,395**	**279,147,223,195**
Increase as a result of conversion of convertible bonds (Note V.29)	**110,384**	**–**	**110,384**
As at 31 December 2011	**195,525,057,184**	**83,622,276,395**	**279,147,333,579**

All A shares and H shares rank pari passu with the same rights and benefits.

As at 31 December 2011, capital reserve included capital surplus on issuance of ordinary shares of RMB110,525 million (31 December 2010: RMB110,524 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Share capital, capital reserve and treasury shares (Continued)

36.2 Treasury shares

A wholly owned subsidiary of the Group holds certain listed shares of the Bank in relation to its derivative and arbitrage business. These shares are treated as treasury shares, a deduction from equity holders' equity. Gains and losses on sale or redemption of the treasury shares are credited or charged to equity. The total number of treasury shares as at 31 December 2011 was approximately 10.98 million (31 December 2010: approximately 39.57 million).

37 Statutory reserves, general and regulatory reserves and undistributed profits

37.1 Statutory reserves

Under relevant PRC laws, the Bank is required to transfer 10% of its net profit to a non-distributable statutory surplus reserves. Appropriation to the statutory surplus reserves may cease when the balance of such reserves has reached 50% of the share capital. Subject to the approval of the equity holders, the statutory surplus reserves can be used for replenishing the accumulated losses or increasing the Bank's share capital. The statutory surplus reserves amount used to increase the share capital is limited to a level where the balance of the statutory surplus reserves after such capitalisation is not less than 25% of the share capital.

In accordance with a resolution of the Board of Directors dated 29 March 2012, the Bank appropriated 10% of the net profit for the year ended 31 December 2011 to the statutory surplus reserves, amounting to RMB11,695 million (2010: RMB9,650 million).

In addition, some operations in Hong Kong, Macau, Taiwan and other countries and regions are required to transfer certain percentages of their net profits to the statutory surplus reserves as stipulated by local banking authorities.

37.2 General and regulatory reserves

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

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Statutory reserves, general and regulatory reserves and undistributed profits (Continued)

37.2 General and regulatory reserves (Continued)

In accordance with a resolution dated 29 March 2012 and on the basis of the Bank's profit for the year ended 31 December 2011, the Board of Directors of the Bank approved the appropriation of RMB8,912 million (2010: RMB10,207 million) to the general reserve for the year ended 31 December 2011.

The regulatory reserve mainly refers to the reserve amount set aside by BOC Hong Kong (Group) Limited, a subsidiary of the Group, for general banking risks, including future losses or other unforeseeable risks. As at 31 December 2011 and 2010, the reserve amount set aside by BOC Hong Kong (Group) Limited was RMB4,554 million and RMB3,464 million, respectively.

37.3 Dividends

A dividend of RMB40,756 million in respect of profit for the year ended 31 December 2010 was approved by the equity holders of the Bank at the Annual General Meeting held on 27 May 2011 and was distributed during the year.

A dividend of RMB0.155 per share in respect of profit for the year ended 31 December 2011 (2010: RMB0.146 per share), amounting to a total dividend of RMB43,268 million based on the number of shares issued as at 31 December 2011 will be proposed for approval at the Annual General Meeting to be held on 30 May 2012. The actual amount of dividend payable will factor in ordinary shares issued in respect of conversion of convertible bonds after 31 December 2011 to the ex-dividend date. These financial statements do not reflect this dividend payable in liabilities.

37.4 Profit attributable to the equity holders of the Bank

The profit attributable to equity holders of the Bank for the year ended 31 December 2011 was recognised in the financial statements of the Bank to the extent of RMB116,946 million (2010: RMB96,504 million).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38 Reserve for fair value changes of available for sale securities

	Year ended 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
As at 1 January	**4,015**	4,750	**(2)**	1,069
Net changes in fair value	**2,778**	4,125	**2,039**	1,508
Share of associates' reserve for fair value changes of available for sale securities	**(35)**	62	**–**	–
Net impairment reversal transferred to income statement	**(70)**	(2,355)	**(688)**	(2,703)
Net fair value changes transferred to income statement on de-recognition	**(3,507)**	(3,551)	**(1,038)**	(1,003)
Deferred income taxes	**(25)**	406	**(193)**	549
Other	**486**	578	**486**	578
As at 31 December	**3,642**	4,015	**604**	(2)

39 Non-controlling interests

Non-controlling interests of the subsidiaries of the Group are as follows:

	As at 31 December	
	2011	2010
BOC Hong Kong (Group) Limited	**30,379**	29,745
Tai Fung Bank Limited	**1,661**	1,681
Other	**692**	559
Total	**32,732**	31,985

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Contingent liabilities and commitments

40.1 Legal proceedings and arbitrations

As at 31 December 2011, the Group was involved in certain legal proceedings and arbitrations arising from its normal business operations. In addition, in terms of the range and scale of its international operations, the Group may face a wide variety of legal proceedings within different jurisdictions, including sensitive issues related to anti-money laundering. As at 31 December 2011, provisions of RMB700 million (31 December 2010: RMB750 million) were made based on court judgements or the advice of counsel (Note V.35). After consulting legal professionals, senior management of the Group believes that at the current stage these legal proceedings and arbitrations will not have a material impact on the financial position or operations of the Group.

40.2 Assets pledged

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

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Debt securities	**55,269**	114,180	**49,909**	81,295
Bills	**22**	–	**22**	–
Total	**55,291**	114,180	**49,931**	81,295

40.3 Collateral accepted

The Group and the Bank accept securities collateral and precious metals collateral that are permitted to sell or re-pledge in connection with their placements and reverse repurchase agreements with banks and other financial institutions. As at 31 December 2011, the fair value of collateral received from banks and other financial institutions accepted by the Group and the Bank both amounted to RMB11,297 million (31 December 2010: RMB13,647 million and RMB12,941 million for the Group and the Bank, respectively). As at 31 December 2011, both the Group and the Bank had not sold or re-pledged such collateral accepted (31 December 2010: Nil for both the Group and the Bank). These transactions are conducted under standard terms in the normal course of business.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Contingent liabilities and commitments (Continued)

40.4 Capital commitments

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Property and equipment				
Contracted but not provided for	**55,437**	52,265	**5,426**	3,248
Authorised but not contracted for	**6,997**	5,167	**6,956**	5,112
Intangible assets				
Contracted but not provided for	**351**	443	**258**	351
Authorised but not contracted for	**52**	5	**46**	5
Total	**62,837**	57,880	**12,686**	8,716

40.5 Operating leases

(1) Operating lease commitments — As lessee

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

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Within 1 year	**4,420**	3,560	**3,725**	2,990
Between 1 to 2 years	**3,615**	2,847	**3,112**	2,474
Between 2 to 3 years	**2,887**	2,262	**2,611**	2,074
Over 3 years	**6,985**	5,570	**6,441**	5,447
Total	**17,907**	14,239	**15,889**	12,985

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Contingent liabilities and commitments (Continued)

40.5 Operating leases (Continued)

(2) Operating lease commitments — As lessor

The Group acts as lessor in operating leases principally through aircraft leasing undertaken by its subsidiary BOC Aviation Pte. Ltd. Under irrevocable operating lease contracts, as at 31 December 2011, the minimum lease payments which will be received by the Group under the operating leases for existing aircraft and aircraft yet to be delivered amounted to RMB4,174 million not later than one year (31 December 2010: RMB3,905 million), RMB18,859 million later than one year and not later than five years (31 December 2010: RMB17,609 million) and RMB20,530 million later than five years (31 December 2010: RMB24,720 million).

40.6 Treasury bonds redemption commitments

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

As at 31 December 2011, the outstanding principal value of the Treasury bonds sold by the Bank amounted to RMB45,113 million (31 December 2010: RMB57,153 million). The original maturities of these Treasury bonds vary from 1 to 5 years and management expects the amount of redemption before the maturity dates of these bonds through the Bank will not be material.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Contingent liabilities and commitments (Continued)

40.7 Credit commitments

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Loan commitments [1]				
— with an original maturity of under 1 year	**63,670**	75,740	**51,595**	59,882
— with an original maturity of 1 year or over	**686,745**	660,970	**639,632**	607,939
Letters of guarantee issued [2]	**727,891**	646,098	**742,462**	665,743
Bank bill acceptance	**402,524**	352,252	**398,668**	350,443
Letters of credit issued	**191,250**	184,061	**161,100**	154,611
Accepted bill of exchange under letter of credit	**172,229**	100,511	**162,248**	94,038
Other	**67,563**	7,803	**68,825**	9,332
Total [3]	**2,311,872**	2,027,435	**2,224,530**	1,941,988

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

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

(3) Credit risk weighted amounts of credit commitments

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Credit commitments	**734,041**	684,723	**720,430**	674,914

The credit risk weighted amounts are the amounts calculated in accordance with the guidelines issued by the CBRC and are dependent on, among other factors, the creditworthiness of the counterparties and the maturity characteristics. The risk weights used range from 0% to 100% for commitments.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Contingent liabilities and commitments (Continued)

40.8 Underwriting obligations

The unexpired underwriting obligations of securities of the Group and the Bank are as follows:

	As at 31 December	
	2011	2010
Underwriting obligations	**85,149**	81,298

41 Note to the consolidated statement of cash flows

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

Group

	As at 31 December	
	2011	2010
Cash and due from banks and other financial institutions	**234,385**	127,308
Balances with central banks	**439,962**	450,426
Placements with and loans to banks and other financial institutions	**276,384**	112,597
Short term bills and notes	**66,637**	79,040
Total	**1,017,368**	769,371

42 Related party transactions

42.1 CIC was established on 29 September 2007 with a registered capital of RMB1,550 billion. CIC is a wholly State-owned company engaging in foreign currency investment management. The Group is subject to the control of the State Council of the PRC Government through CIC and its wholly owned subsidiary Huijin.

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

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.2 Transactions with the Huijin and companies under Huijin

(1) General information of Huijin

Central Huijin Investment Ltd.

Legal representative	LOU Jiwei
Registered Capital	RMB828,209 million
Location of registration	Beijing
Capital shares in the Bank	67.60%
Voting rights in the Bank	67.60%
Nature	Wholly State-owned company
Principal activities	Investment in major State-owned financial institutions on behalf of the State
National organisation code	71093296-1

(2) Transactions with Huijin

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

Due to Huijin

	Year ended 31 December	
	2011	2010
As at 1 January	**21,026**	10,107
Received during the year	**57,859**	57,298
Repaid during the year	**(62,952)**	(46,379)
As at 31 December	**15,933**	21,026

Bonds issued by Huijin

As at 31 December 2011, the Bank held government backed bonds held to maturity issued by Huijin in the carrying value of RMB5,708 million (Note V.17) (31 December 2010: government backed bonds available for sale and held to maturity are RMB2,329 million and RMB3,400 million, respectively). These bonds have maturity of not more than 30 years and bear fixed interest rates, payable annually. Purchasing of these bonds was in the ordinary course of business of the Group, complying with requirements of related regulations and corporate governance.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.2 Transactions with Huijin and companies under Huijin (Continued)

(3) Transactions with companies under Huijin

Companies under Huijin include its equity interests in subsidiaries, joint ventures and associates in certain other bank and non-bank entities in the PRC. The Group enters into banking transactions with these companies in the normal course of business at commercial terms which include mainly purchase and sale of debt securities, money market transactions and derivative transactions.

The Group's outstanding balances and related interest rate ranges with these companies as at 31 December 2011 and 2010 were as follows:

	As at 31 December	
	2011	2010
Due from banks and other financial institutions	**38,868**	61,371
Placements with and loans to banks and other financial institutions	**73,282**	26,891
Financial assets at fair value through profit or loss and Investment securities	**193,767**	201,102
Derivative financial assets	**443**	669
Loans and advances to customer	**2,577**	–
Due to banks and other financial institutions	**(156,135)**	(146,291)
Placements from banks and other financial institutions	**(33,247)**	(24,435)
Derivative financial liabilities	**(956)**	(1,080)
Credit commitments	**3,702**	996
Interest rate ranges at the end of the year		
Due from banks and other financial institutions	**0.00%–6.73%**	0.01%–5.70%
Placements with and loans to banks and other financial institutions	**0.19%–10.50%**	0.04%–5.50%
Financial assets at fair value through profit or loss and Investment securities	**0.58%–6.38%**	0.43%–5.42%
Loans and advances to customer	**5.76%–11.00%**	–
Due to banks and other financial institutions	**0.00%–6.20%**	0.00%–5.00%
Placements from banks and other financial institutions	**0.10%–5.50%**	0.22%–6.32%

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.3 Transactions with government authorities, agencies, affiliates and other State controlled entities

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

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

42.4 Transactions with associates and joint ventures

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

	As at 31 December	
	2011	2010
Loans and advances to customers	**1,594**	527
Due to customers, banks and other financial institutions	**(4,475)**	(6,944)
Credit commitments	**2,803**	1,510

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.4 Transactions with associates and joint ventures (Continued)

The general information of principal associates and joint ventures is as follows:

Name	Place of incorporation/ establishment	National organisation code	Effective equity held (%)	Voting right (%)	Paid-in capital (in millions)	Principal business
Huaneng International Power Development Corporation	PRC	60000324-8	20.00	20.00	USD450	Power plant operations
BOC International (China) Limited	PRC	73665036-4	49.00	49.00	RMB1,500	Securities underwriting, investment advisory, and brokerage services
AVIC International Holding Corporation	PRC	10000099-9	14.31	Note (1)	RMB8,459	International aviation, trade and logistics, real estate, industrial investment
Ningxia Electric Power Group Company Limited	PRC	75080505-1	23.42	23.42	RMB3,573	Thermal power, wind power, solar power, coal mining, fan equipment manufacturing, polysilicon production
Hong Kong Bora Holdings Limited	Hong Kong	NA	19.50	Note (1)	HKD0.01	Investment holding
CGN Phase I Private Equity Fund Company limited	PRC	71782747-8	20.00	20.00	RMB100	Investment
Guangdong Small and Medium Enterprises Equity Investment Fund Company Limited	PRC	56456896-1	40.00	40.00	RMB1,600	Investment
Farun Glass Industry Company Limited	PRC	74942101-8	11.30	Note (1)	RMB458	Special glass production, sales and agency business
Zheshang Investment Fund	PRC	55967948-0	25.25	25.25	Note (2)	Investment
JCC Financial Company Limited	PRC	79478975-1	20.00	20.00	RMB300	Provide financial services for all subsidiaries of JCC Corporation

(1) In accordance with the respective articles of association, the Group has significant influence over these companies.

(2) Zheshang Investment Fund was established in the form of a partnership.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.5 Transactions with the Annuity Plan

Apart from the obligations for defined contributions to Annuity Fund and normal banking transactions, no other transactions were conducted between the Group and the Annuity Fund for the years ended 31 December 2011 and 2010.

42.6 Transactions with key management personnel

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

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

The key management compensation for the years ended 31 December 2011 and 2010 comprises:

	Year ended 31 December	
	2011	2010
Compensation for short-term employment benefits (1)	**17**	31
Compensation for post-employment benefits	**1**	1
Total	**18**	32

(1) The total compensation package for these key management personnel 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.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.7 Balances with subsidiaries

Included in the following captions of the Bank's statement of financial position are balances with subsidiaries:

	As at 31 December	
	2011	2010
Due from banks and other financial institutions	**26,610**	4,492
Placements with and loans to banks and other financial institutions [1]	**38,684**	63,311
Due to banks and other financial institutions	**(33,261)**	(31,034)
Placements from banks and other financial institutions	**(54,105)**	(44,967)

(1) Includes subordinated loans to Bank of China (Hong Kong) Limited of RMB5,387 million as at 31 December 2011 (31 December 2010: RMB5,812 million) which were provided in the normal course of business at commercial terms. The claim to such subordinated loans by the Bank is subordinated to other liabilities, and prior to equity of the subsidiary.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.7 Balances with subsidiaries (Continued)

The general information of principal subsidiaries is as follows:

Name	Place of incorporation and operation	Date of incorporation/ establishment	Paid-in capital (in millions)	Effective equity held (%)	Voting right (%)	Principal Business
Directly held						
BOC Hong Kong (Group) Limited	Hong Kong	12 September 2001	HKD34,806	100.00	100.00	Holding company
BOC International Holdings Limited (4)	Hong Kong	10 July 1998	HKD3,539	100.00	100.00	Investment banking
Bank of China Group Insurance Company Limited	Hong Kong	23 July 1992	HKD3,749	100.00	100.00	Insurance services
Bank of China Group Investment Limited	Hong Kong	18 May 1993	HKD34,052	100.00	100.00	Investment holding
Tai Fung Bank Limited	Macau	1942	MOP1,000	50.31	50.31	Commercial banking
Bank of China (UK) Limited	United Kingdom	24 September 2007	GBP140	100.00	100.00	Commercial banking
BOC Insurance Company Limited	Beijing	5 January 2005	RMB3,035	100.00	100.00	Insurance services
Indirectly held						
BOC Hong Kong (Holdings) Limited (2)	Hong Kong	12 September 2001	HKD52,864	66.06	66.06	Holding company
Bank of China (Hong Kong) Limited (3) (4)	Hong Kong	16 October 1964	HKD43,043	66.06	100.00	Commercial banking
Nanyang Commercial Bank, Limited (4)	Hong Kong	2 February 1948	HKD700	66.06	100.00	Commercial banking
Chiyu Banking Corporation Limited (3) (4)	Hong Kong	24 April 1947	HKD300	46.57	70.49	Commercial banking
BOC Credit Card (International) Limited	Hong Kong	9 September 1980	HKD480	66.06	100.00	Credit card services
BOC Group Trustee Company Limited (4)	Hong Kong	1 December 1997	HKD200	76.43	100.00	Provision of trustee services
BOC Aviation Pte. Ltd.	Singapore	25 November 1993	USD608	100.00	100.00	Aircraft leasing

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.7 Balances with subsidiaries (Continued)

(2) BOC Hong Kong (Holdings) Limited is listed on the Stock Exchanges of Hong Kong Limited.

(3) Bank of China (Hong Kong) Limited, in which the Group holds a 66.06% equity interest, holds 70.49% of the equity interest of Chiyu Banking Corporation Limited.

(4) Bank of China (Hong Kong) Limited, Nanyang Commercial Bank, Limited, Chiyu Banking Corporation Limited and BOC International Holdings Limited, in which the Group holds 66.06%, 66.06%, 46.57% and 100% of their equity interests, respectively, hold 54%, 6%, 6% and 34% equity interest of BOC Group Trustee Company Limited, respectively.

For the year ended 31 December 2011, the financial statements of the principal subsidiaries stated above were audited by the firms within the worldwide network of PricewaterhouseCoopers firms.

For some subsidiaries listed above, the voting rights ratio is not equal to the effective equity held ratio, mainly due to the impact of the indirect holdings.

43 Segment reporting

The Group manages the business from both a geographic and business perspective. From the geographic perspective, the Group operates in three principal regions: Chinese mainland, Hong Kong, Macau and Taiwan, and other countries and regions. From the business perspective, the Group provides services through six main business segments: corporate banking, personal banking, treasury operations, investment banking, insurance and other operations.

Measurement of segment assets, liabilities, income, expenses, results and capital expenditure is based on the Group's accounting policies. The segment information presented includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Funding is provided to and from individual business segments through treasury operations as part of the asset and liability management process. The pricing of these transactions is based on market rates. The transfer price takes into account the specific features and maturities of the product. Internal transactions are eliminated on consolidation.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Segment reporting (Continued)

Geographical segments

Chinese mainland — Corporate banking, personal banking, treasury operations and insurance services are performed in the Chinese mainland.

Hong Kong, Macau and Taiwan — Corporate banking, personal banking, treasury operations, investment banking and insurance services are performed in Hong Kong, Macau and Taiwan. The business of this segment is centralised in BOC Hong Kong (Group) Limited.

Other countries and regions — Corporate and personal banking services are provided in other countries and regions. Significant locations include New York, London, Singapore and Tokyo.

Business segments

Corporate banking — Services to corporate customers, government authorities and financial institutions including current accounts, deposits, overdrafts, loans, trade related products and other credit facilities, foreign currency, derivative products and wealth management products.

Personal banking — Services to retail customers including current accounts, savings, deposits, investment savings products, credit and debit cards, consumer loans and mortgages.

Treasury operations — Consisting of foreign exchange transactions, customer-based interest rate and foreign exchange derivative transactions, money market transactions, proprietary trading and asset and liability management. The results of this segment include the inter-segment funding income and expenses, results from interest bearing assets and liabilities; and foreign currency translation gains and losses.

Investment banking — Consisting of debt and equity underwriting and financial advisory, sales and trading of securities, stock brokerage, investment research and asset management services, and private equity investment services.

Insurance — Underwriting of general and life insurance business and insurance agency services.

