



中國銀行
BANK OF CHINA



A Century of History A Global Service

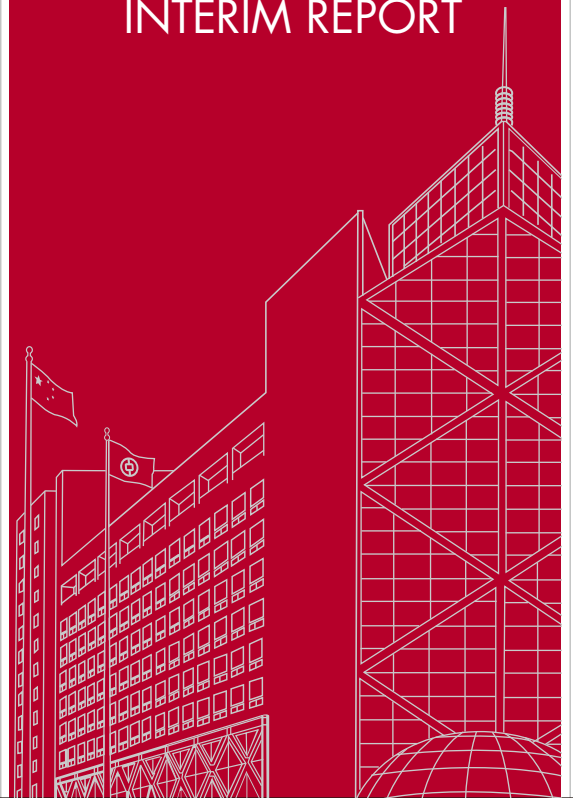
2012

INTERIM REPORT

Bank of China Limited

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

Stock Code: 3988



Financial Highlights

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

Unit: RMB million

	Note	For the six month period ended 30 June 2012	For the six month period ended 30 June 2011
Results of operations			
Net interest income		124,054	110,215
Non-interest income	1	55,611	55,759
Operating income	2	179,665	165,974
Operating expenses		(73,518)	(63,256)
Impairment losses on assets		(9,237)	(12,287)
Operating profit		96,910	90,431
Profit before income tax		97,135	90,777
Profit for the period		75,002	70,234
Profit attributable to equity holders of the Bank		71,601	66,556
Basic earnings per share for profit attributable to equity holders of the Bank (RMB)	3	0.26	0.24
Net cash flow from operating activities per share (RMB)		1.90	0.09
Key financial ratios			
Return on average total assets (%)	4	1.22	1.28
Return on average equity (%)	5	18.99	19.86
Net interest margin (%)	6	2.10	2.11
Non-interest income to operating income (%)	7	30.95	33.60
Cost to income (calculated under domestic regulations, %)	8	29.23	28.81
Credit cost (%)	9	0.28	0.43
		As at 30 June 2012	As at 31 December 2011
Statement of financial position			
Total assets		12,825,590	11,829,789
Total loans and advances to customers		6,753,664	6,342,814
Allowance for impairment losses		(147,822)	(139,676)
Investment securities	10	2,063,679	2,000,759
Total liabilities		12,033,973	11,072,652
Due to customers		9,482,564	8,817,961
Capital and reserves attributable to equity holders of the Bank		756,195	723,914
Share capital		279,147	279,147
Net assets per share (RMB)	11	2.71	2.59
Loan to deposit ratio (%)	12	68.59	68.77
Capital adequacy ratios			
Core capital adequacy ratio (%)		10.15	10.08
Capital adequacy ratio (%)		13.00	12.98
Asset quality			
Identified impaired loans to total loans (%)	13	0.94	1.00
Non-performing loans to total loans (%)	14	0.94	1.00
Allowance for loan impairment losses to non-performing loans (%)	15	232.56	220.75

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

Corporate Information

Registered Name in Chinese

中國銀行股份有限公司 (“中國銀行”)

Registered Name in English

BANK OF CHINA LIMITED (“Bank of China”)

Legal Representative and Chairman

XIAO Gang

Vice Chairman and President

LI Lihui

Secretary to the Board of Directors

ZHANG Bingxun

Office Address:

No. 1 Fuxingmen Nei 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

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Telephone: (86) 10-6659 2638

Facsimile: (86) 10-6659 4568

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

Registered Address of Head Office

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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 Journal, Shanghai Securities News, Securities Times, Securities Daily

Website designated by CSRC to Publish the Interim Report

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

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

<http://www.hkexnews.hk>

Places where the Interim Report can be Obtained

Major business locations

Securities Information

A Share

Shanghai Stock Exchange

Stock Name: 中國銀行

Stock Code: 601988

H Share

The Stock Exchange of Hong Kong Limited

Stock Name: Bank of China

Stock Code: 3988

A-Share Convertible Bonds

Shanghai Stock Exchange

Securities Name: 中行轉債

Securities Code: 113001

A-Share Registrar

Shanghai Branch of China Securities Depository and

Clearing Corporation Limited

36/F, China Insurance Building

166 East Lujiazui Road,

Pudong New Area, Shanghai

Telephone: (86) 21-3887 4800

H-Share Registrar

Computershare Hong Kong Investor Services Limited

Rooms 1712–1716, 17/F, Hopewell Centre

183 Queen’s Road East, Wan Chai

Hong Kong

Telephone: (852) 2862 8555

Overview of Operating Performance

Enhancing Core Financial Indicators with a Focus on Sustainable Development

Since the beginning of 2012, the banking industry has faced increased operational pressures due to complex economic and financial trends at home and abroad. The Bank has continued to adopt a scientific outlook on development and remained faithful to its proven century-old tradition of excellence in strict compliance with macroeconomic policies and regulatory requirements. The Bank has followed a path of sustainable and balanced growth by adhering to the principles of “streamlining structure, scaling up, managing risks and sharpening competitiveness”. It has strongly encouraged innovative, transformative and cross-border development while striving to maintain its unique characteristics. These principles are the foundation of the Bank’s customer-centric, market-oriented, technology-led global service system, which has helped the Bank to steadily promote various development initiatives and enhance its operating efficiency and results. As the only domestic enterprise to be included in the Fortune Global 500 for 24 consecutive years, the Bank’s brand value has continuously grown in stature. In the first half of 2012, the Bank was ranked ninth in terms of tier-one capital by UK magazine *The Banker* in its list of “Top 1000 World Banks”, and recognised as one of the “Top 50 Most Valuable Chinese Brands” by global marketing firm WPP.

As at the end of June 2012, the Bank’s total assets and liabilities amounted to RMB12,825.590 billion and RMB12,033.973 billion, and the capital and reserves

attributable to equity holders of the Bank stood at RMB756.195 billion, representing increases of 8.42%, 8.68% and 4.46% respectively from the prior year-end. The Bank achieved a profit after tax of RMB75.002 billion and profit attributable to equity holders of the Bank stood at RMB71.601 billion, a year-on-year increase of 6.79% and 7.58% respectively (representing an increase of 12.28% and 12.22% respectively after eliminating the one-off impact of Lehman Brothers-related products¹ etc., during the first half of 2011). Return on average equity (“ROE”) and return on average total assets (“ROA”) stood at 18.99% and 1.22% respectively, representing increases of 0.72 percentage point and 0.05 percentage point compared with the prior year-end. The Bank continued to lead its domestic peers in its ratio of non-interest income to operating income, which increased by 0.42 percentage point from the prior year-end to 30.95%. The cost to income ratio (calculated under domestic regulatory standards) was 29.23%, a decrease of 3.84 percentage points from the prior year-end.

Deepening Business Transformation with a Focus on Effective Operations

During the first half of 2012, the Bank continued to strengthen the integrated and balanced management of its assets and liabilities by proactively enhancing its business structure. As at the end of June, the Group’s total deposits and loans increased by RMB664.603 billion and RMB410.850 billion respectively, up 7.54% and 6.48% from the prior year-end. Of this, domestic deposits and loans increased by 6.86% and 5.10% respectively while deposits and loans in Hong Kong,

¹ Including the recovery in the underlying assets related to BOCHK’s exposure to Lehman Brothers minibonds, after deducting the related expenses. The same below.

Macau, Taiwan and other countries increased by 11.16% and 12.79%. The loan to deposit ratio was 68.59% with a decrease of 0.18 percentage point compared with the prior year-end.

The Bank maintained stable growth in its loan portfolio. During the first half of 2012, new domestic RMB-denominated loans stood at RMB337.675 billion, evenly distributed over the six-month period. The structure of the Bank's loan portfolio continued to be enhanced. The proportion of new RMB-denominated personal loans to total new domestic RMB-denominated loans increased by 5.65 percentage points to 39.77% compared with the prior year-end, while RMB-denominated small-and-medium enterprise ("SMEs") loans under the "BOC Credit Factory" model grew by 24.3%, 18.03 percentage points higher than the growth in total RMB-denominated corporate loans. The Bank's loan pricing capability continued to improve, with average interest rates for new domestic RMB-denominated loans and new USD-denominated loans increasing by 47 and 49 basis points to 7.06% and 4.49% compared to the prior year respectively.

The Bank continued to optimise the structure of its fee-based business. During the first half of 2012, net income for the Bank's domestic fee-based business was RMB32.914 billion. Of this, net income from its less capital-intensive fee-based business increased by 13.34% to RMB26.913 billion compared to the corresponding period in 2011, while the proportion of total net income arising from the Bank's fee-based business reached 81.77%. The Bank's traditional

business such as international settlement and foreign exchange settlement continued to maintain its leading positions in the market, while the development of other business such as bank card, bancassurance and precious metals was accelerated.

The Bank intensified its overseas business expansions. During the first half of 2012, the total assets of the Bank's overseas institutions increased by 18.98% compared to the end of 2011 and their proportion of the Group's total assets increased by 1.45 percentage points from the prior year-end to 23.84%². The Bank's market-leading advantage was further expanded with cumulative cross-border RMB settlement volumes by its domestic and overseas institutions increasing by approximately 20% compared to the corresponding period in 2011 to reach RMB1.05 trillion. Fresh progress was achieved in the Bank's overseas organisational expansion with the successful establishment of the Taipei Branch, Poland Branch, Stockholm Branch and Nairobi Representative Office. BOCHK continued to diligently promote its sustainable growth strategy and led the market in its core businesses such as RMB business, syndicated loans and residential mortgage loans. Its key financial indicators remained excellent. BOCI experienced increasing market influence, after obtaining clearing membership at the Chicago Mercantile Exchange and London Metal Exchange. BOC Aviation maintained its stable growth and was assigned long term corporate credit ratings of A- and BBB by Fitch and S&P respectively, leading aircraft leasing companies globally.

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

Improving Management Capabilities with a Focus on Risk Control

In the first half of 2012, the Bank strived to advance its risk management efforts in a more proactive and forward-looking manner, with a view to establishing an integrated, refined and professional risk management system supporting high quality business development. The Bank closely monitored the macroeconomic environment and enhanced its asset quality control and monitoring systems. It strictly enforced post-lending risk management, periodic risk investigation, risk classifications re-examination and proactively detected possible risks, thus ensuring stability in the quality of its loan portfolio. The Bank also took timely and effective risk mitigation measures in response to significant risk events. It strengthened risk control for key business areas, diligently implemented regulatory policies and tightened risk management practices for key industrial segments such as local government financing vehicles and real estate. The Bank strengthened market and country risk management, reduced its exposures to high-risk European sovereign debt and improved business control over high-risk and sensitive countries and regions. The Bank pushed forward the implementation and application of results the new Basel agreements and the emerging G-SIFIs system. The Bank also placed strong emphasis on internal controls and operational risk management and strengthened its risk management accountability mechanisms. As a result, operational risk loss cases continued to be held to a relatively low level.

As at the end of June 2012, the Bank's identified impaired loans totalled RMB63.615 billion, an increase of RMB0.309 billion from the prior year-end, while the ratio of identified impaired loans to total loans stood at 0.94%, a decrease of 0.06 percentage point from the prior year-end. The allowance for loan impairment

losses to non-performing loans was 232.56%, an increase of 11.81 percentage points from the prior year-end. The Bank's credit cost was 0.28%, down 0.15 percentage point compared with the first half of 2011.

Comprehensively Strengthening Infrastructure Construction Supported by Advanced Information Technology

In the first half of 2012, the Bank continued to strengthen its channel development and improve the comprehensive performance of its outlets, delivering significant improvements to service efficiency and quality. It further enhanced the service system for its e-banking channel and continuously improved and enriched the functionalities of its online and mobile banking services. The Bank maintained its technology-led development approach, continuing to intensify its IT development and enhance the functionalities of its core banking system. The Bank initiated a comprehensive and transformative project to integrate its overseas information systems and steadily improve their IT capabilities. It also vigorously enhanced its IT infrastructure framework and operating management system, leading to sustained increases across its key IT security indicators. The Bank also continued to improve service quality and accelerated the implementation of its "same city, centralised operations" plan, so as to continuously deepen business process integration while actively promoting the development of an integrated global operating service system.

As at end of June 2012, the number of domestic large and medium-sized full function outlets was over 1,600. The number of ATMs, self-service terminals and self-help banks increased by 9.93%, 12.56% and 9.66% respectively while the number of customers for corporate online banking, personal online banking and mobile banking increased by 39.05%, 40.13% and 91.78% respectively compared to the prior year-end.

Management Discussion and Analysis

Financial Review

Economic and Financial Environment

In the first half of 2012, the global economic recovery slowed and uncertainty increased. The European sovereign debt crisis remained unresolved and there were no indications of a recovery for the European economies. In Europe, unemployment continued to soar and the sovereign debt ratings for many countries were downgraded. Accordingly, the European Central Bank introduced long-term re-financing operations to stabilise the market. The US faced a weak economy recovery, with employment market remaining weak, and the US Federal Reserve maintained extremely low interest rates. Stimulated by factors such as post-earthquake reconstruction and increased public infrastructure investment, the Japanese economy realised positive growth. On the other hand, the emerging economies began to enter the stage whereby economic restructuring and low-to-medium economic growth run parallel as they face the dual pressures of inflation and a slowdown in growth.

Impacted by global economic developing trends and expectations, international financial markets experienced significant turmoil and major stock indices declined. US and German government bonds were keenly sought after and their yields decreased accordingly. The yields of government bonds issued

by Italy and Spain increased. Risk aversion sentiments caused the US dollar index to rebound and commodity prices declined.

The Chinese government continued to pursue stable improvement. Aligning China's steady and rapid economic growth with economic restructuring, and inflation expectation management, the government increased its emphasis on maintaining growth. The government continued to implement a proactive fiscal policy and prudent monetary policy, and made greater efforts to adapt and fine-tune policies according to changing circumstances. As a result, the national economy demonstrated stable development and steady overall progress. In the first half of 2012, the PBOC lowered the Required Reserve Ratio twice and benchmark interest rates once. It broadened the floating band for the interest rates of financial institutions' deposits and loans, and the process of interest rate liberalisation sped up. Compared with the same period of the previous year, China's Gross Domestic Product ("GDP") grew by 7.8%, its Consumer Price Index ("CPI") increased by 3.3%, investments in fixed assets grew by 20.4%, total retail sales of consumer goods rose by 14.4%, total value of foreign trade increased by 8.0%, and China's trade surplus increased by 56.4%, maintaining an overall balance in international payment.

China's domestic financial market operated stably. Total social financing amounted to RMB7.78 trillion. The broad measure of money supply ("M2"), RMB-denominated loan balance and deposits of financial institutions rose by 13.6%, 16.0% and 12.3% respectively on a year-on-year basis. The RMB exchange rate remained stable, with obviously fluctuation characteristic. The range of the RMB exchange rate against the US dollar enlarged to 1%, and RMB exchange rates elasticity increased substantially. As at the end of June 2012, the Shanghai Stock Exchange Composite Index had climbed 2.6% and total market capitalisation of the Shanghai and Shenzhen stock exchanges had increased by 5.3% compared with the end of 2011.

During the second half of 2012, the international economic and financial environment is expected to remain complex and challenging, and the European sovereign debt crisis will continue to be the greatest risk affecting global economy. The US is still experiencing a

lacklustre recovery, while Japanese economy continues to show signs of life but many potential risks still remain. The Chinese government will continue to be guided by the principle of stable progress in its policies and initiatives as it places even greater emphasis on stable growth. It will also continue to strengthen and enhance its macro-economic policies and adjustments as well as implement proactive fiscal policies and stable monetary policies. At the same time, it will expand the scope of its structural tax reduction policies and maintain stable and controlled growth in money supply and loans while striving to increase domestic demand and accelerating economic restructuring to bring about relatively rapid and stable economic development. The Chinese banking industry will accelerate its restructuring in the face of the challenges from the liberalisation, globalisation and intellectualisation of the banking industry. It will also closely guard against risks and diligently work towards achieving healthy and sustainable development.

Income Statement Analysis

In the first half of 2012, the Group earned a profit after tax of RMB75.002 billion, and a profit attributable to equity holders of the Bank of RMB71.601 billion, an increase of 6.79% and 7.58% respectively compared

with the first half of 2011. If excluding the impact of Lehman Brothers-related products etc., in the first half of 2011, profit after tax and profit attributable to equity holders would have increased 12.28% and 12.22% respectively. ROA and ROE stood at 1.22% and 18.99%.

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

Unit: RMB million

Items	For the six month period ended 30 June 2012	For the six month period ended 30 June 2011
Net interest income	124,054	110,215
Non-interest income	55,611	55,759
Including: net fee and commission income	34,250	34,974
Operating income	179,665	165,974
Operating expenses	(73,518)	(63,256)
Impairment losses on assets	(9,237)	(12,287)
Operating profit	96,910	90,431
Profit before income tax	97,135	90,777
Income tax expense	(22,133)	(20,543)
Profit for the period	75,002	70,234
Profit attributable to equity holders of the Bank	71,601	66,556

Net Interest Income and Net Interest Margin

In the first half of 2012, the Group earned a net interest income of RMB124.054 billion, an increase of RMB13.839 billion or 12.56%, compared with the first half of 2011. The average balances³ and average

interest rates of the Group's major interest-earning assets and interest-bearing liabilities as well as analysis of the impact of changes in volume and interest rate⁴ on the Group's interest income and expense are summarised in the following table:

³ Average balances of interest-earning assets and interest-bearing liabilities are average daily balances derived from the Bank's management accounts (unreviewed).

⁴ The impact of changes in volume on interest income and expense is calculated based on the changes in average balances of interest-earning assets and interest-bearing liabilities during the reporting period. The impact of changes in interest rate on interest income and expense is calculated based on the changes in the average interest rates of interest-earning assets and interest-bearing liabilities during the reporting period. Impacts relating to the combined changes in both volume and interest rate have been classified as changes in interest rates.

Unit: RMB million, except percentages

Items	For the six month period ended 30 June 2012			For the six month period ended 30 June 2011			Analysis of interest income/expense variances		
	Average balance	Interest income/ expense	Average interest rate	Average balance	Interest income/ expense	Average interest rate	Volume	Interest rate	Total
Group									
Interest-earning assets									
Loans	6,529,431	182,328	5.62%	5,942,765	135,468	4.60%	13,420	33,440	46,860
Investment debt securities ¹	2,014,650	31,359	3.13%	1,950,729	27,761	2.87%	912	2,686	3,598
Balances with central banks ²	2,197,937	13,884	1.27%	1,774,423	12,107	1.38%	2,906	(1,129)	1,777
Due from banks and other financial institutions	1,117,336	25,550	4.60%	872,225	15,438	3.57%	4,351	5,761	10,112
Total	11,859,354	253,121	4.29%	10,540,142	190,774	3.65%	21,589	40,758	62,347
Interest-bearing liabilities									
Due to customers ³	8,999,633	96,270	2.15%	8,024,258	61,246	1.54%	7,469	27,555	35,024
Due to banks and other financial institutions and due to central banks	2,021,793	28,913	2.88%	1,709,033	16,238	1.92%	2,986	9,689	12,675
Other borrowed funds ⁴	207,692	3,884	3.76%	162,415	3,075	3.82%	860	(51)	809
Total	11,229,118	129,067	2.31%	9,895,706	80,559	1.64%	11,315	37,193	48,508
Net interest income		124,054			110,215		10,274	3,565	13,839
Net interest margin			2.10%			2.11%			(1)Bp
Domestic RMB businesses									
Interest-earning assets									
Loans	4,797,826	156,669	6.57%	4,295,980	116,747	5.48%	13,675	26,247	39,922
Investment debt securities	1,448,031	24,806	3.44%	1,400,840	20,707	2.98%	699	3,400	4,099
Balances with central banks	1,677,761	12,948	1.55%	1,323,835	10,397	1.58%	2,781	(230)	2,551
Due from banks and other financial institutions	882,819	20,993	4.78%	737,494	13,720	3.75%	2,710	4,563	7,273
Total	8,806,437	215,416	4.92%	7,758,149	161,571	4.20%	19,865	33,980	53,845
Interest-bearing liabilities									
Due to customers	7,103,614	86,532	2.45%	6,417,553	56,104	1.76%	6,004	24,424	30,428
Due to banks and other financial institutions and due to central banks	1,088,846	24,609	4.55%	801,814	12,626	3.18%	4,539	7,444	11,983
Other borrowed funds	148,343	3,140	4.26%	124,300	2,439	3.96%	473	228	701
Total	8,340,803	114,281	2.76%	7,343,667	71,169	1.95%	11,016	32,096	43,112
Net interest income		101,135			90,402		8,849	1,884	10,733
Net interest margin			2.31%			2.35%			(4)Bps
Domestic foreign currency businesses									
Interest-earning assets									
Loans	84,211	1,559	3.72%	97,822	1,223	2.52%	(171)	507	336
Investment debt securities	20,789	198	1.92%	23,610	263	2.25%	(32)	(33)	(65)
Due from banks and other financial institutions ⁵	64,671	280	0.87%	20,364	145	1.44%	317	(182)	135
Total	169,671	2,037	2.41%	141,796	1,631	2.32%	114	292	406
Interest-bearing liabilities									
Due to customers	69,823	437	1.26%	60,741	219	0.73%	33	185	218
Due to banks and other financial institutions and due to central banks	71,183	529	1.49%	55,924	289	1.04%	79	161	240
Other borrowed funds	103	4	7.81%	100	4	8.07%	-	-	-
Total	141,109	970	1.38%	116,765	512	0.88%	112	346	458
Net interest income		1,067			1,119		2	(54)	(52)
Net interest margin			1.26%			1.59%			(33)Bps

Unit: USD million, except percentages

Notes:

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

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

Unit: RMB million, except percentages

Items	For the six month period ended 30 June 2012		For the six month period ended 30 June 2011		Change	
	Average balance	Average interest rate	Average balance	Average interest rate	Average balance	Average interest rate
Domestic RMB businesses						
Loans						
Corporate loans	3,239,883	6.82%	2,938,660	5.67%	301,223	115Bps
Personal loans	1,452,142	5.89%	1,278,776	5.01%	173,366	88Bps
Trade bills	105,801	8.15%	78,544	6.19%	27,257	196Bps
Total	4,797,826	6.57%	4,295,980	5.48%	501,846	109Bps
Including:						
Medium and long term loans	3,288,313	6.56%	3,111,717	5.45%	176,596	111Bps
1-year short term loans and others	1,509,513	6.58%	1,184,263	5.55%	325,250	103Bps
Due to customers						
Corporate demand deposits	1,887,034	0.96%	1,871,420	0.84%	15,614	12Bps
Corporate time deposits	1,594,278	3.39%	1,503,890	2.40%	90,388	99Bps
Personal demand deposits	1,008,151	0.57%	911,090	0.49%	97,061	8Bps
Personal time deposits	1,917,544	3.42%	1,833,608	2.51%	83,936	91Bps
Other	696,607	4.39%	297,545	3.63%	399,062	76Bps
Total	7,103,614	2.45%	6,417,553	1.76%	686,061	69Bps
Domestic foreign currency businesses						
Loans	84,211	3.72%	97,822	2.52%	(13,611)	120Bps
Due to customers						
Corporate demand deposits	22,952	0.32%	21,640	0.16%	1,312	16Bps
Corporate time deposits	13,911	3.27%	6,977	1.78%	6,934	149Bps
Personal demand deposits	10,784	0.10%	9,215	0.08%	1,569	2Bps
Personal time deposits	14,408	0.85%	16,426	0.72%	(2,018)	13Bps
Other	7,768	2.80%	6,483	2.41%	1,285	39Bps
Total	69,823	1.26%	60,741	0.73%	9,082	53Bps

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

In the first half of 2012, the Group's net interest margin was 2.10%, a decrease of 0.01 percentage point compared with the first half of 2011. Net interest margin of the Bank's domestic RMB businesses and domestic foreign currency businesses stood at 2.31% and 1.26%, decreasing by 0.04 percentage point and 0.33 percentage point respectively compared with the same period of 2011. Net interest margin of overseas institutions increased by 0.03 percentage point compared to the corresponding period in prior year to 1.14%.

The major factors influencing the Group's net interest margin include:

Firstly, the RMB has entered into a cycle of lower interest rate, the process of interest rate liberalisation accelerated, the floating band between borrowing and lending interest rates has expanded, and customer deposits have tended to feature longer durations. As such, the costs of interest-bearing liabilities rose faster than the income from interest-earning assets. Secondly, RMB appreciation was expected to weaken, making foreign currencies more attractive to domestic enterprises and residents. Foreign currency deposits grew more rapidly as a consequence, yet the demand for foreign currency loans remained subdued. At the same time, the major developed economies either cut interest rates or maintained a low interest rate policy, thus the foreign currency interest spread narrowed.

The Bank actively adopted measures to meet its various challenges to increase net interest income and improve net interest margin:

Firstly, the Bank expanded the scale of interest-earning assets and promoted the increase of net interest income. In the first half of 2012, the average balance of interest-earning assets of the Bank had an increase of 12.52% compared with the corresponding period in

2011, which led to the increase of net interest income and correspondingly offset to an extent the narrowing impact of the interest margin. Secondly, the Bank proactively optimised its customer and business structure. During the first half of 2012, new domestic RMB-denominated personal loans comprised 39.77% of all new domestic RMB-denominated loans, representing an increase of 5.65 percentage points compared with the prior year-end. RMB-denominated SME loans under the "BOC Credit Factory" model increased by 24.3%, 18.03 percentage points higher than the growth rate of all RMB-denominated corporate loans. Thirdly, the Bank strengthened pricing management and improved the pricing levels. In the first half of 2012, the average interest rates of new domestic RMB-denominated and USD-denominated loans were 7.06% and 4.49%, respectively, up 47 basis points and 49 basis points respectively over 2011.

Non-interest Income

By fully leveraging its diversified business platform and implementing the comprehensive business development strategy, the Bank strengthened its traditional advantages and expanded steadily into new growth areas. The proportion of non-interest income remained at a relatively high level. In the first half of 2012, the Group reported a non-interest income of RMB55.611 billion, representing 30.95% of total operating income.

Net Fee and Commission Income

In the first half of 2012, the Group earned a net fee and commission income of RMB34.250 billion, a decrease of RMB0.724 billion or 2.07% compared with the same period of 2011. Given an underperforming financial capital market in Chinese mainland and Hong Kong since the beginning of the year, the Bank had a shrinking stock, fund underwriting and other capital market related commission income compared with

the same period of last year. In addition, the Bank strictly enforced the policy to reduce or waive the fee charged, resulting in a reduction of related income such as consulting, advisory and financing income. Faced with challenges from a complex domestic and overseas economic environment, the Bank increased its efforts on product innovation and promotion as well as actively promoted the development of the less capital-intensive fee-based business and enhanced the structure of its fee-based business. The Bank's traditional business such as international settlement and foreign exchange settlement continued to maintain their leading positions in the market, while the development for its other businesses such as bank card, bancassurance, bond underwritten and distribution was accelerated. Please refer to Note III.2 to the Condensed Consolidated Interim Financial Information for detailed information.

Other Non-interest Income

In the first half of 2012, the Group realised other non-interest income of RMB21.361 billion, an increase of RMB0.576 billion or 2.77% compared with the same period of 2011. The increase was primarily the result of an increase in net trading gains, sales of precious metal products and aircraft leasing income. Please refer to Note III.3, 4 to the Condensed Consolidated Interim Financial Information for detailed information.

Operating Expenses

In the first half of 2012, the Group recorded operating expenses of RMB73.518 billion, an increase of RMB10.262 billion or 16.22% compared with the same period of 2011. Aiming to enhance market competitiveness, the Bank continued to advance its outlets transformation programme and construction of its service channels and IT systems. The Bank continued to devote resources to strategic investments thus lead to an increase in expenses incurred. While ramping up

investment, the Bank also pro-actively optimised its resources allocation mechanism, minimised costs, used resources more efficiently, and kept travel, meetings and other administrative expense growth at a relatively low level.

The Group's cost to income ratio (calculated under domestic regulations) was 29.23%, a decrease of 3.84 percentage points compared with the end of last year. The operating efficiency of the Group has been steadily enhanced. Please refer to Note III.5, 6 to the Condensed Consolidated Interim Financial Information for detailed information.

Impairment Losses on Assets

Impairment Losses on Loans and Advances

In the first half of 2012, the Group further improved the quality of its loans and advances. As a result, the ratio of identified impaired loans to total loans decreased. The Group's impairment losses on loans and advances amounted to RMB9.218 billion, a decrease of RMB3.615 billion compared with the same period of 2011. Credit cost was 0.28%, a decrease of 0.15 percentage point compared with the same period of 2011. Please refer to the "Risk Management — Credit Risk Management" section and Notes III.7, 15 and IV.1 to the Condensed Consolidated Interim Financial Information for detailed information on loan quality and allowance for loan impairment losses.

Impairment Losses on Other Assets

In the first half of 2012, the impairment losses of other assets amounted to RMB0.019 billion, while a reversal of impairment losses on debt securities amounted to RMB0.163 billion. Please refer to Note III.7 and Note IV.1 to the Condensed Consolidated Interim Financial Information for detailed information.

Financial Position Analysis

As at the end of June 2012, the Group's total assets amounted to RMB12,825.590 billion, an increase

of RMB995.801 billion or 8.42% from the prior year-end. The Group's total liabilities amounted to RMB12,033.973 billion, an increase of RMB961.321 billion or 8.68% from the prior year-end.

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

Unit: RMB million

Items	As at 30 June 2012	As at 31 December 2011
Assets		
Total loans and advances to customers	6,753,664	6,342,814
Allowance for impairment losses	(147,822)	(139,676)
Investment securities ¹	2,063,679	2,000,759
Balances with central banks	2,187,913	1,919,651
Due from banks and other financial institutions	1,337,025	1,147,497
Other assets	631,131	558,744
Total	12,825,590	11,829,789
Liabilities		
Due to customers	9,482,564	8,817,961
Due to banks and other financial institutions and due to central banks	1,965,599	1,718,237
Other borrowed funds ²	202,052	196,626
Other liabilities	383,758	339,828
Total	12,033,973	11,072,652

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

Since the beginning of 2012, the Bank has further increased its support for the development of the real economy, ensuring that credit was extended in a rational and well-timed manner. The Bank also enhanced its credit structure and gave priority towards satisfying the financing needs of SMEs. These measures have promoted the balanced and moderate development of the Bank's lending scale. As at the end of June 2012, the Group's loans and advances to customers amounted to RMB6,753.664 billion, an increase of RMB410.850 billion or 6.48% compared with the prior year-end. This included RMB-denominated loans of RMB5,134.349 billion, an increase of RMB358.855 billion or 7.51% compared with the prior year-end, and foreign currency-denominated loans of USD256.022 billion, an increase of USD7.277 billion or 2.93% compared with the prior year-end.

The Bank further strengthened its comprehensive risk management and enhanced risk control over key areas to ensure the stability of assets quality. As at the end of June 2012, the ratio of the Group's identified impaired loans to total loans was 0.94%, a decrease of 0.06 percentage point from the prior year-end. The ratio of non-performing loans to total loans was 0.94%, a decrease of 0.06 percentage point from the prior year-end. The ratio of allowance for loan impairment losses to non-performing loans was 232.56%, up 11.81 percentage points from the prior year-end. Domestic institutions' ratio of allowance for loan impairment losses to total loans was 2.58%, up 0.02 percentage point from the prior year-end. The balance of restructured loans was RMB10.198 billion, down by 7.74% from the prior year-end.

Investment Securities

As at the end of June 2012, the Group held investment securities of RMB2,063.679 billion, an increase of RMB62.920 billion or 3.14% from the prior year-end. RMB-denominated investment securities amounted to RMB1,557.278 billion, an increase of RMB88.874 billion or 6.05% from the prior year-end. Foreign currency-denominated investment securities amounted to USD80.065 billion, a decrease of USD4.424 billion or 5.24% from the prior year-end.

The Bank continued to reduce its exposures to high-risk European debts. The total carrying value of debt securities issued by European governments and institutions held by the Group was RMB54.602 billion, among which RMB52.507 billion or 96.16% related to the United Kingdom, Germany, Netherlands, France and Switzerland. The Group did not hold any debt securities issued by Greece, Portugal, Ireland, Italy or Spain.

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 USD1.286 billion, and the related impairment allowance was USD0.772 billion. The Group's carrying value of debt securities issued by US agencies Freddie Mac and Fannie Mae together with debt securities guaranteed by these two agencies amounted to USD54 million.

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

Unit: RMB million, except percentages

Items	As at 30 June 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
Financial assets at fair value through profit or loss	76,891	3.73%	73,807	3.69%
Securities available for sale	607,136	29.42%	553,318	27.65%
Securities held to maturity	1,084,736	52.56%	1,074,116	53.69%
Securities classified as loans and receivables	294,916	14.29%	299,518	14.97%
Total	2,063,679	100.00%	2,000,759	100.00%

Investment Securities by Currency:

Unit: RMB million, except percentages

Items	As at 30 June 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
RMB	1,557,278	75.46%	1,468,404	73.40%
US dollar	285,423	13.83%	286,193	14.30%
HK dollar	121,110	5.87%	118,644	5.93%
Other	99,868	4.84%	127,518	6.37%
Total	2,063,679	100.00%	2,000,759	100.00%

The top ten financial bonds held by the Group are set out below:

Unit: RMB million, except percentages

Bond Name	Par Value	Annual Rate	Maturity	Impairment
Bonds issued by policy banks in 2011	7,840	3.58%	2014-11-17	–
Bonds issued by policy banks in 2005	6,800	3.42%	2015-08-02	–
Bonds issued by policy banks in 2010	6,070	time deposit rate for 1 year +0.52%	2017-01-26	–
Bonds issued by policy banks in 2006	5,000	time deposit rate for 1 year +0.60%	2016-12-12	–
Bonds issued by policy banks in 2011	4,910	3.55%	2016-12-06	–
Bonds issued by policy banks in 2007	4,840	4.55%	2012-09-18	–
Bonds issued by policy banks in 2010	4,780	time deposit rate for 1 year +0.59%	2020-02-25	–
Bonds issued by policy banks in 2009	4,660	time deposit rate for 1 year +0.54%	2016-09-01	–
Bonds issued by policy banks in 2011	4,400	3.83%	2018-11-24	–
Bonds issued by policy banks in 2005	3,600	4.67%	2020-03-29	–

Note: Financial bonds are debt securities issued by financial institutions in the bond market, including the bonds issued by policy banks, other banks and other financial institutions, but not including the restructured bonds and PBOC bills.

Due to Customers

Since the beginning of 2012, the Bank continued to enhance its service capability and attracted the deposit from administrative institutions. By actively expanding marketing efforts to the upstream and downstream customers of its core enterprise relationships and continuing to accelerate the construction and functional upgrading of its outlets and e-channels, the Bank has steadily increased the scale of its customer deposits. As at the end of June 2012, the Group's deposits from customers amounted to RMB9,482.564 billion, an increase of RMB664.603 billion or 7.54% from the prior year-end. This included RMB-denominated deposits of RMB7,706.586 billion, an increase of RMB424.495 billion or 5.83% compared with the prior year-end, and foreign currency-denominated deposits of USD280.791 billion, an increase of USD37.037 billion or 15.19% compared with the prior year-end.

Equity

As at the end of June 2012, the Group's total equity was RMB791.617 billion, an increase of RMB34.480 billion or 4.55% from the prior year-end. This change was primarily attributable to: (1) a profit after tax of RMB75.002 billion, with profit attributable to equity holders of the Bank of RMB71.601 billion in the first half of 2012; (2) a cash dividend of RMB43.268 billion paid in respect of the 2011 profit approved by the equity holders of the Bank at the Annual General Meeting. Please refer to the Condensed Consolidated Statement of Changes in Equity in the Condensed Consolidated Interim Financial Information for detailed information on equity movements.

The operating performance and financial position of the Group's geographical and business segments are set forth in Note III.30 to the Condensed Consolidated Interim Financial Information.

Business Review

In the first half of 2012, the Group continued to implement its strategic development plan and achieved healthy growth across all business lines. The following table sets forth the profit before income tax for each line of business:

Unit: RMB million, except percentages

Items	For the six month period ended 30 June 2012		For the six month period ended 30 June 2011	
	Amount	% of total	Amount	% of total
Commercial banking business				
Including: Corporate banking business	60,455	62.24%	50,997	56.18%
Personal banking business	22,184	22.84%	22,084	24.33%
Treasury operations	11,100	11.43%	9,257	10.20%
Investment banking and insurance	1,218	1.25%	1,432	1.57%
Others and elimination	2,178	2.24%	7,007	7.72%
Total	97,135	100.00%	90,777	100.00%

A detailed review of the Group's principal deposits and loans as at the end of June 2012 is summarised in the following table:

Unit: RMB million

Items	As at	As at	As at
	30 June 2012	31 December 2011	31 December 2010
Corporate deposits			
Domestic: RMB	3,959,714	3,842,173	3,374,811
Foreign currency	273,483	194,682	180,517
Hong Kong, Macau, Taiwan, and other countries:	739,639	657,460	508,178
Sub-total	4,972,836	4,694,315	4,063,506
Personal deposits			
Domestic: RMB	3,475,269	3,165,161	2,775,551
Foreign currency	188,694	184,810	197,175
Hong Kong, Macau, Taiwan, and other countries:	615,400	585,111	596,187
Sub-total	4,279,363	3,935,082	3,568,913
Corporate loans			
Domestic: RMB	3,447,946	3,244,573	2,910,239
Foreign currency	502,028	573,882	630,446
Hong Kong, Macau, Taiwan, and other countries:	1,034,398	906,850	703,698
Sub-total	4,984,372	4,725,305	4,244,383
Personal loans			
Domestic: RMB	1,524,645	1,390,343	1,217,171
Foreign currency	972	896	729
Hong Kong, Macau, Taiwan, and other countries:	243,675	226,270	198,338
Sub-total	1,769,292	1,617,509	1,416,238

Commercial Banking Business

Domestic Commercial Banking Business

In the first half of 2012, the Bank's domestic commercial banking business recorded a profit before income tax of RMB78.431 billion, an increase of RMB6.177 billion or 8.55% compared with the first half of 2011. The principal components are set forth below:

Unit: RMB million, except percentages

Items	For the six month period ended 30 June 2012		For the six month period ended 30 June 2011	
	Amount	% of total	Amount	% of total
Corporate banking business	53,875	68.69%	47,089	65.17%
Personal banking business	19,868	25.33%	20,092	27.81%
Treasury operations	4,688	5.98%	5,073	7.02%
Total	78,431	100.00%	72,254	100.00%

Corporate Banking Business

Corporate Deposits

The Bank leveraged its competitive advantages in businesses such as corporate settlement, cash management and cross-border RMB settlement to achieve a sustained growth in deposits. The Bank also strengthened the service capabilities of its outlets in terms of attracting more corporate deposits and enlarging the customer base. In addition, the Bank leveraged its strong relationships with its core corporate clients in order to extend its services to other enterprises across their supply and production chains, both upstream and downstream, thus expanding the precipitation and internal circulation of funds. It also exploited opportunities to provide direct financing to enterprises and actively sought to attract deposits related to funds raised by major projects. Concurrently,

the Bank improved its product and service systems for administrative institutions and maintained a relatively rapid growth in deposits from such institutions.

As at the end of June 2012, RMB-denominated corporate deposits in the Bank's domestic operations amounted to RMB3,959.714 billion, an increase of RMB117.541 billion or 3.06% compared with the prior year-end. Foreign currency-denominated corporate deposits amounted to USD43.239 billion, an increase of USD12.342 billion compared with the prior year-end, maintaining its leading position in terms of market share.

Corporate Loans

The Bank continued to increase its support to the real economy development, fulfilled credit needs for key industries such as manufacturing, transportation,

electric power, retail and wholesale and actively provided financial support to the development of key sectors including emerging strategic industries, cultural industries, agriculture, rural areas and farmers as well as domestic consumption. Product innovation was enhanced and credit resource allocation was tilted to prioritise the financing needs of SMEs. The Bank also increased credit support to the key areas listed in the state economic development plan, the eastern regions of industrial upgrading and the central and the western regions of industrial migration. It also made great strides towards the development of low-carbon financing and Green Credit and strictly controlled loans to overcapacity industries. The Bank strengthened the management of loans granted to local government financing vehicles and optimised its real estate credit portfolio. By way of solidifying asset portfolio management, quality and profitability of loan assets were ensured. The Bank also intensified the development of a global financial service system for corporate customers. To date, the Bank has completed over 160 major “Going Global” projects, including overseas mergers and acquisitions, export credit and global unified credit facility, with contractual amounts exceeding USD60.0 billion.

As at the end of June 2012, RMB-denominated corporate loans of the Bank’s domestic operations amounted to RMB3,447.946 billion, an increase of RMB203.373 billion or 6.27% compared with the prior year-end. The Bank continued to maintain its leading position in the foreign currency-denominated corporate loans market with foreign currency-denominated corporate loans (including trade finance) amounted to USD79.373 billion.