Other operations of the Group comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Segment reporting (Continued)

The Group as at and for the year ended 31 December 2011

	Chinese mainland	Hong Kong, Macau and Taiwan: BOC Hong Kong Group	Hong Kong, Macau and Taiwan: Other	Hong Kong, Macau and Taiwan: Subtotal	Other countries and regions	Elimination	Total
Interest income	373,107	27,218	6,156	33,374	12,308	(5,687)	413,102
Interest expense	(172,086)	(8,683)	(3,673)	(12,356)	(6,283)	5,687	(185,038)
Net interest income	201,021	18,535	2,483	21,018	6,025	–	228,064
Fee and commission income	55,322	9,015	3,977	12,992	3,296	(1,592)	70,018
Fee and commission expense	(1,690)	(2,504)	(1,321)	(3,825)	(900)	1,059	(5,356)
Net fee and commission income	53,632	6,511	2,656	9,167	2,396	(533)	64,662
Net trading gains	6,346	668	476	1,144	359	9	7,858
Net gains on investment securities	992	372	2,104	2,476	(26)	–	3,442
Other operating income [(1)]	8,293	6,503	10,318	16,821	210	(1,052)	24,272
Operating income	270,284	32,589	18,037	50,626	8,964	(1,576)	328,298
Operating expenses [(1)]	(118,751)	(11,815)	(8,288)	(20,103)	(2,807)	846	(140,815)
Impairment (losses)/reversal on assets	(18,112)	(419)	(1,333)	(1,752)	509	–	(19,355)
Operating profit	133,421	20,355	8,416	28,771	6,666	(730)	168,128
Share of results of associates and joint ventures	–	4	512	516	–	–	516
Profit before income tax	133,421	20,359	8,928	29,287	6,666	(730)	168,644
Income tax expense							(38,325)
Profit for the year							130,319
Segment assets	9,612,881	1,387,719	467,970	1,855,689	904,756	(556,553)	11,816,773
Investment in associates and joint ventures	–	49	13,244	13,293	–	–	13,293
Total assets	9,612,881	1,387,768	481,214	1,868,982	904,756	(556,553)	11,830,066
Include: non-current assets [(2)]	85,936	20,660	62,041	82,701	5,027	(161)	173,503
Segment liabilities	9,025,576	1,299,264	421,505	1,720,769	884,219	(556,392)	11,074,172
Other segment items:							
Intersegment net interest income	(519)	1,025	588	1,613	(1,094)	–	–
Intersegment net fee and commission income	279	111	324	435	(181)	(533)	–
Capital expenditure	19,702	749	11,228	11,977	244	–	31,923
Depreciation and amortisation	9,313	746	1,993	2,739	205	–	12,257
Credit commitments	2,234,227	100,569	55,247	155,816	164,247	(242,418)	2,311,872

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Segment reporting (Continued)

The Group as at and for the year ended 31 December 2010

	Chinese mainland	Hong Kong, Macau and Taiwan: BOC Hong Kong Group	Hong Kong, Macau and Taiwan: Other	Hong Kong, Macau and Taiwan: Subtotal	Other countries and regions	Elimination	Total
Interest income	284,786	21,317	3,684	25,001	7,203	(3,457)	313,533
Interest expense	(113,625)	(4,528)	(1,896)	(6,424)	(2,979)	3,457	(119,571)
Net interest income	171,161	16,789	1,788	18,577	4,224	–	193,962
Fee and commission income	45,360	8,287	4,035	12,322	2,525	(993)	59,214
Fee and commission expense	(1,332)	(2,119)	(1,337)	(3,456)	(524)	581	(4,731)
Net fee and commission income	44,028	6,168	2,698	8,866	2,001	(412)	54,483
Net trading gains	1,063	1,282	815	2,097	331	–	3,491
Net gains on investment securities	751	572	2,022	2,594	35	–	3,380
Other operating income (1)	5,129	7,395	8,664	16,059	236	(222)	21,202
Operating income	222,132	32,206	15,987	48,193	6,827	(634)	276,518
Operating expenses (1)	(96,596)	(15,135)	(8,896)	(24,031)	(2,416)	634	(122,409)
Impairment (losses)/reversal on assets	(11,669)	274	(746)	(472)	(852)	–	(12,993)
Operating profit	113,867	17,345	6,345	23,690	3,559	–	141,116
Share of results of associates and joint ventures	–	2	1,027	1,029	–	–	1,029
Profit before income tax	113,867	17,347	7,372	24,719	3,559	–	142,145
Income tax expense							(32,454)
Profit for the year							109,691
Segment assets	8,520,945	1,397,345	370,358	1,767,703	547,954	(389,368)	10,447,234
Investment in associates and joint ventures	–	48	12,583	12,631	–	–	12,631
Total assets	8,520,945	1,397,393	382,941	1,780,334	547,954	(389,368)	10,459,865
Include: non-current assets (2)	75,680	20,158	53,599	73,757	7,555	(161)	156,831
Segment liabilities	8,004,925	1,310,583	328,263	1,638,846	529,152	(389,208)	9,783,715
Other segment items:							
Intersegment net interest income	193	208	5	213	(406)	–	–
Intersegment net fee and commission income	285	115	287	402	(275)	(412)	–
Capital expenditure	14,229	588	8,656	9,244	518	–	23,991
Depreciation and amortisation	7,591	745	1,835	2,580	148	–	10,319
Credit commitments	1,909,129	100,949	32,325	133,274	121,384	(136,352)	2,027,435

(1) "Other operating income" includes insurance premium income earned, and "Operating expenses" include insurance benefits and claims.

(2) Non-current assets include property and equipment, investment properties and other long-term assets.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Segment reporting (Continued)

The Group as at and for the year ended 31 December 2011

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	246,940	127,627	89,811	1,032	1,620	502	(54,430)	413,102
Interest expense	(105,109)	(58,674)	(73,861)	(295)	–	(1,529)	54,430	(185,038)
Net interest income/(expense)	141,831	68,953	15,950	737	1,620	(1,027)	–	228,064
Fee and commission income	39,980	21,386	6,170	2,527	563	402	(1,010)	70,018
Fee and commission expense	(2,022)	(1,694)	(492)	(618)	(1,305)	(103)	878	(5,356)
Net fee and commission income	37,958	19,692	5,678	1,909	(742)	299	(132)	64,662
Net trading gains	468	513	6,690	(178)	31	326	8	7,858
Net gains on investment securities	(13)	(3)	1,342	–	(6)	2,122	–	3,442
Other operating income	278	7,188	297	70	8,856	9,341	(1,758)	24,272
Operating income	180,522	96,343	29,957	2,538	9,759	11,061	(1,882)	328,298
Operating expenses	(62,582)	(55,764)	(11,551)	(1,152)	(8,598)	(2,320)	1,152	(140,815)
Impairment (losses)/reversal on assets	(16,053)	(3,056)	760	–	(144)	(862)	–	(19,355)
Operating profit	101,887	37,523	19,166	1,386	1,017	7,879	(730)	168,128
Share of results of associates and joint ventures	–	–	–	271	–	250	(5)	516
Profit before income tax	101,887	37,523	19,166	1,657	1,017	8,129	(735)	168,644
Income tax expense								(38,325)
Profit for the year								130,319
Segment assets	5,330,401	1,753,022	4,512,493	43,619	57,117	209,046	(88,925)	11,816,773
Investment in associates and joint ventures	–	–	–	2,403	–	10,938	(48)	13,293
Total assets	5,330,401	1,753,022	4,512,493	46,022	57,117	219,984	(88,973)	11,830,066
Segment liabilities	5,703,156	3,730,827	1,506,248	39,103	50,804	132,796	(88,762)	11,074,172
Other segment items:								
Intersegment net interest income	(9,709)	53,342	(42,950)	26	77	(786)	–	–
Intersegment net fee and commission income	–	91	–	–	(833)	874	(132)	–
Capital expenditure	5,662	6,257	300	75	760	18,869	–	31,923
Depreciation and amortisation	4,281	4,996	832	96	43	2,009	–	12,257

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Segment reporting (Continued)

The Group as at and for the year ended 31 December 2010

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	188,298	104,454	75,349	682	1,405	334	(56,989)	313,533
Interest expense	(64,681)	(45,563)	(65,037)	(149)	–	(1,130)	56,989	(119,571)
Net interest income/(expense)	123,617	58,891	10,312	533	1,405	(796)	–	193,962
Fee and commission income	31,296	19,490	5,363	3,191	194	404	(724)	59,214
Fee and commission expense	(1,598)	(1,595)	(310)	(712)	(1,020)	(68)	572	(4,731)
Net fee and commission income	29,698	17,895	5,053	2,479	(826)	336	(152)	54,483
Net trading gains	431	507	1,382	351	731	90	(1)	3,491
Net gains on investment securities	15	5	1,223	–	110	2,027	–	3,380
Other operating income	290	3,819	645	62	8,962	8,966	(1,542)	21,202
Operating income	154,051	81,117	18,615	3,425	10,382	10,623	(1,695)	276,518
Operating expenses	(50,698)	(46,703)	(10,552)	(2,045)	(9,909)	(4,197)	1,695	(122,409)
Impairment (losses)/reversal on assets	(14,183)	(1,434)	2,942	–	(50)	(268)	–	(12,993)
Operating profit	89,170	32,980	11,005	1,380	423	6,158	–	141,116
Share of results of associates and joint ventures	–	–	–	435	3	595	(4)	1,029
Profit before income tax	89,170	32,980	11,005	1,815	426	6,753	(4)	142,145
Income tax expense								(32,454)
Profit for the year								109,691
Segment assets	4,708,324	1,503,781	4,044,648	40,519	49,756	195,700	(95,494)	10,447,234
Investment in associates and joint ventures	–	–	–	2,169	–	10,507	(45)	12,631
Total assets	4,708,324	1,503,781	4,044,648	42,688	49,756	206,207	(95,539)	10,459,865
Segment liabilities	5,014,927	3,542,866	1,119,033	36,894	44,875	120,454	(95,334)	9,783,715
Other segment items:								
Intersegment net interest income	9,567	46,745	(55,866)	17	32	(495)	–	–
Intersegment net fee and commission income	3	87	–	–	(531)	593	(152)	–
Capital expenditure	4,339	4,786	230	129	32	14,475	–	23,991
Depreciation and amortisation	3,423	4,242	700	91	49	1,814	–	10,319

VI FINANCIAL RISK MANAGEMENT

1 Overview

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group's depositors and other stakeholders for the Group's prudent and stable development.

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

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

2 Financial risk management framework

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

Within this framework, the Group's senior management has overall responsibility for managing all aspects of risks, including implementing risk management strategies, initiatives and credit policies and approving internal policies, measures and procedures related to risk management. The Risk Management Unit, the Financial Management Department and other relevant functional units are responsible for monitoring financial risks.

The Group manages the risks at the branch level through direct reporting from the branches to the relevant departments responsible for risk management at the Head Office. Business line related risks are monitored through establishing specific risk management teams within the business departments. The Group monitors and controls risk management at subsidiaries by appointing members of their boards of directors and risk management committees as appropriate.

3 Credit risk

The Group takes on exposure to credit risk, which is the risk that a customer or counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is one of the most significant risks for the Group's business.

Credit risk exposures arise principally in lending activities and debt securities investment activities. There is also credit risk in off-balance sheet financial instruments, such as derivatives, loan commitments, letters of guarantee, bill acceptance and letters of credit.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement

(1) Loans and advances and off-balance sheet commitments

Monitoring and measurement of credit risk over loans and advances and off-balance sheet credit related exposures are performed by the Risk Management Unit, and reported to the senior management and the Board of Directors regularly.

In measuring the credit risk of loans and advances to corporate customers, the Group mainly reflects the "probability of default" by the customer on its contractual obligations and considers the current financial position of the customer and the exposures to the customer and its likely future development. For retail customers, the Group uses standard approval procedures to manage credit risk for personal loans, and uses credit score-card models, which are based on historical default data to measure credit risk for credit cards.

For credit risk arising from off-balance sheet commitments, the Group manages the risks according to the characteristics of the products. These mainly include loan commitments, guarantees, bill acceptances and letters of credit. Loan commitments, guarantees, bill acceptances and standby letters of credit carry similar credit risk to loans and the Group takes a similar approach on risk management. Documentary and commercial letters of credit are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions and are collateralised by the underlying shipment documents of goods to which they relate or deposits and are therefore assessed to have less credit risk than a direct loan. Besides, The Group monitors the term to maturity of off-balance sheet commitments and those with longer-terms are assessed to have greater credit risk than shorter-term commitments.

The Group measures and manages the credit quality of loans and advances to corporate and personal customers based on the "Guideline for Loan Credit Risk Classification" (the "Guideline") issued by the CBRC, which requires commercial banks to classify their corporate and personal loans into five categories: pass, special-mention, substandard, doubtful and loss, among which loans classified in the substandard, doubtful and loss categories are regarded as non-performing loans. Off-balance sheet commitments with credit exposures are also assessed and categorised with reference to the Guideline. For operations in Hong Kong, Macau, Taiwan and other countries and regions, where local regulations and requirements are more prudent than the Guideline, the credit assets are classified according to local regulations and requirements.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(1) Loans and advances and off-balance sheet commitments (Continued)

The five categories are defined as follows:

Pass: loans for which borrowers can honour the terms of the contracts, and there is no reason to doubt their ability to repay principal and interest of loans in full and on a timely basis.

Special-mention: loans for which borrowers are still able to service the loans currently, although the repayment of loans might be adversely affected by some factors.

Substandard: loans for which borrowers' ability to service loans is apparently in question and borrowers cannot depend on their normal business revenues to pay back the principal and interest of loans. Certain losses might be incurred by the Group even when guarantees are executed.

Doubtful: loans for which borrowers cannot pay back principal and interest of loans in full and significant losses will be incurred by the Group even when guarantees are executed.

Loss: principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and resorting to necessary legal procedures.

The Group has developed an internal customer credit rating system, using measurements of the probability of default within one year based on regression analysis. These probability of default measurements are then mapped to internal credit ratings. The Group performs back testing to actual default rates and refines the model according to the results.

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into fifteen grades as AAA, AA, A, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B-, CCC, CC, C, and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Five-category loan classifications and customer credit ratings are determined by Head Office and tier-one branch management under approved delegated authorities. The Bank performs centralised review on customer credit ratings and five-category loan classifications on an annual basis. Further, five-category loan classifications are re-examined on a quarterly basis. Adjustments are made to these classifications and ratings as necessary according to customers' operational and financial position.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(1) Loans and advances and off-balance sheet commitments (Continued)

The Group identifies credit risk collectively based on industry, geography and customer type. This information is monitored regularly by management.

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry quotas and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position. The actions may include obtaining additional guarantors or collateral.

(2) Due from, placements with and loans to banks and other financial institutions

The Group manages the credit quality of due from, placements with and loans to banks and other financial institutions considering the size, financial position and the internal and external credit rating of banks and financial institutions. In response to adverse credit market conditions, various initiatives were implemented since 2008 to better manage and report credit risk, including establishing a special committee which meets periodically and on an ad hoc basis to discuss actions in response to market changes impacting the Group's exposure to credit risk, and formulating a watch list process over counterparty names at risk.

(3) Debt securities and derivatives

Credit risk within debt securities arises from exposure to movements in credit spreads, default rates and loss given default, as well as changes in the credit of underlying assets.

The Group manages the credit risk within debt securities by monitoring the external credit rating, such as Standard & Poor's ratings or their equivalents, of the security, the internal credit rating of the issuers of debt securities, and the credit quality of underlying assets of securitisation products, including review of default rates, prepayment rates, industry and sector performance, loss coverage ratios and counterparty risk, to identify exposure to credit risk.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(3) Debt securities and derivatives (Continued)

The Group has policies to maintain strict control limits on net open derivative positions based on notional amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets for which fair value is positive). The derivative credit risk exposure is managed as part of the overall exposure lending limits set for customers and financial institutions. Collateral or other security is not usually obtained for credit risk exposures on these financial instruments.

3.2 Credit risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk in particular, to individual customers and to industries.

(1) Credit risk limits and controls

(i) Loans and advances and off-balance sheet commitments

In order to manage the exposure to credit risk, the Group has adopted credit approval policies and procedures that are reviewed and updated by the Risk Management Unit at Head Office. The credit approval process for both corporate loans and personal loans can be broadly divided into three stages: (1) credit origination and assessment; (2) credit review and approval; and (3) fund disbursement and post-disbursement management.

Credit to corporate customers in the Chinese mainland are originated by the Corporate Banking Unit at Head Office and Corporate Banking Department at branch level and submitted to the Risk Management Unit for due diligence and approval. All credit applications for corporate customers must be approved by authorised credit application approvers at Head Office and tier-one branches level in Chinese mainland, except for credit applications that are identified as low risk, such as loans sufficiently secured by PRC treasury bonds, bills or pledged funds or loans supported by the credit of financial institutions that are within pre-approved credit limits. The exposure to any one borrower, including banks, is restricted by credit limits covering on and off-balance sheet exposures.

Personal loans in the Chinese mainland are originated by the Personal Banking Departments at branch level and must be approved by authorised approvers at tier-one branches level in Chinese mainland, except for individual pledged loans and government-sponsored student loans, which may be approved by authorised approvers at sub-branches below tier-one level. High risk personal loans such as personal loans for business purposes in excess of certain limits must also be reviewed by the Risk Management Department.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies (Continued)

(1) Credit risk limits and controls (Continued)

(i) Loans and advances and off-balance sheet commitments (Continued)

The Head Office also oversees the risk management of the branches in Hong Kong, Macau, Taiwan and other countries and regions. In particular, any credit application at these branches exceeding the authorisation limits is required to be submitted to the Head Office for approval.

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

(ii) Debt securities and derivatives

The Group is also exposed to credit risk through investment activities and trading activities. Credit limits are established based on type of instruments and the credit quality of counterparties, securities issuers and securities and set limits are actively monitored.

(2) Credit risk mitigation policies

(i) Collateral and guarantees

The Group has a range of policies and practices intended to mitigate credit risk. The most prevalent of these is the taking of security for funds advances (collateral) and guarantees, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral. The amount of acceptable collateral at the time of loan origination is determined by the Risk Management Unit and is subject to loan-to-value ratio limits based on type and is monitored on an ongoing basis by the Risk Management Unit. The principal collateral types for corporate loans and advances are:

Collateral	**Maximum loan-to-value ratio**
Cash deposits with the Group	90%
PRC Treasury bonds	90%
PRC financial institution bonds	85%
Publicly traded stocks	50%
Property	70%
Land use rights	60%
Automobiles	40%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies (Continued)

(2) Credit risk mitigation policies (Continued)

(i) Collateral and guarantees (Continued)

Mortgage loans to retail customers are generally collateralised by mortgages over residential properties. Other loans are collateralised dependant on the nature of the loan.

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

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

Collateral is also held as part of reverse repurchase agreements. Under such agreements, the Group is permitted to sell or repledge collateral in the absence of default by the owner of the collateral. Details of collateral accepted and which the Group is obligated to return are disclosed in Note V.40.3.

(ii) Master netting arrangements

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

3.3 Impairment and provisioning policies

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.3 Impairment and provisioning policies (Continued)

(1) Loans and advances

Management determines whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group including consideration of:

- significant financial difficulty incurred by the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payment;
- for economic or legal reasons related to the borrower's financial difficulty, whether the Group has granted to the borrower a concession that it would not otherwise consider;
- probability that the borrower will become bankrupt or will undergo other financial re-organisation;
- deterioration in the value of collateral;
- deterioration in credit rating; or
- other observable data indicating that there is a measurable decrease in the estimated future cash flows from such loans and advances.

The Group's policy requires the review of individual financial assets that are above certain thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at financial reporting date on a case-by-case basis using discounted cash flow analysis. The assessment normally encompasses guarantees and collateral held and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been specifically identified, by using the available historical data, experience, professional judgement and statistical techniques.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.3 Impairment and provisioning policies (Continued)

(2) Debt securities

Debt securities are assessed for individual impairment using similar criteria as loans and advances. Management determines whether objective evidence of debt securities impairment exists under IAS 39, based on criteria set out by the Group including consideration of:

- a breach of contract or a trigger event, such as a default or delinquency in interest or principal payment;
- significant financial difficulty of issuers or underlying asset holders;
- probable that the issuer or underlying asset holders will become bankrupt or will undergo other financial re-organisation;
- deterioration in credit rating; or
- other observable data indicating that there is a measurable decrease in the estimated future cash flows from such debt securities.

Impairment allowances on individually assessed securities are determined by an evaluation of the incurred loss at financial reporting date on a case-by-case basis using available data, including default rates, loss given default and assessment of the quality of the underlying assets of securitisation products, industry and sector performance, loss coverage ratios and counterparty risk.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.4 Maximum exposure to credit risk before collateral held or other credit enhancements

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Credit risk exposures relating to on-balance sheet financial assets are as follows:				
Due from banks and other financial institutions	**529,131**	586,904	**520,325**	576,168
Balances with central banks	**1,919,651**	1,573,922	**1,785,152**	1,282,532
Placements with and loans to banks and other financial institutions	**618,366**	213,716	**577,233**	245,333
Government certificates of indebtedness for bank notes issued	**56,108**	42,469	**2,691**	2,486
Financial assets at fair value through profit or loss	**68,887**	72,732	**31,887**	17,814
Derivative financial assets	**42,757**	39,974	**20,969**	19,157
Loans and advances to customers, net	**6,203,138**	5,537,765	**5,546,805**	4,951,171
Investment securities				
— available for sale	**525,382**	634,666	**269,728**	391,120
— held to maturity	**1,074,116**	1,039,386	**1,025,620**	984,127
— loans and receivables	**299,518**	277,963	**290,387**	263,178
Other assets	**84,101**	77,418	**61,190**	59,213
Subtotal	**11,421,155**	10,096,915	**10,131,987**	8,792,299
Credit risk exposures relating to off-balance sheet items are as follows:				
Letters of guarantee issued	**727,891**	646,098	**742,462**	665,743
Loan commitments and other credit commitments	**1,583,981**	1,381,337	**1,482,068**	1,276,245
Subtotal	**2,311,872**	2,027,435	**2,224,530**	1,941,988
Total	**13,733,027**	12,124,350	**12,356,517**	10,734,287

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.4 Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

The table above represents a worst case scenario of credit risk exposure of the Group and the Bank as at 31 December 2011 and 2010, without taking into account of any collateral held, master netting agreements or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the statements of financial position.

As at 31 December 2011, 45.17% of the Group's total maximum credit exposure is derived from loans and advances to customers (31 December 2010: 45.67%) and 14.29% represents investments in debt securities (31 December 2010: 16.67%).