Domestic Settlement and Cash Management Business

The Bank actively advanced product innovation and promotion for its domestic settlement and cash management products, strengthened the development of its Global Cash Management Business Platform and enhanced the service capabilities. To wholly satisfy the needs of customers, the Bank developed the settlement card for corporate customers and continued to promote key products such as Capital Verification Online, Short Message Service and Integrated Service Plan. The Bank dedicated itself to the development of the “BOC Global Cash Management” brand, based on the competitive advantages arising from the Bank’s international network. This network allows the Bank to support world-wide account information inquiries and automated capital consolidation, thus providing customers with premium global cross-border cash management services.

International Settlement and Trade Finance Business

By fully leveraging its traditional advantages in international settlement and trade financing, and taking market demand and the development characteristics of the banking industry into joint consideration, the Bank introduced new products such as large-sum commodity financing and import collection, enhanced its supply chain pre-payment/payable product system and intensified cooperation within the banking industry, thus consolidating its leading position in the market. In the first half of 2012, the Group continued to maintain its leading position in the global banking industry as the transaction volume for its international settlement business totalled USD1.32 trillion. The Group

also ranked first among its global peers in two-factor export factoring with a total volume of USD2.827 billion. Thanks to its excellent innovation capabilities and remarkable market performance, the Bank was recognised as the “Best Trade Finance Bank in China” by magazines such as *Global Finance* and *The Asian Banker*, demonstrating its rising brand influence across the world.

The Bank actively expanded its cross-border RMB business and consolidated its advantageous position. Since 2009, cumulative cross-border RMB settlement transaction volumes of the Bank exceeded RMB3 trillion, ranking first in the market. Its customers were located in more than 100 countries and regions across a range of industries, including electric power, communications equipment, electronic products, transportation and logistics, chemicals, manufacturing and wholesale and retail. As at the end of June, the Bank established 758 cross-border RMB clearing accounts for overseas participating banks, and ranked first amongst its peers. The Bank made full use of its competitive advantage of international and diversified platforms, and established cross-border and overseas RMB product portfolio including deposit, loans, international settlement, cash distribution, clearing services, treasury operations, credit card, insurance and funds etc, so as to provide efficient and extraordinary cross-border RMB services to global customers.

Financial Institutions Business

The Bank continuously intensified business cooperation with financial institutions across the globe. It has achieved a leading market position in terms of

financial institution customer coverage, establishing correspondent banking relations with close to 1,500 financial institutions in 179 countries and regions. For the first half of 2012, the Bank witnessed moderate growth in RMB deposits from financial institutions and led the market in terms of foreign currency deposits. The Bank’s market share of bancassurance and third-party custodian business continued to rise. It ranked first amongst its peers in terms of business volume in B-share clearing and led the domestic market in terms of incoming international settlement business volume directed to the Bank by its overseas correspondent banks. Business cooperation with banks in Taiwan was strengthened and expanded into areas such as cross-border RMB trade settlement, syndicated loans, inter-bank lending and QFII. The Bank also signed a Memorandum of Understanding regarding strategic cooperation with CME Group Inc to strengthen cooperation in business areas such as clearing member, settlement bank, offshore RMB depository services and overseas futures.

Small-sized Enterprises Business

The Bank actively developed a financial services model designed to serve industry chain, with the aim of developing stronger banking relationships with related upstream and downstream micro and small-sized businesses. The model monitored the flow of materials, information and capital through product innovation. The Bank also relied on its diversified and comprehensive financial services platform to provide small-sized enterprise customers with full range of financial services, including insurance, investment, securities and rural banking. The Bank improved

customer service capability and enhanced customer experience by utilising its network advantage. The Bank enhanced its service efficiency and effectively controlled risk through continuously improving its service processes, policies, procedures and optimising the standard division of duties. As at the end of June 2012, the Bank's outstanding loans to domestic small-sized enterprises⁵ amounted to RMB796.595 billion, up 6.96% compared with the prior year-end. The growth rate was higher than the average growth rate of total loans.

Investment Banking Business

The Bank strengthened the coordination between its subsidiaries and pushed forward innovation and marketing to meet diversified client needs, by providing a comprehensive range of investment banking services such as asset management, corporate bond issuance underwriting, IPO underwriting, seasoned equity offering underwriting and direct equity investment services. The Bank also proactively promoted services such as "Innovation of Asset Management Products", "M&A Advisory Services", "Pre-IPO Advisory Services" and "Commercial Loans with Embedded Equity Option Advisory Services" aimed at small and medium-sized enterprises. It also promoted innovative products such as "Structured Investing and Financing Advisory Services" and "Private Equity Advisory Services". In addition, the Bank strengthened joint collaboration and customer cross-referrals with its subsidiaries. These efforts have contributed to the continuous improvement of the Bank's reputation in the investment banking industry. As a result, the Bank was recognised as the "Best Commercial Bank in Investment Banking Business" by the *Securities Times*.

⁵ The Bank adjusted its classification of small-sized enterprises according to "the Notice on the Classification Guidelines for Small and Medium-Sized Enterprises (Gongxinbulianqiye [2011] No. 300)" issued by Ministry of Industry and Information Technology and other three Ministries. The data was not comparable to the prior years. Small-sized, micro-sized enterprises and personal business loans are included.

Pension Business

The Bank closely followed the development of the national social security system, constantly enriched its pension products and strengthened the development of its business system. The scope of the Bank's pension business has expanded to cover areas such as corporate annuities, occupational annuities, social security and employee benefit planning.

As at the end of June 2012, the number of pension accounts reached 1.6236 million, capital under custody was RMB45.069 billion and the number of customers exceeded 5,800. Newly opened individual pension accounts reached 0.4444 million and new capital in custody reached RMB12.569 billion, increasing by 37.69% and 38.67% respectively over the end of 2011.

Personal Banking Business

Personal Deposits

The Bank strengthened product innovation such as personal accounts and debit cards for its deposits business to meet various customer needs. The Bank actively penetrated markets in central and western China and achieved relatively rapid growth for its personal deposits business. At the end of June 2012, the number of domestic active customers amounted to 163 million, an increase of 10.2643 million or 6.70% compared with the prior year-end. The balance of RMB-denominated personal deposits amounted to RMB3,475.269 billion, an increase of RMB310.108 billion or 9.80% compared with the end of 2011. The Bank continued to maintain its leading position among its peers, with the balance of foreign currency personal

deposits increasing by USD503 million from the end of 2011 to USD29.834 billion as at the end of June 2012.

Personal Loan Business

The Bank continued to optimise its loan restructuring and enhanced its residential mortgage loans business, while promoting the development of other areas such as personal loans for commercial premises, personal business loans and personal loans for studying abroad. The Bank enhanced systems and channel development for its personal loans business, optimised business processes and prevented business risks. At the end of June 2012, domestic RMB-denominated personal loans increased by RMB134.302 billion or 9.66% from the prior year-end to RMB1,524.645 billion. Of which, the Bank continued to maintain its leading position in secondary residential mortgage loans, personal auto loans and sponsored student loans.

Wealth Management and Private Banking

The Bank continued to accelerate the construction of service channels under its three-tier wealth management system. As at the end of June 2012, the Bank had established 4,523 wealth management centres, 180 prestigious wealth management centres and 19 private banking centres in the Chinese mainland. The development of overseas wealth management service channels has been accelerated and the construction of the wealth management platform in South-east Asia has been completed. The Bank also continuously enriched its wealth management product offerings by introducing wealth management products such as the "BOC Zhaifu" (bond investment) series. In addition, the Bank also introduced precious metal products such as the "BOC 100th Anniversary".

The Bank accelerated the development of its private banking business to provide diverse cross-border financial assets allocation services for its high level customers. The Bank promoted a comprehensive service system covering personal wealth management and enterprise investing and financing advisory. Under the "BOC Premier" brand, the Bank also continued to promote the development of platforms with various themes for its high-end customers.

As at the end of June 2012, the number of the Bank's middle and high-end customers increased by more than 10% compared with the prior year-end while the number of private banking customers exceeded 30,000. The Bank's wealth management and private banking business also won several awards, including "The Best Private Bank in China" by *Euromoney* and "The Most Preferred Chinese Private Bank" by *Hurun Report*.

Bank Cards Business

The Bank accelerated the innovation of its bank card products, continued to enhance its product structure through vigorous promotion of its Great Wall International Credit Card and Platinum Card products. The Bank collaborated with enterprises to actively promote its Enterprise IC Credit Card through integrated solutions for micropayment. The Bank also introduced the New City Credit Card which offers features such as chip-based secure payment and e-services and is targeted at the youth segment. The social security card for the Chinese People's Armed Police Force issued by the Bank's Tianjin Branch was the first among all banks in Tianjin. The Bank enriched its credit card instalment services and developed new business such as foreign currency instalment and online instalment products. The Bank also pushed forward the establishment of Card Unit (Singapore) and issued local

currency single-currency IC credit cards in countries such as Australia, Thailand, and Canada. As at the end of June 2012, the issuance amount and transactions volumes of the Bank are set out below:

Unit: millions card/RMB billion, except percentages

	As at 30 Jun 2012	As at 31 Dec 2011	Change
Cumulative number of effective credit cards	34.6593	30.8629	12.30%
Cumulative number of debit cards	218	194	12.37%
Cumulative number of social security cards with financial function	13.0574	7.7730	67.98%
	For the six month period ended 30 June 2012	For the six month period ended 30 June 2011	Change
Transaction amount of credit cards	308.168	190.077	62.13%
Transaction amount of debit cards	588.580	338.493	73.88%
RMB card merchant acquiring transaction amount	1,103.140	800.995	37.72%
Foreign currency card merchant acquiring transaction amount	13.731	11.186	22.75%

Financial Markets Business

Investments

The Bank continued to optimise its investment structure and moderately increased its placement in RMB-denominated bonds and extended the duration of its investment portfolio. The Bank also increased its placement in high-grade debenture bonds and maintained a high proportion of Chinese government bonds in its investment portfolio. These measures contributed to a sustained increase in investment returns. The Bank dealt effectively with the impact arising from European debt crisis and related market credit risk events. The Bank further enhanced its investment structure by reducing its high-risk foreign currency bonds in good timing. The Bank also strengthened the centralised management of the Group's bond investments to reduce portfolio risks, and broadened the placement channel for overseas RMB funds to improve investment yield.

Trading

The Bank continuously promoted product innovation and improved its quotation system for market-making, fiduciary trading, and proprietary trading to consolidate its market advantages. The Bank also actively responded to RMB exchange rate policy adjustments to provide customers with more flexible trading products. It launched the first inter-bank Yen-RMB direct quotation transaction, fulfilled its obligations as a market maker and optimised pricing for customers. In addition, the Bank introduced "Yuan Wu You", a new RMB option product to promote the rapid development of the RMB options business. The Bank continued to promote the development of its products such as the purchase and sale of foreign currencies and precious metals. It continued to rank first in terms of transaction volumes for spot exchanges in onshore market. The Bank maintained its leading position for foreign currency forwards with a market share of 33.92%. The Bank

was also ranked top in terms of trading volume on the Shanghai Gold Exchange.

Client Business

The Bank actively responded to reforms in the RMB interest rate market and promoted RMB risk and commodity price preservation business, further enhancing its integrated client service capacity. Its wealth management product line is substantiated focusing on the development of wealth management products such as “RI JI YUE LEI — Daily Scheme”, “FX-linked structured products” and “Gold-linked structured products”, as well as introducing the “BOC Steady Income Wealth Management Program”. In addition, the Bank enhanced its product system process and strengthened entry and exit management. It also improved the level of professional competence in debt underwriting and enhanced its bond distribution network, significantly increasing its market competitiveness. The Bank ranked first in terms of the scale of publicly offered debt financing instruments.

Custody Business

The Bank actively deepened cooperation with key customers such as the National Council for Social Security Fund, fund management companies and insurance companies, and improved the level of customer relations management and integrated returns. The Bank also introduced a variety of innovative new custody products, including cross-market ETF funds, asset securitisation, medical insurance funds, RMB Qualified Foreign Institutional Investors (“RQFII”) and three types of foreign institutions’ investment in domestic interbank bond market. It optimised

the value-added service capability of its inter-bank wealth management and insurance infrastructure debt investment planning custody products. The Bank also introduced customer investment behaviour analysis platforms and QDII investment monitoring platforms, and intensified the business cooperation with sub-custodian banks globally to broaden its global custodian networks. As at the end of June 2012, assets under custody of the Bank’s domestic institutions were RMB2.76 trillion, ranking second among its peers. The Bank was ranked top among its peers in terms of total assets under custody, which exceeded RMB3 trillion. As a result, the Bank was awarded the “Exemplary Brand for Satisfying Asset Custody Services in China” by the “2012 China Competitiveness Forum & Honest Operation and Development Summit”.

Village Bank

The Village Bank was committed to applying global best practices in micro-sized enterprise financial services to the unique characteristics of Chinese cities. By adhering to the principles of “committing to the development of rural China, supporting farmers and small businesses, and aspiring to grow together with them”, aiming to create a village bank development model based on “large-scale development, standardised management and professional operations”, the village bank made rapid growth. As at the end of June 2012, the 18 BOC Fullerton village banks were officially opened, the deposit balance was RMB1.389 billion, an increase of 58.1% compared to the prior year-end. Loan balance was RMB1.046 billion, an increase of 129.3% compared to the prior year-end. There were no non-performing loans and all financial indicators were positive.

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

Under the guiding principle of “specialised operations, intensive management and integrated development of domestic and overseas businesses”, the Bank leveraged its overall advantages to improve its global service capabilities for customers and accelerate the development of its overseas business by coordinating its domestic and overseas operations.

The Bank actively explored overseas sources of funding and strongly emphasised the development of “Going Global” enterprises and project loans to key local customers. As a result, overseas institutions business has grown relatively rapidly and operating efficiency has improved as business and customer structures have been enhanced. As at the end of June 2012, the total assets of the Bank’s commercial banking operations in Hong Kong, Macau, Taiwan and other countries increased by 19.78% from the prior year-end to USD490.769 billion, making up 22.43% of the Group’s total assets, an increase of 1.59 percentage points from the prior year-end. Customer deposits and total loans increased by 11.55% and 12.37% respectively from the prior year-end to USD243.424 billion and USD200.443 billion. Profit before tax was USD2.598 billion, an increase of 22.66% from the prior period and represented 16.87% of the Group’s total profit before tax, an increase of 1.64 percentage points from prior year.

The Bank accelerated the deployment of its overseas networks by establishing outlets, representative offices and “China Desk” etc., to extend the overseas networks and enhance its global service capability. The establishment of the Poland Branch expanded the Bank’s business network in Central and Eastern Europe. With the establishment of the Taipei Branch, the Bank became the first Chinese mainland commercial bank to establish a branch in Taiwan. The official establishment

of the wealth management centre and bank card centre in Singapore has also strengthened the Bank’s capability to provide professional financial services to retail customers in China and the South-east Asian region. It has also established six tier-two branches in countries and regions such as Thailand, Australia, Russia, Canada and Macau. The Bank’s overseas operations now cover Hong Kong, Macau, Taiwan and 35 other countries. The Bank also extended financial services to countries such as Oman, Peru, Ghana and Chile through promoting the “China Desk” business model.

The Bank kept its global growth plan on course and supported the implementation of the nation’s “Going Global” strategy. It seized the historic opportunities offered by the internationalisation of the RMB to vigorously promote its cross-border RMB business and ranked first in the market in terms of cross-border RMB settlement volume and number of accounts opened. The Bank is the only Chinese bank that participates into the working group of construction of offshore RMB centre in London, and remained the largest market maker in the Russian inter-bank market in terms of trading amount and volume.

BOCHK

BOCHK continued to adopt a balanced growth strategy and took advantage of opportunities for business development. It consolidated and expanded its business and customer base, and proactively optimised its asset and liability structure. All these initiatives helped enhance profitability steadily. Key financial ratios and risk indicators remained stable. BOCHK’s ranking raised to second in a survey of “The World’s Strongest Banks” by *Bloomberg Markets* magazine. In the first half of 2012, BOCHK profit before tax decreased by 6.35% compared to the same period in 2011 to RMB11.266 billion. Excluding the impact of Lehman Brothers-related products in the first half of 2011, profit before tax would have increased by 16.73%.

BOCHK's core banking business grew satisfactorily with continuous enhancement in competitiveness. It adopted an active and flexible deposit strategy and maintained a stable growth in deposits while effectively controlling deposit costs. It adopted a proactive but prudent loan strategy, continuously improving loan pricing. Loan quality remained solid, with classified or impaired loan ratio being one of the lowest in the industry. BOCHK maintained its leading position in Hong Kong's syndicated loans, new underwriting of residential mortgages and China UnionPay card issuance businesses.

BOCHK maintained its leading position in the offshore RMB business in Hong Kong and continually strengthened its comprehensive RMB business capability. It led the market in terms of RMB deposits, RQFII funds distribution and RMB insurance business. During the reporting period, BOCHK launched three offshore RMB bond sub-indices and successfully arranged the first 100% RMB-denominated syndicated loan in Hong Kong.

BOCHK intensified its customer relationship management and continued to optimise its service channels. It implemented the "Global Relationship Manager Programme" and established the business model of "Integrated Branches for Commercial Business". It also optimised online banking to strengthen the capabilities of its service channels. At the same time, it has unified its wealth management service platform and strengthened its brand awareness in the market. BOCHK's integrated service capabilities for high-end customers have also been improved with the set up of its new private banking business platform. BOCHK has also received the "SME's Best Partner Award" for five consecutive years.

BOCHK continued to improve its service capability through product innovation. It extended its working hours as a clearing bank to provide better service to participating banks conducting RMB businesses in Europe and the US. The intra-day cash pooling was introduced to further enhance BOCHK's cash management capabilities. In addition, it launched the chip-based BOC Card, Hong Kong's first chip-based ATM Card, providing greater security and convenience for customers to conduct banking services.

(Please refer to the BOCHK Interim Report for a full review of BOCHK's business performance.)

Diversified Business Platform

The Bank's subsidiaries earnestly implemented the Group's integrated operational reform and development plan as well as fully leveraged their professional advantages to maximise their contribution to the Group's strategy. The integration of the Bank's diversified business platforms such as investment banking, insurance and direct investment with its core commercial banking business has been continuously strengthened. The diversified business platform continued to provide the Bank with diversified revenue sources, thereby maximising profit for the Group.

Investment Banking Business

BOCI

BOCI focused on establishing a global sales and marketing network. Its equity financing and financial advisory businesses developed steadily, while its bond underwriting business achieved excellent growth. Concurrently, its securities business maintained stable development while its private banking business grew

robustly. The asset management business maintained its market leading position, while the private equity business focused on expanding its investor base and project base. In addition, the global commodities business accelerated the construction of its overseas business platform. BOCI is the only Chinese investment bank participated in the offshore USD bond issuance for the three largest petroleum companies in China, as well as being the only Chinese financial institution to obtain clearing memberships with the Chicago Mercantile Exchange and London Metal Exchange. BOCI was ranked third in Chinese corporate offshore G3 currency (USD, EUR and JPY) bond underwriting market, and ranked first in convertible bond underwriting in the Asia-Pacific region (excluding Japan) among Chinese investment banks. It also won a number of significant awards from media outlets such as *Asia Asset Management*, *World Finance*, *Compass* and *Securities Times*.

BOCI China

BOCI China promoted systematic collaboration with the Group's commercial banking business. During the first half of 2012, it completed two A-Share main-board IPO projects as lead underwriter and one as participating underwriter, as well as fourteen enterprise bonds issuance, six corporate bonds issuance and two subordinated bonds issuance. It also obtained approval to provide marketing units to institutional investors in the insurance industry. BOCI China signed targeted asset management contracts valued at more than RMB2.9 billion. It officially secured approval to participate in the margin trading and securities lending business, and was among the first to obtain the qualifications to participate in the SME private bond business.

BOCIM

BOCIM actively dealt with the complex market situation and achieved excellent operating results. During the first half of 2012, BOCIM successfully launched two publicly offered funds. As at the end of June 2012, assets under management for publicly offered funds reached RMB52.2 billion and increased by 20% compared to the prior year-end, continuing to outperform the market. During the first half of 2012, BOCIM also received eight awards with four categories from *China Securities Journal*, *Securities Times*, *Shanghai Securities News* and *Morningstar*, further enhancing its brand image and corporate reputation.

Insurance Business

BOCG Insurance

BOCG Insurance devoted itself to strengthening cooperation with agent banks, actively advanced product innovation, and vigorously developed exclusive insurance products designed to serve the unique characteristics of its agent bank customers. It strengthened residential mortgage insurance business management, actively promoted "quality low risk" personal insurance products and continuously improved insurance renewal business management, so as to provide customers with higher quality, more comprehensive and tailored insurance services to enhance the linkage between products under the BOC brand. BOCG Insurance maintained its dominated position in Hong Kong's property insurance market.

BOCG Life

BOCG Life continued to improve its product mix and uplift its service standard, by offering a comprehensive

range of life insurance products. Products such as “Multi-Plus Savings Insurance Plan”, “Target 5 Years Insurance Plan Series”, and “RMB Universal Life Insurance Plan” continued to be well perceived by customers. New RMB product, “Income Growth Annuity Insurance Plan” was launched to further satisfy customers’ needs. BOCG Life maintained its leading position in the RMB life insurance market in Hong Kong.

BOC Insurance

BOC Insurance continued to push forward the strategic transformation, accelerate product innovation, launched numerous financial and channel bancassurance products such as “Guarantee Insurance for Personal Overseas Study Loans” and “Guarantee Insurance for Small Loans for Merchants”. BOC Insurance continued to increase support for Chinese “Going Global” enterprises. At the same time, it continued to intensify the development of its claims service system and promoted its mechanism for the rapid handling of small claims to increase service efficiency and quality.

Investment Business

BOCG Investment

BOCG Investment actively adjusted its investment strategy and pace, diligently improved its investment management and value creation capabilities, as well as explored new business models and product innovation. It also made significant progress in businesses such as asset-backed structured financing. BOCG Investment leveraged its status as the Bank’s strategic investment platform and continued to strengthen its collaboration with other business units within the Group in order to enhance its overall investment returns. BOCG Investment further optimised and adjusted its

investment portfolio by increasing the proportion of high-quality assets with higher returns, enhancing the liquidity of its investment portfolio and developing its core investment businesses in a stable way.

BOC Aviation

BOC Aviation continued to grow its fleet during the first half of 2012. It was assigned investment grade long term corporate credit ratings of A- and BBB by Fitch and S&P respectively. In the first half of 2012, BOC Aviation successfully delivered 11 aircraft to its customers. As at the end of June 2012, BOC Aviation had a portfolio of 188 aircraft comprising 169 owned and 19 managed on behalf of other parties, which were leased to 51 airlines in 31 countries. It has one of the youngest portfolios in the industry with an average owned aircraft age of less than four years.

Channel Development

The Bank used its advanced technologies and industry experience to upgrade its physical outlets and accelerate the development of emerging electronic channels with the aim of building safe and convenient service channels that provide customers with a wide range of personalised financial services and excellent channel experience. By coordinating development of its physical outlets and electronic channels, the Bank brought about significant improvements in customer service efficiency and quality.

Outlets

The Bank stood by its customer-oriented approach and focused on enriching the business capabilities of its outlets. It improved sales processes, optimised outlet management frameworks and promoted the development of large and medium-sized full service

outlets. It also optimised the outlet distribution and accelerated the development of outlets in new city districts, new communities and new industrial parks and key county areas and regions. It continued to optimise outlet business processes and significantly reduced business processing and waiting times for customers. More self-service terminals were added and their functions were expanded, including increased acceptance of IC cards. As at the end of June 2012, the Bank's outlets within the Chinese mainland totalled 10,310, including more than 1,600 large and medium-sized full service outlets. The number of ATMs and self-service terminals stood at 33.9 thousand and 17.4 thousand respectively, while self-service bank was over 10 thousand, which further improving the Bank's integrated service quality.

E-Banking

The Bank continuously improved its e-banking service channel system and product functions so as to provide customers with safe, convenient and comprehensive online financial services. The supply chain financing

and trust services were newly added to the corporate online banking services, meanwhile, cross-channel authorisation was realised for services such as rapid agency payments and fund transfer to personal payee. New product functions were added to personal online banking, including direct payment of hospital bills and BOC wealth express services, and fund transfers and call deposit services were further enhanced. Corporate mobile banking was also newly introduced, providing account inquiry and transfer authorisation services. The Bank became the first bank in China to introduce personal mobile banking client program based on Windows Phone platform, and silver trading and scheduled account opening for third-party custody services were provided in its personal mobile banking. New services such as B2C online cross-bank payment were introduced for e-business customers, and existing services, such as online payment of customs duties and direct link to online merchants, were further optimised. The Bank's online banking service covered 29 overseas countries and regions, and its online global account management service had been expanded to 12 countries, including Australia and Germany.

As at the end of June 2012, the growth in the Bank's e-banking customers is shown in the table below:

Unit: million, except percentages

Items	As at	As at	Change
	30 Jun 2012	31 Dec 2011	
Number of corporate online banking customers	1.5080	1.0845	39.05%
Number of personal online banking customers	78.0790	55.7201	40.13%
Number of mobile banking customers	32.7069	17.0541	91.78%
Number of telephone banking customers	68.0599	57.9826	17.38%

The growth in the Bank's e-banking transaction volume during the first half of 2012 is shown in the table below:

Unit: RMB billion, except percentages

Items	For the	For the	Change
	six month	six month	
	period ended	period ended	
	30 June 2012	30 June 2011	
Transaction amount of corporate online banking customers	35,886.520	25,708.891	39.59%
Transaction amount of personal online banking customers	3,558.519	2,733.739	30.17%
Transaction amount of mobile banking customers	20.622	3.674	461.30%

IT Infrastructure Development

The Bank continually optimised the functionality of its core banking system and fully utilised the information technology advantages brought about by the launch of the IT Blueprint across its domestic institutions. The Bank also optimised its information security infrastructure to provide better operational security management, greater disaster recovery capabilities and enhanced overall information security capabilities. In the first half of 2012, the Bank completed three batches of system upgrades, allowing for swiftly responses to market demand and further support for the enhancement of its business development.

The Bank completed the planning for the launch of the overseas IT Blueprint and officially launched the

IT system integration and transformation project for overseas institutions. The plan is to gradually apply the results of the IT Blueprint to overseas institutions thus achieving the standardisation of the core and supporting banking systems globally as well as worldwide consolidation of customer data. The Bank plans to develop a global IT system based on the framework of the "three centres in two regions" platform in order to achieve an integrated global IT structure. This project will facilitate the formalisation and standardisation of procedures for the Bank's overseas businesses and effectively strengthen the integrated development of its domestic and overseas operations. It will also improve the level of the Bank's global customer service quality, allow it to better leverage synergistic benefits within the Group and lay a solid foundation for a customer-centric, market-oriented and technology-driven global service system.

Risk Management

The Bank is committed to making its risk management and internal control function more systematic, effective and forward-looking. Following the requirement of innovative, transformative and cross-border development, the Bank has taken proactive steps to comprehensively improve its risk management system with a focus on integration, precision and professionalism. The Bank proactively intensified risk management, and strived to enhance the Group's overall risk control capability.

Credit Risk Management

The Bank maintained a close watch on changes in the macroeconomy, financial environment, and regulatory requirement. It further optimised its credit risk management policies, deepened structural adjustments, intensified the management of credit assets quality, and tightened the management of credit processes, so as to become more proactive with regard to risk management.

Deeper structural adjustments were made to its loan mix. The Bank formulated its Guidelines for Industry Credit Granting of 2012 and improved credit portfolio management, based on the state's macro regulatory and industry policy. It continued to support China's key fundamental industries such as high-end manufacturing and energy, and delivered stronger support to the cultural, energy conservation and environmental protection, and strategic emerging industries, as well as other industries essential to people's livelihoods such as modern agriculture and the service industry.

The management of credit asset quality was enhanced. The Bank stepped up credit risk monitoring and had in place an asset quality monitoring and management

system integrating post-lending management, risk classification, material risk event reporting and regular risk investigation. It closely tracked changes in the economic situation and risk status in key fields. By reinforcing the control over problematic industries, strengthening the supervision of branches in key regions, adjusting management manners for key products, and exiting from potentially high-risk customers, the Bank was able to prevent, identify, report and handle risks in advance and thus mitigate potential risks, ensuring the stability of asset quality.

The Bank strengthened the risk identification, management and control of key fields. In addition, the management of loans extended to local government financing vehicles was also enhanced, which involved strict limit management of the total amount and allocation of loans. The Bank further standardised requirements for the granting, exiting from and managing the loans extended to local government financing vehicles, and organised monthly bank-wide efforts to identify any risks arising from such loans. It also took steps to advance rectification and credit enhancement and adopted various measures to mitigate related risks. It implemented state real estate regulatory policies and requirements, and stepped up the tracking, research and analysis. The Bank also carried out mortgage and guarantee policies and intensified the closed management of funds. It conducted stress testing on real estate loans across the Bank in order to identify risks in a timely manner. In addition, the Bank enhanced concentration risk management for large real estate groups, effectively controlling real estate credit risk. The Bank reinforced risk management for its trade finance and letter of guarantee business, organised the identification of risks in financing guarantee companies, intensified the management of SME credits and increased control over the concentration risk of group customers. In line with

new lending rules, it strengthened the management of granting loans based on customers' actual needs. Management of non-performing assets was further refined, and management of collaterals was increasingly professionalised. In addition, the Bank stepped up risk management of its personal banking business by implementing a dynamic and differentiated personal housing loan policy, thus promoting the healthy development of its residential mortgage business. It monitored and analysed the quality of personal credit assets on a regular basis, and exerted strict control over risks arising from personal loans and bank card credit facilities.

The Bank strengthened the consolidated risk management of the Group. It enhanced the risk management of

overseas institutions and the monitoring of overseas credit asset quality. Moreover, it stepped up country risk management in potentially high-risk countries and regions by continuing the efforts in country risk management.

The Bank measured and managed the quality of its credit risk-bearing assets in accordance with the *Guidelines for Loan Credit Risk Classification* issued by the CBRC. As at the end of June 2012, the Group's non-performing loans totalled RMB63.562 billion, an increase of RMB0.288 billion from the prior year-end. The ratio of non-performing loans to total loans stood at 0.94%, down by 0.06 percentage point compared with the prior year-end.

Five-category loan classification

Unit: RMB million, except percentages

Items	As at 30 June 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
Group				
Pass	6,498,112	96.22%	6,087,036	95.97%
Special-mention	191,990	2.84%	192,504	3.03%
Substandard	26,209	0.39%	26,153	0.41%
Doubtful	24,997	0.37%	24,584	0.39%
Loss	12,356	0.18%	12,537	0.20%
Total	6,753,664	100.00%	6,342,814	100.00%
NPLs	63,562	0.94%	63,274	1.00%
Domestic				
Pass	5,228,001	95.48%	4,966,201	95.33%
Special-mention	186,407	3.40%	182,567	3.50%
Substandard	25,004	0.46%	24,964	0.48%
Doubtful	24,010	0.44%	23,621	0.45%
Loss	12,169	0.22%	12,341	0.24%
Total	5,475,591	100.00%	5,209,694	100.00%
NPLs	61,183	1.12%	60,926	1.17%

Migration ratio

Unit: %

Items	For the six month period ended		
	30 June 2012	2011	2010
Pass	1.18	2.56	2.02
Special-mention	8.20	12.94	5.13
Substandard	13.68	55.42	23.05
Doubtful	3.83	5.68	15.66

Note: Migration ratios for the six month period ended 30 June 2012 are not annualised.

In accordance with IAS 39, loans and advances to customers are considered impaired, and allowances are made accordingly, if there is objective evidence of impairment resulting in a measurable decrease in estimated future cash flows from loans and advances. As at 30 June 2012, the Group reported identified impaired loans totalling RMB63.615 billion, an increase of RMB0.309 billion from the prior year-end; and the ratio of impaired loans to total loans decreased to 0.94%, down by 0.06 percentage point compared with the prior year-end.

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

Unit: %

Main regulatory ratios	Regulatory	As at	As at	As at
	Standard	30 June 2012	31 December 2011	31 December 2010
Loan concentration ratio of the largest single borrower	≤10	2.8	3.1	2.9
Loan concentration ratio of the ten largest borrowers	≤50	18.4	18.9	20.2

Notes:

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

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

As at 30 June 2012, the Bank's liquidity position met regulatory requirements, as shown in the table below (the liquidity ratio is the primary indicator of the Group's liquidity, while the excess reserve ratio and inter-bank ratios are the main indicators of liquidity for the Bank's domestic operations):

Unit:%

		Regulatory standard	As at 30 June 2012	As at 31 December 2011	As at 31 December 2010
Liquidity ratio	RMB	≥25	54.0	47.0	43.2
	Foreign currency	≥25	66.8	56.2	52.2
Excess reserve ratio	RMB	–	2.2	2.9	2.1
	Foreign currency	–	16.1	24.3	14.6
Inter-bank ratio	Inter-bank borrowings ratio	≤4	0.45	0.82	1.00
	Inter-bank loans ratio	≤8	3.04	2.25	1.08

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

Internal Control and Operational Risk Management

Internal Control

The Bank optimised its “three lines of defence” to improve the effectiveness of internal control. The Bank improved its first line of defence by strengthening internal control awareness and capabilities across various management, business and staff levels. By enhancing policy guidelines and communication channels, it strengthened the implementation of internal control measures thereby improving the effectiveness of its

second line of defence. The Bank's internal audit function dynamically assessed and improved the appropriateness and effectiveness of risk management, internal control and corporate governance, fully performing its role as the third line of defence. The Bank significantly promoted the transformation and upgrading of its internal audit function with increased focus on the audit and supervision of the Bank's major business lines and institutions that are both closely related to the Bank's strategy and monitored by the regulators. The Bank also strengthened the inspection and assessment of its comprehensive risk management and internal control, so as to continually support the Group's development.

Operational Risk Management

The Bank continued to make progress in implementation of Basel II's operational risk management projects, developed the Group's operational risk management. For the purpose of raising the precision level of management, the Bank deepened the tool application and enhanced IT system for operational risk management, pushed forward the integrated construction of operational risk monitoring platform at the Group level, and conducted operational risk management evaluation as well as capital measurement. The Bank also actively responded to the adverse impact arising from changes in the market by identifying, assessing, controlling and mitigating risks. It also strengthened its fraud risk prevention and control as well as enhanced management's forward-looking capabilities. The Bank strengthened the risk management responsibility framework, organised risk inspection, further clarified the reporting and rectification requirements for material risk incident, and focused on the management of employees for key businesses and at key positions. The Bank clamped down on 74 fraud cases in the first half of the year. The incidents related to fraud risk and other operational risk loss cases continued to remain at a low occurrence rate.

Compliance Management

The Bank conducted proactive monitoring of compliance risk to strengthen its compliance control capability. It monitored compliance information such as the latest supervisory requirements, inspections and assessment, carry out comprehensive assessment and research into compliance risk, and established an early warning, rectification and mitigation mechanism via the coordination of business departments and legal and compliance departments. The Bank also strengthened the group-wide sharing of compliance information, implemented reporting mechanism on overall and material compliance risk status of the Group, and carried out assessment on compliance management capability of its subsidiaries.

The Bank strengthened anti-money laundering controls and continued to off-site monitor suspicious transactions in domestic branches. It also optimised and accelerated the anti-money laundering monitoring and analysis system construction. Paying close attention to the international sanction situations, sanction compliance requirements changes in different countries and regions, the Bank timely formulated and adjusted its business policy accordingly. In addition, the Bank intensified anti-money laundering trainings to enhance staff's anti-money laundering operation skills and branches' anti-money laundering management.

The Bank conducted comprehensive management of its connected transactions and internal transactions. It steadily pushed forward the construction of a connected transaction monitoring system and maintained the database of its related parties. The Bank comprehensively organised the control work of internal transaction, and build an information reporting platform for internal transactions by implementing the administrative measures for internal transactions, thus making foundation for the information monitoring and reporting of the Group's internal transactions.

Basel II & III Implementation

The Bank paid close attention to Basel II & III implementation. In line with the principles of "adaptability and applicability", the Bank conducted the implementation of Basel II & III and construction of the G-SIFs system simultaneously. By following regulatory requirements, enhancing risk management capability and boosting its transformation, the Bank delivered sound progress.

The Bank essentially completed the establishment of Pillar I. The credit risk measurement model covers the Bank's corporate, financial institution, individual, sovereign and asset securitisation risk exposures. The Bank continued its efforts in independent validation, optimisation and upgrading of the measurement model, and accelerated the preparations for the implementation

of advance internal rating-based (AIRB) approach. A regulatory capital measurement system based on an internal model approach has been established for market risk, and an economic capital measurement mechanism based on standardised approach for operational risk has been established as well. The Bank enhanced the management and evaluation of data quality, and promoted the construction of risk data mart and relevant IT systems. The Bank developed the assessment models for major risks, internal capital adequacy assessment (ICAA) model and the economic capital measurement model based on internal rating-based approach, to strengthened capital assessment and management. The Bank continuously enhanced the timeliness and accuracy of information disclosure to co-ordinately implement Pillars I, II and III. The Bank sped up the preparations for G-SIFIs implementation and the recovery plan construction, and made great efforts in quantitative impact study (QIS). The Bank also rectified problems identified by assessments based on the CBRC's opinions.

The Bank made great effort in Basel II & III achievements application by focusing on the quantification and transmission of risk appetite. The Bank intensified the dissemination of the Group's risk appetite, and deepened the performance evaluation for economic capital based on the internal rating-based approach. The Bank improved the quantitative risk analysis and reporting systems and promoted the applied stress testing. In addition, the Bank enhanced the substantial role of certain risk measurement tools across the entire credit procedure, including two-dimensional rating matrix, risk adjusted return on capital (RAROC)/

economic value added (EVA) analysis matrix, RAROC calculation tools and risk mitigation calculation tools.

Capital Management

In line with its medium and long-term capital management plan, the Bank strengthened capital management, and further solidified its capital base by optimising its asset structure. As at the end of June, the Group's capital adequacy ratio and core capital adequacy ratio stood at 13.00% and 10.15% respectively, an increase of 0.02 and 0.07 percentage point compared with the prior year-end, remaining within the planned range and complying with regulatory requirements.

The Bank continued to intensify its capital management and improved the granularity and effectiveness of capital budget. It budgeted and allocated capital according to the EVA and RAROC levels of its institutions and business lines, controlled its risk assets at a reasonable scale and reduced the average risk weighting of assets. The Bank shifted its orientation from capital reliance to capital efficiency, thus promoting sustainable business development. The Bank strengthened assessment of overall performance, giving more weight to the assessment of capital returns and limit indicators. It guided the institutions and business departments to prioritise business development opportunities that offer higher comprehensive performance and lower capital usage, thus improving capital efficiency and following the concept of less capital-intensive development.

Outlook

The Bank's operating environment is expected to remain complicated in the second half of 2012. The Bank will continue to thoroughly implement both its own scientific development concept and the essential aims of the National Central Economic Work Conference and National Financial Work Conference. It will actively respond to the tough operational challenges arising from market liberalisation, globalisation and intellectualisation in order to resolutely push forward its various initiatives and achieve stable, healthy and sustainable growth.

Developing a truly smart bank led by IT. The Bank will accelerate the development of a one-stop comprehensive service channel, optimise its global corporate customer service system, develop a flexible and responsive innovation mechanism and improve the IT infrastructure and supplementary measures required for the development of a truly smart bank, thus delivering a superior customer experience.

A transformed development model focused on effectiveness and efficiency. The Bank will continue to enhance its asset-liability and customer structures by vigorously expanding its core deposits and developing its less capital-intensive fee-based businesses. It will adapt

to the market environment and make timely adjustments to its business strategy and management mechanism. It will also improve its performance appraisal system and methodology, while strictly controlling costs and improving cost-to-income ratios, so as to further enhance its level of operating management.

Accelerating the integrated development of global service capabilities. The Bank will seize development opportunities in line with its principles of professional operations, intensive management and integrated development. It will accelerate overseas business expansion and develop its cross-border RMB business to consolidate its leading market position. At the same time, it will continue to promote the integrated development of its domestic and overseas institutions, so as to continuously improve the overall level of its operational integration.

Improved risk management with an emphasis on quality. The Bank will continue to strengthen its risk prevention and mitigation, paying close attention to key risk areas. It will enhance market risk management and optimise its management mechanisms, risk control methods and policies. It will improve its operational risk management by diligently implementing its internal control measures. In addition, the Bank will accelerate the implementation of the new Basel Capital Accords and continuously refine the level of its advanced risk management.

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 2012		Increase/decrease during the reporting period					30 June 2012	
	Number of shares	Percentage	Shares transferred					Number of shares	Percentage
			Issue of new shares	Bonus shares	surplus reserve	Others	Sub-total		
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	279,147,333,579	100.00%	-	-	-	6,780	6,780	279,147,340,359	100.00%
1. RMB-denominated ordinary shares	195,525,057,184	70.04%	-	-	-	6,780	6,780	195,525,063,964	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	279,147,333,579	100.00%	-	-	-	6,780	6,780	279,147,340,359	100.00%

Notes:

- As at 30 June 2012, the Bank had issued a total of 279,147,340,359 shares, including 195,525,063,964 A Shares and 83,622,276,395 H Shares.
- As at 30 June 2012, none of the Bank's A Shares and H Shares were subject to selling restrictions.
- During the reporting period, 6,780 shares were converted from the A-Share Convertible Bonds of the Bank.
- "Shares subject to selling restrictions" refers to shares held by shareholders who are subject to restrictions on selling in accordance with laws, regulations and rules or undertakings.