3.5 Loans and advances

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

The total loans and advances of the Group and the Bank are set out below:

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

Group

	As at 31 December			
	2011		2010	
	Amount	**% of total**	Amount	% of total
Chinese mainland	**5,209,694**	**82.14%**	4,758,585	84.06%
Hong Kong, Macau and Taiwan	**743,233**	**11.72%**	646,432	11.42%
Other countries and regions	**389,887**	**6.14%**	255,604	4.52%
Total loans and advances to customers	**6,342,814**	**100.00%**	5,660,621	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

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

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

Bank

	As at 31 December			
	2011		2010	
	Amount	**% of total**	Amount	% of total
Chinese mainland	**5,208,405**	**91.64%**	4,758,583	93.83%
Hong Kong, Macau and Taiwan	**101,142**	**1.78%**	69,953	1.38%
Other countries and regions	**373,910**	**6.58%**	243,027	4.79%
Total loans and advances to customers	**5,683,457**	**100.00%**	5,071,563	100.00%

Chinese mainland

	As at 31 December			
	2011		2010	
	Amount	**% of total**	Amount	% of total
Northern China	**841,436**	**16.15%**	784,066	16.48%
Northeastern China	**374,612**	**7.19%**	333,481	7.01%
Eastern China	**2,137,377**	**41.03%**	1,948,756	40.95%
Central and Southern China	**1,251,136**	**24.02%**	1,163,384	24.45%
Western China	**605,133**	**11.61%**	528,898	11.11%
Total loans and advances to customers	**5,209,694**	**100.00%**	4,758,585	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

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

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

Group

	As at 31 December 2011				As at 31 December 2010			
	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total
Corporate loans								
— Trade bills	614,376	112,003	141,294	867,673	571,425	76,361	68,943	716,729
— Other	3,204,079	413,680	239,873	3,857,632	2,969,260	377,556	180,838	3,527,654
Personal loans	1,391,239	217,550	8,720	1,617,509	1,217,900	192,515	5,823	1,416,238
Total loans and advances to customers	5,209,694	743,233	389,887	6,342,814	4,758,585	646,432	255,604	5,660,621

Bank

	As at 31 December 2011				As at 31 December 2010			
	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total
Corporate loans								
— Trade bills	614,376	18,133	139,258	771,767	571,425	5,506	66,895	643,826
— Other	3,203,747	54,610	232,260	3,490,617	2,969,260	43,766	174,925	3,187,951
Personal loans	1,390,282	28,399	2,392	1,421,073	1,217,898	20,681	1,207	1,239,786
Total loans and advances to customers	5,208,405	101,142	373,910	5,683,457	4,758,583	69,953	243,027	5,071,563

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

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

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

Group

	As at 31 December			
	2011		2010	
	Amount	**% of total**	Amount	% of total
Corporate loans and advances				
Manufacturing	**1,379,197**	**21.75%**	1,176,535	20.78%
Commerce and services	**943,788**	**14.88%**	813,590	14.37%
Transportation and logistics	**618,591**	**9.75%**	579,582	10.24%
Real estate	**500,423**	**7.89%**	438,991	7.76%
Production and supply of electric power, gas and water	**427,311**	**6.74%**	413,004	7.30%
Mining	**280,441**	**4.42%**	211,717	3.74%
Water, environment and public utility management	**261,396**	**4.12%**	257,535	4.55%
Construction	**104,757**	**1.65%**	86,102	1.52%
Public utilities	**77,759**	**1.23%**	91,197	1.61%
Financial services	**76,366**	**1.20%**	94,598	1.67%
Other	**55,276**	**0.87%**	81,532	1.44%
Subtotal	**4,725,305**	**74.50%**	4,244,383	74.98%
Personal loans				
Mortgages	**1,213,322**	**19.13%**	1,089,006	19.24%
Credit cards	**97,659**	**1.54%**	60,833	1.07%
Other	**306,528**	**4.83%**	266,399	4.71%
Subtotal	**1,617,509**	**25.50%**	1,416,238	25.02%
Total loans and advances to customers	**6,342,814**	**100.00%**	5,660,621	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

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

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

Bank

	As at 31 December			
	2011		2010	
	Amount	**% of total**	Amount	% of total
Corporate loans and advances				
Manufacturing	**1,321,227**	**23.26%**	1,130,622	22.29%
Commerce and services	**791,363**	**13.92%**	681,421	13.44%
Transportation and logistics	**567,219**	**9.98%**	537,688	10.60%
Real estate	**376,495**	**6.62%**	330,061	6.51%
Production and supply of electric power, gas and water	**404,103**	**7.11%**	393,824	7.77%
Mining	**262,447**	**4.62%**	204,868	4.04%
Water, environment and public utility management	**261,377**	**4.60%**	257,514	5.08%
Construction	**98,562**	**1.73%**	79,365	1.56%
Public utilities	**76,668**	**1.35%**	89,675	1.77%
Financial services	**57,564**	**1.01%**	83,532	1.65%
Other	**45,359**	**0.80%**	43,207	0.84%
Subtotal	**4,262,384**	**75.00%**	3,831,777	75.55%
Personal loans				
Mortgages	**1,050,046**	**18.48%**	940,226	18.54%
Credit cards	**89,828**	**1.58%**	53,827	1.06%
Other	**281,199**	**4.94%**	245,733	4.85%
Subtotal	**1,421,073**	**25.00%**	1,239,786	24.45%
Total loans and advances to customers	**5,683,457**	**100.00%**	5,071,563	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

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

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

Chinese mainland

	As at 31 December			
	2011		2010	
	Amount	**% of total**	Amount	% of total
Corporate loans and advances				
Manufacturing	**1,237,694**	**23.75%**	1,092,465	22.95%
Commerce and services	**645,276**	**12.39%**	614,713	12.92%
Transportation and logistics	**537,908**	**10.33%**	501,202	10.53%
Real estate	**333,434**	**6.40%**	296,747	6.24%
Production and supply of electric power, gas and water	**404,103**	**7.76%**	393,824	8.28%
Mining	**175,203**	**3.36%**	133,811	2.81%
Water, environment and public utility management	**261,377**	**5.02%**	257,514	5.41%
Construction	**93,317**	**1.79%**	74,954	1.58%
Public utilities	**73,080**	**1.40%**	87,588	1.84%
Financial services	**32,580**	**0.63%**	68,068	1.43%
Other	**24,483**	**0.47%**	19,799	0.42%
Subtotal	**3,818,455**	**73.30%**	3,540,685	74.41%
Personal loans				
Mortgages	**1,025,988**	**19.69%**	921,373	19.36%
Credit cards	**89,453**	**1.72%**	53,487	1.12%
Other	**275,798**	**5.29%**	243,040	5.11%
Subtotal	**1,391,239**	**26.70%**	1,217,900	25.59%
Total loans and advances to customers	**5,209,694**	**100.00%**	4,758,585	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

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

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

Group

	As at 31 December			
	2011		2010	
	Amount	**% of total**	Amount	% of total
Unsecured loans	**1,914,569**	**30.18%**	1,695,362	29.95%
Guaranteed loans	**1,133,818**	**17.88%**	1,409,744	24.90%
Collateralised and other secured loans				
— loans secured by property and other immovable assets	**2,471,936**	**38.97%**	1,892,354	33.43%
— other pledged loans	**822,491**	**12.97%**	663,161	11.72%
Total loans and advances to customers	**6,342,814**	**100.00%**	5,660,621	100.00%

Bank

	As at 31 December			
	2011		2010	
	Amount	**% of total**	Amount	% of total
Unsecured loans	**1,639,664**	**28.85%**	1,462,489	28.84%
Guaranteed loans	**1,097,883**	**19.32%**	1,364,418	26.90%
Collateralised and other secured loans				
— loans secured by property and other immovable assets	**2,254,752**	**39.67%**	1,697,468	33.47%
— other pledged loans	**691,158**	**12.16%**	547,188	10.79%
Total loans and advances to customers	**5,683,457**	**100.00%**	5,071,563	100.00%

Chinese mainland

	As at 31 December			
	2011		2010	
	Amount	**% of total**	Amount	% of total
Unsecured loans	**1,461,846**	**28.06%**	1,377,702	28.95%
Guaranteed loans	**973,326**	**18.68%**	1,230,833	25.87%
Collateralised and other secured loans				
— loans secured by property and other immovable assets	**2,156,711**	**41.40%**	1,617,363	33.99%
— other pledged loans	**617,811**	**11.86%**	532,687	11.19%
Total loans and advances to customers	**5,209,694**	**100.00%**	4,758,585	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) *Analysis of loans and advances to customers by overdue and impaired status*

	As at 31 December					
	Group		Bank		Chinese mainland	
	2011	2010	**2011**	2010	**2011**	2010
Corporate loans and advances						
— Neither past due nor impaired	**4,666,337**	4,184,768	**4,205,204**	3,773,176	**3,763,646**	3,483,927
— Past due but not impaired	**4,780**	4,791	**3,802**	4,263	**2,527**	3,498
— Impaired	**54,188**	54,824	**53,378**	54,338	**52,282**	53,260
Subtotal	**4,725,305**	4,244,383	**4,262,384**	3,831,777	**3,818,455**	3,540,685
Personal loans						
— Neither past due nor impaired	**1,586,417**	1,388,191	**1,392,215**	1,213,656	**1,363,248**	1,192,304
— Past due but not impaired	**21,974**	18,995	**19,811**	17,150	**19,114**	16,645
— Impaired	**9,118**	9,052	**9,047**	8,980	**8,877**	8,951
Subtotal	**1,617,509**	1,416,238	**1,421,073**	1,239,786	**1,391,239**	1,217,900
Total	**6,342,814**	5,660,621	**5,683,457**	5,071,563	**5,209,694**	4,758,585

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(i) Loans and advances neither past due nor impaired

The Group classifies loans and advances based on regulatory guidance including the "Guiding Principles on Classification of Loan Risk Management" issued by the CBRC as set out in Note VI.3.1. The loans and advances neither past due nor impaired are classified under these principles and guidelines as set out in the table below.

Group

	As at 31 December					
	2011			2010		
	Pass	Special-mention	Total	Pass	Special-mention	Total
Corporate loans and advances	**4,498,389**	**167,948**	**4,666,337**	4,057,594	127,174	4,184,768
Personal loans	**1,585,048**	**1,369**	**1,586,417**	1,387,369	822	1,388,191
Total	**6,083,437**	**169,317**	**6,252,754**	5,444,963	127,996	5,572,959

Bank

	As at 31 December					
	2011			2010		
	Pass	Special-mention	Total	Pass	Special-mention	Total
Corporate loans and advances	**4,041,999**	**163,205**	**4,205,204**	3,647,937	125,239	3,773,176
Personal loans	**1,391,119**	**1,096**	**1,392,215**	1,213,059	597	1,213,656
Total	**5,433,118**	**164,301**	**5,597,419**	4,860,996	125,836	4,986,832

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

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

Chinese mainland

	As at 31 December					
	2011			2010		
	Pass	**Special-mention**	**Total**	Pass	Special-mention	Total
Corporate loans and advances	**3,603,111**	**160,535**	**3,763,646**	3,362,204	121,723	3,483,927
Personal loans	**1,362,548**	**700**	**1,363,248**	1,192,005	299	1,192,304
Total	**4,965,659**	**161,235**	**5,126,894**	4,554,209	122,022	4,676,231

Collectively assessed impairment allowances are provided on loans and advances neither past due nor impaired to estimate losses that have been incurred but not yet specifically identified. As part of this assessment, the Group considers information collected as part of the process to classify loans and advances under the CBRC regulatory guidelines, as well as additional information on industry and portfolio exposure.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(ii) Loans and advances past due but not impaired

The total amount of loans and advances to customers that were past due but not impaired is as follows:

Group

	As at 31 December 2011			
	Within 1 month	**Between 1 to 3 months**	**Over 3 months**	**Total**
Corporate loans and advances	**4,286**	**438**	**56**	**4,780**
Personal loans	**16,155**	**5,800**	**19**	**21,974**
Total	**20,441**	**6,238**	**75**	**26,754**

	As at 31 December 2010			
	Within 1 month	Between 1 to 3 months	Over 3 months	Total
Corporate loans and advances	4,602	115	74	4,791
Personal loans	13,246	5,710	39	18,995
Total	17,848	5,825	113	23,786

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

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

Bank

	As at 31 December 2011			
	Within 1 month	**Between 1 to 3 months**	**Over 3 months**	**Total**
Corporate loans and advances	**3,409**	**355**	**38**	**3,802**
Personal loans	**14,227**	**5,584**	**–**	**19,811**
Total	**17,636**	**5,939**	**38**	**23,613**

	As at 31 December 2010			
	Within 1 month	Between 1 to 3 months	Over 3 months	Total
Corporate loans and advances	4,128	90	45	4,263
Personal loans	11,584	5,566	–	17,150
Total	15,712	5,656	45	21,413

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

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

Chinese mainland

	As at 31 December 2011			
	Within 1 month	**Between 1 to 3 months**	**Over 3 months**	**Total**
Corporate loans and advances	**2,211**	**314**	**2**	**2,527**
Personal loans	**13,579**	**5,535**	**–**	**19,114**
Total	**15,790**	**5,849**	**2**	**21,641**

	As at 31 December 2010			
	Within 1 month	Between 1 to 3 months	Over 3 months	Total
Corporate loans and advances	3,416	75	7	3,498
Personal loans	11,161	5,484	–	16,645
Total	14,577	5,559	7	20,143

Collateral held against loans and advances to customers which have been overdue for more than 3 months principally includes properties, equipments and cash deposits.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances

(a) Impaired loans and advances by geographical area

Group

	As at 31 December					
	2011			2010		
	Amount	**% of total**	**Impaired loan ratio**	Amount	% of total	Impaired loan ratio
Chinese mainland	**61,159**	**96.61%**	**1.17%**	62,211	97.39%	1.31%
Hong Kong, Macau and Taiwan	**1,171**	**1.85%**	**0.16%**	792	1.24%	0.12%
Other countries and regions	**976**	**1.54%**	**0.25%**	873	1.37%	0.34%
Total	**63,306**	**100.00%**	**1.00%**	63,876	100.00%	1.13%

Bank

	As at 31 December					
	2011			2010		
	Amount	**% of total**	**Impaired loan ratio**	Amount	% of total	Impaired loan ratio
Chinese mainland	**61,159**	**97.97%**	**1.17%**	62,211	98.25%	1.31%
Hong Kong, Macau and Taiwan	**440**	**0.70%**	**0.44%**	257	0.41%	0.37%
Other countries and regions	**826**	**1.33%**	**0.22%**	850	1.34%	0.35%
Total	**62,425**	**100.00%**	**1.10%**	63,318	100.00%	1.25%

Chinese mainland

	As at 31 December					
	2011			2010		
	Amount	**% of total**	**Impaired loan ratio**	Amount	% of total	Impaired loan ratio
Northern China	**9,796**	**16.02%**	**1.16%**	11,535	18.54%	1.47%
Northeastern China	**7,322**	**11.97%**	**1.95%**	3,941	6.33%	1.18%
Eastern China	**16,558**	**27.07%**	**0.77%**	15,904	25.56%	0.82%
Central and Southern China	**21,959**	**35.90%**	**1.76%**	23,045	37.04%	1.98%
Western China	**5,524**	**9.04%**	**0.91%**	7,786	12.53%	1.47%
Total	**61,159**	**100.00%**	**1.17%**	62,211	100.00%	1.31%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances (Continued)

(b) Impaired loans and advances by customer type

Group

	As at 31 December					
	2011			2010		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	54,188	85.60%	1.15%	54,824	85.83%	1.29%
Personal loans	9,118	14.40%	0.56%	9,052	14.17%	0.64%
Total	63,306	100.00%	1.00%	63,876	100.00%	1.13%

Bank

	As at 31 December					
	2011			2010		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	53,378	85.51%	1.25%	54,338	85.82%	1.42%
Personal loans	9,047	14.49%	0.64%	8,980	14.18%	0.72%
Total	62,425	100.00%	1.10%	63,318	100.00%	1.25%

Chinese mainland

	As at 31 December					
	2011			2010		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	52,282	85.49%	1.37%	53,260	85.61%	1.50%
Personal loans	8,877	14.51%	0.64%	8,951	14.39%	0.73%
Total	61,159	100.00%	1.17%	62,211	100.00%	1.31%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances (Continued)

(c) Impaired loans and advances by geography and industry

	As at 31 December					
	2011			2010		
	Amount	**% of total**	**Impaired loan ratio**	Amount	% of total	Impaired loan ratio
Chinese mainland						
Corporate loans and advances						
Manufacturing	**21,894**	**34.58%**	**1.77%**	20,889	32.70%	1.91%
Commerce and services	**7,752**	**12.25%**	**1.20%**	8,761	13.72%	1.43%
Transportation and logistics	**12,716**	**20.09%**	**2.36%**	12,638	19.79%	2.52%
Real estate	**1,850**	**2.92%**	**0.55%**	2,989	4.68%	1.01%
Production and supply of electric power, gas and water	**6,017**	**9.50%**	**1.49%**	4,594	7.19%	1.17%
Mining	**219**	**0.35%**	**0.12%**	165	0.26%	0.12%
Water, environment and public utility management	**394**	**0.62%**	**0.15%**	1,081	1.69%	0.42%
Construction	**281**	**0.44%**	**0.30%**	573	0.90%	0.76%
Public utilities	**968**	**1.53%**	**1.32%**	1,419	2.22%	1.62%
Financial services	**3**	**0.00%**	**0.01%**	3	0.00%	0.00%
Other	**188**	**0.31%**	**0.77%**	148	0.23%	0.75%
Subtotal	**52,282**	**82.59%**	**1.37%**	53,260	83.38%	1.50%
Personal loans						
Mortgage loans	**3,990**	**6.30%**	**0.39%**	4,088	6.40%	0.44%
Credit cards	**1,475**	**2.33%**	**1.65%**	1,180	1.85%	2.21%
Other	**3,412**	**5.39%**	**1.24%**	3,683	5.76%	1.52%
Subtotal	**8,877**	**14.02%**	**0.64%**	8,951	14.01%	0.73%
Total for Chinese mainland	**61,159**	**96.61%**	**1.17%**	62,211	97.39%	1.31%
Hong Kong, Macau, Taiwan and Other countries and regions	**2,147**	**3.39%**	**0.19%**	1,665	2.61%	0.18%
Total	**63,306**	**100.00%**	**1.00%**	63,876	100.00%	1.13%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances (Continued)

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

	As at 31 December 2011			
	Impaired loans	Individually assessed allowance	Collectively assessed allowance	Net
Chinese mainland	**61,159**	**(35,228)**	**(8,270)**	**17,661**
Hong Kong, Macau and Taiwan	**1,171**	**(613)**	**(79)**	**479**
Other countries and regions	**976**	**(424)**	**(10)**	**542**
Total	**63,306**	**(36,265)**	**(8,359)**	**18,682**

	As at 31 December 2010			
	Impaired loans	Individually assessed allowance	Collectively assessed allowance	Net
Chinese mainland	62,211	(35,985)	(8,530)	17,696
Hong Kong, Macau and Taiwan	792	(596)	(30)	166
Other countries and regions	873	(253)	(15)	605
Total	63,876	(36,834)	(8,575)	18,467

For description of allowances on identified impaired loans, refer to Note V. 16.3.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(3) Loans and advances rescheduled

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

All rescheduled loans are classified as "substandard" or below. All rescheduled loans are subject to a surveillance period of six months. During the surveillance period, rescheduled loans remain as non-performing loans and the Group monitors the borrower's business operations and loan repayment patterns. After the surveillance period, rescheduled loans may be upgraded to "special-mention" upon review if certain criteria are met. If the rescheduled loans fall overdue or if the borrower is unable to demonstrate its repayment ability, these loans will be reclassified to "doubtful" or below. All rescheduled loans are determined to be impaired, therefore, there were no rescheduled loans that were not past due nor impaired as at 31 December 2011 and 2010.

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

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers

(i) Analysis of overdue loans and advances to customers by collateral type and overdue days

Group

	As at 31 December 2011				
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	4,393	1,612	2,984	858	9,847
Guaranteed loans	2,234	1,524	3,203	4,770	11,731
Collateralised and other secured loans					
— loans secured by property and other immovable assets	21,985	6,970	5,399	7,302	41,656
— other pledged loans	1,113	1,268	807	1,708	4,896
Total	29,725	11,374	12,393	14,638	68,130

	As at 31 December 2010				
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	3,420	1,212	1,057	2,861	8,550
Guaranteed loans	4,271	3,638	6,479	7,060	21,448
Collateralised and other secured loans					
— loans secured by property and other immovable assets	17,323	2,589	5,436	4,501	29,849
— other pledged loans	652	771	325	1,113	2,861
Total	25,666	8,210	13,297	15,535	62,708

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers (Continued)

(i) Analysis of overdue loans and advances to customers by collateral type and overdue days (Continued)

Bank

	As at 31 December 2011				
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	4,085	1,547	2,957	674	9,263
Guaranteed loans	2,180	1,503	3,184	4,724	11,591
Collateralised and other secured loans					
— loans secured by property and other immovable assets	19,735	6,942	5,374	7,074	39,125
— other pledged loans	533	1,246	799	1,701	4,279
Total	26,533	11,238	12,314	14,173	64,258

	As at 31 December 2010				
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	3,050	1,178	1,018	2,680	7,926
Guaranteed loans	4,236	3,632	6,449	7,006	21,323
Collateralised and other secured loans					
— loans secured by property and other immovable assets	15,715	2,550	5,418	4,482	28,165
— other pledged loans	335	763	314	1,080	2,492
Total	23,336	8,123	13,199	15,248	59,906

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers (Continued)

(i) Analysis of overdue loans and advances to customers by collateral type and overdue days (Continued)

Chinese mainland

	As at 31 December 2011				
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	4,066	1,485	2,909	669	9,129
Guaranteed loans	1,962	1,503	3,120	4,725	11,310
Collateralised and other secured loans					
— loans secured by property and other immovable assets	18,047	6,939	5,328	7,070	37,384
— other pledged loans	521	1,104	799	1,700	4,124
Total	24,596	11,031	12,156	14,164	61,947

	As at 31 December 2010				
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	2,978	1,153	969	2,676	7,776
Guaranteed loans	3,902	3,596	6,369	7,006	20,873
Collateralised and other secured loans					
— loans secured by property and other immovable assets	15,084	2,506	5,406	4,478	27,474
— other pledged loans	82	763	314	1,079	2,238
Total	22,046	8,018	13,058	15,239	58,361

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers (Continued)

(ii) Analysis of overdue loans and advances by geographical area

	As at 31 December	
	2011	2010
Chinese mainland	**61,947**	58,361
Hong Kong, Macau and Taiwan	**5,835**	4,105
Other countries and regions	**348**	242
Subtotal	**68,130**	62,708
Less: total loans and advances to customers which have been overdue for less than 3 months	**(29,725)**	(25,666)
Total loans and advances to customers which have been overdue for more than 3 months	**38,405**	37,042
Individually assessed impairment allowance — for loans and advances to customers which have been overdue for more than 3 months	**(24,679)**	(23,579)

3.6 Due from and placements with and loans to banks and other financial institutions

Banks and other financial institutions comprise those institutions in Chinese mainland, Hong Kong, Macau, Taiwan and other countries and regions.

The Group monitors the credit risk of counterparties by collecting and analysing counterparty information and establishing credit limits taking into account the nature, size and credit rating of counterparties.

As at 31 December 2011, majority balances of due from and placements with and loans to banks and other financial institutions were with banks in Chinese mainland, including policy banks, large- and medium-sized commercial banks (Note V.11 and Note V.13). As at 31 December 2011, the majority of the credit ratings of the banks in Hong Kong, Macau, Taiwan and other countries and regions were above A.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities

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

Group

	As at 31 December 2011					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
— Government	727,728	–	7,236	1,551	–	736,515
— Public sector and quasi-governments	20,593	–	–	–	–	20,593
— Policy banks	319,856	–	2,822	5,293	–	327,971
— Financial institutions	45,051	–	311	703	95	46,160
— Corporate	196,018	–	632	502	1,873	199,025
— China Orient	160,000	–	–	–	–	160,000
Subtotal	1,469,246	–	11,001	8,049	1,968	1,490,264
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	124,642	13,067	40,592	4,268	232	182,801
— Public sector and quasi-governments	20,739	23,275	8,629	85	309	53,037
— Financial institutions	32,212	50,858	56,723	51,020	12,644	203,457
— Corporate	6,516	2,949	1,783	15,398	5,996	32,642
Subtotal (1)	184,109	90,149	107,727	70,771	19,181	471,937
Total (2)	1,653,355	90,149	118,728	78,820	21,149	1,962,201

(1) Included mortgage backed securities as follows:

	As at 31 December 2011					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	–	580	740	963	3,182	5,465
US Alt-A mortgage-backed securities	–	26	48	29	1,209	1,312
US Non-Agency mortgage-backed securities	–	212	73	153	2,633	3,071
Total	–	818	861	1,145	7,024	9,848

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

Group

	As at 31 December 2010					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
— Government	898,122	–	3,298	2,113	–	903,533
— Public sector and quasi-governments	16,462	–	–	–	–	16,462
— Policy banks	249,828	–	3,311	5,012	–	258,151
— Financial institutions	42,096	–	–	1,049	1,277	44,422
— Corporate	147,164	–	533	–	1,625	149,322
— China Orient	160,000	–	–	–	–	160,000
Subtotal	1,513,672	–	7,142	8,174	2,902	1,531,890
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	130,254	11,324	6,338	4,772	207	152,895
— Public sector and quasi-governments	16,954	31,018	8,128	607	222	56,929
— Financial institutions	34,069	80,154	66,369	53,138	8,579	242,309
— Corporate	3,433	5,201	4,236	13,230	11,346	37,446
Subtotal (1)	184,710	127,697	85,071	71,747	20,354	489,579
Total (2)	1,698,382	127,697	92,213	79,921	23,256	2,021,469

(1) Included mortgage backed securities as follows:

	As at 31 December 2010					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	48	1,432	1,871	861	7,000	11,212
US Alt-A mortgage-backed securities	–	202	184	369	2,400	3,155
US Non-Agency mortgage-backed securities	–	594	240	318	4,173	5,325
Total	48	2,228	2,295	1,548	13,573	19,692

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

Bank

	As at 31 December 2011					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
— Government	713,349	–	596	1,551	–	715,496
— Public sector and quasi-governments	20,088	–	–	–	–	20,088
— Policy banks	312,547	–	96	5,255	–	317,898
— Financial institutions	33,681	–	311	31	–	34,023
— Corporate	189,559	–	–	–	–	189,559
— China Orient	160,000	–	–	–	–	160,000
Subtotal	1,429,224	–	1,003	6,837	–	1,437,064
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	72,482	9,229	3,099	123	232	85,165
— Public sector and quasi-governments	9,619	477	4,714	53	191	15,054
— Financial institutions	11,373	16,768	13,486	19,356	5,740	66,723
— Corporate	859	696	522	3,354	3,773	9,204
Subtotal(1)	94,333	27,170	21,821	22,886	9,936	176,146
Total(2)	1,523,557	27,170	22,824	29,723	9,936	1,613,210

(1) Included mortgage backed securities as follows:

	As at 31 December 2011					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	–	458	713	887	3,182	5,240
US Alt-A mortgage-backed securities	–	7	38	29	1,142	1,216
US Non-Agency mortgage-backed securities	–	160	70	77	2,567	2,874
Total	–	625	821	993	6,891	9,330

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

Bank

	As at 31 December 2010					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
— Government	885,495	–	–	1,900	–	887,395
— Public sector and quasi-governments	16,444	–	–	–	–	16,444
— Policy banks	247,288	–	–	4,942	–	252,230
— Financial institutions	27,085	–	–	–	–	27,085
— Corporate	146,846	–	–	–	–	146,846
— China Orient	160,000	–	–	–	–	160,000
Subtotal	1,483,158	–	–	6,842	–	1,490,000
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	57,409	5,291	3,195	448	192	66,535
— Public sector and quasi-governments	8,473	10,098	1,206	595	222	20,594
— Financial institutions	9,230	23,529	9,394	15,857	5,540	63,550
— Corporate	104	1,392	1,805	2,638	8,449	14,388
Subtotal(1)	75,216	40,310	15,600	19,538	14,403	165,067
Total(2)	1,558,374	40,310	15,600	26,380	14,403	1,655,067

(1) Included mortgage backed securities as follows:

	As at 31 December 2010					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	48	1,134	1,871	857	7,000	10,910
US Alt-A mortgage-backed securities	–	126	89	335	2,400	2,950
US Non-Agency mortgage-backed securities	–	263	186	244	4,128	4,821
Total	48	1,523	2,146	1,436	13,528	18,681

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

(2) The Group's Available for sale and Held to maturity debt securities are individually assessed for impairment. The Group's accumulated impairment charges on Available for sale and Held to maturity debt securities at 31 December 2011 amounted to RMB9,135 million and RMB354 million, respectively (31 December 2010: RMB15,931 million and RMB438 million). The carrying value of the available for sale and held to maturity debt securities considered impaired as at 31 December 2011 were RMB8,323 million and RMB957 million, respectively (31 December 2010: RMB17,823 million and RMB1,317 million).

3.8 Derivatives

The credit risk weighted amounts represent the counterparty credit risk associated with derivative transactions and are calculated with reference to the guidelines issued by the CBRC or HKMA as appropriate and are dependent on, among other factors, the creditworthiness of the customer and the maturity characteristics of each type of contract. The amounts disclosed below differ from the carrying amount at fair value and the maximum exposure to credit risk disclosed in Note VI.3.4.

Credit risk weighted amounts

	As at 31 December			
	Group		Bank	
	2011	2010	**2011**	2010
Exchange rate derivatives				
Currency forwards and swaps, and cross-currency interest rate swaps	**13,848**	12,723	**12,174**	10,100
Currency options	**153**	–	**147**	–
Interest rate derivatives				
Interest rate swaps	**5,826**	6,187	**4,302**	5,021
Interest rate options	**10**	–	**9**	–
Interest rate futures	**–**	–	**–**	–
Equity derivatives	**4**	–	**–**	–
Commodity derivatives	**17**	18	**5**	17
Credit derivatives	**–**	5	**–**	5
	19,858	18,933	**16,637**	15,143

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

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.9 Repossessed assets

The Group obtained assets by taking possession of collateral held as security. Detailed information of such repossessed assets of the Group is disclosed in Note V.22.

4 Market risk

4.1 Overview

The Group is exposed to market risks that may cause losses to the Group as a result of adverse changes in market prices. Market risk arises from open positions in the trading and banking books in interest rate, exchange rate, equities and commodities. Both the Group's trading book and banking book face market risks. The trading book consists of positions in financial instruments and commodities that are held with trading intent or in order to hedge other elements of the trading book. The banking book consists of financial instruments not included in the trading book (including those financial instruments purchased with surplus funds and managed in the investment book).

The Board of Directors of the Group takes the ultimate responsibility for the oversight of market risk management, including the approval of market risk management policies and procedures and the determination of market risk tolerance. Senior management is responsible for execution of such policies and ensuring that the level of market risk is within the risk appetite determined by the Board, while meeting the Group's business objectives.

The Risk Management Unit is responsible for the identification, measurement, monitoring, control and reporting of market risks on a Group basis. Business units are responsible for monitoring and reporting of market risk within their respective business lines.

4.2 Market risk measurement techniques and limits

(1) Trading book

Market risk in trading books is managed by establishing Value at Risk ("VaR") limits. Total exposures, stress testing and utilisation of VaR are monitored on a daily basis for each trading desk and dealer.

VaR is used to estimate the largest potential loss arising from adverse market movements in a specific holding period and within a certain confidence level.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

VaR is performed separately by the Bank and its major subsidiaries that are exposed to market risk, BOC Hong Kong (Holdings) Limited ("BOCHK") and BOC International Holdings Limited ("BOCI"). The Bank, BOCHK and BOCI used a 99% level of confidence (therefore 1% statistical probability that actual losses could be greater than the VaR estimate) and a historical simulation model to calculate the VaR estimate. The holding period of the VaR calculations is one day. To enhance the Group's market risk management, in 2010, the Group has also established the market risk data mart, which enabled Group level trading book VaR calculation on a daily basis.

Accuracy and reliability of the VaR model is verified by daily back-testing the VaR result on trading book. The back-testing results are regularly reported to senior management.

Stress testing is performed based on the characteristics of trading transactions to simulate and estimate losses in adverse and exceptional market conditions. The Group sets stress testing limits, adjusts and enhances the scenarios for stress testing taking into account financial market fluctuations in order to capture the potential impact of market price fluctuations and volatility on the trading book, enhancing the Group's market risk management capabilities.

The table below shows the VaR of the trading book by types of risk during the years ended 31 December 2011 and 2010:

Unit: USD million

	Year ended 31 December					
	2011			2010		
	Average	**High**	**Low**	Average	High	Low
Bank trading VaR						
Interest rate risk	**1.37**	**3.04**	**0.47**	3.93	9.88	0.57
Foreign exchange risk	**0.61**	**10.67**	**0.12**	0.90	2.78	0.14
Volatility risk	**0.02**	**0.12**	**0.01**	0.12	0.61	0.01
Total Bank trading VaR	**1.49**	**10.96**	**0.60**	3.80	10.29	0.70

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

The Bank's VaR for the year ended 31 December 2010 was calculated on Head Office and branches in Chinese mainland trading positions, excluding foreign currency against RMB transactions. For the year ended 31 December 2011,the Bank expanded the scope of its VaR calculation based on the Group's trading positions excluding those of BOCHK and BOCI and excluding foreign currency against RMB transactions.

The reporting of risk in relation to bullion is included in foreign exchange risk above. The exposure of the Bank to potential price movement in other commodity financial instruments and the related potential impact to the Bank's income statement are considered to be insignificant.

Unit: USD million

	Year ended 31 December					
	2011			2010		
	Average	High	Low	Average	High	Low
BOCHK trading VaR						
Interest rate risk	**1.00**	**1.41**	**0.65**	1.01	1.75	0.47
Foreign exchange risk	**1.11**	**2.27**	**0.25**	0.68	1.44	0.17
Equity risk	**0.02**	**0.17**	**0.00**	0.02	0.22	0.00
Commodity risk	**0.01**	**0.09**	**0.00**	0.00	0.03	0.00
Total BOCHK trading VaR	**1.49**	**2.49**	**0.87**	1.23	2.01	0.74
BOCI trading VaR*						
Equity derivatives unit	**1.47**	**3.33**	**0.32**	1.31	2.16	0.79
Fixed income unit	**2.10**	**3.22**	**0.79**	0.91	1.98	0.51

* BOCI monitors its trading VaR for equity derivatives unit and fixed income unit separately, which include equity risk, interest rate risk and foreign exchange risk.

VaR for each risk factor is the independently derived largest potential loss in a specific holding period and within a certain confidence level due to fluctuations solely in that risk factor. The individual VaRs did not add up to the total VaR as there was diversification effect due to correlation amongst the risk factors.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(2) Banking book

The banking book is exposed to interest rate risk arising from mismatches in maturities, repricing periods and inconsistent adjustments between the benchmark interest rates of assets and liabilities.

The Group takes on exposure to interest rate risk and fluctuations in market interest rates will impact the Group's financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses. Currently, benchmark interest rates for RMB loans and deposits in the Chinese mainland are set by the PBOC and the Group's operations in Chinese mainland are subject to an interest rate scheme regulated by the PBOC. It is normal practice for the interest rates of both interest-earning assets and interest-bearing liabilities to move in tandem, although the timing and extent of such movements may not be synchronised. This significantly mitigates the exposure of the Group to RMB interest rate risk. However, there is no guarantee that the PBOC will continue this practice in future.

The Group manages interest rate risk in the banking book primarily through interest rate repricing gap analysis. Interest rate repricing gap analysis measures the difference between the amount of interest-earning assets and interest-bearing liabilities that mature or must be repriced within certain periods and is used to generate indicators of interest rate risk sensitivity of earnings to changing interest rates. The interest rate gap analysis is set out in Note VI.4.3 and also covers the trading book.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(2) Banking book (Continued)

Sensitivity analysis on Net interest income

The Group performs sensitivity analysis by measuring the impact of a change in interest rates on "Net interest income". This analysis assumes that yield curves change in parallel while the structure of assets and liabilities remains unchanged, and does not take changes in customer behaviour, basis risk or any prepayment options on debt securities into consideration. The Group calculates the change in net interest income during the year due to a parallel move in the RMB, USD and HKD, and monitors this as a percentage of the net interest income budget for the year. Limits of the net interest income change are set as a percentage of net interest income budget for the Group's commercial banking operations (excluding BOC Hong Kong and Tai Fung Bank Limited) and are approved by the Board and monitored by the Risk Management Unit on a monthly basis.

The table below illustrates the potential impact of a 25 basis points interest rate move on the net interest income of the Group. The actual situation may be different from the assumptions used and it is possible that actual outcomes could differ from the estimated impact on net interest income of the Group.

	(Decrease)/increase in Net interest income	
	As at 31 December	
	2011	2010
+ 25 basis points parallel move in all yield curves	**(2,332)**	(3,352)
– 25 basis points parallel move in all yield curves	**2,332**	3,352

Given the nature of demand deposits, their interest rate fluctuations are less volatile than those of other products. Had the impact of yield curves movement on interest expenses related to demand deposits been excluded, the net interest income for the next twelve months from the reporting date would increase or decrease by RMB7,028 million (2010: RMB5,302 million) for every 25 basis points upwards or downwards parallel shift, respectively.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis

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

Group

	As at 31 December 2011						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	207,347	88,251	202,897	30,121	50	62,298	590,964
Balances with central banks	1,869,868	273	–	9	–	49,501	1,919,651
Placements with and loans to banks and other financial institutions	278,478	86,170	250,489	3,229	–	–	618,366
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	56,108	56,108
Precious metals	–	–	–	–	–	95,907	95,907
Financial assets at fair value through profit or loss	5,608	9,059	9,937	28,319	15,768	5,116	73,807
Derivative financial assets	–	–	–	–	–	42,757	42,757
Loans and advances to customers, net	1,585,217	1,628,956	2,810,116	59,659	36,395	82,795	6,203,138
Investment securities							
— available for sale	75,059	84,084	86,657	196,424	81,868	29,226	553,318
— held to maturity	51,151	77,425	238,738	468,338	238,464	–	1,074,116
— loans and receivables	8,730	5,741	49,202	26,864	208,981	–	299,518
Investment in associates and joint ventures	–	–	–	–	–	13,293	13,293
Property and equipment	–	–	–	–	–	138,234	138,234
Investment properties	–	–	–	–	–	14,616	14,616
Deferred income tax assets	–	–	–	–	–	19,516	19,516
Other assets	947	1,177	2,835	–	–	111,798	116,757
Total assets	4,082,405	1,981,136	3,650,871	812,963	581,526	721,165	11,830,066

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Group

	As at 31 December 2011						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to banks and other financial institutions	899,641	93,217	183,537	99,484	9,269	85,795	1,370,943
Due to central banks	41,922	7,525	32,006	–	–	3	81,456
Bank notes in circulation	–	–	–	–	–	56,259	56,259
Placements from banks and other financial institutions	177,018	66,946	21,874	–	–	–	265,838
Derivative financial liabilities	–	–	–	–	–	35,473	35,473
Due to customers	5,343,548	1,097,205	1,700,382	572,183	15,707	88,936	8,817,961
Bonds issued	78	16	3,816	67,541	98,451	–	169,902
Other borrowings	8,386	13,046	4,735	–	–	557	26,724
Current tax liabilities	–	–	–	–	–	29,353	29,353
Retirement benefit obligations	–	–	–	–	–	6,086	6,086
Deferred income tax liabilities	–	–	–	–	–	4,486	4,486
Other liabilities	837	316	615	383	18	207,522	209,691
Total liabilities	6,471,430	1,278,271	1,946,965	739,591	123,445	514,470	11,074,172
Total interest repricing gap	(2,389,025)	702,865	1,703,906	73,372	458,081	206,695	755,894

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Group

	As at 31 December 2010						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	67,676	192,995	325,357	126	–	49,972	636,126
Balances with central banks	1,532,969	235	18	–	–	40,700	1,573,922
Placements with and loans to banks and other financial institutions	109,408	32,231	68,671	3,406	–	–	213,716
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	42,469	42,469
Precious metals	–	–	–	–	–	86,218	86,218
Financial assets at fair value through profit or loss	4,536	25,939	7,173	21,800	13,166	8,623	81,237
Derivative financial assets	–	–	–	–	–	39,974	39,974
Loans and advances to customers, net	1,190,442	1,180,334	3,015,587	67,962	41,428	42,012	5,537,765
Investment securities							
— available for sale	68,649	77,421	139,329	245,909	101,252	24,178	656,738
— held to maturity	92,586	147,178	286,746	334,148	178,728	–	1,039,386
— loans and receivables	5,679	6,498	32,328	28,398	205,060	–	277,963
Investment in associates and joint ventures	–	–	–	–	–	12,631	12,631
Property and equipment	–	–	–	–	–	123,568	123,568
Investment properties	–	–	–	–	–	13,839	13,839
Deferred income tax assets	–	–	–	–	–	24,041	24,041
Other assets	2,961	7,175	2,104	–	–	88,032	100,272
Total assets	3,074,906	1,670,006	3,877,313	701,749	539,634	596,257	10,459,865

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Group

	As at 31 December 2010						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to banks and other financial institutions	832,443	179,601	138,297	45,861	2,000	77,612	1,275,814
Due to central banks	30,598	8,780	34,037	–	–	–	73,415
Bank notes in circulation	–	–	–	–	–	42,511	42,511
Placements from banks and other financial institutions	158,115	62,632	10,054	–	–	–	230,801
Derivative financial liabilities	–	–	–	–	–	35,711	35,711
Due to customers	4,706,895	791,023	1,755,376	356,231	18,817	105,195	7,733,537
Bonds issued	–	–	2,725	27,349	101,813	–	131,887
Other borrowings	5,593	8,761	4,419	563	–	163	19,499
Current tax liabilities	–	–	–	–	–	22,775	22,775
Retirement benefit obligations	–	–	–	–	–	6,440	6,440
Deferred income tax liabilities	–	–	–	–	–	3,919	3,919
Other liabilities	8,286	14,378	2,809	81	17	181,835	207,406
Total liabilities	5,741,930	1,065,175	1,947,717	430,085	122,647	476,161	9,783,715
Total interest repricing gap	(2,667,024)	604,831	1,929,596	271,664	416,987	120,096	676,150

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Bank

	As at 31 December 2011						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	211,889	83,414	195,010	30,000	–	55,842	576,155
Balances with central banks	1,736,809	273	–	9	–	48,061	1,785,152
Placements with and loans to banks and other financial institutions	249,611	79,694	244,116	3,229	583	–	577,233
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	2,691	2,691
Precious metals	–	–	–	–	–	91,642	91,642
Financial assets at fair value through profit or loss	1,239	879	5,999	17,467	6,108	195	31,887
Derivative financial assets	–	–	–	–	–	20,969	20,969
Loans and advances to customers, net	1,099,389	1,521,498	2,761,705	50,216	35,493	78,504	5,546,805
Investment securities							
— available for sale	25,198	30,690	52,407	117,615	43,818	1,636	271,364
— held to maturity	45,225	62,721	231,627	453,571	232,476	–	1,025,620
— loans and receivables	5,473	3,778	45,291	26,864	208,981	–	290,387
Investment in subsidiaries	–	–	–	–	–	83,789	83,789
Investment in associates and joint ventures	–	–	–	–	–	48	48
Property and equipment	–	–	–	–	–	74,529	74,529
Investment properties	–	–	–	–	–	1,280	1,280
Deferred income tax assets	–	–	–	–	–	19,648	19,648
Other assets	944	1,177	2,835	–	–	74,682	79,638
Total assets	3,375,777	1,784,124	3,538,990	698,971	527,459	553,516	10,478,837

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Bank

	As at 31 December 2011						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to banks and other financial institutions	794,830	94,837	195,762	99,977	9,269	78,886	1,273,561
Due to central banks	34,320	7,525	32,002	–	–	–	73,847
Bank notes in circulation	–	–	–	–	–	2,842	2,842
Placements from banks and other financial institutions	182,674	81,445	40,190	–	–	–	304,309
Derivative financial liabilities	–	–	–	–	–	17,387	17,387
Due to customers	4,584,888	971,501	1,628,888	563,894	15,574	42,155	7,806,900
Bonds issued	–	–	4,200	63,141	80,930	–	148,271
Current tax liabilities	–	–	–	–	–	26,527	26,527
Retirement benefit obligations	–	–	–	–	–	6,086	6,086
Deferred income tax liabilities	–	–	–	–	–	124	124
Other liabilities	620	–	–	–	–	133,149	133,769
Total liabilities	5,597,332	1,155,308	1,901,042	727,012	105,773	307,156	9,793,623
Total interest repricing gap	(2,221,555)	628,816	1,637,948	(28,041)	421,686	246,360	685,214

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Bank

	As at 31 December 2010						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	61,448	190,811	323,897	–	–	44,823	620,979
Balances with central banks	1,245,753	235	18	–	–	36,526	1,282,532
Placements with and loans to banks and other financial institutions	128,606	39,401	73,920	3,406	–	–	245,333
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	2,486	2,486
Precious metals	–	–	–	–	–	83,100	83,100
Financial assets at fair value through profit or loss	1,532	456	5,354	8,935	1,419	118	17,814
Derivative financial assets	–	–	–	–	–	19,157	19,157
Loans and advances to customers, net	719,747	1,099,870	2,991,556	60,727	41,295	37,976	4,951,171
Investment securities							
— available for sale	38,314	40,431	98,963	139,845	73,567	1,360	392,480
— held to maturity	84,424	130,001	277,830	320,515	171,357	–	984,127
— loans and receivables	25	2,686	27,009	28,398	205,060	–	263,178
Investment in subsidiaries	–	–	–	–	–	79,933	79,933
Investment in associates and joint ventures	–	–	–	–	–	45	45
Property and equipment	–	–	–	–	–	65,494	65,494
Investment properties	–	–	–	–	–	1,285	1,285
Deferred income tax assets	–	–	–	–	–	24,359	24,359
Other assets	2,912	7,175	2,104	–	–	62,875	75,066
Total assets	2,282,761	1,511,066	3,800,651	561,826	492,698	459,537	9,108,539

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Bank

	As at 31 December 2010						
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to banks and other financial institutions	644,719	185,889	145,465	45,861	2,000	74,403	1,098,337
Due to central banks	22,702	8,384	34,034	–	–	–	65,120
Bank notes in circulation	–	–	–	–	–	2,527	2,527
Placements from banks and other financial institutions	162,480	74,325	18,971	–	–	–	255,776
Derivative financial liabilities	–	–	–	–	–	17,232	17,232
Due to customers	3,990,677	693,581	1,682,083	350,219	18,815	58,043	6,793,418
Bonds issued	–	–	3,000	28,147	85,136	–	116,283
Current tax liabilities	–	–	–	–	–	20,181	20,181
Retirement benefit obligations	–	–	–	–	–	6,440	6,440
Deferred income tax liabilities	–	–	–	–	–	177	177
Other liabilities	5,319	–	–	–	–	117,453	122,772
Total liabilities	4,825,897	962,179	1,883,553	424,227	105,951	296,456	8,498,263
Total interest repricing gap	(2,543,136)	548,887	1,917,098	137,599	386,747	163,081	610,276

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk

The Group manages its exposure to currency exchange risk through management of its net foreign currency position and monitors its foreign currency risk on trading books using VaR (Note VI. 4.2).

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. The major subsidiary, Bank of China Hong Kong (Group) Limited, conducts the majority of its business in HKD, RMB and USD. The Group conducts the majority of its foreign currency transactions in USD.

In 2005, the PRC Government introduced a managed floating exchange rate system to allow the value of the RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies.

The Group endeavours to manage its sources and uses of foreign currencies to minimise potential mismatches in accordance with management directives. However, the Group's ability to manage its foreign currency positions in relation to the RMB is limited as the RMB is not a freely convertible currency. The PRC government's current foreign currency regulations require the conversion of foreign currency to be approved by relevant PRC government authorities.

The Group entered into certain foreign exchange transactions as part of asset and liability management and funding requirements including foreign currency deposit taking, placements, foreign currency bond issuance and derivatives.