Number of Shareholders and Shareholdings

Number of shareholders as at 30 June 2012: 1,071,656 (including 841,711 A-Share Holders and 229,945 H-Share Holders)

Top ten shareholders as at 30 June 2012							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.	188,785,812,360	67.63%	–	None	State	A
2	HKSCC Nominees Limited	81,649,965,546	29.25%	–	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	445,981,348	0.16%	–	None	State-owned legal person	A
5	Sino Life Insurance Co., Ltd. — dividend — group dividend	165,543,425	0.06%	–	None	Domestic non state-owned legal person	A
6	Sino Life Insurance Co., Ltd. — traditional — ordinary insurance products	162,383,310	0.06%	–	None	Domestic non state-owned legal person	A
7	China Life Insurance Company Limited — traditional — ordinary insurance products — 005L — CT001Shanghai	113,648,974	0.04%	–	None	State-owned legal person	A
8	Shenhua Group Corporation Limited	99,999,900	0.04%	–	None	State-owned legal person	A
8	Aluminum Corporation of China	99,999,900	0.04%	–	None	State-owned legal person	A
10	China Southern Power Grid Co., Ltd.	90,909,000	0.03%	–	None	State-owned legal person	A

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

During the reporting period, Central Huijin Investment Ltd. (“Huijin”) increased its shareholding of the Bank by 84,392,819 shares.

HKSCC Nominees Limited acted as the nominee for all institutional and individual investors that maintain an account with it as at 30 June 2012. The aggregate number of H Shares held by HKSCC Nominees Limited included the shares held by NCSSF and Temasek Holdings (Private) Limited.

“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.

“Sino Life Insurance Co., Ltd. — dividend — group dividend” and “Sino Life Insurance Co., Ltd. — traditional — ordinary insurance products” are both products of Sino Life Insurance Co., Ltd.

Save for that, the Bank is not aware of any connected relations or concerted action among the aforementioned shareholders.

Convertible Bonds

Overview of Convertible Bonds Issuance

With the approval of CBRC (Yinjianfu [2010] No.148) and CSRC (Zhengjianxuke [2010] No.723), the Bank issued RMB40 billion of A-Share Convertible Bonds (“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 30 June 2012		16,720	
Guarantor of the Bank’s Convertible Bonds		None	
Top ten Convertible Bondholders as at 30 June 2012			
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	2,324,196,000	5.81%
2	China Life Insurance Company Limited — traditional — ordinary insurance products — 005L — CT001Shanghai	1,401,211,000	3.50%
3	Fullgoal Convertible Bond Securities Investment Fund	1,295,612,000	3.24%
4	An-Bang Insurance Group Co., Ltd. — traditional insurance products	1,067,039,000	2.67%
5	Sunshine Life Insurance Company Limited — dividend insurance products	883,310,000	2.21%
6	CITIC Securities Co., Ltd.	870,700,000	2.18%
7	ICBC Credit Suisse Credit Value-added Debt Securities Investment Fund	788,295,000	1.97%
8	New China Life Insurance Company — dividend — group dividend — 018L — FH001Shanghai	758,852,000	1.90%
9	Bosera Convertible Bond Enhanced Debt Securities Investment Fund	756,292,000	1.89%
10	ICBC Credit Suisse Asset Management Co., Ltd. — ICBC — Specific Client Asset Management	723,336,000	1.81%

Changes in Convertible Bonds during the Reporting Period

Unit: RMB

Name of Convertible Bonds	Before the change	Increase/decrease				After the change
		Conversion	Redemption	Back-sell	Others	
Bank of China A-Share Convertible Bonds	39,999,362,000	24,000	-	-	-	39,999,338,000

Accumulated Conversion of Convertible Bonds during the Reporting Period

Amount of conversion during the reporting period (RMB)	24,000
Number of converted shares during the reporting period (share)	6,780
Accumulated converted shares (share)	177,628
Proportion of accumulated converted shares to total shares before conversion	0.000065%
Amount of unconverted Convertible Bonds (RMB)	39,999,338,000
Proportion of amount of unconverted Convertible Bonds to total issued Convertible Bonds	99.9983%

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	<i>China Securities Journal</i> ,
16 November 2010	RMB3.78 per share	11 November 2010	A Share rights issue	<i>Shanghai Securities News</i> ,
16 December 2010	RMB3.74 per share	13 December 2010	H Share rights issue	<i>Security Times</i> , <i>Securities</i>
10 June 2011	RMB3.59 per share	3 June 2011	2010 profit distribution	<i>Daily</i> and the websites of
13 June 2012	RMB3.44 per share	6 June 2012	2011 profit distribution	SSE, HKEx and the Bank
Conversion price at the end of reporting period			RMB3.44 per share	

Note: *Securities Daily* became the Bank's selected newspaper for information disclosure from 1 January 2012.

Disclosure of Shareholding under H-Share Regulation

Substantial Shareholder Interests

The register maintained by the Bank pursuant to section 336 of the *Securities and Futures Ordinance*, Hong Kong (the "SFO") recorded that, as at 30 June 2012, 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		Percentage of total issued A Shares	Percentage of total issued H Shares	Percentage of total issued share capital
		held/Number of underlying shares (unit: share)	Type of shares			
Central Huijin Investment Ltd. ¹	Beneficial owner	188,553,352,005	A	96.43%	–	67.55%
National Council for Social Security Fund	Beneficial owner	8,357,384,041	H	–	9.99%	2.99%
BlackRock, Inc. ²	Attributable interest	4,422,506,441	H	–	5.29%	1.58%
		524,088,257(S) ³	H	–	0.63%	0.19%

Notes:

- 1 The above interest of Huijin reflects its latest disclosure of interest made pursuant to the SFO, which does not include its increase in holding of the Bank's A Shares in 2011 and the first half of 2012.
- 2 BlackRock, Inc. holds the entire issued share capital of BlackRock Holdco 2 Inc., which in turn holds the entire issued share capital of BlackRock Financial Management, Inc. Accordingly, BlackRock, Inc. and BlackRock Holdco 2 Inc. are deemed to have the same interests in the Bank as BlackRock Financial Management, Inc. under the SFO. BlackRock Financial Management, Inc. holds a long position in 4,189,791,003 H Shares and a short position in 524,088,257 H Shares of the Bank through itself and other corporations controlled by it. Meanwhile, Blackrock, Inc. also holds a long position in 232,715,438 H Shares of the Bank through other corporations controlled by it. Among the aggregate long positions in 4,422,506,441 H Shares held by BlackRock, Inc., 2,051,000 H Shares are held through derivatives.
- 3 "S" denotes short position.

Save as disclosed above, as at 30 June 2012, no other interests or short positions were recorded in the register maintained by the Bank under section 336 of the SFO.

Directors, Supervisors, Senior Management and Staff

Directors, Supervisors and Senior Management

Board of Directors

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

Notes:

- 1 Mr. WANG Yongli began to serve as an Executive Director of the Bank as of 15 February 2012.
- 2 Mr. Alberto TOGNI ceased to serve as an Independent Non-executive Director of the Bank as of 31 May 2012 due to expiration of his term of office.
- 3 The 2011 Annual General Meeting of the Bank approved the appointment of Dr. Arnout Henricus Elisabeth Maria WELLINK as an Independent Non-executive Director of the Bank. The directorship of Dr. WELLINK is still subject to the approval of CBRC.
- 4 During the reporting period, no director held any share or Convertible Bond of the Bank.
- 5 The information listed in the above table pertains to the incumbent directors.

Board of Supervisors

Name	Position	Name	Position
LI Jun	Chairman of the Board of Supervisors	LIU Xiaozhong	Employee Supervisor
WANG Xueqiang	Supervisor	XIANG Xi	Employee Supervisor
LIU Wanming	Supervisor	MEI Xingbao	External Supervisor
DENG Zhiying	Employee Supervisor	BAO Guoming	External Supervisor

Notes:

- 1 Mr. JIANG Kuiwei resigned as Employee Supervisor of the Bank as of 21 February 2012. Mr. LIU Xiaozhong and Ms. XIANG Xi began to serve as Employee Supervisors of the Bank as of 19 August 2012. Mr. LI Chunyu resigned as Employee Supervisor of the Bank as of 19 August 2012.
- 2 During the reporting period, no supervisor held any share or Convertible Bond of the Bank.
- 3 The information listed in the above table pertains to the incumbent supervisors.

Senior Management

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

Notes:

- 1 Approved by the Board of Directors on 30 May 2012, Mr. FAN Yaosheng will assume the office of Secretary to the Board of Directors from the date of CBRC's approval of his appointment.
- 2 During the reporting period, no senior management member held any share or Convertible Bond of the Bank.
- 3 The information listed in the above table pertains to the incumbent senior management member.

Organisational Information, Human Resources Development and Management

Organisational Management

As at 30 June 2012, the Bank had a total of 11,052 domestic and overseas branches, subsidiaries and outlets, including 10,453 branches, subsidiaries and outlets in Chinese mainland and 599 branches, subsidiaries and representative offices in Hong Kong, Macau, Taiwan and other countries. The Bank's Chinese mainland commercial banking business had 37 tier-one

and direct branches, 299 tier-two branches and 9, 973 outlets.

In the first half of 2012, the Bank established an RMB Trading Unit in Shanghai to promote the specialised operations and intensive management. The Innovation Research and Development Department was established so as to build a new innovation management system. In addition, the Bank strengthened its globally integrated organisational framework to boost the integrated development of domestic and overseas businesses. The Bank's outlet management structure was further optimised to improve outlet efficiency.

Geographic Distribution of Organisations and Employees

Unit: RMB million/unit/person (except percentages)

Items	Assets		Organisations		Employees	
	Total assets (RMB million)	% of total	Number of branches and outlets	% of total	Number of employees	% of total
Northern China	5,402,461	34.43%	1,647	14.90%	51,122	17.71%
Northeastern China	627,587	4.00%	924	8.36%	25,076	8.69%
Eastern China	3,138,382	20.00%	3,495	31.62%	88,490	30.65%
Central and Southern China	2,166,873	13.81%	2,744	24.83%	67,086	23.24%
Western China	1,054,810	6.72%	1,643	14.87%	35,431	12.27%
Hong Kong, Macau and Taiwan	1,905,586	12.15%	501	4.53%	18,199	6.30%
Other countries	1,394,370	8.89%	98	0.89%	3,283	1.14%
Elimination	(2,864,479)					
Total	12,825,590	100.00%	11,052	100.00%	288,687	100.00%

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

Human Resources Development and Management

As at 30 June 2012, the Bank had a total of 288,687 employees, 267,205 employees in its Chinese mainland operations, including 263,634 in its domestic commercial bank institutions (including 62,778 external contractual staff), and 21,482 employees in the Bank's operations in Hong Kong, Macau, Taiwan and other countries. As at the end of June 2012, the Bank had incurred retirement expenses for a total of 6,581 retirees.

In the first half of 2012, the Bank continued to adhere to the scientific outlook on development and talent. With the aim of supporting development strategy, adjusting structure, innovating mechanisms and promoting development, the Bank further optimised its human resources allocation with a strong focus on the grassroots front-line operations. It deepened reform of its systems and mechanisms, and continued to enhance its market-oriented, people-centric and globally integrated talent management service system.

The Bank optimised the human resources allocation mechanism and stepped up efforts in its construction of institutions and outlets. The Bank increased staffing levels in its grassroots operations and frontline businesses, vigorously promoted its employee exchange and rotation scheme and encouraged them to

develop careers at the grassroots. The Bank allocated more human resources to its overseas institutions, strengthened the construction of its expatriates reserve and diversified talents pools and continued to improve its human resource management mechanism for overseas institutions and subsidiaries.

Furthermore, the Bank actively deepened reform and innovation, pushed forward the construction of professional position line to broaden the career path for professionals. Globally integrated platforms for employee recruitment, training and performance management were steadily established, and the Bank's global service capability with respect to human resources management was constantly enhanced.

The Bank continued to implement the *Training and Development Plan for 2009–2012*. In line with the requirements of the strategic plan implementation and business development, the Bank further strengthened the development and training of various employees at different levels with a focus on carrying out key talent development projects such as the "Golden Collar Project" for internationalised financial talents, the "Elite Project" for overseas business talents and the "Extended Project" for the diversified business operation talents. During the first half of 2012, 26,962 training sessions were offered with 962,737 class participants within the Bank's commercial bank institutions in Chinese mainland.

Corporate Governance

After being listed as a Global Systemically Important Financial Institution, the Bank has actively explored ways to develop corporate governance practices appropriate to Chinese circumstances, based on the advanced international corporate governance concepts. The Bank seeks to strike the right balance between the interests of shareholders, society, customers, the Bank and its employees, thus to perform its social responsibilities while maximising shareholders' interest.

During the reporting period, the Bank continued to adopt measures to protect the rights of shareholders, and fully disclosed information relevant to shareholders' interest through regular reports and the websites of the Bank and the stock exchanges. The Bank formulated its *Policy on Shareholder Communication of Bank of China Limited*, which guarantees smooth and sustained communication with shareholders. The Bank held the 2011 Annual General Meeting in Beijing and Hong Kong by way of video conference, in which shareholders from both the Chinese mainland and Hong Kong actively participated. Recent years have witnessed the growth in the number of shareholders or shareholders' representatives attending the Annual General Meeting in Hong Kong, which stood at 2,800 this year.

The Bank further improved its corporate governance mechanism in the first half of 2012. In line with regulatory requirements, the Bank streamlined and amended such corporate governance regulations as the Articles of Association, and modified the *Rules Governing Persons with Knowledge of Inside Information of Bank of China Limited*. The Bank timely appointed a new executive director and an independent non-executive director, and adjusted the chairmen and members of the special committees of the Board of Directors, further optimising the composition of the Board of Directors and enhancing its professionalism and independence.

The Board of Directors continued to focus on making key decisions, developing core strategies

and monitoring systemic risks. It expanded training, intensified on-site researches, and gained deep insights into the Bank's operational management through diverse and effective communication mechanisms, thus contributing to an increasingly enhanced decision-making efficiency and capability.

Shareholders' Meeting

The Bank held the 2012 First Extraordinary General Meeting in Beijing on 6 January 2012, in which it reviewed and approved the remuneration plan for the Chairman, Executive Directors, Chairman of the Board of Supervisors and shareholder representative supervisors of 2010, the proposal on the election of Mr. WANG Yongli as an Executive Director of the Bank, and the proposal on amending the Articles of Association of the Bank.

On 30 May 2012, the Bank held the 2011 Annual General Meeting in Beijing and Hong Kong by way of video conference, in which it reviewed and approved proposals including the 2011 work report of the Board of Directors, the 2011 work report of the Board of Supervisors, the 2011 annual financial statements, the 2011 profit distribution plan, the 2012 annual budget, the re-appointment of the Bank's external auditors, the election of Dr. Arnout Henricus Elisabeth Maria WELLINK as an Independent Non-executive Director, and the amendment to the Articles of Association.

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 the 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.

Directors and the Board of Directors

Elected by the 2012 First Extraordinary General Meeting of the Bank and approved by CBRC, Mr. WANG Yongli commenced serving as an Executive Director of the Bank as of 15 February 2012, with a term of office of three years until the date of the Bank's Annual General Meeting in 2015. Mr. Alberto TOGNI ceased to serve as an Independent Non-executive Director, Chairman of the Connected Transactions Control Committee and member of the Board's other special committees as of 31 May 2012. The 2011 Annual General Meeting of the Bank approved the appointment of Dr. Arnout Henricus Elisabeth Maria WELLINK as an Independent Non-executive Director of the Bank. The directorship of Dr. WELLINK is still subject to the approval of CBRC. Once approved, he shall assume a term of office of three years from the date of approval by CBRC until the date of the Bank's Annual General Meeting in 2015.

Mr. CHOW Man Yiu, Paul began to serve as a member of Asian Advisory Committee of AustralianSuper Pty. Ltd from July 2012. Save as disclosed above, to the best knowledge of the Bank, information of the Bank's Directors including their appointments is the same with that disclosed in the 2011 Annual Report of the Bank.

During the reporting period, the Board of Directors held three on-site meetings, in which it reviewed

and approved proposals including the 2011 Annual Report, the 2012 First Quarter Report, the 2011 profit distribution plan, the 2011 Corporate Social Responsibility Report, the nomination and appointment of an independent non-executive director, the amendments to the Articles of Association, and the change of the chairmen and members of the Board's special committees. Moreover, during the reporting period, the Board of Directors approved six proposals by means of written resolutions, including the establishment of overseas subsidiaries, the amendment to the *Rules Governing Persons with Knowledge of Inside Information of Bank of China Limited (2012 version)*, and the release of provisional announcements.

The Board of Directors has set up the Strategic Development Committee, Audit Committee, Risk Policy Committee, Personnel and Remuneration Committee and Connected Transactions Control Committee to assist the Board in performing its functions. The positions of the Chairman and the President are assumed by two persons. Independent Non-executive Directors serve as chairmen of the Audit Committee, Risk Policy Committee, Personnel and Remuneration Committee and Connected Transactions Control Committee. The work performance of each special committee during the reporting period was as follows:

Committee	Work Performance
Strategic Development Committee	The Committee held one meeting, in which it mainly reviewed and approved the 2011 profit distribution plan and related matters.
Audit Committee	The Committee held two meetings, in which it mainly reviewed and approved the work plan and budget for 2012. It also reviewed the 2011 Financial Report, the 2012 First Quarter Report, the 2011 internal control assessment report, the overall work plan for external auditor rotation in 2013, the 2011 management proposal, the 2012 work plan for implementation of the basic standard for enterprise internal control and the 2011 internal audit work report. In its first meeting, the Committee, together with the Risk Policy Committee, received the annual internal audit report on the internal rating system of credit risks as related to the implementation of New Basel Accord.

Committee	Work Performance
Risk Policy Committee	The Committee held five meetings, including one meeting via written resolution. The meetings mainly reviewed and approved the <i>Application for Market Risk Limits of 2012 (Level A) of Bank of China Limited, Bank of China Group Securities Investment Policy, Internal Rating Policy for the Credit Risk of Bank of China Limited (2012 Version), Credit Risk Mitigation Management Policy of Bank of China Limited (2012 Version)</i> , as well as the credit proposals whose amounts exceeded the approval authority of senior management. The committee also reviewed the group risk reports and the work reports for New Basel Accord implementation progress of the Bank.
Personnel and Remuneration Committee	The Committee held four meetings, including one meeting via written resolution. At these meetings, the Committee approved proposals on the performance evaluation and remuneration distribution plan for the Chairman of the Board of Directors, the executive directors and the senior management members for 2011, 2012 performance targets for the Group, 2012 performance targets for the Chairman of the Board of Directors, the President and the senior management members, the nomination and appointment of the independent non-executive director, the adjustments to the members of the Board committees and the nomination and appointment of the Board Secretary. The Committee also reviewed the remuneration distribution plan for the Chairman of the Board of Supervisors and the supervisors in 2011.
Connected Transactions Control Committee	The Committee held one meeting, in which it mainly reviewed the 2011 declaration on connected transactions and the statement of funds provided to controlling shareholder and its related parties for the year ended 31 December 2011.

Supervisors and Board of Supervisors

The Bank's Board of Supervisors is composed of eight supervisors, including three shareholder representative supervisors (including the Chairman of the Board of Supervisors), three supervisors assumed by staff representatives and two external supervisors. Mr. JIANG Kuiwei resigned as Employee Supervisor of the Bank as of 21 February 2012. Mr. LIU Xiaozhong and Ms. XIANG Xi began to serve as Employee Supervisors of the Bank as of 19 August 2012. Mr. LI Chunyu resigned

as Employee Supervisor of the Bank as of 19 August 2012.

The Board of Supervisors performed its supervision duties in accordance with laws and diligently reviewed relevant proposals. During the reporting period, the Duty Performance and Due Diligence Supervision Committee of the Board of Supervisors held one meeting and the Finance and Internal Control Supervision Committee of the Board of Supervisors held two meetings. The two special committees reviewed related proposals

respectively in advance of their submission to the Board of Supervisors. The Board of Supervisors held three meetings, in which it reviewed proposals such as the assessment opinions of the Board of Supervisors on duty performance of the Board of Directors, the senior management and its members for 2011, the 2011 Annual Report, the 2011 Internal Control Assessment Report, the 2012 First Quarter Report and the 2012 Work Plan of the Board of Supervisors, etc.

During the reporting period, the Board of Supervisors carried out an assessment of the duty performance and due diligence of the Board of Directors, the senior management and its members in 2011, continually strengthened the communication with the Bank's related departments and external auditors, regularly heard reports on financial and risk management, earnestly performed its financial supervision duties and made timely suggestions. Focus on the Bank's development strategy, the Board of Supervisors paid special attention to the effectiveness of the Bank's risk management and internal control and the weakness of the Bank's operational management and carried out special investigations into subjects such as branch general ledger management, the improvement in net interest margin and asset and liability management.