The Group conducts sensitivity analysis on the net foreign currency position, to identify the impact to the income statement of potential movements in foreign currency exchange rates against the RMB and against functional currencies of its foreign operations that are not in RMB (in relation to which the principal exposure is to foreign currency movements against the HKD). The impact of fluctuations (e.g.1 percent fluctuation) in exchange rates is not considered by management to be significant to the income statement. Such analysis does not take into account the correlation effect of changes in different foreign currencies, any further actions that may have been or could be taken by management after the financial reporting date, subject to the approval by the PRC government, to mitigate the effect of exchange differences, nor for any consequential changes in the foreign currency positions.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

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

Group

	As at 31 December 2011							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	440,755	113,207	10,914	8,344	3,202	934	13,608	590,964
Balances with central banks	1,727,847	107,088	2,564	52,434	12,904	2	16,812	1,919,651
Placements with and loans to banks and other financial institutions	515,092	50,717	10,451	20,202	1,663	3,584	16,657	618,366
Government certificates of indebtedness for bank notes issued	–	–	53,417	–	–	–	2,691	56,108
Precious metals	–	–	4,265	–	–	–	91,642	95,907
Financial assets at fair value through profit or loss	11,616	30,823	28,992	2,272	–	25	79	73,807
Derivative financial assets	12,636	9,615	16,897	820	642	662	1,485	42,757
Loans and advances to customers, net	4,652,867	951,297	465,590	39,950	23,034	9,587	60,813	6,203,138
Investment securities								
— available for sale	170,222	209,612	79,260	18,793	37,942	202	37,287	553,318
— held to maturity	1,005,878	44,399	10,392	5,348	2,692	1	5,406	1,074,116
— loans and receivables	280,688	1,359	–	1,526	–	3,763	12,182	299,518
Investment in associates and joint ventures	6,986	1,486	4,821	–	–	–	–	13,293
Property and equipment	73,511	46,878	13,237	128	1,293	1,364	1,823	138,234
Investment properties	4,858	–	8,370	–	–	–	1,388	14,616
Deferred income tax assets	18,712	348	304	–	–	–	152	19,516
Other assets	84,246	15,589	11,919	1,401	557	1,124	1,921	116,757
Total assets	9,005,914	1,582,418	721,393	151,218	83,929	21,248	263,946	11,830,066

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Group

	As at 31 December 2011							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Liabilities								
Due to banks and other financial institutions	908,820	348,387	9,945	11,721	8,699	1,571	81,800	1,370,943
Due to central banks	94	73,964	7,398	–	–	–	–	81,456
Bank notes in circulation	–	–	53,417	–	–	–	2,842	56,259
Placements from banks and other financial institutions	94,957	134,341	8,260	20,919	2,271	1,767	3,323	265,838
Derivative financial liabilities	6,150	12,054	13,324	1,419	549	778	1,199	35,473
Due to customers	7,282,091	584,531	608,878	114,031	21,418	33,991	173,021	8,817,961
Bonds issued	147,416	22,391	95	–	–	–	–	169,902
Other borrowings	–	26,724	–	–	–	–	–	26,724
Current tax liabilities	25,851	24	2,047	240	121	632	438	29,353
Retirement benefit obligations	6,086	–	–	–	–	–	–	6,086
Deferred income tax liabilities	986	826	2,568	5	2	–	99	4,486
Other liabilities	140,857	18,171	45,498	1,165	363	1,325	2,312	209,691
Total liabilities	8,613,308	1,221,413	751,430	149,500	33,423	40,064	265,034	11,074,172
Net on-balance sheet position	392,606	361,005	(30,037)	1,718	50,506	(18,816)	(1,088)	755,894
Net off-balance sheet position	238,471	(313,727)	94,009	(1,118)	(47,912)	20,247	17,294	7,264
Credit commitments	1,459,915	637,218	79,428	70,475	12,502	9,028	43,306	2,311,872

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Group

	As at 31 December 2010							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	580,101	30,114	7,476	7,097	2,990	821	7,527	636,126
Balances with central banks	1,483,074	53,923	3,367	20,658	4,030	1	8,869	1,573,922
Placements with and loans to banks and other financial institutions	156,105	21,186	12,424	10,285	415	5,581	7,720	213,716
Government certificates of indebtedness for bank notes issued	–	–	39,983	–	–	–	2,486	42,469
Precious metals	–	–	3,118	–	–	–	83,100	86,218
Financial assets at fair value through profit or loss	8,586	22,641	48,328	1,558	40	34	50	81,237
Derivative financial assets	5,242	10,851	17,467	1,746	583	1,827	2,258	39,974
Loans and advances to customers, net	4,043,771	928,196	428,010	41,667	28,103	4,579	63,439	5,537,765
Investment securities								
— available for sale	270,944	231,121	66,150	32,328	7,337	1,466	47,392	656,738
— held to maturity	954,736	54,230	16,304	3,981	2,697	13	7,425	1,039,386
— loans and receivables	261,803	5,592	8,139	–	–	–	2,429	277,963
Investment in associates and joint ventures	5,584	1,648	5,399	–	–	–	–	12,631
Property and equipment	62,522	42,857	13,596	151	1,296	1,489	1,657	123,568
Investment properties	4,607	–	7,776	–	–	–	1,456	13,839
Deferred income tax assets	23,377	318	169	–	–	–	177	24,041
Other assets	72,836	11,999	11,266	1,215	464	582	1,910	100,272
Total assets	7,933,288	1,414,676	688,972	120,686	47,955	16,393	237,895	10,459,865

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Group

	As at 31 December 2010							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Liabilities								
Due to banks and other financial institutions	920,748	246,452	12,182	10,603	5,460	2,464	77,905	1,275,814
Due to central banks	–	62,081	8,732	2,598	–	–	4	73,415
Bank notes in circulation	–	–	39,984	–	–	–	2,527	42,511
Placements from banks and other financial institutions	86,325	110,736	4,616	26,017	609	511	1,987	230,801
Derivative financial liabilities	2,477	12,914	14,933	2,077	45	1,907	1,358	35,711
Due to customers	6,318,076	494,374	637,715	101,525	16,000	34,365	131,482	7,733,537
Bonds issued	115,063	16,824	–	–	–	–	–	131,887
Other borrowings	–	19,499	–	–	–	–	–	19,499
Current tax liabilities	19,599	166	1,805	133	103	446	523	22,775
Retirement benefit obligations	6,440	–	–	–	–	–	–	6,440
Deferred income tax liabilities	585	716	2,446	8	7	–	157	3,919
Other liabilities	110,528	27,426	64,926	1,286	979	910	1,351	207,406
Total liabilities	7,579,841	991,188	787,339	144,247	23,203	40,603	217,294	9,783,715
Net on-balance sheet position	353,447	423,488	(98,367)	(23,561)	24,752	(24,210)	20,601	676,150
Net off-balance sheet position	186,796	(380,417)	187,684	27,387	(21,889)	24,906	(15,215)	9,252
Credit commitments	1,243,877	591,541	64,012	74,318	15,229	10,131	28,327	2,027,435

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Bank

	As at 31 December 2011							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	415,566	112,853	22,691	8,031	3,001	735	13,278	576,155
Balances with central banks	1,600,157	106,544	1,549	52,399	12,904	2	11,597	1,785,152
Placements with and loans to banks and other financial institutions	471,321	47,950	15,334	24,351	284	3,797	14,196	577,233
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	–	2,691	2,691
Precious metals	–	–	–	–	–	–	91,642	91,642
Financial assets at fair value through profit or loss	9,176	20,439	–	2,272	–	–	–	31,887
Derivative financial assets	12,027	7,049	–	808	172	624	289	20,969
Loans and advances to customers, net	4,606,401	773,196	59,329	36,632	21,545	7,523	42,179	5,546,805
Investment securities								
— available for sale	147,225	89,235	7,513	10,576	1,861	–	14,954	271,364
— held to maturity	991,871	27,886	171	4,464	973	–	255	1,025,620
— loans and receivables	280,688	1,359	–	–	–	–	8,340	290,387
Investment in subsidiaries	2,189	4,221	73,831	584	–	2,126	838	83,789
Investment in associates and joint ventures	–	–	–	–	–	–	48	48
Property and equipment	70,527	145	–	125	1,293	1,356	1,083	74,529
Investment properties	–	–	–	–	–	–	1,280	1,280
Deferred income tax assets	19,166	348	12	–	–	–	122	19,648
Other assets	67,907	8,848	438	870	237	584	754	79,638
Total assets	8,694,221	1,200,073	180,868	141,112	42,270	16,747	203,546	10,478,837

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Bank

	As at 31 December 2011							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Liabilities								
Due to banks and other financial institutions	816,203	346,046	5,682	12,616	8,840	1,618	82,556	1,273,561
Due to central banks	22	67,419	6,406	–	–	–	–	73,847
Bank notes in circulation	–	–	–	–	–	–	2,842	2,842
Placements from banks and other financial institutions	126,868	143,641	4,836	21,781	2,316	2,588	2,279	304,309
Derivative financial liabilities	5,434	9,530	1	1,011	74	768	569	17,387
Due to customers	7,075,444	376,645	101,453	101,221	19,395	19,546	113,196	7,806,900
Bonds issued	148,131	140	–	–	–	–	–	148,271
Current tax liabilities	25,278	8	6	232	121	504	378	26,527
Retirement benefit obligations	6,086	–	–	–	–	–	–	6,086
Deferred income tax liabilities	–	20	–	5	2	–	97	124
Other liabilities	125,525	4,018	1,037	779	126	650	1,634	133,769
Total Liabilities	8,328,991	947,467	119,421	137,645	30,874	25,674	203,551	9,793,623
Net on-balance sheet position	365,230	252,606	61,447	3,467	11,396	(8,927)	(5)	685,214
Net off-balance sheet position	237,260	(219,640)	(26,544)	(2,591)	(8,388)	10,737	12,464	3,298
Credit commitments	1,457,207	604,525	37,393	68,407	11,769	7,869	37,360	2,224,530

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Bank

	As at 31 December 2010							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	569,219	28,158	6,054	6,859	2,893	730	7,066	620,979
Balances with central banks	1,199,141	52,147	1,954	20,646	4,030	1	4,613	1,282,532
Placements with and loans to banks and other financial institutions	155,692	30,974	20,279	14,445	253	4,433	19,257	245,333
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	–	2,486	2,486
Precious metals	–	–	–	–	–	–	83,100	83,100
Financial assets at fair value through profit or loss	6,794	9,671	–	1,349	–	–	–	17,814
Derivative financial assets	5,242	8,329	7	1,724	580	1,826	1,449	19,157
Loans and advances to customers, net	4,022,343	764,761	53,262	36,332	26,989	3,148	44,336	4,951,171
Investment securities								
— available for sale	258,279	98,229	8,133	12,000	3,420	–	12,419	392,480
— held to maturity	949,410	29,723	1,395	2,504	974	–	121	984,127
— loans and receivables	261,803	659	–	–	–	–	716	263,178
Investment in subsidiaries	553	2,296	73,536	584	–	2,126	838	79,933
Investment in associates and joint ventures	–	–	–	–	–	–	45	45
Property and equipment	61,400	158	–	146	1,296	1,482	1,012	65,494
Investment properties	–	–	–	–	–	–	1,285	1,285
Deferred income tax assets	23,892	318	–	–	–	–	149	24,359
Other assets	65,433	6,791	615	723	379	458	667	75,066
Total assets	7,579,201	1,032,214	165,235	97,312	40,814	14,204	179,559	9,108,539

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Bank

	As at 31 December 2010							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Liabilities								
Due to banks and other financial institutions	748,322	244,655	8,577	11,312	5,674	2,618	77,179	1,098,337
Due to central banks	–	54,446	8,066	2,598	–	–	10	65,120
Bank notes in circulation	–	–	–	–	–	–	2,527	2,527
Placements from banks and other financial institutions	87,425	119,444	18,989	26,240	447	1,784	1,447	255,776
Derivative financial liabilities	2,477	9,599	740	1,456	39	1,902	1,019	17,232
Due to customers	6,180,414	319,508	94,148	86,626	14,282	17,902	80,538	6,793,418
Bonds issued	116,136	147	–	–	–	–	–	116,283
Current tax liabilities	19,071	157	1	119	103	287	443	20,181
Retirement benefit obligations	6,440	–	–	–	–	–	–	6,440
Deferred income tax liabilities	–	28	–	2	7	–	140	177
Other liabilities	103,787	14,209	1,090	1,163	876	720	927	122,772
Total Liabilities	7,264,072	762,193	131,611	129,516	21,428	25,213	164,230	8,498,263
Net on-balance sheet position	315,129	270,021	33,624	(32,204)	19,386	(11,009)	15,329	610,276
Net off-balance sheet position	201,745	(238,041)	23,530	35,164	(15,826)	12,148	(13,103)	5,617
Credit commitments	1,240,059	562,185	21,117	73,033	14,640	9,145	21,809	1,941,988

4.5 Price Risk

The Group is exposed to equity risk on its available for sale listed equity securities. As at 31 December 2011, a 5% fluctuation in listed equity prices from the year end price would impact the fair value of available for sale listed equity positions by RMB274 million (31 December 2010: RMB301 million). For those available for sale equities considered impaired, the impact would be taken to the income statement. The Group is also exposed to commodity risk, mainly related to bullion. The Group manages such risk together with foreign exchange risk (Note VI.4.2).

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk

Liquidity risk is the risk that the Group is unable to obtain funds at a reasonable cost when required to meet a repayment obligation and fund its asset portfolio within a certain time. The Group's objective in liquidity risk management is to maintain liquidity at a reasonable level, to ensure the due debt repayment and the demand of business growth pursuant to development strategy, as well as to acquire adequate readily convertible assets and funding in order to respond to emergencies.

5.1 Liquidity risk management policy and process

The Group adopts centralised liquidity risk management through development of a centralised pool of liquid assets.

The Group has policies to maintain a proactive liquidity management strategy. The asset liquidity management strategies encourage careful use of funding, diversified sources of funding, asset and liability matching and an appropriate level of highly liquid assets. The strategies relating to liabilities are intended to increase the proportion of core deposits and to maintain the stability of liabilities and financing ability. The Group manages and monitors RMB and foreign exchange liquidity separately, and develops the RMB and foreign exchange liquidity portfolios to ensure that sources of different currencies and the usage are in accordance with its liquidity management requirements.

Sources of liquidity risk are regularly reviewed by a separate team in the Financial Management Department to maintain a wide diversification by currency, geography, provider, product and term. A liquidity maturity analysis is performed by the Financial Management Department on a monthly basis. The forecast net liquidity position is estimated and managed on a daily basis. The Group also performs stress testing for liquidity risk on a quarterly basis.

Assets available to meet all of the liabilities and to cover outstanding loan commitments include "Cash and due from banks and other financial institutions", "Balances with central banks", "Placements with and loans to banks and other financial institutions" and "Loans and advances to customers, net". In the normal course of business, a proportion of short-term customer loans contractually repayable will be extended and a portion of short-term customer deposits will not be withdrawn upon maturity. The Group would also be able to meet unexpected net cash outflows by entering into repurchase and reverse repurchase transactions, and by selling securities and accessing additional funding sources.

For purposes of the tables set forth, "Loans and advances to customers, net" are considered overdue only if principal payments are overdue. In addition, for Loans and advances to customers that are repayable by installments, only the portion of the loan that is actually overdue is reported as overdue. Any part of the loan that is not due is reported according to residual maturity.

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis

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

Group

	As at 31 December 2011							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	178,633	91,012	78,251	182,897	60,121	50	590,964
Balances with central banks	–	351,600	1,567,769	273	–	9	–	1,919,651
Placements with and loans to banks and other financial institutions	–	–	278,478	86,150	250,509	3,229	–	618,366
Government certificates of indebtedness for bank notes issued	–	56,108	–	–	–	–	–	56,108
Precious metals	–	95,907	–	–	–	–	–	95,907
Financial assets at fair value through profit or loss	–	998	4,320	8,480	9,730	29,552	20,727	73,807
Derivative financial assets	–	15,960	2,747	4,291	9,679	4,884	5,196	42,757
Loans and advances to customers, net	11,630	55,764	304,255	657,969	1,692,512	1,458,596	2,022,412	6,203,138
Investment securities								
— available for sale	–	–	48,863	54,803	96,686	251,814	101,152	553,318
— held to maturity	–	–	23,960	36,637	188,346	536,726	288,447	1,074,116
— loans and receivables	–	–	8,445	4,664	44,853	32,575	208,981	299,518
Investment in associates and joint ventures	–	–	–	–	–	6,149	7,144	13,293
Property and equipment	–	–	–	–	–	8	138,226	138,234
Investment properties	–	–	–	–	–	–	14,616	14,616
Deferred income tax assets	–	–	–	–	54	19,462	–	19,516
Other assets	1,147	9,402	22,996	20,110	31,419	12,718	18,965	116,757
Total assets	12,777	764,372	2,352,845	951,628	2,506,685	2,415,843	2,825,916	11,830,066

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Group

	As at 31 December 2011							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Liabilities								
Due to banks and other financial institutions	–	569,170	164,071	106,232	203,469	298,732	29,269	1,370,943
Due to central banks	–	38,175	3,750	7,525	32,006	–	–	81,456
Bank notes in circulation	–	56,259	–	–	–	–	–	56,259
Placements from banks and other financial institutions	–	–	176,976	66,993	21,869	–	–	265,838
Derivative financial liabilities	–	11,788	4,095	3,216	4,700	7,355	4,319	35,473
Due to customers	–	3,911,685	1,351,795	1,144,898	1,798,373	594,017	17,193	8,817,961
Bonds issued	–	–	78	16	1,816	44,541	123,451	169,902
Other borrowings	–	–	935	273	282	8,865	16,369	26,724
Current tax liabilities	–	–	617	11	28,326	399	–	29,353
Retirement benefit obligations	–	–	73	147	661	2,489	2,716	6,086
Deferred income tax liabilities	–	–	–	–	–	4,486	–	4,486
Other liabilities	–	63,936	25,138	29,531	42,450	37,563	11,073	209,691
Total liabilities	–	4,651,013	1,727,528	1,358,842	2,133,952	998,447	204,390	11,074,172
Net Liquidity Gap	12,777	(3,886,641)	625,317	(407,214)	372,733	1,417,396	2,621,526	755,894

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Group

	As at 31 December 2010							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	77,800	39,782	182,995	255,423	80,126	–	636,126
Balances with central banks	–	390,439	1,183,332	133	18	–	–	1,573,922
Placements with and loans to banks and other financial institutions	–	–	109,408	31,965	68,472	3,871	–	213,716
Government certificates of indebtedness for bank notes issued	–	42,469	–	–	–	–	–	42,469
Precious metals	–	86,218	–	–	–	–	–	86,218
Financial assets at fair value through profit or loss	–	4,177	3,056	24,006	8,495	23,070	18,433	81,237
Derivative financial assets	–	16,626	3,203	4,290	7,719	4,353	3,783	39,974
Loans and advances to customers, net	10,419	64,831	243,365	543,778	1,321,400	1,571,182	1,782,790	5,537,765
Investment securities								
— available for sale	–	–	21,446	35,683	127,193	326,092	146,324	656,738
— held to maturity	–	–	75,503	117,582	252,113	373,851	220,337	1,039,386
— loans and receivables	–	–	5,679	5,839	27,328	29,057	210,060	277,963
Investment in associates and joint ventures	–	–	–	–	–	6,004	6,627	12,631
Property and equipment	–	–	–	–	–	–	123,568	123,568
Investment properties	–	–	–	–	–	–	13,839	13,839
Deferred income tax assets	–	–	–	–	116	23,925	–	24,041
Other assets	717	6,353	18,880	24,227	24,584	7,150	18,361	100,272
Total assets	11,136	688,913	1,703,654	970,498	2,092,861	2,448,681	2,544,122	10,459,865

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Group

	As at 31 December 2010							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Liabilities								
Due to banks and other financial institutions	–	670,259	122,153	108,775	103,516	220,111	51,000	1,275,814
Due to central banks	–	22,164	8,830	8,384	34,037	–	–	73,415
Bank notes in circulation	–	42,511	–	–	–	–	–	42,511
Placements from banks and other financial institutions	–	–	158,115	62,631	10,055	–	–	230,801
Derivative financial liabilities	–	12,513	3,540	3,931	5,609	6,551	3,567	35,711
Due to customers	–	3,658,614	1,097,995	853,493	1,743,638	353,092	26,705	7,733,537
Bonds issued	–	–	–	–	725	4,349	126,813	131,887
Other borrowings	–	–	–	252	827	5,269	13,151	19,499
Current tax liabilities	–	–	606	30	21,729	410	–	22,775
Retirement benefit obligations	–	–	76	152	686	2,701	2,825	6,440
Deferred income tax liabilities	–	–	–	–	70	3,849	–	3,919
Other liabilities	–	53,815	18,908	39,906	44,241	42,979	7,557	207,406
Total liabilities	–	4,459,876	1,410,223	1,077,554	1,965,133	639,311	231,618	9,783,715
Net Liquidity Gap	11,136	(3,770,963)	293,431	(107,056)	127,728	1,809,370	2,312,504	676,150

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Bank

	As at 31 December 2011							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	183,747	83,984	73,414	175,010	60,000	–	576,155
Balances with central banks	–	220,759	1,564,111	273	–	9	–	1,785,152
Placements with and loans to banks and other financial institutions	–	–	249,403	79,320	243,626	3,264	1,620	577,233
Government certificates of indebtedness for bank notes issued	–	2,691	–	–	–	–	–	2,691
Precious metals	–	91,642	–	–	–	–	–	91,642
Financial assets at fair value through profit or loss	–	–	222	690	5,549	18,307	7,119	31,887
Derivative financial assets	–	710	2,512	3,714	8,563	3,265	2,205	20,969
Loans and advances to customers, net	9,744	3,038	276,105	595,254	1,550,863	1,258,200	1,853,601	5,546,805
Investment securities								
— available for sale	–	–	10,902	17,668	53,761	133,883	55,150	271,364
— held to maturity	–	–	22,037	31,969	175,287	515,275	281,052	1,025,620
— loans and receivables	–	–	5,188	2,701	40,942	32,575	208,981	290,387
Investment in subsidiaries	–	–	–	–	–	–	83,789	83,789
Investment in associates and joint ventures	–	–	–	–	–	–	48	48
Property and equipment	–	–	–	–	–	8	74,521	74,529
Investment properties	–	–	–	–	–	–	1,280	1,280
Deferred income tax assets	–	–	–	–	–	19,648	–	19,648
Other assets	1,002	4,319	11,604	18,273	27,925	1,697	14,818	79,638
Total assets	10,746	506,906	2,226,068	823,276	2,281,526	2,046,131	2,584,184	10,478,837

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Bank

	As at 31 December 2011							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Liabilities								
Due to banks and other financial institutions	–	452,468	169,053	107,852	215,694	299,225	29,269	1,273,561
Due to central banks	–	30,569	3,751	7,525	32,002	–	–	73,847
Bank notes in circulation	–	2,842	–	–	–	–	–	2,842
Placements from banks and other financial institutions	–	–	182,612	81,507	40,190	–	–	304,309
Derivative financial liabilities	–	715	3,646	2,583	3,459	4,101	2,883	17,387
Due to customers	–	3,404,420	1,057,246	1,019,058	1,724,493	584,468	17,215	7,806,900
Bonds issued	–	–	–	–	2,200	40,141	105,930	148,271
Current tax liabilities	–	–	61	–	26,466	–	–	26,527
Retirement benefit obligations	–	–	73	147	661	2,489	2,716	6,086
Deferred income tax liabilities	–	–	–	–	–	124	–	124
Other liabilities	–	43,645	15,824	26,502	37,153	10,366	279	133,769
Total liabilities	–	3,934,659	1,432,266	1,245,174	2,082,318	940,914	158,292	9,793,623
Net liquidity gap	10,746	(3,427,753)	793,802	(421,898)	199,208	1,105,217	2,425,892	685,214

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Bank

	As at 31 December 2010							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	67,719	38,486	180,811	253,963	80,000	–	620,979
Balances with central banks	–	102,218	1,180,163	133	18	–	–	1,282,532
Placements with and loans to banks and other financial institutions	–	–	128,375	38,016	64,806	6,242	7,894	245,333
Government certificates of indebtedness for bank notes issued	–	2,486	–	–	–	–	–	2,486
Precious metals	–	83,100	–	–	–	–	–	83,100
Financial assets at fair value through profit or loss	–	–	289	244	5,383	9,736	2,162	17,814
Derivative financial assets	–	–	2,702	3,845	6,610	3,184	2,816	19,157
Loans and advances to customers, net	9,409	20,671	219,096	489,972	1,221,073	1,359,186	1,631,764	4,951,171
Investment securities								
— available for sale	–	–	5,641	24,794	77,699	173,930	110,416	392,480
— held to maturity	–	–	73,979	114,365	239,667	345,232	210,884	984,127
— loans and receivables	–	–	25	2,027	22,009	29,057	210,060	263,178
Investment in subsidiaries	–	–	–	–	–	290	79,643	79,933
Investment in associates and joint ventures	–	–	–	–	–	–	45	45
Property and equipment	–	–	–	–	–	–	65,494	65,494
Investment properties	–	–	–	–	–	–	1,285	1,285
Deferred income tax assets	–	–	–	–	–	24,359	–	24,359
Other assets	595	3,927	10,852	22,507	22,372	1,245	13,568	75,066
Total assets	10,004	280,121	1,659,608	876,714	1,913,600	2,032,461	2,336,031	9,108,539

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Bank

	As at 31 December 2010							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Liabilities								
Due to banks and other financial institutions	–	471,386	130,091	114,987	110,762	220,111	51,000	1,098,337
Due to central banks	–	17,179	5,523	8,384	34,034	–	–	65,120
Bank notes in circulation	–	2,527	–	–	–	–	–	2,527
Placements from banks and other financial institutions	–	–	162,397	74,408	18,971	–	–	255,776
Derivative financial liabilities	–	–	2,602	3,525	4,419	3,804	2,882	17,232
Due to customers	–	3,112,492	880,914	750,971	1,677,187	345,819	26,035	6,793,418
Bonds issued	–	–	–	–	1,000	5,147	110,136	116,283
Current tax liabilities	–	–	169	–	20,012	–	–	20,181
Retirement benefit obligations	–	–	76	152	686	2,701	2,825	6,440
Deferred income tax liabilities	–	–	–	–	–	177	–	177
Other liabilities	–	38,982	8,081	23,548	36,066	15,771	324	122,772
Total liabilities	–	3,642,566	1,189,853	975,975	1,903,137	593,530	193,202	8,498,263
Net liquidity gap	10,004	(3,362,445)	469,755	(99,261)	10,463	1,438,931	2,142,829	610,276

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities

The tables below present the cash flows of the Group and the Bank of non-derivative financial assets and financial liabilities and derivative financial instruments that will be settled on a net basis and on a gross basis by remaining contractual maturities at the financial reporting date. The amounts disclosed in the table are the contractual undiscounted cash flow, except for certain customer driven derivatives which are disclosed at fair value (i.e. discounted cash flows basis). The Group also manages its inherent short-term liquidity risk based on expected undiscounted cash flows.

Group

	As at 31 December 2011							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	178,842	92,361	81,387	192,542	66,198	68	611,398
Balances with central banks	–	352,355	1,567,781	273	–	9	–	1,920,418
Placements with and loans to banks and other financial institutions	–	–	279,296	88,982	261,961	4,067	–	634,306
Financial assets at fair value through profit or loss	–	998	4,463	8,674	10,790	32,379	21,067	78,371
Loans and advances to customers, net	13,058	56,409	337,881	717,930	1,876,392	2,020,228	2,780,920	7,802,818
Investment securities								
— available for sale	–	–	49,767	57,115	108,311	280,317	119,749	615,259
— held to maturity	–	–	27,410	41,542	216,364	625,576	335,239	1,246,131
— loans and receivables	–	–	8,447	5,565	50,999	55,528	235,446	355,985
Other assets	13	3,417	9,342	651	4,316	1,457	962	20,158
Total financial assets	13,071	592,021	2,376,748	1,002,119	2,721,675	3,085,759	3,493,451	13,284,844
Due to banks and other financial institutions	–	569,290	165,382	109,608	215,330	340,398	34,611	1,434,619
Due to central banks	–	38,175	3,751	7,529	32,187	–	–	81,642
Placements from banks and other financial institutions	–	–	177,376	67,317	22,256	–	–	266,949
Due to customers	–	3,921,852	1,366,674	1,164,272	1,859,160	660,070	19,299	8,991,327
Bonds issued	–	–	79	2,218	5,919	70,727	163,362	242,305
Other borrowings	–	–	937	278	289	9,736	18,121	29,361
Other liabilities	–	33,812	9,509	1,474	3,048	3,333	152	51,328
Total financial liabilities	–	4,563,129	1,723,708	1,352,696	2,138,189	1,084,264	235,545	11,097,531
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	4,036	(432)	237	288	(1,473)	383	3,039
Derivative financial instruments settled on a gross basis								
Total inflow	–	36,802	576,247	310,922	785,472	92,233	839	1,802,515
Total outflow	–	(36,801)	(581,920)	(309,803)	(777,443)	(91,992)	(841)	(1,798,800)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

Group

	As at 31 December 2010							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	77,816	40,394	186,112	263,894	84,627	–	652,843
Balances with central banks	–	391,072	1,183,341	133	18	–	–	1,574,564
Placements with and loans to banks and other financial institutions	–	–	109,703	32,421	70,199	4,715	–	217,038
Financial assets at fair value through profit or loss	–	4,327	3,024	24,230	9,731	27,086	21,183	89,581
Loans and advances to customers, net	11,826	65,221	266,736	588,956	1,463,095	2,015,101	2,335,268	6,746,203
Investment securities								
— available for sale	–	–	22,780	38,750	139,930	360,233	202,340	764,033
— held to maturity	–	–	76,394	123,470	268,539	418,284	264,617	1,151,304
— loans and receivables	–	–	6,580	5,844	29,595	38,613	253,811	334,443
Other assets	19	859	9,094	1,617	4,245	682	2,208	18,724
Total financial assets	11,845	539,295	1,718,046	1,001,533	2,249,246	2,949,341	3,079,427	11,548,733
Due to banks and other financial institutions	–	670,259	123,021	111,852	110,980	249,887	55,047	1,321,046
Due to central banks	–	22,164	8,830	8,385	34,037	–	–	73,416
Placements from banks and other financial institutions	–	–	158,321	62,869	10,194	–	–	231,384
Due to customers	–	3,660,448	1,106,946	866,173	1,788,734	377,619	28,077	7,827,997
Bonds issued	–	–	–	2,169	2,937	23,157	156,454	184,717
Other borrowings	–	–	20	291	1,001	6,050	13,663	21,025
Other liabilities	–	29,636	9,906	16,734	5,768	13,304	200	75,548
Total financial liabilities	–	4,382,507	1,407,044	1,068,473	1,953,651	670,017	253,441	9,735,133
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	4,112	98	293	(739)	(467)	2,402	5,699
Derivative financial instruments settled on a gross basis								
Total inflow	–	14,440	524,817	281,041	474,398	44,288	970	1,339,954
Total outflow	–	(14,438)	(528,548)	(281,815)	(472,637)	(44,130)	(976)	(1,342,544)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

Bank

	As at 31 December 2011							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	183,747	85,247	76,430	184,328	66,046	–	595,798
Balances with central banks	–	221,485	1,564,123	273	–	9	–	1,785,890
Placements with and loans to banks and other financial institutions	–	–	250,116	81,721	254,656	4,102	1,620	592,215
Financial assets at fair value through profit or loss	–	–	335	796	6,337	20,858	7,377	35,703
Loans and advances to customers, net	11,089	3,575	308,672	653,665	1,731,060	1,804,413	2,590,784	7,103,258
Investment securities								
— available for sale	–	–	11,316	18,726	59,972	151,335	66,017	307,366
— held to maturity	–	–	23,856	36,648	202,456	602,652	326,858	1,192,470
— loans and receivables	–	–	5,189	3,602	47,064	55,528	235,446	346,829
Other assets	–	–	61	264	2,966	–	949	4,240
Total financial assets	11,089	408,807	2,248,915	872,125	2,488,839	2,704,943	3,229,051	11,963,769
Due to banks and other financial institutions	–	452,468	170,365	111,228	227,555	340,891	34,611	1,337,118
Due to central banks	–	30,569	3,751	7,529	32,184	–	–	74,033
Placements from banks and other financial institutions	–	–	182,987	81,798	40,549	–	–	305,334
Due to customers	–	3,414,843	1,071,556	1,037,624	1,783,950	649,607	19,289	7,976,869
Bonds issued	–	–	–	1,784	5,708	62,138	144,559	214,189
Other liabilities	–	25,627	1,686	704	2,900	158	112	31,187
Total financial liabilities	–	3,923,507	1,430,345	1,240,667	2,092,846	1,052,794	198,571	9,938,730
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	–	(244)	57	535	(1,016)	(21)	(689)
Derivative financial instruments settled on a gross basis								
Total inflow	–	–	414,911	235,974	673,734	73,869	60	1,398,548
Total outflow	–	–	(417,408)	(234,856)	(666,235)	(73,648)	(60)	(1,392,207)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

Bank

	As at 31 December 2010							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	67,719	39,098	183,922	262,424	84,480	–	637,643
Balances with central banks	–	102,771	1,180,172	133	18	–	–	1,283,094
Placements with and loans to banks and other financial institutions	–	–	128,649	38,525	66,432	7,314	8,136	249,056
Financial assets at fair value through profit or loss	–	–	218	312	5,862	10,807	2,459	19,658
Loans and advances to customers, net	10,708	21,051	241,003	533,827	1,359,124	1,799,975	2,176,369	6,142,057
Investment securities								
— available for sale	–	–	6,465	26,643	86,283	199,470	157,496	476,357
— held to maturity	–	–	74,746	119,937	255,390	387,329	253,260	1,090,662
— loans and receivables	–	–	925	2,030	24,252	38,613	253,811	319,631
Other assets	–	–	2,333	1,163	3,904	8	–	7,408
Total financial assets	10,708	191,541	1,673,609	906,492	2,063,689	2,527,996	2,851,531	10,225,566
Due to banks and other financial institutions	–	471,386	130,959	118,068	118,225	249,887	55,047	1,143,572
Due to central banks	–	17,179	5,523	8,385	34,034	–	–	65,121
Placements from banks and other financial institutions	–	–	162,621	74,677	19,198	–	–	256,496
Due to customers	–	3,114,223	889,442	763,193	1,721,412	369,921	27,350	6,885,541
Bonds issued	–	–	–	1,726	3,969	20,314	135,639	161,648
Other liabilities	–	23,001	355	1,945	2,611	9,826	178	37,916
Total financial liabilities	–	3,625,789	1,188,900	967,994	1,899,449	649,948	218,214	8,550,294
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	–	137	105	(189)	(475)	278	(144)
Derivative financial instruments settled on a gross basis								
Total inflow	–	–	367,323	210,549	430,098	35,733	109	1,043,812
Total outflow	–	–	(368,022)	(210,570)	(428,331)	(35,497)	(110)	(1,042,530)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.4 Off-balance sheet items

The Group's and the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are summarised in the table below at the remaining period to the contractual maturity date. Financial guarantees are also included below at notional amounts and based on the earliest contractual maturity date. Where the Group and the Bank are the lessee under operating lease commitments, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note V.40.5, are summarised in the table below.

Group

	As at 31 December 2011			
	Less than 1 year	**Between 1 to 5 years**	**Over 5 years**	**Total**
Loan commitments	**496,304**	**181,140**	**72,971**	**750,415**
Guarantees, acceptances and other financial facilities	**1,079,253**	**323,214**	**158,990**	**1,561,457**
Subtotal	**1,575,557**	**504,354**	**231,961**	**2,311,872**
Operating lease commitments	**4,420**	**10,317**	**3,170**	**17,907**
Capital commitments	**29,887**	**32,923**	**27**	**62,837**
Total	**1,609,864**	**547,594**	**235,158**	**2,392,616**

	As at 31 December 2010			
	Less than 1 year	Between 1 to 5 years	Over 5 years	Total
Loan commitments	495,351	185,029	56,330	736,710
Guarantees, acceptances and other financial facilities	913,969	222,836	153,920	1,290,725
Subtotal	1,409,320	407,865	210,250	2,027,435
Operating lease commitments	3,560	8,265	2,414	14,239
Capital commitments	15,556	42,244	80	57,880
Total	1,428,436	458,374	212,744	2,099,554

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.4 Off-balance sheet items (Continued)

Bank

	As at 31 December 2011			
	Less than 1 year	Between 1 to 5 years	Over 5 years	Total
Loan commitments	437,116	181,140	72,971	691,227
Guarantees, acceptances and other financial facilities	1,047,799	324,338	161,166	1,533,303
Subtotal	1,484,915	505,478	234,137	2,224,530
Operating lease commitments	3,725	9,261	2,903	15,889
Capital commitments	6,536	6,123	27	12,686
Total	1,495,176	520,862	237,067	2,253,105

	As at 31 December 2010			
	Less than 1 year	Between 1 to 5 years	Over 5 years	Total
Loan commitments	426,462	185,029	56,330	667,821
Guarantees, acceptances and other financial facilities	892,501	227,383	154,283	1,274,167
Subtotal	1,318,963	412,412	210,613	1,941,988
Operating lease commitments	2,990	7,605	2,390	12,985
Capital commitments	5,019	3,617	80	8,716
Total	1,326,972	423,634	213,083	1,963,689

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities

6.1 Financial instruments not measured at fair value

Financial assets and liabilities not presented at their fair value on the statement of financial position mainly represent "Balances with central banks", "Due from banks and other financial institutions", "Placements with and loans to banks and other financial institutions", "Loans and advances to customers, net", "Investment securities" classified as held to maturity and loans and receivables, "Due to central banks", "Due to banks and other financial institutions", "Placements from banks and other financial institutions", and "Due to customers" measured at amortised cost, and "Bonds issued".

The tables below summarise the carrying amounts and fair values of "Investment securities" classified as held to maturity and loans and receivables, and "Bonds issued" not presented at fair value on the statement of financial position.

Group

	As at 31 December			
	Carrying value		Fair value	
	2011	2010	**2011**	2010
Financial assets				
Investment securities (1)				
— held to maturity	**1,074,116**	1,039,386	**1,076,218**	1,026,519
— loans and receivables	**299,518**	277,963	**299,518**	277,965
Financial liabilities				
Bonds issued (2)	**169,902**	131,887	**164,228**	133,168

Bank

	As at 31 December			
	Carrying value		Fair value	
	2011	2010	**2011**	2010
Financial assets				
Investment securities (1)				
— held to maturity	**1,025,620**	984,127	**1,027,499**	971,188
— loans and receivables	**290,387**	263,178	**290,387**	263,178
Financial liabilities				
Bonds issued (2)	**148,271**	116,283	**143,556**	116,825

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities (Continued)

6.1 Financial instruments not measured at fair value (Continued)

(1) Investment securities classified as held to maturity and loans and receivables

Fair value of held to maturity securities is based on market prices or broker/dealer price quotations. Where this information for held to maturity securities and loans and receivables is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(2) Bonds issued

The aggregate fair values are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity. The fair value for the convertible bonds (including the conversion option value) is based on the quoted market price on Shanghai Stock Exchange.

Other than above, the difference between the carrying amounts and fair values of those financial assets and liabilities not presented at their fair value on the statement of financial position are insignificant. Fair value is measured using a discounted cash flow model.

6.2 Financial instruments measured at fair value

Financial instruments measured at fair value are classified into following three levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities, including listed equity securities on exchange or debt instrument issued by certain governments.

- Level 2: Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. This level includes the majority of the over-the-counter derivative contracts, debt securities for which quotations are available from pricing services providers, traded loans and issued structured deposits.

- Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

The Group uses valuation techniques or counterparty quotations to determine the fair value of financial instruments when unable to obtain open market quotation in active markets.

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities (Continued)

6.2 Financial instruments measured at fair value (Continued)

The main parameters used in valuation techniques for financial instruments held by the Group include bond prices, interest rates, foreign exchange rates, equity and stock prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are all observable and obtainable from open market.

For certain illiquid debt securities (mainly asset-backed securities), unlisted equity (private equity) and over-the-counter structured derivatives transactions held by the Group, management obtains valuation quotations from counterparties. The fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and therefore, these instruments have been classified by the Group as level 3. Management assesses the impact of changes in macro-economic factors, engaged external valuer and other inputs, including loss coverage ratios, to determine the fair value for the Group's level 3 financial instruments. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

	As at 31 December 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets at fair value through profit or loss				
— Debt securities	–	64,367	108	64,475
— Fund investments	3,524	–	–	3,524
— Loans	–	4,412	–	4,412
— Equity securities	1,265	131	–	1,396
Derivative financial assets	15,219	27,538	–	42,757
Investment securities available for sale				
— Debt securities	99,321	420,105	4,666	524,092
— Fund investments and other	328	–	5,617	5,945
— Equity securities	5,274	1,390	16,617	23,281
Financial liabilities				
Due to customers at fair value	–	(560,923)	(164)	(561,087)
Short position in debt securities	–	(2,106)	–	(2,106)
Derivative financial liabilities	(11,103)	(24,370)	–	(35,473)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities (Continued)

6.2 Financial instruments measured at fair value (Continued)

	As at 31 December 2010			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
— Debt securities	–	71,252	308	71,560
— Fund investments	3,006	–	–	3,006
— Loans	–	1,172	–	1,172
— Equity securities	5,416	83	–	5,499
Derivative financial assets	16,634	23,336	4	39,974
Investment securities available for sale				
— Debt securities	66,241	559,365	6,954	632,560
— Fund investments and other	66	–	4,970	5,036
— Equity securities	5,767	1,049	12,326	19,142
Financial liabilities				
Due to customers at fair value	–	(194,382)	–	(194,382)
Short position in debt securities	–	(21,492)	–	(21,492)
Derivative financial liabilities	(12,526)	(23,185)	–	(35,711)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities (Continued)

6.2 Financial instruments measured at fair value (Continued)

Reconciliation of Level 3 Items

	Financial assets at fair value through profit or loss	Investment securities available for sale			Derivative financial assets less liabilities	Due to customers at fair value
	Debt securities	Debt securities	Fund investments and other	Equity securities		Structured deposit
As at 1 January 2011	**308**	**6,954**	**4,970**	**12,326**	**4**	**–**
Total gains and losses						
— profit or loss	**(9)**	**125**	**(42)**	**1,564**	**(4)**	**–**
— other comprehensive income	**–**	**(132)**	**(106)**	**(1,176)**	**–**	**–**
Sales	**(191)**	**(3,711)**	**(969)**	**(879)**	**–**	**–**
Purchases	**–**	**1,302**	**1,764**	**4,782**	**–**	**–**
Issues	**–**	**–**	**–**	**–**	**–**	**(164)**
Settlements	**–**	**–**	**–**	**–**	**–**	**–**
Transfers in of Level 3, net	**–**	**128**	**–**	**–**	**–**	**–**
As at 31 December 2011	**108**	**4,666**	**5,617**	**16,617**	**–**	**(164)**
Total gains or losses for the year included in the income statement for assets/liabilities held as at 31 December 2011	**(9)**	**79**	**101**	**38**	**(4)**	**–**
As at 1 January 2010	119	8,746	1,655	4,854	(299)	–
Total gains and losses						
— profit or loss	(6)	874	(206)	72	(1)	–
— other comprehensive income	–	(149)	(47)	427	–	–
Sales	(6)	(4,961)	(1,461)	(59)	–	–
Purchases	201	2,878	5,029	7,032	–	–
Settlements	–	–	–	–	304	–
Transfers out of Level 3, net	–	(434)	–	–	–	–
As at 31 December 2010	308	6,954	4,970	12,326	4	–
Total gains or losses for the year included in the income statement for assets/liabilities held as at 31 December 2010	(6)	255	(23)	27	(1)	–

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value of financial assets and liabilities (Continued)

6.2 Financial instruments measured at fair value (Continued)

Total gains or losses for the years ended 31 December 2011 and 2010 included in the income statement as well as total gains or losses included in the income statement relating to financial instruments held at 31 December 2011 and 2010 are presented in "Net trading gains", "Net gains on investment securities" or "Impairment losses on assets" depending on the nature or category of the related financial instruments.

There have been no significant transfers between levels 1 and 2 during 2011.

7 Capital management

The Group follows the principles below with regard to capital management:

- maintain levels of asset quality consistent with the Group's business strategy and adequate capital to support the implementation of the Group's strategic development plan and meet the regulatory requirements;

- effectively identify, quantify, monitor, mitigate and control the major risks to which the Group is exposed, and maintain capital appropriate to the Group's risk exposure and risk management needs; and

- optimise asset structure and allocate economic capital in a reasonable manner to ensure the sustainable development of the Group.

Capital adequacy and regulatory capital are monitored by the Group's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBRC, for supervisory purposes. The required information is filed with the CBRC on a quarterly basis.

The CBRC requires each bank or banking group to maintain a ratio of total regulatory capital to its risk-weighted assets at or above the agreed minimum of 8%, and a core capital ratio of above 4%. The board of directors approved the "Capital Management Plans for Bank of China Limited (for the years from 2010 to 2012)" at the beginning of 2010, and strategically sets the Group's capital adequacy ratio at 11.5% for the years from 2010 to 2012.

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

The Group's regulatory capital as managed by its Financial Management Department is divided into two tiers:

- Core capital: share capital, capital reserve, specified reserves, retained earnings, minority interests; and
- Supplementary: long-term subordinated bonds issued, convertible bonds issued, collective impairment allowances and others.

Goodwill, investments in entities engaged in banking and other financial activities which are not consolidated in the financial statements, investment properties, investments in commercial corporations and other deductible items are deducted from core and supplementary capital to derive at the regulatory capital.

The on-balance sheet risk weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of, and reflecting an estimate of, credit and other risks associated with each asset and customer, and taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure with adjustments to reflect the contingent nature of the potential losses. The market risk capital adjustment is measured by means of a standardised approach.

During 2011, the Group replenished its capital through the issuance of subordinated bonds. The Group also took various measures to manage level of risk weighted assets including adjusting the composition of its on- and off- balance sheet assets.

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

	As at 31 December	
	2011	2010
Capital adequacy ratio	**12.97%**	12.58%
Core capital adequacy ratio	**10.07%**	10.09%

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

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

Group

	As at 31 December	
	2011	2010
Components of capital base		
Core capital:		
Share capital	**279,122**	279,009
Reserves [1]	**388,633**	315,377
Minority interests	**32,732**	31,985
Total core capital	**700,487**	626,371
Supplementary capital:		
Collective impairment allowances	**63,428**	56,606
Long-term subordinated bonds issued	**123,451**	90,607
Convertible bonds issued (Note V.29)	**39,776**	39,776
Other [1]	**8,108**	4,001
Total supplementary capital	**234,763**	190,990
Total capital base before deductions	**935,250**	817,361
Deductions:		
Goodwill	**(1,752)**	(1,851)
Investments in entities engaged in banking and financial activities which are not consolidated	**(9,383)**	(11,048)
Investment properties	**(14,616)**	(13,839)
Investments in commercial corporations	**(28,587)**	(26,224)
Other deductible items [2]	**(17,680)**	(23,695)
Total capital base after deductions	**863,232**	740,704
Core capital base after deductions [3]	**670,205**	593,787
Risk weighted assets and market risk capital adjustment [4]	**6,656,034**	5,887,170

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

(1) Pursuant to regulations released by CBRC in November 2007, all net unrealised fair value gains after tax consideration are removed from the core capital calculation. The fair value gains on trading activities recognised in profit or loss are included in the supplementary capital. Only a certain percentage of fair value gain recognised in equity can be included in the supplementary capital.