Senior Management

In the first half of 2012, the senior management of the Bank, in accordance with the powers bestowed on them by the Articles of Association of the Bank and the rights delegated to them by the Board of Directors, drove forward the Bank's various businesses in line with the performance goals set by the Board of Directors for 2012, pushed forward its development strategy according to the guidelines of "optimising structure, scaling up, managing risk and sharpening competitiveness", and promoted the stable business

development of the Bank with a focus on operation performance. Thanks to these efforts, the senior management has led the Bank to achieve improved operating results.

During the reporting period, the Group Executive Committee held 13 regular meetings in which it discussed and decided upon a series of significant operational and management matters regarding business development, risk management, IT construction, and product innovation etc. It also held 82 special meetings to discuss and decide upon matters related to its corporate banking business, personal banking business, financial markets business, risk management and internal control, overseas development and comprehensive operation.

In the first half of 2012, the senior management of the Bank set up the Asset and Liability Management Committee in response to its operation and management needs. This committee is responsible for the formulation and review of the Bank's asset and liability management policies, including capital allocation, asset and liability pricing, liquidity management, interest rate and exchange rate risk management. At present, under the Group Executive Committee are the Corporate Banking Committee, the Personal Banking Committee, the Financial Markets Committee, the Asset and Liability Management Committee, the Risk Management and Internal Control Committee (under which are the Anti-Money Laundering Committee, the Securities Investment and Management Committee and the Asset Disposal Committee), the Operation Service Committee and the Procurement Review Committee. During the reporting period, all of the committees diligently fulfilled their duties and responsibilities as per the powers specified in their committee charters and the rights delegated by the Group Executive Committee.

Significant Events

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 China's 12th Five-year Plan, the Board of Directors held an onsite meeting on 24 March 2011 to amend the dividend distribution policy again. After due deliberation and thorough discussion, the Board of Directors unanimously agreed that dividend would be distributed at 35% to 45% of the Group's yearly net profit from year 2010 to 2013. This Board resolution has been duly disclosed. The procedure to amend the 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 shareholders have 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.

Profit Distribution during the Reporting Period

The 2011 Annual General Meeting approved the Bank's profit distribution plan as follows: RMB11.695 billion was appropriated to the statutory surplus reserve. Some overseas entities were required by local authorities to appropriate or reverse statutory reserve and regulatory reserves, which together with other matters, resulted in a net decrease of RMB1.370 billion on undistributed profits for the year ended 31 December 2011. RMB8.912 billion was appropriated to the general reserve. No appropriation was made to the discretionary reserve. Considering the Bank's business performance, financial position and the capital requirements for the future development of the Bank, a dividend of RMB0.155 per share (before tax) was distributed to the Bank's shareholders, amounting to approximately RMB43.268 billion in total. The dividend distribution was completed by 6 July 2012. The Bank did not distribute an interim dividend for the period ended 30 June 2012, nor did it propose any capitalisation of the capital reserve into share capital during the reporting period.

Corporate Governance

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

Purchase and Sale, Merger and Acquisition of Assets

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

Material Litigation and Arbitration Cases

The Bank was involved in certain litigation and arbitration cases in its regular course of business. In

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 made by plaintiffs under the laws of various jurisdictions in which the Bank operates, including allegations regarding anti-money laundering and other sensitive issues. 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.

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 III.29 of the Condensed Consolidated Interim Financial Information.

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

Material Cash Assets of the Bank Entrusted to Others for Management

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

Undertakings

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

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

Not applicable.

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

Not applicable.

Disciplinary Action 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 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.

Alteration of Business Plan

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

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

Not applicable.

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

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

Use of Raised Funds

All proceeds raised from IPOs, the issuances of subordinated bonds and Convertible Bonds and the Rights Issue of A Shares and H Shares have been used to replenish the Bank's capital and step up the level of capital adequacy. There are no more funds raised during the reporting period of the Bank.

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

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

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

Purchase, Sale or Redemption of the Bank's Shares

As of 30 June 2012, the total number of the Bank's treasury shares was approximately 13.77 million.

Implementation of Stock Incentive Plan during the Reporting Period

The Bank approved a long-term incentive policy, including the Management Stock Appreciation Rights Plan and the Employee Stock Ownership Plan, at the Board 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.

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

Investment Securities

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

No.	Type of securities	Securities code	Company/securities name	Initial investment cost	Securities held	Carrying value at period end	Proportion of the total investment securities at period end	Gains/ (losses) during the reporting period
				(unit: RMB)		(unit: RMB)		(unit: RMB)
1	Stock	MA	MasterCard Inc.	-	55,679	151,413,479	4.88%	19,931,978
2	Stock	1398 HK	ICBC	125,495,517	33,878,460	118,480,080	3.82%	2,927,866
3	Stock	939 HK	CCB	81,344,359	18,009,352	77,624,491	2.50%	6,152,781
4	Stock	914 HK	Anhui Conch Cement Company Limited	56,298,522	3,138,438	53,600,254	1.73%	(2,236,038)
5	Convertible Bond	XS0759818643	China Overseas Grand Ocean Finance Cayman Ltd.	50,233,917	60	50,746,200	1.64%	3,497,185
6	Stock	2318 HK	Ping An of China	37,127,623	754,035	37,924,903	1.22%	3,327,570
7	Convertible Bond	XS0546152645	China Unicom (Hong Kong) Limited	38,210,794	60	37,554,849	1.21%	(629,075)
8	Stock	1114 HK	Brilliance China Automotive Holdings Limited	34,330,272	5,779,935	31,757,552	1.02%	365,212
9	Stock	386 HK	Sinopec Corp.	31,576,285	5,409,610	30,340,227	0.98%	(685,253)
10	Convertible Bond	XS0541557517	Shui On Land Limited	29,026,250	300	28,925,529	0.93%	192,588
Other investment securities held at period end				1,365,558,522	-	2,484,574,617	80.07%	116,511,818
Gains/(losses) of investment securities sold during the reporting period				-	-	-	-	(35,488,936)
Total				1,849,202,061	-	3,102,942,181	100.00%	113,867,696

Notes:

- The table lists the top ten investment securities held by the Group in descending order according to their carrying value at period end.
- Investment securities listed in this table include stocks, warrants, convertible bonds and open-ended and close-ended funds, which are classified under financial assets at fair value through profit or loss.
- "Other investment securities held at period end" refers to investment securities other than the top ten investment securities listed above held by the Group by the end of the reporting period.
- The 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)	Increase/ (decrease) of equity during the reporting period (unit: RMB)	Accounting classification	Source of shares
2008 HK	Phoenix Satellite Television Holdings Ltd.	317,725,451	8.30%	759,049,024	14,106,221	107,475,968	Available for sale equity investment	Joint-stock reform
549 HK	Jilin Qifeng Chemical Fiber Co., Ltd.	56,354,329	10.95%	36,879,243	-	(6,262,513)	Available for sale equity investment	Joint-stock reform
Total		374,079,780	-	795,928,267	14,106,221	101,213,455	-	-

Notes:

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

Equity Investments in Unlisted Financial Companies Held by the Group

Company name	Initial investment cost (unit: RMB)	Equity held (unit: share)	Proportion of total capital of the invested company	Carrying value at period end (unit: RMB)	Gains during the reporting period (unit: RMB)	Increase of the equity during the reporting period (unit: RMB)	Accounting classification	Source of shares
JCC Financial Company Limited	97,752,980	-	13%	202,178,090	18,463,476	-	Investment in associates and joint ventures	Investment
China Bond Insurance Co., Ltd.	993,879,612	-	14%	1,154,968,423	-	93,650,926	Available for sale equity investment	Investment
The Debt Management Company Limited	13,532	1,660	11%	13,532	-	-	Available for sale equity investment	Investment
Hunan Valin Iron & Steel Group Finance Co., Ltd.	58,676,794	-	10%	86,215,341	5,010,650	-	Investment in associates and joint ventures	Investment
Total	1,150,322,918	-	-	1,443,375,386	23,474,126	93,650,926	-	-

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 period.

The Audit Committee

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

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

Particulars of the outstanding options granted to the Director of the Bank under the Pre-Listing Share Option Scheme as at 30 June 2012 are set out below:

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

The exercise period of the aforesaid options granted to the director of the Bank by BOCHK (BVI) expired on 4 July 2012. Before that, pursuant to the government regulations, the aforesaid outstanding options granted by the BOCHK (BVI) to the directors of the Bank under the Pre-Listing Share Option Scheme are suspended.

Appointment or Termination of External Auditors

The Bank has appointed PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers Hong Kong as its domestic and international external auditors respectively for the year 2012.

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.

Save as disclosed above, during the reporting period, none of 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 30 June 2012, 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 Listing Issuers* as set out in Appendix 10 of the Hong Kong Listing Rules (the "Model Code").

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

The Bank actively aligned its corporate governance mechanism with the principles and articles of the *Code on Corporate Governance Practices* (the "Code") as set out in Appendix 14 to the Hong Kong Listing Rules. After the Hong Kong Stock Exchange amended the Hong Kong Listing Rules and the Code in October 2011, the Board of Directors of the Bank studied the regulations and governance practices carefully and actively implemented the amended Code. During the reporting period, the Bank has complied with all set provisions of the Code from 1 January to 31 March 2012 and all code provisions of the amended Code from 1 April 2012, the day the amended Code took effect. The Bank has substantially complied with most

of the recommended best practices set out in the Code and the amended code.

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. 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.

Compliance with International Accounting Standard 34

The 2012 interim report of the Bank is in compliance with International Accounting Standard 34 — Interim Financial Reporting.

Interim Report

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

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

Report on Review of Interim Financial Information



羅兵咸永道

To the Board of Directors of Bank of China Limited

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

Introduction

We have reviewed the interim financial information set out on pages 64 to 143, which comprises the condensed consolidated statement of financial position of Bank of China Limited (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2012 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes (the "Interim Financial Information"). The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Bank are responsible for the preparation and presentation of this Interim Financial Information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this Interim Financial Information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

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

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive, flowing script.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 23 August 2012

Interim Financial Information

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Condensed Consolidated Income Statement

For the six month period ended 30 June 2012 (Amount in millions of Renminbi, unless otherwise stated)

	Note	For the six month period ended 30 June	
		2012 Unaudited	2011 Unaudited (Restated)*
Interest income	III.1	253,121	190,774
Interest expense	III.1	(129,067)	(80,559)
Net interest income		124,054	110,215
Fee and commission income	III.2	36,721	37,603
Fee and commission expense	III.2	(2,471)	(2,629)
Net fee and commission income		34,250	34,974
Net trading gains	III.3	5,461	4,263
Net gains on investment securities		1,052	3,336
Other operating income	III.4	14,848	13,186
Operating income		179,665	165,974
Operating expenses	III.5	(73,518)	(63,256)
Impairment losses on assets	III.7	(9,237)	(12,287)
Operating profit		96,910	90,431
Share of results of associates and joint ventures		225	346
Profit before income tax		97,135	90,777
Income tax expense	III.8	(22,133)	(20,543)
Profit for the period		75,002	70,234
Attributable to:			
Equity holders of the Bank		71,601	66,556
Non-controlling interests		3,401	3,678
		75,002	70,234
Earnings per share for profit attributable to equity holders of the Bank during the period (Expressed in RMB per ordinary share)	III.9		
— Basic		0.26	0.24
— Diluted		0.25	0.23

* For details of the restatement please refer to basis of presentation and principal accounting policies.

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

Condensed Consolidated Statement of Comprehensive Income

For the six month period ended 30 June 2012 (Amount in millions of Renminbi, unless otherwise stated)

	For the six month period ended 30 June	
	2012 Unaudited	2011 Unaudited (Restated)
Profit for the period	75,002	70,234
Other comprehensive income:		
Fair value gains on available for sale financial assets:		
Amount recorded in equity	5,604	4,821
Less: related income tax impact	(1,378)	(508)
Amount transferred to income statement	(707)	(3,677)
Less: related income tax impact	289	454
Subtotal	3,808	1,090
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(46)	(7)
Less: related income tax impact	(1)	2
Subtotal	(47)	(5)
Exchange differences from the translation of foreign operations	626	(1,933)
Less: net amount transferred to income statement from other comprehensive income	238	202
Subtotal	864	(1,731)
Other	29	47
Other comprehensive gains/(losses) for the period, net of tax	4,654	(599)
Total comprehensive income for the period	79,656	69,635
Total comprehensive income attributable to:		
Equity holders of the Bank	75,557	66,419
Non-controlling interests	4,099	3,216
	79,656	69,635

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

Condensed Consolidated Statement of Financial Position

As at 30 June 2012 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 30 June 2012 Unaudited	As at 31 December 2011 Audited (Restated)
ASSETS			
Cash and due from banks and other financial institutions	III.10	808,369	590,964
Balances with central banks	III.11	2,187,913	1,919,651
Placements with and loans to banks and other financial institutions	III.12	589,274	618,366
Government certificates of indebtedness for bank notes issued		61,931	56,108
Precious metals		118,339	95,907
Financial assets at fair value through profit or loss	III.13	76,891	73,807
Derivative financial assets	III.14	40,690	42,757
Loans and advances to customers, net	III.15	6,605,842	6,203,138
Investment securities	III.16	1,986,788	1,926,952
— available for sale		607,136	553,318
— held to maturity		1,084,736	1,074,116
— loans and receivables		294,916	299,518
Investment in associates and joint ventures		12,604	13,293
Property and equipment	III.17	138,577	138,234
Investment properties	III.18	16,313	14,616
Deferred income tax assets	III.23	17,987	19,264
Other assets	III.19	164,072	116,732
Total assets		12,825,590	11,829,789

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

	Note	As at 30 June 2012 Unaudited	As at 31 December 2011 Audited (Restated)
LIABILITIES			
Due to banks and other financial institutions		1,582,242	1,370,943
Due to central banks		115,949	81,456
Bank notes in circulation		62,070	56,259
Placements from banks and other financial institutions		267,408	265,838
Derivative financial liabilities	III.14	31,978	35,473
Due to customers	III.20	9,482,564	8,817,961
— at amortised cost		8,807,875	8,256,874
— at fair value		674,689	561,087
Bonds issued	III.21	171,708	169,902
Other borrowings		30,344	26,724
Current tax liabilities		20,152	29,353
Retirement benefit obligations		5,593	6,086
Deferred income tax liabilities	III.23	3,360	2,966
Other liabilities	III.24	260,605	209,691
Total liabilities		12,033,973	11,072,652
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Share capital		279,147	279,147
Capital reserve		115,389	115,403
Treasury shares		(33)	(25)
Statutory reserves		52,265	52,165
General and regulatory reserves		81,431	81,243
Undistributed profits	III.26	238,650	210,599
Reserve for fair value changes of available for sale securities	III.25	6,929	3,642
Currency translation differences		(17,583)	(18,260)
		756,195	723,914
Non-controlling interests		35,422	33,223
Total equity		791,617	757,137
Total equity and liabilities		12,825,590	11,829,789

Approved and authorised for issue by the Board of Directors on 23 August 2012.

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



XIAO Gang
Director



LI Lihui
Director

Condensed Consolidated Statement of Changes In Equity

For the six month period ended 30 June 2012 (Amount in millions of Renminbi, unless otherwise stated)

	Unaudited										
	Attributable to equity holders of the Bank										Total
	Note	Share capital	Capital reserve	Statutory reserves	General and regulatory reserves	Undistributed profits	Reserve for fair value changes of available for sale securities	Currency translation differences	Treasury shares	Non-controlling interests	
As at 1 January 2012 as restated		279,147	115,403	52,165	81,243	210,599	3,642	(18,260)	(25)	33,223	757,137
Profit for the period		-	-	-	-	71,601	-	-	-	3,401	75,002
Other comprehensive income		-	(14)	-	-	6	3,287	677	-	698	4,654
Total comprehensive income for the period		-	(14)	-	-	71,607	3,287	677	-	4,099	79,656
Appropriation to statutory reserves		-	-	100	-	(100)	-	-	-	-	-
Appropriation to general reserve and regulatory reserve		-	-	-	188	(188)	-	-	-	-	-
Dividends	III.26	-	-	-	-	(43,268)	-	-	-	(1,908)	(45,176)
Exercise of subsidiary share options		-	-	-	-	-	-	-	-	2	2
Net change in treasury shares		-	-	-	-	-	-	-	(8)	-	(8)
Other		-	-	-	-	-	-	-	-	6	6
As at 30 June 2012		279,147	115,389	52,265	81,431	238,650	6,929	(17,583)	(33)	35,422	791,617

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

Unaudited (Restated)											
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 as previously reported		279,147	114,988	40,227	71,195	148,355	4,015	(13,624)	(138)	31,985	676,150
Adoption of IAS 12 Amendment		-	36	-	-	690	-	(33)	-	419	1,112
As at 1 January 2011 as restated		279,147	115,024	40,227	71,195	149,045	4,015	(13,657)	(138)	32,404	677,262
Profit for the period as previously reported		-	-	-	-	66,513	-	-	-	3,620	70,133
Adoption of IAS 12 Amendment		-	-	-	-	43	-	-	-	58	101
Profit for the period as restated		-	-	-	-	66,556	-	-	-	3,678	70,234
Other comprehensive income as previously reported		-	42	-	-	2	925	(1,087)	-	(454)	(572)
Adoption of IAS 12 Amendment		-	3	-	-	(1)	-	(21)	-	(8)	(27)
Other comprehensive income as restated		-	45	-	-	1	925	(1,108)	-	(462)	(599)
Total comprehensive income for the period		-	45	-	-	66,557	925	(1,108)	-	3,216	69,635
Appropriation to statutory reserves		-	-	149	-	(149)	-	-	-	-	-
Appropriation to general reserve and regulatory reserve		-	-	-	911	(911)	-	-	-	-	-
Dividends		-	-	-	-	(40,756)	-	-	-	(1,900)	(42,656)
Net change in treasury shares		-	-	-	-	-	-	-	34	-	34
Other		-	-	-	-	-	-	-	-	36	36
As at 30 June 2011 as restated		279,147	115,069	40,376	72,106	173,786	4,940	(14,765)	(104)	33,756	704,311
Profit for the period as previously reported		-	-	-	-	57,669	-	-	-	2,517	60,186
Adoption of IAS 12 Amendment		-	-	-	-	51	-	-	-	31	82
Profit for the period as restated		-	-	-	-	57,720	-	-	-	2,548	60,268
Other comprehensive income as previously reported		-	350	-	-	(2)	(1,298)	(3,474)	-	(1,015)	(5,439)
Adoption of IAS 12 Amendment		-	5	-	-	-	-	(21)	-	(9)	(25)
Other comprehensive income as restated		-	355	-	-	(2)	(1,298)	(3,495)	-	(1,024)	(5,464)
Total comprehensive income for the period		-	355	-	-	57,718	(1,298)	(3,495)	-	1,524	54,804
Appropriation to statutory reserves		-	-	11,773	-	(11,773)	-	-	-	-	-
Appropriation to general reserve and regulatory reserve		-	-	-	9,143	(9,143)	-	-	-	-	-
Dividends		-	-	-	-	-	-	-	-	(2,078)	(2,078)
Net change in treasury shares		-	-	-	-	-	-	-	79	-	79
Other		-	(21)	16	(6)	11	-	-	-	21	21
As at 31 December 2011 as restated		279,147	115,403	52,165	81,243	210,599	3,642	(18,260)	(25)	33,223	757,137

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

Condensed Consolidated Statement of Cash Flows

For the six month period ended 30 June 2012 (Amount in millions of Renminbi, unless otherwise stated)

	Note	For the six month period ended 30 June	
		2012 Unaudited	2011 Unaudited (Restated)
Cash flows from operating activities			
Profit before income tax		97,135	90,777
Adjustments:			
Impairment losses on assets		9,237	12,287
Depreciation of property and equipment		5,776	5,091
Amortisation of intangible assets and other assets		1,101	877
Net gains on disposal of property and equipment, intangible assets and other long-term assets		(247)	(78)
Net gains on disposal of investment in subsidiaries, associates and joint ventures		(93)	–
Share of results of associates and joint ventures		(225)	(346)
Interest income arising from investment securities		(30,324)	(26,773)
Dividends arising from investment securities		(187)	(113)
Net gains on de-recognition of investment securities		(1,052)	(3,336)
Interest expense arising from bonds issued		3,577	2,907
Net changes in operating assets and liabilities:			
Net increase in balances with central banks		(70,152)	(288,703)
Net decrease/(increase) in due from and placements with and loans to banks and other financial institutions		81,274	(122,796)
Net (increase)/decrease in precious metals		(22,432)	8,498
Net decrease in financial assets at fair value through profit or loss		4,789	7,403
Net increase in loans and advances to customers		(412,007)	(556,484)
Net increase in other assets		(42,446)	(41,203)
Net increase in due to banks and other financial institutions		211,299	38,124
Net increase/(decrease) in due to central banks		34,493	(991)
Net increase in placements from banks and other financial institutions		1,570	125,109
Net increase in due to customers		664,603	795,267
Net increase in other borrowings		3,620	3,748
Net increase/(decrease) in other liabilities		22,049	(2,406)
Cash inflow from operating activities		561,358	46,859
Income tax paid		(29,876)	(22,796)
Net cash inflow from operating activities		531,482	24,063

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

	Note	For the six month period ended 30 June	
		2012 Unaudited	2011 Unaudited (Restated)
Cash flows from investing activities			
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		391	1,016
Proceeds from disposal of investment in subsidiaries, associates and joint ventures		1,443	40
Dividends received		220	172
Interest income received from investment securities		27,615	29,208
Proceeds from disposal/maturity of investment securities		610,625	789,875
Increase in investment in subsidiaries, associates and joint ventures		(505)	(163)
Purchase of property and equipment, intangible assets and other long-term assets		(7,482)	(9,947)
Purchase of investment securities		(689,264)	(722,544)
Net cash (outflow)/inflow from investing activities		(56,957)	87,657
Cash flows from financing activities			
Proceeds from issuance of bonds		1,182	32,004
Repayments of debts issued		(261)	–
Cash payments for interest on bonds issued		(4,280)	(2,406)
Dividend payments to equity holders of the Bank		(11,799)	(31,012)
Dividend payments to non-controlling interests		(1,845)	(1,900)
Other net cash flows from financing activities		–	53
Net cash outflow from financing activities		(17,003)	(3,261)
Effect of exchange rate changes on cash and cash equivalents		(1,941)	19
Net increase in cash and cash equivalents		455,581	108,478
Cash and cash equivalents at beginning of the period		1,017,368	769,371
Cash and cash equivalents at end of the period	III.28	1,472,949	877,849

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

Notes to the Condensed Consolidated Interim Financial Information

(Amount in millions of Renminbi, unless otherwise stated)

I BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial information for the six month period ended 30 June 2012 has been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) and should be read in conjunction with the annual financial statements for the year ended 31 December 2011.