(2) Pursuant to the relevant regulations, other deductible items include investments in asset backed securities, long-term subordinated debts issued by other banks and acquired by the Group after 1 July 2009.

(3) Pursuant to the relevant regulations, 100% of goodwill and 50% of certain other deductions were applied in deriving the core capital base.

(4) Pursuant to the regulation "Notification on Regulating Wealth Management Product ("WMP") Trust Plans" (Yinjianfa [2010] No. 72) released by CBRC in August 2010, WMP Trust Plans have been reclassified from off-balance sheet to on-balance sheet risk weighted assets for the purpose of capital adequacy ratio calculations.

Pursuant to the regulation "Guideline on Strengthening Credit Risk Management for Local Government Financing Vehicle ("LGFV") Loans" (Yinjianfa [2010] No. 110) released by CBRC in December 2010, the risk weighted assets have been adjusted based on the coverage of cash flows for each LGFV loan.

8 Insurance risk

Insurance contracts are mainly sold in Chinese mainland and Hong Kong denominated in RMB and HKD. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. This risk is inherently random and, therefore, unpredictable. The Group manages its portfolio of insurance risks through its underwriting strategy and policies, portfolio management techniques, adequate reinsurance arrangements and proactive claims handling and processing. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk and industry.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of the claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term life insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. In order to assess the uncertainty due to the mortality assumption and lapse assumption, the Group conducted mortality rate studies and policy lapse studies in order to determine the appropriate assumptions.

Unaudited Supplementary Financial Information

(Amount in millions of Renminbi, unless otherwise stated)

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

1 LIQUIDITY RATIOS

	As at 31 December	
	2011	2010
RMB current assets to RMB current liabilities	**47.04%**	43.18%
Foreign currency current assets to foreign currency current liabilities	**56.16%**	52.20%

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

2 CURRENCY CONCENTRATIONS

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

	Equivalent in millions of RMB			
	USD	HKD	Other	Total
As at 31 December 2011				
Spot assets	**935,162**	**29,073**	**245,344**	**1,209,579**
Spot liabilities	**(587,959)**	**(154,965)**	**(234,957)**	**(977,881)**
Forward purchases	**824,281**	**173,723**	**292,260**	**1,290,264**
Forward sales	**(1,129,130)**	**(77,005)**	**(305,352)**	**(1,511,487)**
Net options position*	**(4,913)**	**(323)**	**565**	**(4,671)**
Net long/(short) position	**37,441**	**(29,497)**	**(2,140)**	**5,804**
Net structural position	**15,864**	**92,275**	**22,658**	**130,797**
As at 31 December 2010				
Spot assets	974,958	30,655	167,724	1,173,337
Spot liabilities	(573,792)	(199,852)	(198,682)	(972,326)
Forward purchases	794,301	234,349	257,962	1,286,612
Forward sales	(1,177,847)	(46,082)	(244,001)	(1,467,930)
Net options position*	181	(218)	36	(1)
Net long/(short) position	17,801	18,852	(16,961)	19,692
Net structural position	12,504	90,104	20,199	122,807

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

3 CROSS-BORDER CLAIMS

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

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

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

	Banks and other financial institutions	Public sector entities	Other*	Total
As at 31 December 2011				
Asia Pacific excluding Chinese mainland				
Hong Kong	**28,936**	**5,936**	**576,206**	**611,078**
Other Asia Pacific locations	**85,885**	**18,145**	**226,974**	**331,004**
Subtotal	**114,821**	**24,081**	**803,180**	**942,082**
North and South America	**99,961**	**23,283**	**243,221**	**366,465**
Europe	**149,058**	**12,821**	**90,653**	**252,532**
Middle East and Africa	**3,579**	**–**	**18,489**	**22,068**
Total	**367,419**	**60,185**	**1,155,543**	**1,583,147**

(Amount in millions of Renminbi, unless otherwise stated)

3 CROSS-BORDER CLAIMS (Continued)

	Banks and other financial institutions	Public sector entities	Other*	Total
As at 31 December 2010				
Asia Pacific excluding Chinese mainland				
Hong Kong	23,386	8,375	528,533	560,294
Other Asia Pacific locations	71,120	16,193	142,881	230,194
Subtotal	94,506	24,568	671,414	790,488
North and South America	48,690	34,464	186,348	269,502
Europe	115,769	12,695	55,411	183,875
Middle East and Africa	3,274	67	12,964	16,305
Total	262,239	71,794	926,137	1,260,170

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

4 OVERDUE ASSETS

For the purposes of the table below, the entire outstanding balance of "Loans and advances to customers" and "Placements with and loans to banks and other financial institutions" are considered overdue if either principal or interest payment is overdue.

(1) Total amount of overdue loans and advances to customers

	As at 31 December	
	2011	2010
Total loans and advances to customers which have been overdue for		
within 3 months	**29,725**	25,666
between 3 to 6 months	**7,718**	3,113
between 6 to 12 months	**3,656**	5,097
over 12 months	**27,031**	28,832
Total	**68,130**	62,708
Percentage		
within 3 months	**0.47%**	0.46%
between 3 to 6 months	**0.12%**	0.05%
between 6 to 12 months	**0.05%**	0.09%
over 12 months	**0.43%**	0.51%
Total	**1.07%**	1.11%

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

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

Supplementary Information — Differences Between CAS and IFRS Consolidated Financial Statements

(Amount in millions of Renminbi, unless otherwise stated)

DIFFERENCES BETWEEN CAS AND IFRS CONSOLIDATED FINANCIAL STATEMENTS

There are no differences in the Group's operating results for the years ended 31 December 2011 and 2010 or total equity as at 31 December 2011 and 2010 presented in the Group's consolidated financial statements prepared under IFRS and those prepared under CAS.

Reference for Shareholders

Financial Calendar for 2012

Announcement of 2011 annual results	29 March 2012
Annual report of 2011	To be printed and dispatched to H-Share Holders in late April 2012
Annual General Meeting of 2011	To be held on 30 May 2012
Announcement of 2012 interim results	To be announced not later than 31 August 2012

Annual General Meeting

The Bank's 2011 Annual General Meeting is scheduled to be held at Bank of China Head Office, No.1 Fuxingmen Nei Dajie, Beijing, China and at Four Seasons Hotel, 8 Finance Street, Central, Hong Kong at 9:30 a.m. on Wednesday, 30 May 2012.

Dividends

The Board of Directors recommended a final dividend of RMB0.155 per share (before tax), subject to the approval of shareholders at the 2011 Annual General Meeting.

Securities Information

Listing

The Bank's ordinary shares were listed on the Hong Kong Stock Exchange and SSE on 1 June and 5 July 2006 respectively. The RMB40 billion A-Share Convertible Bonds of the Bank were listed on SSE on 18 June 2010.

Ordinary Shares

Issued shares:	279,147,333,579 shares
Including:	
A Share:	195,525,057,184 shares
H Share:	83,622,276,395 shares

A-Share Convertible Bonds

Total amount of the issued Convertible Bonds: RMB40 billion.

Market Capitalisation

As of the last trading day in 2011 (30 December for both H Shares and A Shares), the Bank's market capitalisation was RMB764.820 billion (based on the closing price of H Shares and A Shares on 30 December 2011, and exchange rate HKD100 = RMB81.070 as published by the SAFE on 30 December).

Reference for Shareholders

Securities Price

	Closing price on 30 December 2011	Highest trading price in the year	Lowest trading price in the year
A Share	RMB2.92	RMB3.47	RMB2.82
H Share	HKD2.86	HKD4.50	HKD2.20
A-Share Convertible Bond	RMB94.95	RMB112.01	RMB89.30

Securities Code

H Share:
Stock name: Bank of China

Hong Kong Stock Exchange	3988
Reuters	3988.HK
Bloomberg	3988 HK

A Share:
Stock name: 中國銀行

Shanghai Stock Exchange	601988
Reuters	601988.SS
Bloomberg	601988 CH

Securities Name: 中行轉債

A-Share Convertible Bond:

Shanghai Stock Exchange	113001
Reuters	113001.SS
Bloomberg	113001 CH

Shareholder Enquiry

If a shareholder wishes to enquire about share transfers, changes of name or address, or loss of share certificates, or to receive other information concerning the shares held, please write to the Bank at the following address:

H-Share Holders:

Computershare Hong Kong Investor Services Limited
17M, Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong
Telephone: (852) 2862 8555
Facsimile: (852) 2865 0990

A-Share Holders:

Shanghai Branch of China Securities Depository and Clearing Corporation Limited
36F, China Insurance Building,
166 East Lujiazui Road,
Pudong New Area, Shanghai
Telephone: (86) 21-3887 4800

Credit Rating (Long Term, Foreign Currency)

Moody's Investors Services:	A1
Standard & Poor's:	A
Fitch Ratings:	A
Rating and Investment Information, Inc.:	A
Dagong International Credit Rating Co., Ltd. (RMB):	AAA

Index Constituents

Hang Seng Index
Hang Seng China H-Financial Index
Hang Seng China Enterprises Index
Hang Seng China A Industry Top Index
Hang Seng Composite Index (HSCI) Series
MSCI China Index Series
CITIC S&P Index Series
Dow Jones Index Series
Bloomberg Index Series
Shanghai Stock Exchange Index Series
FTSE/Xinhua China 25 Index
FTSE/Xinhua Hong Kong Index
FTSE Index Series

Investor Enquiry

Investor Relations Team (Beijing) of Bank of China Limited
8/F, Bank of China Building, 1 Fuxingmen Nei Dajie, Beijing, China
Telephone: (86)10-6659 2638
Facsimile: (86)10-6659 4568
E-mail: bocir@bank-of-china.com

Other Information

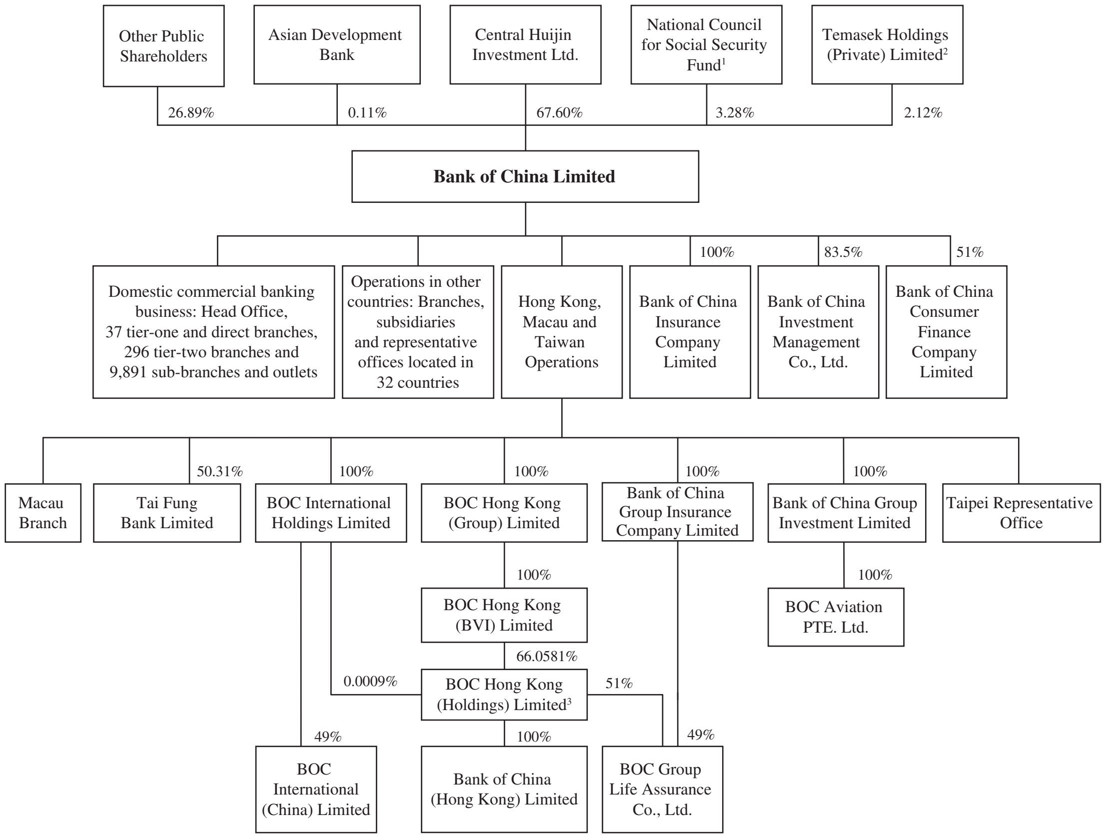
You may write to the Bank's H-Share Registrar, Computershare Hong Kong Investor Services Limited (address: 17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) to request the annual report prepared under IFRS or go to the Bank's major business locations for copies prepared under CAS.

The Chinese and/or English versions of the annual report for 2011 are also available on the following websites: www.boc.cn, www.sse.com.cn and www.hkexnews.hk.

Should you have any queries about how to obtain copies of this annual report or access the document on the Bank's website, please dial the Bank's Share Registrar at (852)2862 8688 or the Bank's hotlines at (86)10-6659 2638.

Organisational Chart

The organisational chart of the Group as of 31 December 2011 is as follows:



Notes:

1. The proportion of H Shares held by NCSSF is based on the interest recorded in the register maintained by the Bank pursuant to section 336 of the SFO. For details, please refer to the section "Changes in Share Capital and Shareholding of Substantial Shareholders".

2. Based on the interest recorded in the register maintained by the Bank pursuant to section 336 of the SFO, Temasek has an interest in the H Shares of the Bank through its wholly-owned subsidiary Fullerton Financial and other corporations controlled by it. For details, please refer to the section "Changes in Share Capital and Shareholding of Substantial Shareholders".

3. Listed on the Hong Kong Stock Exchange.

List of Operations

MAJOR OPERATIONS IN CHINESE MAINLAND

HEAD OFFICE

1 FUXINGMEN NEI DAJIE,
BEIJING,
CHINA
SWIFT: BKCH CN BJ
TLX: 22254 BCHO CN
TEL: (86) 010-66596688
FAX: (86) 010-66016871
POST CODE: 100818
WEBSITE: www.boc.cn

SHANGHAI RMB TRADING UNIT

48/F, BOC BUILDING,
200 MID. YINCHENG RD.,
PUDONG NEW DISTRICT,
SHANGHAI,
CHINA
TEL: (86) 021-38824588
POST CODE: 200120

BEIJING BRANCH

A,C,E KAIHENG CENTER,
2 CHAOYANGMEN NEI DAJIE,
DONGCHENG DISTRICT,
BEIJING,
CHINA
SWIFT: BKCH CN BJ 110
TEL: (86) 010-85122288
FAX: (86) 010-85121739
POST CODE: 100010

TIANJIN BRANCH

8 YOUYI NORTH ROAD,
HEXI DISTRICT,
TIANJIN,
CHINA
SWIFT: BKCH CN BJ 200
TEL: (86) 022-27108001
FAX: (86) 022-23312805
POST CODE: 300204

HEBEI BRANCH

78–80 XINHUA ROAD,
SHIJIAZHUANG,
HEBEI PROV.,
CHINA
SWIFT: BKCH CN BJ 220
TEL: (86) 0311-87866681
FAX: (86) 0311-87866692
POST CODE: 050000

SHANXI BRANCH

186 PINGYANG ROAD,
XIAODIAN DISTRICT, TAIYUAN,
SHANXI PROV.,
CHINA
SWIFT: BKCH CN BJ 680
TEL: (86) 0351-8266016
FAX: (86) 0351-8266021
POST CODE: 030006

INNER MONGOLIA BRANCH

12 XINHUA DAJIE,
XIN CHENG DISTRICT,
HUHHOT,
INNER MONGOLIA
AUTONOMOUS REGION,
CHINA
SWIFT: BKCH CN BJ 880
TEL: (86) 0471-4690088
FAX: (86) 0471-4690088
POST CODE: 010010

LIAONING BRANCH

9 ZHONGSHAN SQUARE,
ZHONGSHAN DISTRICT,
DALIAN,
LIAONING PROV.,
CHINA
SWIFT: BKCH CN BJ 810
TEL: (86) 0411-82586666
FAX: (86) 0411-82637098
POST CODE: 116001

JILIN BRANCH

699 XI AN DA LU,
CHANGCHUN,
JILIN PROV.,
CHINA
SWIFT: BKCH CN BJ 840
TEL: (86) 0431-88408888
FAX: (86) 0431-88408901
POST CODE: 130061

HEILONGJIANG BRANCH

19 HONGJUN STREET,
NANGANG DISTRICT,
HARBIN,
HEILONGJIANG PROV.,
CHINA
SWIFT: BKCH CN BJ 860
TEL: (86) 0451-53646443
FAX: (86) 0451-53624147
POST CODE: 150001

SHANGHAI BRANCH

200 MID. YINCHENG RD.,
PUDONG NEW DISTRICT,
SHANGHAI,
CHINA
SWIFT: BKCH CN BJ 300
TLX: 33062 BOCSH CN
TEL: (86) 021-50375566
FAX: (86) 021-50372911
POST CODE: 200120

JIANGSU BRANCH

148 ZHONG SHAN NAN LU,
NANJING,
JIANGSU PROV.,
CHINA
SWIFT: BKCH CN BJ 940
TLX: 34116 BOCJS CN
TEL: (86) 025-84207888
FAX: (86) 025-84207888-60340
POST CODE: 210005

ZHEJIANG BRANCH

321 FENG QI ROAD,
HANGZHOU,
ZHEJIANG PROV.,
CHINA
SWIFT: BKCH CN BJ 910
TEL: (86) 0571-85011888
FAX: (86) 0571-87074837
POST CODE: 310003

ANHUI BRANCH

313 MID. CHANGJIANG ROAD,
HEFEI,
ANHUI PROV.,
CHINA
SWIFT: BKCH CN BJ 780
TEL: (86) 0551-2926995
FAX: (86) 0551-2926993
POST CODE: 230061

FUJIAN BRANCH

BOC BLDG., 136 WUSI ROAD,
FUZHOU,
FUJIAN PROV.,
CHINA
SWIFT: BKCH CN BJ 720
TLX: 92109 BOCFJ CN
TEL: (86) 0591-87090999
FAX: (86) 0591-87090111
POST CODE: 350003

JIANGXI BRANCH

1 ZHANQIAN WEST ROAD,
NANCHANG,
JIANGXI PROV.,
CHINA
SWIFT: BKCH CN BJ 550
TEL: (86) 0791-86471503
FAX: (86) 0791-86471505
POST CODE: 330002

SHANDONG BRANCH

59 MID.
XIANGGANG ZHONG LU,
QINGDAO,
SHANDONG PROV.,
CHINA
SWIFT: BKCH CN BJ 500
TEL: (86) 0532-81858000
FAX: (86) 0532-85818243
POST CODE: 266071

HENAN BRANCH

3–1 BUSINESS OUTER RING ROAD. ZHENGZHOU
NEW DISTRICT,
ZHENGZHOU,
HENAN PROV.,
CHINA
SWIFT: BKCH CN BJ 530
TEL: (86) 0371-87008888
FAX: (86) 0371-87007888
POST CODE: 450008

HUBEI BRANCH

677 JIANSHE ROAD,
WUHAN,
HUBEI PROV.,
CHINA
SWIFT: BKCH CN BJ 600
TEL: (86) 027-85562866
027-85562959
FAX: (86) 027-85562955
POST CODE: 430022

HUNAN BRANCH

593 MID. FURONG ROAD
(1 DUAN),
CHANGSHA,
HUNAN PROV.,
CHINA
SWIFT: BKCH CN BJ 970
TEL: (86) 0731-82580703
FAX: (86) 0731-82263476
POST CODE: 410005

GUANGDONG BRANCH

197–199 DONGFENG XI LU,
GUANGZHOU,
GUANGDONG PROV.,
CHINA
SWIFT: BKCH CN BJ 400
TLX: 441042 GZBOC CN
TEL: (86) 020-83338080
FAX: (86) 020-83344066
POST CODE: 510180

GUANGXI BRANCH

39 GUCHENG ROAD,
NANNING,
GUANGXI ZHUANG
AUTONOMOUS REGION,
CHINA
SWIFT: BKCH CN BJ 480
TLX: 48122 BOCGX CN
TEL: (86) 0771-2879609
FAX: (86) 0771-2813844
POST CODE: 530022

HAINAN BRANCH

33 DATONG ROAD,
HAIKOU,
HAINAN PROV.,
CHINA
SWIFT: BKCH CN BJ 740
TEL: (86) 0898-66778001
FAX: (86) 0898-66562040
POST CODE: 570102

List of Operations

SICHUAN BRANCH

35 MID. RENMIN ROAD
(2 DUAN),
CHENGDU,
SICHUAN PROV.,
CHINA
SWIFT: BKCH CN BJ 570
TEL: (86) 028-86401950
FAX: (86) 028-86403346
028-86744859
POST CODE: 610031

GUIZHOU BRANCH

BOC BLDG.,
347 RUIJIN SOUTH ROAD,
GUIYANG,
GUIZHOU PROV.,
CHINA
SWIFT: BKCH CN BJ 240
TEL: (86) 0851-5822419
FAX: (86) 0851-5825770
POST CODE: 550002

YUNNAN BRANCH

515 BEIJING ROAD,
KUNMING,
YUNNAN PROV.,
CHINA
SWIFT: BKCH CN BJ 640
TEL: (86) 0871-3192915
FAX: (86) 0871-3175553
POST CODE: 650051

TIBET BRANCH

7 LINKUO XI LU,
LHASA,
TIBET AUTONOMOUS REGION,
CHINA
SWIFT: BKCH CN BJ 900
TEL: (86) 0891-6813333
FAX: (86) 0891-6835311
POST CODE: 850000

SHAANXI BRANCH

246 DONGXIN JIE,
XINCHENG DISTRICT,
XI'AN,
SHAANXI PROV.,
CHINA
SWIFT: BKCH CN BJ 620
TEL: (86) 029-87509999
FAX: (86) 029-87509922
POST CODE: 710005

GANSU BRANCH

525 TIANSHUI SOUTH ROAD,
LANZHOU,
GANSU PROV.,
CHINA
SWIFT: BKCH CN BJ 660
TEL: (86) 0931-8831988
FAX: (86) 0931-8831988-80308
POST CODE: 730000

QINGHAI BRANCH

218 DONGGUAN STREET,
XINING,
QINGHAI PROV.,
CHINA
SWIFT: BKCH CN BJ 280
TEL: (86) 0971-8178888
FAX: (86) 0971-8174971
POST CODE: 810000

NINGXIA BRANCH

39 XINCHANG EAST ROAD,
JINFENG DISTRICT,
YINCHUAN,
NINGXIA HUI
AUTONOMOUS REGION,
CHINA
SWIFT: BKCH CN BJ 260
TEL: (86) 0951-5681593
FAX: (86) 0951-5681509
POST CODE: 750002

XINJIANG BRANCH

1 DONGFENG ROAD,
URUMQI,
XINJIANG UYGUR
AUTONOMOUS REGION,
CHINA
SWIFT: BKCH CN BJ 760
TEL: (86) 0991-2328888
FAX: (86) 0991-2825095
POST CODE: 830002

CHONGQING BRANCH

218 ZHONG SHAN YI ROAD,
YU ZHONG DISTRICT,
CHONGQING,
CHINA
SWIFT: BKCH CN BJ 59A
TEL: (86) 023-63889234
023-63889461
FAX: (86) 023-63889585
POST CODE: 400013

SHENZHEN BRANCH

INTERNATIONAL FINANCE
BUILDING,
2022 JIANSHE ROAD,
LUOHU DISTRICT,
SHENZHEN,
GUANGDONG PROV.,
CHINA
SWIFT: BKCH CN BJ 45A
TEL: (86) 0755-22338888
FAX: (86) 0755-82259209
POST CODE: 518005

SUZHOU BRANCH

188 GANJIANG WEST ROAD,
SUZHOU,
JIANGSU PROV.,
CHINA
SWIFT: BKCH CN BJ 95B
TEL: (86) 0512-65113558
FAX: (86) 0512-65114906
POST CODE: 215002

NINGBO BRANCH

139 YAOHANG JIE,
NINGBO,
ZHEJIANG PROV.,
CHINA
SWIFT: BKCH CN BJ 92A
TLX: 37039 NBBOC CN
TEL: (86) 0574-87196666
FAX: (86) 0574-87198889
POST CODE: 315000

JINAN BRANCH

NO.22 LUO YUAN STREET,
JINAN,
CHINA
SWIFT: BKCH CN BJ 51B
TEL: (86) 0531-86995099
FAX: (86) 0531-86995099
POST CODE: 250063

XIAMEN BRANCH

BANK OF CHINA BUILDING,
NO.40 NORTH HUBIN ROAD,
XIAMEN,
CHINA
SWIFT: BKCH CN BJ 73A
TEL: (86) 0592-5066446
FAX: (86) 0592-5076711
POST CODE: 361012

SHENYANG BRANCH

253 SHIFU ROAD,
SHENHE DISTRICT,
SHENYANG,
LIAONING PROV.,
CHINA
SWIFT: BKCH CN BJ 82A
TEL: (86) 024-22810572
FAX: (86) 024-22857333
POST CODE: 110013

BANK OF CHINA INSURANCE COMPANY LIMITED

8-9F EXCEL CENTER
NO.6 WUDINGHOU STREET,
BEIJING,
CHINA
TEL: (86) 010-66538000
FAX: (86) 010-66538001
POST CODE: 100033
WEBSITE: www.bocins.com

BANK OF CHINA INVESTMENT MANAGEMENT CO., LTD.