Except as described below, the principal accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial information are consistent with those used in the Group’s annual financial statements for the year ended 31 December 2011.

Standards, amendments and interpretations effective in 2012

On 1 January 2012, the Group adopted the following new standards, amendments and interpretations.

IAS 12 Amendment	Deferred Tax: Recovery of Underlying Assets
IFRS 7 Amendment	Disclosures: Transfers of Financial Assets

The Group has adopted IAS 12 Amendment — Deferred Tax: Recovery of Underlying Assets in 2012. The Group restated the deferred tax assets and liabilities related to investment properties measured using the fair value model under IAS 40 Investment Property retrospectively. The impact of the restatement increased the consolidated total equity of the Group as at 31 December 2011 by RMB1,243 million and increased the net profit for the six month period ended 30 June 2011 by RMB101 million.

The adoption of IFRS 7 Amendment does not have a significant impact on the operating results, comprehensive income, or financial position of the Group.

I BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

Standards, amendments and interpretations that are not yet effective and have not been adopted early by the Group in 2012

		Effective for annual period beginning on or after
IAS 1 Amendment	Presentation of Financial Statements: Other Comprehensive Income	1 July 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 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

Description of these Standards, Amendments and Interpretations was disclosed in the consolidated statements of the Group for the year ended 31 December 2011. The Group is considering the impact of these standards and amendments on the consolidated financial statements.

In addition, Annual Improvements 2011 was issued in May 2012. This annual improvements process was established to make non-urgent but necessary amendments to IFRSs. The above amendments are effective for annual period beginning on or after 1 January 2013. No amendment was early adopted by the Group and no material changes to accounting policies are expected as a result of these improvements.

II CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The nature and assumptions related to the Group's accounting estimates are consistent with those adopted in the Group's financial statements for the year ended 31 December 2011.

(Amount in millions of Renminbi, unless otherwise stated)

III NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 Net interest income

	For the six month period ended 30 June	
	2012	2011
Interest income		
Loans and advances to customers	182,328	135,468
Investment securities and financial assets at fair value through profit or loss	31,359	27,761
Due from central banks	13,884	12,107
Due from and placements with and loans to banks and other financial institutions	25,550	15,438
Subtotal	253,121	190,774
Interest expense		
Due to customers	(96,270)	(61,246)
Due to and placements from banks and other financial institutions	(28,913)	(16,238)
Bonds issued and other	(3,884)	(3,075)
Subtotal	(129,067)	(80,559)
Net interest income ⁽¹⁾	124,054	110,215
Interest income accrued on impaired financial assets (included within interest income)	289	373

- (1) Included within "Interest income" and "Interest expense" are RMB252,025 million (2011: RMB189,762 million) and RMB113,378 million (2011: RMB74,935 million) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

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

2 Net fee and commission income

	For the six month period ended 30 June	
	2012	2011
Settlement and clearing fees	7,124	6,539
Agency commissions	6,827	7,072
Bank card fees	6,759	4,846
Credit commitment fees	6,211	7,846
Spread income from foreign exchange business	3,369	4,088
Consultancy and advisory fees	2,124	3,905
Custodian and other fiduciary service fees	1,055	947
Other	3,252	2,360
Fee and commission income	36,721	37,603
Fee and commission expense	(2,471)	(2,629)
Net fee and commission income	34,250	34,974

3 Net trading gains

	For the six month period ended 30 June	
	2012	2011
Net gains from foreign exchange and foreign exchange products ⁽¹⁾	4,580	4,045
Net gains/(losses) from interest rate products	486	(94)
Net gains from equity products	71	88
Net gains from commodity products	324	224
Total ⁽²⁾	5,461	4,263

(1) The net gains from foreign exchange and foreign exchange products include gains in connection with the retranslation of foreign currency denominated monetary assets and liabilities of RMB1,562 million (2011: losses of RMB6,618 million), and net realised and unrealised gains on foreign exchange derivatives (including those entered into in conjunction with the Group's asset and liability management and funding arrangements) of RMB3,042 million (2011: gains of RMB10,721 million).

(2) Included in "Net trading gains" above for the six month period ended 30 June 2012 are gains of RMB142 million in relation to financial assets and financial liabilities designated at fair value through profit or loss (2011: gains of RMB528 million).

(Amount in millions of Renminbi, unless otherwise stated)

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

4 Other operating income

	For the six month period ended 30 June	
	2012	2011
Insurance premiums		
— Life insurance contracts	2,549	2,845
— Non-life insurance contracts	1,365	1,515
Revenue from sale of precious metals products	5,895	4,224
Aircraft leasing income	2,006	1,873
Gains on disposal of property and equipment, intangible assets and other assets	262	103
Dividend income	221	165
Changes in fair value of investment properties (Note III.18)	1,008	938
Gains on disposal of subsidiaries, associates and joint ventures	93	—
Other	1,449	1,523
Total	14,848	13,186

5 Operating expenses

	For the six month period ended 30 June	
	2012	2011
Staff costs (Note III.6)	29,698	28,272
General operating and administrative expenses ⁽¹⁾	15,934	13,617
Business and other taxes	11,220	8,713
Depreciation and amortisation	6,877	5,968
Insurance benefits and claims		
— Life insurance contracts	3,047	3,540
— Non-life insurance contracts	876	1,058
Cost of sale of precious metals products	5,416	3,831
Allowance for litigation losses	(14)	29
Losses on disposal of property and equipment	15	25
Lehman Brothers related products	—	(2,378)
Other	449	581
Total	73,518	63,256

(1) Included in the general operating and administrative expenses are operating lease expenses of RMB2,518 million and other premises and equipment related expenses (mainly comprised of property management and building maintenance expenses) of RMB4,258 million (2011: RMB2,042 million and RMB3,564 million, respectively).

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

6 Staff costs

	For the six month period ended 30 June	
	2012	2011
Salary, bonus and subsidy	21,591	20,652
Staff welfare	723	1,098
Retirement benefits	(47)	62
Social insurance, including:		
Medical	971	814
Pension	2,254	1,926
Annuity	501	421
Unemployment	180	141
Injury at work	59	47
Maternity insurance	71	56
Housing funds	1,738	1,500
Labour union fee and staff education fee	796	729
Reimbursement for cancellation of labour contract	15	12
Other	846	814
Total	29,698	28,272

7 Impairment losses on assets

	For the six month period ended 30 June	
	2012	2011
Loans and advances ⁽¹⁾		
— Individually assessed	740	(2,694)
— Collectively assessed	8,478	15,527
Subtotal	9,218	12,833
Investment securities ⁽²⁾		
— Available for sale	(12)	(440)
— Held to maturity	4	(32)
Subtotal	(8)	(472)
Other	27	(74)
Total	9,237	12,287

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

7 Impairment losses on assets (Continued)

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

	For the six month period ended 30 June	
	2012	2011
US Subprime mortgage related debt securities	(136)	(324)
US Alt-A mortgage-backed securities	(6)	(90)
US Non-Agency mortgage-backed securities	(44)	(171)
Other securities	178	113
Net Reversal	(8)	(472)

8 Income tax expense

	For the six month period ended 30 June	
	2012	2011
Current income tax		
— Chinese mainland income tax	18,669	15,785
— Hong Kong profits tax	1,685	1,814
— Macau, Taiwan and other countries and regions taxation	1,126	630
Subtotal	21,480	18,229
Deferred income tax (Note III.23.4)	653	2,314
Total	22,133	20,543

The provision for Chinese mainland income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Bank and each of the subsidiaries established in the Chinese mainland and supplementary PRC tax on overseas operations as determined in accordance with the relevant PRC income tax rules and regulations.

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

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

8 Income tax expense (Continued)

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

	For the six month period ended 30 June	
	2012	2011
Profit before income tax	97,135	90,777
Tax calculated at applicable statutory tax rate	24,284	22,694
Effect of different tax rates on Hong Kong, Macau, Taiwan and other countries and regions	(1,210)	(1,547)
Supplementary PRC tax on overseas income	666	790
Income not subject to tax ⁽¹⁾	(2,473)	(2,390)
Items not deductible for tax purposes ⁽²⁾	990	895
Other	(124)	101
Income tax expense	22,133	20,543

(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.

9 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.

	For the six month period ended 30 June	
	2012	2011
Profit attributable to equity holders of the Bank	71,601	66,556
Weighted average number of ordinary shares in issue (in million shares)	279,113	279,116
Basic earnings per share (in RMB per share)	0.26	0.24

(Amount in millions of Renminbi, unless otherwise stated)

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

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

Basic earnings per share (Continued)

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

	For the six month period ended 30 June	
	2012	2011
Issued ordinary shares as at 1 January	279,147	279,147
Conversion of the bond into shares (Note III.21)	–	–
Weighted average number of treasury shares	(34)	(31)
Weighted average number of ordinary shares in issue	279,113	279,116

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 six month period by the adjusted weighted average number of ordinary shares in issue. The Bank has convertible bonds as dilutive potential ordinary shares.

	For the six month period ended 30 June	
	2012	2011
Profit attributable to equity holders of the Bank	71,601	66,556
Add: interest expense on convertible bonds, net of tax, outstanding as at 30 June	493	539
Profit used to determine diluted earnings per share	72,094	67,095
Adjusted weighted average number of ordinary shares in issue (in million shares)	279,113	279,116
Add: weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	11,190	10,747
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	290,303	289,863
Diluted earnings per share (in RMB per share)	0.25	0.23

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

10 Cash and due from banks and other financial institutions

	As at 30 June 2012	As at 31 December 2011
Cash	60,618	61,833
Due from banks in Chinese mainland	714,828	416,233
Due from other financial institutions in Chinese mainland	2,138	3,541
Due from banks in Hong Kong, Macau, Taiwan and other countries and regions	30,752	109,306
Due from other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	33	51
Total	808,369	590,964

11 Balances with central banks

	As at 30 June 2012	As at 31 December 2011
Mandatory reserves ⁽¹⁾	1,535,973	1,467,139
Surplus reserves ⁽²⁾	149,744	181,020
Other deposits ⁽³⁾	502,196	271,492
Total	2,187,913	1,919,651

(1) The Group places mandatory reserve funds with the People's Bank of China (the "PBOC") and the central banks of Hong Kong, Macau, Taiwan and other countries and regions where it has operations. As at 30 June 2012, mandatory reserve funds placed with the PBOC were calculated at 20.0% (31 December 2011: 21.0%) and 5.0% (31 December 2011: 5.0%) of qualified RMB deposits and foreign currency deposits from customers of branches in Chinese mainland of the Bank, respectively. The amount of 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)

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

12 Placements with and loans to banks and other financial institutions

	As at 30 June 2012	As at 31 December 2011
Placements with and loans to:		
Banks in Chinese mainland	335,478	410,655
Other financial institutions in Chinese mainland	153,172	112,629
Banks in Hong Kong, Macau, Taiwan and other countries and regions	100,859	95,320
Subtotal ⁽¹⁾	589,509	618,604
Allowance for impairment losses	(235)	(238)
Total	589,274	618,366
Impaired placements	235	238
Percentage of impaired placements to total placements with and loans to banks and other financial institutions	0.04%	0.04%

(1) "Placements with and loans to banks and other financial institutions" include balances arising from reverse repo agreements and collateralised financing agreements. These are presented by collateral type as follows:

	As at 30 June 2012	As at 31 December 2011
Debt securities		
— Government	118,543	90,925
— Policy banks	106,341	72,773
— Financial institutions	3,576	—
Total	228,460	163,698

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

13 Financial assets at fair value through profit or loss

	As at 30 June 2012	As at 31 December 2011
Trading financial assets		
Trading debt securities		
Issuers in Chinese mainland		
— Government	2,040	6,355
— Policy banks	6,732	2,135
— Financial institutions	114	204
— Corporate	4,683	2,054
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
— Governments	22,969	15,127
— Public sector and quasi-governments	162	153
— Financial institutions	311	417
— Corporate	4,459	4,723
	41,470	31,168
Other trading financial assets		
Fund investments	371	409
Equity securities	849	729
Subtotal	42,690	32,306
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	67	69
— Policy banks	1,895	1,822
— Financial institutions	126	—
— Corporate	2,472	327
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
— Public sector and quasi-governments	391	463
— Financial institutions	20,171	26,690
— Corporate	3,621	3,936
	28,743	33,307
Other financial assets designated at fair value through profit or loss		
Fund investments	623	3,115
Loans	4,551	4,412
Equity securities	284	667
Subtotal	34,201	41,501
Total	76,891	73,807
Analysed as:		
Listed in Hong Kong	12,291	9,463
Listed outside Hong Kong	27,768	29,693
Unlisted	36,832	34,651
Total	76,891	73,807

(Amount in millions of Renminbi, unless otherwise stated)

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

14 Derivative financial instruments

The Group enters into foreign currency exchange rate, interest rate, equity, credit, and precious metals and other commodity related derivative financial instruments for trading, hedging, asset and liability management purpose, and on behalf of customers.

The contractual/notional amounts and fair values of derivative instruments held by the Group are set out in the following tables. The contractual/notional amounts of financial instruments provide a basis for comparison with fair value instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, 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.

	As at 30 June 2012			As at 31 December 2011		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value amount	
		Assets	Liabilities		Assets	Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps ⁽¹⁾	2,058,957	28,796	(18,275)	1,930,235	31,615	(21,687)
Currency options	21,673	95	(49)	17,404	203	(50)
Subtotal	2,080,630	28,891	(18,324)	1,947,639	31,818	(21,737)
Interest rate derivatives						
Interest rate swaps	627,060	8,985	(10,679)	618,375	9,027	(11,390)
Interest rate options	2,182	-	(54)	2,201	1	(18)
Interest rate futures	2,178	2	-	3,424	1	(1)
Subtotal	631,420	8,987	(10,733)	624,000	9,029	(11,409)
Equity derivatives	6,288	139	(117)	3,991	102	(98)
Commodity derivatives	115,399	2,673	(2,804)	77,347	1,808	(2,229)
Credit derivatives	316	-	-	315	-	-
Total ⁽²⁾	2,834,053	40,690	(31,978)	2,653,292	42,757	(35,473)

(1) These exchange rate derivatives primarily include foreign exchange transactions with customers; foreign exchange transactions to manage foreign currency exchange risks arising from customers; and foreign currency exchange transactions entered into as part of asset and liability management and funding requirements.

(2) The derivative financial instruments above include those designated as hedging instruments by the Group.

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

15 Loans and advances to customers, net

15.1 Analysis of loans and advances to customers

	Group		Chinese mainland	
	As at 30 June 2012	As at 31 December 2011	As at 30 June 2012	As at 31 December 2011
Corporate loans and advances				
— Loans and advances	4,837,712	4,628,846	3,815,257	3,733,643
— Discounted bills	146,660	96,459	134,717	84,812
Subtotal	4,984,372	4,725,305	3,949,974	3,818,455
Personal loans				
— Mortgages	1,285,626	1,213,322	1,085,920	1,025,988
— Credit cards	122,340	97,659	114,095	89,453
— Other	361,326	306,528	325,602	275,798
Subtotal	1,769,292	1,617,509	1,525,617	1,391,239
Total loans and advances	6,753,664	6,342,814	5,475,591	5,209,694
Allowance for impairment losses				
— Individually assessed	(36,543)	(36,265)	(35,447)	(35,228)
— Collectively assessed	(111,279)	(103,411)	(105,588)	(98,282)
Total allowance for impairment losses	(147,822)	(139,676)	(141,035)	(133,510)
Loans and advances to customers, net	6,605,842	6,203,138	5,334,556	5,076,184

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

(Amount in millions of Renminbi, unless otherwise stated)

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

15 Loans and advances to customers, net (Continued)

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

Group

	Loans and advances for which allowance is collectively assessed ⁽¹⁾	Identified impaired loans and advances ⁽²⁾			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 30 June 2012						
Total loans and advances	6,690,049	13,995	49,620	63,615	6,753,664	0.94%
Allowance for impairment losses	(102,493)	(8,786)	(36,543)	(45,329)	(147,822)	
Loans and advances to customers, net	6,587,556	5,209	13,077	18,286	6,605,842	
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	

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

15 Loans and advances to customers, net (Continued)

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

Chinese mainland

	Loans and advances for which allowance is collectively assessed ⁽¹⁾	Identified impaired loans and advances ⁽²⁾			Subtotal	Total	Identified impaired loans and advances as % of total loans and advances
		for which allowance is collectively assessed	for which allowance is individually assessed				
As at 30 June 2012							
Total loans and advances	5,414,160	13,694	47,737	61,431	5,475,591	1.12%	
Allowance for impairment losses	(96,898)	(8,690)	(35,447)	(44,137)	(141,035)		
Loans and advances to customers, net	5,317,262	5,004	12,290	17,294	5,334,556		
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		

(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).