45/F, BOC BUILDING,
200 MID. YINCHENG ROAD,
PUDONG NEW DISTRICT,
SHANGHAI,
CHINA
TEL: (86) 021-38834999
FAX: (86) 021-68873488
POST CODE: 200120
WEBSITE: www.bocim.com

BANK OF CHINA CONSUMER FINANCE COMPANY LIMITED

1409#, BOC BUILDING,
200 MID. YINCHENG ROAD,
PUDONG NEW DISTRICT,
SHANGHAI,
CHINA
TEL: (86) 021-50375880
FAX: (86) 021-50375890
POST CODE: 200120
WEBSITE: www.boccfc.cn
EMAIL: boccfcadmin@boccfc.cn

BOC INTERNATIONAL (CHINA) LIMITED

39/F, BOC BUILDING,
200 MID. YINCHENG ROAD,
PUDONG NEW DISTRICT,
SHANGHAI,
CHINA
TEL: (86) 021-20328000
FAX: (86) 021-58883554
POST CODE: 200120
WEBSITE: www.bocichina.com
EMAIL: admindiv.china@bocigroup.com

MAJOR OPERATIONS IN HONG KONG, MACAU AND TAIWAN

BOC HONG KONG (HOLDINGS) LIMITED

52/F, BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG
TEL: (852) 28462700
FAX: (852) 28105830
WEBSITE: www.bochk.com

BOC INTERNATIONAL HOLDINGS LIMITED

26/F, BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG
TEL: (852) 39886000
FAX: (852) 21479065
WEBSITE: www.bocigroup.com
EMAIL: Info@bocigroup.com

HONG KONG BRANCH

8/F, BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG
TEL: (852) 25370106
FAX: (852) 25377609

BANK OF CHINA GROUP INSURANCE COMPANY LIMITED

9/F, WING ON HOUSE,
71 DES VOEUX ROAD
CENTRAL,
HONG KONG
TEL: (852) 28670888
FAX: (852) 25221705
WEBSITE:
www.bocgroup.com/bocg-ins/
EMAIL: info_ins@bocgroup.com

BANK OF CHINA GROUP INVESTMENT LIMITED

23/F, BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG
TEL: (852) 22007500
FAX: (852) 28772629
WEBSITE: www.bocgi.com
EMAIL: bocginv_bgi@bocgroup.com

BOC GROUP LIFE ASSURANCE CO., LTD.

13–21/F, BOC GROUP LIFE ASSURANCE TOWER,
136 DES VOEUX ROAD
CENTRAL,
HONG KONG
TEL: (852) 28629898
FAX: (852) 28660938
WEBSITE:
www.bocgroup.com/bocg-life
EMAIL: boc_life@bocgroup.com

MACAU BRANCH

BANK OF CHINA BUILDING,
AVENIDA DOUTOR MARIO
SOARES,
MACAU
SWIFT: BKCHMOMX
TEL: (853) 28781828
FAX: (853) 28781833
WEBSITE: www.bocmacau.com

TAI FUNG BANK LIMITED

418, ALAMEDA DR. CARLOS,
d'ASSUMPCAO,
MACAU
TEL: (853) 28322323
FAX: (853) 28570737
WEBSITE: www.taifungbank.com
EMAIL: tfbsecr@taifungbank.com

TAIPEI REPRESENTATIVE OFFICE

4/F, NO.105, SONGREN RD.,
XINYI DIST.,
TAIPEI CITY,
TAIWAN
TEL: (886) 2-27585600
FAX: (886) 2-27581598
EMAIL: boc_taipei@bank-of-china.com

MAJOR OPERATIONS IN OTHER COUNTRIES AND REGIONS

ASIA-PACIFIC AREA

SINGAPORE BRANCH

4 BATTERY ROAD,
BANK OF CHINA BUILDING,
SINGAPORE 049908
SWIFT: BKCHSGSG
TEL: (65) 65352411
FAX: (65) 65343401
EMAIL: Service_SG@bank-of-china.com

TOKYO BRANCH

BOC BLDG, 3-4-1 AKASAKA
MINATO-KU,
TOKYO 107-0052
JAPAN
SWIFT: BKCHJPJT
TEL: (813) 35058818
FAX: (813) 35058433
EMAIL: Service_JP@bank-of-china.com

SEOUL BRANCH

1/2F., YOUNG POONG BLDG,
33 SEOLIN-DONG,
CHONGRO-GU SEOUL 110–752,
KOREA
SWIFT: BKCHKRSEXXX
TEL: (822) 3996268/3996272
FAX: (822) 3996265/3995938
EMAIL: Service_KR@bank-of-china.com

BANGKOK BRANCH

179/4 BANGKOK CITY TOWER
SOUTH SATHORN RD.,
TUNGMAHAMEK
SATHORN DISTRICT,
BANGKOK 10120,
THAILAND
SWIFT: BKCHTHBK
TLX: 81091 BOCBKK TH
TEL: (662) 2861010
FAX: (662) 2861020
EMAIL: Service_TH@bank-of-china.com

BANK OF CHINA (MALAYSIA) BERHAD

GROUND, MEZZANINE,
& 1st FLOOR PLAZA OSK,
25 JALAN AMPANG 50450 KUALA LUMPUR,
MALAYSIA
SWIFT: BKCHMYKL
TEL: (603) 21626633
FAX: (603) 21615150
EMAIL: Service_MY@bank-of-china.com

HO CHI MINH CITY BRANCH

19/F., SUN WAH TOWER
115 NGUYEN HUE BLVD.,
DISTRICT 1
HO CHI MINH CITY,
VIETNAM
SWIFT: BKCHVNVX
TEL: (848) 38219949
FAX: (848) 38219948
EMAIL: Service_VN@bank-of-china.com

MANILA BRANCH

G/F. & 36/F.
PHILAMLIFE TOWER
8767 PASEO DE ROXAS,
MAKATI CITY
MANILA,
PHILIPPINES
SWIFT: BKCHPHMM
TEL: (632) 8850111
FAX: (632) 8850532
EMAIL: Service_PH@bank-of-china.com

JAKARTA BRANCH

TAMARA CENTER
SUITE 101&201,
JALAN JEND.
SUDIRMAN KAV. 24
JAKARTA 12920,
INDONESIA
SWIFT: BKCHIDJA
TEL: (6221) 5205502
FAX: (6221) 5201113
EMAIL: Service_ID@bank-of-china.com

SYDNEY BRANCH

39–41 YORK STREET,
SYDNEY NSW 2000,
AUSTRALIA
SWIFT: BKCHAU2S
TEL: (612) 82355888
FAX: (612) 92621794
EMAIL: Service_AU@bank-of-china.com

BANK OF CHINA (AUSTRALIA) LIMITED

39–41 YORK STREET,
SYDNEY NSW 2000,
AUSTRALIA
SWIFT: BKCHAU2A
TEL: (612) 82355888
FAX: (612) 92621794
EMAIL: Service_AU@bank-of-china.com

JSC AB <BANK OF CHINA KAZAKHSTAN>

201, STR. GOGOL,
050026, ALMATY,
REPUBLIC OF KAZAKHSTAN
SWIFT: BKCHKZKA
TEL: (7727) 2585510
FAX: (7727) 2585514/2501896
EMAIL: Service_KZ@bank-of-china.com

PHNOM PENH BRANCH

CANADIA TOWER,
1st & 2nd FLOOR,
#315 ANG DOUNG St.
(CORNER OF MONIVONG BLVD.)
P.O.BOX 113,
PHNOM PENH,
CAMBODIA
SWIFT: BKCHKHPP
TEL: (85523)-988 886
FAX: (85523)-988 880
EMAIL: servicecambodia@bank-of-china.com

BAHRAIN REPRESENTATIVE OFFICE

OFFICE 152,
AL JASRAH TOWER,
DIPLOMATIC AREA
BUILDING 95,
ROAD 1702, BLOCK 317,
MANAMA
KINGDOM OF BAHRAIN
TEL: (973) 17531119
FAX: (973) 17531009
EMAIL: Service_BH@bank-of-china.com

DUBAI REPRESENTATIVE OFFICE

OFFICE 2203, DUBAI WORLD TRADE CENTER,
SHEIKH ZAYED ROAD,
EMIRATE OF DUBAI,
UNITED ARAB EMIRATES
TEL: (9714) 332 8822
FAX: (9714) 332 8878

ISTANBUL REPRESENTATIVE OFFICE

KANYON OFIS BLOGU BUYUKDERE CD.KAT:15
34394 LEVENT ISTANBUL,
TURKEY
TEL: (0090)212-2608888
FAX: (0090)212-2608866

BOC AVIATION PTE. LTD.

8 SHENTON WAY #18-01
SINGAPORE 068811
TEL: (65) 63235559
FAX: (65) 63236962
WEBSITE: www.bocaviation.com

List of Operations

EUROPE

LONDON BRANCH

ONE LOTHBURY,
LONDON EC2R 7DB, U.K.
SWIFT: BKCHGB2L
TLX: 886935 BKCHI G
TEL: (4420) 72828888
FAX: (4420) 76263892
EMAIL: Service_UK@bank-of-china.com

BANK OF CHINA (UK) LIMITED

ONE LOTHBURY,
LONDON EC2R 7DB,
U.K.
SWIFT: BKCHGB2U
TEL: (4420) 72828888
FAX: (4420) 79293674

BANK OF CHINA (SUISSE) SA

3, RUE DU GENERAL-DUFOUR,
GENEVA,
SUISSE
TEL: (4122) 8888888
FAX: (4122) 8888889

PARIS BRANCH

23-25 AVENUE DE LA
GRANDE ARMEE 75116 PARIS,
FRANCE
SWIFT: BKCHFRPP
TLX: 281 090 BDCSP
TEL: (331) 49701370
FAX: (331) 49701372
EMAIL: Service_FR@bank-of-china.com

FRANKFURT BRANCH

BOCKENHEIMER LANDSTR. 24
60323 FRANKFURT AM MAIN,
GERMANY
SWIFT: BKCHDEFF
TEL: (4969) 1700900
FAX: (4969) 170090500
WEBSITE: www.bocffm.com
EMAIL: Service_DE@bank-of-china.com

LUXEMBOURG BRANCH

37/39 BOULEVARD PRINCE
HENRI L–1724 LUXEMBOURG
P.O. BOX 114 L–2011,
LUXEMBOURG
SWIFT: BKCHLULL
TEL: (352) 221791/4667911
FAX: (352) 221795
WEBSITE:
www.bank-of-china.com/lu/
EMAIL: Service_LU@bank-of-china.com

BANK OF CHINA (LUXEMBOURG) S.A.

37/39 BOULEVARD
PRINCE HENRI L-1724
LUXEMBOURG
P.O. BOX 721 L-2017,
LUXEMBOURG
TEL: (352) 228777/4667911
FAX: (352) 228776

BANK OF CHINA (LUXEMBOURG) S.A., BRUSSELS BRANCH

20 AVENUE DES ARTS, 1000,
BRUSSELS,
BELGIUM
SWIFT CODE: BKCHBEBB
TEL: (322) 4056688
FAX: (322) 2302892

BANK OF CHINA (LUXEMBOURG) S.A., ROTTERDAM BRANCH

WESTBLAAK 109,
3012KH ROTTERDAM,
THE NETHERLANDS
SWIFT CODE: BKCHNL2R
TEL: (3110) 2175888
FAX: (3110) 2175899

MILAN BRANCH

VIA SANTA MARGHERITA, 14/16 20121,
MILAN,
ITALY
SWIFT: BKCHITMM
TEL: (3902) 864731
FAX: (3902) 89013411
EMAIL: Service_IT@bank-of-china.com

BANK OF CHINA (HUNGARY) CLOSE LTD.

BANK CENTER,
7 SZABADSAG TER,
1054 BUDAPEST,
HUNGARY
SWIFT: BKCHHUHB
TEL: (361) 3543240
FAX: (361) 3029009
EMAIL: Service_HU@bank-of-china.com

BANK OF CHINA (ELUOSI)

72, PROSPEKT MIRA,
MOSCOW, 129110
RUSSIA
SWIFT: BKCHRUMM
TLX: 413973 BOCR RU
TEL: (7495) 7950451
FAX: (7495) 7950454
WEBSITE: www.boc.ru
EMAIL: Service_RU@bank-of-china.com

AMERICA

NEW YORK BRANCH

410 MADISON AVENUE
NEW YORK NY 10017,
U.S.A.
SWIFT: BKCHUS33
TLX: 661723BKCHI
TEL: (1212) 9353101
FAX: (1212) 5931831
WEBSITE: www.bocusa.com
EMAIL: Service_US@bank-of-china.com

BANK OF CHINA (CANADA)

SUITE 600, 50 MINTHORN BOULEVARD MARKHAM,
ONTARIO, L3T7X8
CANADA
SWIFT: BKCHCATT
TEL: (1905) 7716886
FAX: (1905) 7718555
EMAIL: Service_CA@bank-of-china.com

GRAND CAYMAN BRANCH

GRAND PAVILION COMMERCIAL CENTER
802 WEST BAY ROAD,
P.O. BOX 30995,
GRAND CAYMAN KY1-1204
CAYMAN ISLANDS
SWIFT: BKCHKYKY
TEL: (1345) 9452000
FAX: (1345) 9452200
EMAIL: Service_KY@bank-of-china.com

PANAMA BRANCH

P.O. BOX 0823-01030,
CALLE MANUEL
M.ICAZA NO.14, PANAMA,
REPUBLIC OF PANAMA
SWIFT: BKCHPAPA
TEL: (507) 2635522
FAX: (507) 2239960
EMAIL: Service_PA@bank-of-china.com

BANCO DA CHINA BRASIL S.A.

CNPJ:10.690.848/0001-43
AV. PAULISTA 283,
ANDAR 4 CEP 01.311-000BELA VISTA,
SAO PAULO S.P.BRASIL
SWIFT: BKCHBRSP
TEL: (5511) 35083200
FAX: (5511) 35083299
EMAIL: Service_BR@bank-of-china.com

AFRICA

BANK OF CHINA (ZAMBIA) LIMITED

PLOT NO. 2339,
KABELENGA ROAD,
LUSAKA,
P.O. BOX 34550,
ZAMBIA
SWIFT: BKCHZMLU
TEL: (260211) 238686/238688
FAX: (260211) 235350/225925
EMAIL: Service_ZM@bank-of-china.com

JOHANNESBURG BRANCH

14th–16th FLOORS,
ALICE LANE TOWERS,
15 ALICE LANE, SANDTON,
JOHANNESBURG,
P. O. BOX 782616
SANDTON 2146 RSA
SOUTH AFRICA
SWIFT: BKCHZAJJ
TEL: (2711) 5209600
FAX: (2711) 7832336
EMAIL: Service_ZA@bank-of-china.com

Definitions

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

Our Bank/the Bank/ the Group/we/us	Bank of China Limited or its predecessors and, except where the context otherwise requires, all of the subsidiaries of Bank of China Limited
Articles of Association	The performing Articles of Association of our Bank
Basis Point	0.01 of a percentage point
BOC Aviation	BOC Aviation PTE. Ltd.
BOC Insurance	Bank of China Insurance Company Limited
BOCG Insurance	Bank of China Group Insurance Company Limited
BOCG Investment	Bank of China Group Investment Limited
BOCG Life	BOC Group Life Assurance Co., Ltd.
BOCHK	Bank of China (Hong Kong) Limited, an authorised financial institution incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK (Holdings)
BOCHK (BVI)	BOC Hong Kong (BVI) Limited
BOCHK (Holdings)	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong and the ordinary shares of which are listed on the Hong Kong Stock Exchange
BOCI	BOC International Holdings Limited
BOCIM	Bank of China Investment Management Co., Ltd.
BOCI China	BOC International (China) Limited
BOCI-Prudential	BOCI-Prudential Asset Management Ltd.
CARPALs Supervision Indicators	A new supervision indicator series regulated by the CBRC, which is applicable to large commercial banks in Chinese mainland. This series consists of 13 indicators within 7 categories covering the management on capital adequacy, asset quality, risk concentration, provisioning coverage, affiliated institutions, liquidity and swindle prevention and control
CBRC	China Banking Regulatory Commission
Central and Southern China	The area including, for the purpose of this report, the branches of Henan, Hubei, Hunan, Guangdong, Shenzhen, Guangxi and Hainan
Company Law	The Company Law of the People's Republic of China
Convertible Bonds	Corporate bonds that are vested for conversion to the A-Share stock of the Bank

Definitions

CSRC	China Securities Regulatory Commission
Dagong International	Dagong International Credit Rating Co., Ltd.
Eastern China	The area including, for the purpose of this report, the branches of Shanghai, Jiangsu, Suzhou, Zhejiang, Ningbo, Anhui, Fujian, Jiangxi and Shandong
Fullerton Financial	Fullerton Financial Holdings Pte. Ltd.
Fullerton Management	Fullerton Management Pte. Ltd.
G-SIFIs	Global Systemically Important Financial Institutions
HKEx	Hong Kong Exchanges and Clearing Limited
Hong Kong Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Huijin	Central Huijin Investment Ltd.
MOF	Ministry of Finance, PRC
NCSSF	National Council for Social Security Fund
Northeastern China	The area including, for the purpose of this report, the branches of Heilongjiang, Jilin and Liaoning
Northern China	The area including, for the purpose of this report, the branches of Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia and our Head Office
PBOC	People's Bank of China, PRC
RMB or Renminbi	Renminbi, the lawful currency of the PRC
SAFE	State Administration of Foreign Exchange, PRC
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
SSE	The Shanghai Stock Exchange
Temasek	Temasek Holdings (Private) Limited
UBS	UBS AG
Western China	The area including, for the purpose of this report, the branches of Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Ningxia, Qinghai, Tibet and Xinjiang

Notes to Financial Highlights

1. Non-interest income = net fee and commission income + net trading gains/(losses) + net gains/(losses) on investment securities + other operating income

2. Operating income = net interest income + non-interest income

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

4. Due to customers include structured deposits. Comparatives for the previous years have been restated accordingly.

5. Dividend per share = total dividend ÷ number of ordinary shares in issue at the year-end

6. Net assets per share = capital and reserves attributable to equity holders of the Bank at the year-end ÷ number of ordinary shares in issue at the year-end

7. Return on average total assets = profit for the year ÷ average total assets. Average total assets = (total assets at the beginning of the year + total assets at the year-end) ÷ 2

8. Return on average equity = profit after tax attributable to equity holders of the Bank ÷ average owner's equity. It is calculated according to *No. 9 Preparation and Reporting Rules of Information Disclosure of Public Offering Companies — Calculation and Disclosure of Return on Average Equity and Earnings per Share (Revised in 2010)* (CSRC Announcement [2010] No. 2) issued by the CSRC.

9. Net interest margin = net interest income ÷ average balance of interest-earning assets. Average balance is average daily balance derived from the Bank's management accounts.

10. Non-interest income to operating income = non-interest income ÷ operating income

11. Cost to income ratio is calculated according to the *Interim Measures of the Performance Evaluation of State-owned and State Holding Financial Enterprises* (Cai Jin [2009] No.3) formulated by the MOF.

Definitions

12. Loan to deposit ratio = outstanding loans ÷ balance of deposits. It is calculated according to relevant provisions of the PBOC. Of which, the balance of deposits include due to customers and due to financial institutions such as financial holding companies and insurance companies. The following table sets forth the reconciliation of loan to deposit ratio for 2011 (unit: RMB million):

	Loans
Loans and advances to customers	6,342,914
Deferred gain and loss of discounted bills and others	2,645
Total	6,345,559

	Deposits
Due to customers	8,817,961
Including: structured deposits	561,087
Due to financial institutions	409,515
Total	9,227,476

13. Identified impaired loans to total loans = identified impaired loans at the year-end ÷ total loans at the year-end

14. Non-performing loans to total loans = non-performing loans at the year-end ÷ total loans at the year-end. It is calculated according to the *Guidelines on the Corporate Governance and Supervision of State-owned Commercial Banks* (Y.J.F [2006] No.22).

15. Allowance for loan impairment losses to non-performing loans = allowance for loan impairment losses at the year-end ÷ non-performing loans at the year-end. It is calculated according to the *Guidelines on the Corporate Governance and Supervision of State-owned Commercial Banks* (Y.J.F [2006] No.22).

16. Credit cost = impairment losses on loans ÷ average balance of loans. Average balance of loans = (balance of loans at the beginning of the year + balance of loans at the year-end) ÷ 2

17. Number of employees of the Group includes temporary and contract staff.

18. In 2011, the statistic on number of organisations was adjusted to exclude the non-operating outlets (except representative offices) and non-financial institutions. The total employees were adjusted accordingly. Comparatives for the years from 2007 to 2010 have been restated. Due to the equity transfer of BOC Insurance, all the sub-entities of which BOC Insurance was counted domestically. According to the new approach, there was an increase of 19 branches, subsidiaries and representative offices in Hong Kong, Macau, Taiwan and other countries over the prior year-end.

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

1 Fuxingmen Nei Dajie, Beijing, China 100818
Tel: (86) 10-6659 6688   Fax: (86) 10-6601 6871
http://www.boc.cn