(Amount in millions of Renminbi, unless otherwise stated)

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

15 Loans and advances to customers, net (Continued)

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

Group

	Six month period ended 30 June 2012	Year ended 31 December 2011
As at 1 January	139,676	122,856
Impairment losses for the period/year	27,546	53,491
Reversal	(18,328)	(34,219)
Written off and transfer out	(1,236)	(1,809)
Recovery of loans and advances written off in previous years	326	610
Unwind of discount on allowance	(181)	(314)
Exchange differences	19	(939)
As at 30 June/31 December	147,822	139,676

Chinese mainland

	Six month period ended 30 June 2012	Year ended 31 December 2011
As at 1 January	133,510	116,799
Impairment losses for the period/year	26,729	51,559
Reversal	(18,061)	(32,632)
Written off and transfer out	(1,149)	(1,603)
Recovery of loans and advances written off in previous years	174	275
Unwind of discount on allowance	(177)	(311)
Exchange differences	9	(577)
As at 30 June/31 December	141,035	133,510

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

16 Investment securities

	As at 30 June 2012	As at 31 December 2011
Investment securities available for sale		
Debt securities available for sale		
Issuers in Chinese mainland		
— Government	77,071	56,338
— Public sector and quasi-governments	1,749	1,872
— Policy banks	63,185	48,667
— Financial institutions	37,973	13,294
— Corporate	87,820	67,116
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
— Governments	114,937	133,912
— Public sector and quasi-governments	36,431	34,175
— Financial institutions	132,305	148,506
— Corporate	26,193	20,212
	577,664	524,092
Equity securities	22,293	23,281
Fund investments and other	7,179	5,945
Total investment securities available for sale ⁽¹⁾	607,136	553,318
Debt securities held to maturity		
Issuers in Chinese mainland		
— Government	584,428	575,744
— Public sector and quasi-governments	13,297	16,220
— Policy banks	278,851	270,346
— Financial institutions	34,533	23,182
— Corporate	132,226	123,828
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
— Governments	18,619	33,762
— Public sector and quasi-governments	2,783	5,443
— Financial institutions	16,716	22,590
— Corporate	3,636	3,355
	1,085,089	1,074,470
Allowance for impairment losses	(353)	(354)
Total debt securities held to maturity ⁽²⁾	1,084,736	1,074,116
Debt securities classified as loans and receivables		
Issuers in Chinese mainland		
— China Orient Bond	160,000	160,000
— PBOC Target Bills	22,673	22,291
— Special Purpose Treasury Bond	42,500	42,500
— Financial institutions	19,178	14,480
— Certificate and Saving-type Treasury Bonds and other	37,263	41,483
Issuers in Hong Kong, Macau, Taiwan and other countries and regions		
— Public sector and quasi-governments	12,058	12,845
— Financial institutions	723	5,410
— Corporate	597	584
	294,992	299,593
Allowance for impairment losses	(76)	(75)
Total securities classified as loans and receivables	294,916	299,518
Total investment securities	1,986,788	1,926,952

(Amount in millions of Renminbi, unless otherwise stated)

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

16 Investment securities (Continued)

	As at 30 June 2012	As at 31 December 2011
Analysed as follows:		
Investment securities available for sale		
Debt securities		
— Listed in Hong Kong	19,873	14,294
— Listed outside Hong Kong	300,009	262,669
— Unlisted	257,782	247,129
Equity, fund and other		
— Listed in Hong Kong	4,484	5,138
— Listed outside Hong Kong	279	340
— Unlisted	24,709	23,748
Debt securities held to maturity		
— Listed in Hong Kong	2,546	2,206
— Listed outside Hong Kong	1,042,487	1,010,958
— Unlisted	39,703	60,952
Debt securities classified as loans and receivables		
— Unlisted	294,916	299,518
Total	1,986,788	1,926,952
Listed in Hong Kong	26,903	21,638
Listed outside Hong Kong	1,342,775	1,273,967
Unlisted	617,110	631,347
Total	1,986,788	1,926,952

- (1) The Group's accumulated impairment charge on debt and equity securities available for sale held as at 30 June 2012 amounted to RMB4,954 million and RMB3,969 million, respectively (31 December 2011: RMB9,135 million and RMB3,788 million, respectively).
- (2) The market values of the above listed held to maturity securities are set out below:

	As at 30 June 2012		As at 31 December 2011	
	Carrying value	Market value	Carrying value	Market Value
Debt securities held to maturity				
— Listed in Hong Kong	2,546	2,647	2,206	2,288
— Listed outside Hong Kong	1,042,487	1,053,462	1,010,958	1,012,649

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

17 Property and equipment

	Six month period ended 30 June 2012				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 1 January	78,989	47,415	19,840	46,584	192,828
Additions	187	526	3,164	2,175	6,052
Transfer to investment properties, net (Note III.18)	(14)	–	–	–	(14)
Reclassification	842	224	(1,997)	931	–
Disposals	(428)	(439)	(23)	–	(890)
Exchange differences	85	27	13	121	246
As at 30 June	79,661	47,753	20,997	49,811	198,222
Accumulated depreciation					
As at 1 January	(20,819)	(28,317)	–	(4,411)	(53,547)
Depreciation charge	(1,167)	(3,752)	–	(857)	(5,776)
Disposals	355	419	–	–	774
Exchange differences	(18)	(20)	–	(11)	(49)
As at 30 June	(21,649)	(31,670)	–	(5,279)	(58,598)
Allowance for impairment losses					
As at 1 January	(775)	–	(252)	(20)	(1,047)
Impairment losses	(3)	–	–	–	(3)
Disposals	3	–	–	–	3
Exchange differences	–	–	–	–	–
As at 30 June	(775)	–	(252)	(20)	(1,047)
Net book value					
As at 1 January	57,395	19,098	19,588	42,153	138,234
As at 30 June	57,237	16,083	20,745	44,512	138,577

(Amount in millions of Renminbi, unless otherwise stated)

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

17 Property and equipment (Continued)

	Year ended 31 December 2011				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 1 January	74,058	40,752	12,806	43,707	171,323
Additions	1,331	8,337	14,069	6,791	30,528
Transfer from/(to) investment properties, net (Note III.18)	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	78,989	47,415	19,840	46,584	192,828
Accumulated depreciation					
As at 1 January	(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	(20,819)	(28,317)	–	(4,411)	(53,547)
Allowance for impairment losses					
As at 1 January	(798)	–	(257)	(9)	(1,064)
Impairment losses	–	–	–	(11)	(11)
Disposals	23	–	5	–	28
Exchange differences	–	–	–	–	–
As at 31 December	(775)	–	(252)	(20)	(1,047)
Net book value					
As at 1 January	53,882	16,810	12,549	40,327	123,568
As at 31 December	57,395	19,098	19,588	42,153	138,234

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

18 Investment properties

	Six month period ended 30 June 2012	Year ended 31 December 2011
As at 1 January	14,616	13,839
Additions	560	502
Transfer from/(to) property and equipment, net (Note III.17)	14	(696)
Disposals	(56)	(273)
Fair value changes (Note III.4)	1,008	1,864
Exchange differences	171	(620)
As at 30 June/31 December	16,313	14,616

19 Other assets

	As at 30 June 2012	As at 31 December 2011
Interest receivable	62,887	54,817
Accounts receivable and prepayments	75,157	38,245
Intangible assets	2,561	2,602
Land use rights	9,368	9,353
Reposessed assets ⁽¹⁾	1,269	1,057
Goodwill	1,732	1,727
Other	11,098	8,931
Total	164,072	116,732

(1) Reposessed assets

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

	As at 30 June 2012	As at 31 December 2011
Commercial properties	1,319	1,246
Residential properties	134	136
Other	855	730
	2,308	2,112
Allowance for impairment	(1,039)	(1,055)
Reposessed assets, net	1,269	1,057

The total book value of reposessed assets disposed for the six month period ended 30 June 2012 amounted to RMB51 million (for the year ended 31 December 2011: RMB1,346 million). The Group plans to dispose of the reposessed assets held at 30 June 2012 by auction, bidding or transfer.

(Amount in millions of Renminbi, unless otherwise stated)

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

20 Due to customers

	As at 30 June 2012	As at 31 December 2011
At amortised cost		
Demand deposits		
— Corporate deposits	2,409,512	2,451,185
— Personal deposits	1,557,204	1,423,524
Subtotal	3,966,716	3,874,709
Time deposits		
— Corporate deposits	2,283,192	2,021,651
— Personal deposits	2,327,602	2,171,950
Subtotal	4,610,794	4,193,601
Certificates of deposit	182,076	138,880
Other deposits	48,289	49,684
Total due to customers at amortised cost	8,807,875	8,256,874
At fair value		
Structured deposits		
— Corporate deposits	280,132	221,479
— Personal deposits	394,557	339,608
Total due to customers at fair value ⁽¹⁾	674,689	561,087
Total due to customers ⁽²⁾	9,482,564	8,817,961

- (1) 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 credit risk and therefore there were no significant gains or losses attributable to changes in the Group's credit risk for these financial liabilities designated at fair value through profit or loss during the six month period ended 30 June 2012 and the year ended 31 December 2011.

- (2) "Due to customers" included margin deposits received by the Group as at 30 June 2012 of RMB417,955 million (31 December 2011: RMB445,289 million).

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

21 Bonds issued

During the six month period ended 30 June 2012 and the year ended 31 December 2011, the movement of the liability component of A-share convertible bonds issued by the Bank is as follows:

	Six month period ended 30 June 2012	Year ended 31 December 2011
As at 1 January	37,201	36,206
Accretion	490	995
Amounts converted to shares	–	–
As at 30 June/31 December	37,691	37,201

Convertible bonds with principal amount of RMB24,000 were converted into 6,780 ordinary A shares during the six month period ended 30 June 2012.

22 Share option schemes

22.1 Share Appreciation Rights Plan

No share appreciation rights have been granted since the inception of the plan.

22.2 BOCHK Holdings Share Option Scheme and Sharesave Plan

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

22.3 BOCHK Holdings Pre-listing Share Option Scheme

During the six month period ended 30 June 2012, no share options were exercised by the directors or key management of the Group (2011: Nil). The number of share options granted to the directors and key management of the Group outstanding at both 30 June 2012 and 31 December 2011 was 1,446,000.

(Amount in millions of Renminbi, unless otherwise stated)

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

23 Deferred income taxes

23.1 Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes are related to the same fiscal authority. The table below includes the deferred income tax assets and liabilities of the Group after offsetting qualifying amounts and related temporary differences:

	As at 30 June 2012		As at 31 December 2011	
	Temporary Differences	Deferred tax assets/ (liabilities)	Temporary Differences	Deferred tax assets/ (liabilities)
Deferred income tax assets	67,139	17,987	73,583	19,264
Deferred income tax liabilities	(19,191)	(3,360)	(16,079)	(2,966)
	47,948	14,627	57,504	16,298

23.2 The movements of the deferred income tax are as follows:

	Six month period ended	Year ended
	30 June 2012	31 December 2011
As at 1 January	16,298	21,260
Charged to income statement (Note III.8)	(653)	(4,601)
(Charged)/Credited to equity	(1,090)	9
Other	72	(370)
As at 30 June/31 December	14,627	16,298

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

23 Deferred income taxes (Continued)

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

	As at 30 June 2012		As at 31 December 2011	
	Temporary differences	Deferred tax assets/(liabilities)	Temporary differences	Deferred tax assets/(liabilities)
Deferred income tax assets				
Asset impairment allowances	91,075	22,798	84,060	21,018
Pension, retirement benefits and salary payable	14,910	3,727	19,363	4,841
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	11,734	2,933	15,181	3,796
Fair value changes of available for sale investment securities credited to equity	114	25	379	92
Other temporary differences	3,158	834	3,797	961
Subtotal	120,991	30,317	122,780	30,708
Deferred income tax liabilities				
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	(17,733)	(4,433)	(20,132)	(5,035)
Fair value changes of available for sale investment securities charged to equity	(7,071)	(1,610)	(2,407)	(587)
Depreciation of property and equipment	(8,650)	(1,488)	(7,977)	(1,370)
Revaluation of property and investment properties	(8,918)	(1,728)	(7,876)	(1,620)
Other temporary differences	(30,671)	(6,431)	(26,884)	(5,798)
Subtotal	(73,043)	(15,690)	(65,276)	(14,410)
Net	47,948	14,627	57,504	16,298

As at 30 June 2012, deferred income tax liabilities relating to temporary differences of RMB39,143 million associated with the Group's investment in subsidiaries were recognised (31 December 2011: RMB30,895 million).

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

23 Deferred income taxes (Continued)

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

	For the six month period ended 30 June	
	2012	2011
Asset impairment allowances	1,780	265
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	(261)	(1,503)
Pension, retirement benefits and salary payable	(1,114)	(501)
Other temporary differences	(1,058)	(575)
Total	(653)	(2,314)

24 Other liabilities

	As at 30 June	As at 31 December
	2012	2011
Items in the process of clearance and settlement	23,904	27,848
Interest payable	97,082	75,352
Insurance liabilities		
— Life insurance contracts	42,215	38,281
— Non-life insurance contracts	5,702	5,054
Salary and welfare payable	15,713	19,938
Dividend payable (Note III.26)	31,532	—
Provision	2,095	2,396
Short position in debt securities	6,389	2,106
Other	35,973	38,716
Total	260,605	209,691

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

25 Reserve for fair value changes of available for sale securities

	Six month period ended 30 June 2012	Year ended 31 December 2011
As at 1 January	3,642	4,015
Net changes in fair value	4,892	2,778
Share of associates' reserve for fair value changes of available for sale securities	(22)	(35)
Net impairment reversal transferred to income statement	(12)	(70)
Net fair value changes transferred to income statement on de-recognition	(905)	(3,507)
Deferred income taxes	(990)	(25)
Other	324	486
As at 30 June/31 December	6,929	3,642

26 Dividends

A dividend of RMB0.155 per share in respect of profits for the year ended 31 December 2011 amounting to RMB43,268 million was approved by the equity holders of the Bank at the Annual General Meeting held on 30 May 2012. Of this amount, RMB11,799 million was distributed during the six month period ended 30 June 2011. The undistributed portion of RMB31,469 million was recorded in other liabilities (Note III.24) as at 30 June 2012. Such dividend was distributed on 6 July 2012 after the appropriate withholding of individual and enterprise income taxes pursuant to the announcement made by the Bank on 5 June 2012.

27 Contingent liabilities and commitments

27.1 Legal proceedings and arbitrations

As at 30 June 2012, 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 30 June 2012, provisions of RMB671 million (31 December 2011: RMB700 million) were made based on court judgments or the advice of counsel. 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.

(Amount in millions of Renminbi, unless otherwise stated)

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

27 Contingent liabilities and commitments (Continued)

27.2 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 30 June 2012	As at 31 December 2011
Debt securities	43,718	55,269
Bills	42	22
Total	43,760	55,291

27.3 Collateral accepted

The Group accepts securities collateral and precious metals collateral that are permitted to sell or re-pledge in connection with its placements and reverse repurchase agreements with banks and other financial institutions. As at 30 June 2012, the fair value of collateral received from banks and financial institutions accepted by the Group amounted to RMB24,239 million (31 December 2011: RMB11,297 million). As at 30 June 2012, the Group had an obligation to return securities collateral that it has sold or pledged with a fair value of RMB32 million (31 December 2011: Nil). These transactions were conducted under standard terms and in the normal course of business.

27.4 Capital commitments

	As at 30 June 2012	As at 31 December 2011
Property and equipment		
— Contracted but not provided for	43,577	55,437
— Authorised but not contracted for	7,566	6,997
Intangible assets		
— Contracted but not provided for	571	351
— Authorised but not contracted for	10	52
Total	51,724	62,837

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

27 Contingent liabilities and commitments (Continued)

27.5 Operating leases

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

	As at 30 June 2012	As at 31 December 2011
Within 1 year	4,515	4,420
Between 1 to 2 years	3,684	3,615
Between 2 to 3 years	2,906	2,887
Over 3 years	7,486	6,985
Total	18,591	17,907

27.6 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 30 June 2012, the outstanding principal value of the Treasury bonds sold by the Bank amounted to RMB41,901 million (31 December 2011: RMB45,113 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.

27.7 Credit commitments

	As at 30 June 2012	As at 31 December 2011
Loan commitments ⁽¹⁾		
— with an original maturity of within 1 year	68,178	63,670
— with an original maturity of 1 year or over	668,444	686,745
Letters of guarantee issued ⁽²⁾	775,357	727,891
Bank bill acceptance	419,492	402,524
Letters of credit issued	180,814	191,250
Accepted bill of exchange under letters of credit	167,877	172,229
Other	46,466	67,563
Total ⁽³⁾	2,326,628	2,311,872

(Amount in millions of Renminbi, unless otherwise stated)

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

27 Contingent liabilities and commitments (Continued)

27.7 Credit commitments (Continued)

- (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 30 June 2012	As at 31 December 2011
Credit commitments	751,585	734,041

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.

27.8 Underwriting obligations

The unexpired underwriting obligations of securities are as follows:

	As at 30 June 2012	As at 31 December 2011
Underwriting obligations	94,050	85,149

28 Note to condensed consolidated statement of cash flows

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

	As at 30 June	
	2012	2011
Cash and due from banks and other financial institutions	426,552	213,061
Balances with central banks	638,072	426,568
Placements with and loans to banks and other financial institutions	353,800	198,047
Short term bills and notes	54,525	40,173
Total	1,472,949	877,849

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

29 Related party transactions

29.1 China Investment Corporation (“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 Central Huijin Investment Ltd. (“Huijin”).

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

29.2 Transactions with 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	67.63%
Voting right in the Bank	67.63%
Nature	Wholly State-owned company
Principal activities	Investment in major State-owned financial institutions on behalf of the State
National organization code	71093296-1

(2) Transactions with Huijin

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

Due to Huijin

	Six month period ended 30 June 2012	Year ended 31 December 2011
As at 1 January	15,933	21,026
Received during the period/year	4,678	57,859
Repaid during the period/year	(9,969)	(62,952)
As at 30 June/31 December	10,642	15,933

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

29 Related party transactions (Continued)

29.2 Transactions with Huijin and companies under Huijin (Continued)

(2) Transactions with Huijin (Continued)

Bonds issued by Huijin

As at 30 June 2012, the Bank held government-backed bonds held to maturity issued by Huijin in the carrying value of RMB5,729 million (31 December 2011: RMB5,708 million). These bonds have maturity of not more than 30 years and bear fixed interest rates, payable annually. These bonds were purchased in the ordinary course of business of the Group, complying with requirements of related regulations and corporate governance.

(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 with these companies were as follows:

	As at 30 June 2012	As at 31 December 2011
Due from banks and other financial institutions	164,964	38,868
Placements with and loans to banks and other financial institutions	61,192	73,282
Financial assets at fair value through profit or loss and Investment securities	218,119	193,767
Derivative financial assets	680	443
Loans and advances to customers	2,029	2,577
Due to banks and other financial institutions	(211,104)	(156,135)
Placements from banks and other financial institutions	(48,422)	(33,247)
Derivative financial liabilities	(692)	(956)
Credit commitments	860	3,702

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

29 Related party transactions (Continued)

29.3 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.

29.4 Transactions with associates and joint ventures

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

	As at 30 June 2012	As at 31 December 2011
Loans and advances to customers	1,126	1,594
Due to customers, banks and other financial institutions	(4,631)	(4,475)
Credit commitments	1,403	2,803

29.5 Transactions with the Annuity Fund

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 six month period ended 30 June 2012 and the year ended 31 December 2011.

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

29 Related party transactions (Continued)

29.6 Transactions with key management personnel

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

The Group enters into banking transactions with key management personnel in the normal course of business. During the six month period ended 30 June 2012 and the year ended 31 December 2011, there were no material transactions and balances with key management personnel on an individual basis.

30 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.

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.

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

30 Segment reporting (Continued)

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.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in millions of Renminbi, unless otherwise stated)

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

30 Segment reporting (Continued)

The Group as at and for the six month period ended 30 June 2012

	Hong Kong, Macau and Taiwan						Total
	Chinese mainland	BOC Hong Kong Group	Other	Subtotal	Other countries and regions	Elimination	
Interest income	228,499	14,888	4,576	19,464	9,567	(4,409)	253,121
Interest expense	(120,433)	(4,457)	(3,561)	(8,018)	(5,025)	4,409	(129,067)
Net interest income	108,066	10,431	1,015	11,446	4,542	-	124,054
Fee and commission income	29,450	4,329	1,868	6,197	1,753	(679)	36,721
Fee and commission expense	(789)	(1,224)	(371)	(1,595)	(472)	385	(2,471)
Net fee and commission income	28,661	3,105	1,497	4,602	1,281	(294)	34,250
Net trading gains	3,856	1,108	424	1,532	73	-	5,461
Net gains on investment securities	586	387	60	447	19	-	1,052
Other operating income ⁽¹⁾	7,469	3,582	3,723	7,305	74	-	14,848
Operating income	148,638	18,613	6,719	25,332	5,989	(294)	179,665
Operating expenses ⁽¹⁾	(61,517)	(7,288)	(3,486)	(10,774)	(1,521)	294	(73,518)
Impairment losses on assets	(8,520)	(59)	(374)	(433)	(284)	-	(9,237)
Operating profit	78,601	11,266	2,859	14,125	4,184	-	96,910
Share of results of associates and joint ventures	-	-	225	225	-	-	225
Profit before income tax	78,601	11,266	3,084	14,350	4,184	-	97,135
Income tax expense							(22,133)
Profit for the period							75,002
Segment assets	10,539,666	1,344,918	548,064	1,892,982	1,394,370	(1,014,032)	12,812,986
Investment in associates and joint ventures	-	47	12,557	12,604	-	-	12,604
Total assets	10,539,666	1,344,965	560,621	1,905,586	1,394,370	(1,014,032)	12,825,590
Include: non-current assets ⁽²⁾	83,052	21,205	65,902	87,107	5,074	(161)	175,072
Segment liabilities	9,930,252	1,248,624	498,827	1,747,451	1,370,141	(1,013,871)	12,033,973
Other segment items:							
Intersegment net interest (expense)/income	(313)	882	589	1,471	(1,158)	-	-
Intersegment net fee and commission income/(expense)	156	63	359	422	(284)	(294)	-
Capital expenditure	2,429	251	4,615	4,866	126	-	7,421
Depreciation and amortisation	5,341	376	1,057	1,433	103	-	6,877
Credit commitments	2,303,261	98,336	81,699	180,035	154,473	(311,141)	2,326,628

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

30 Segment reporting (Continued)

The Group as at 31 December 2011 and for the six month period ended 30 June 2011

	Hong Kong, Macau and Taiwan					Other countries and regions	Elimination	Total
	Chinese mainland	BOC Hong Kong Group	Other	Subtotal				
Interest income	172,234	13,179	2,681	15,860	4,996	(2,316)	190,774	
Interest expense	(74,515)	(4,402)	(1,467)	(5,869)	(2,491)	2,316	(80,559)	
Net interest income	97,719	8,777	1,214	9,991	2,505	-	110,215	
Fee and commission income	30,078	4,585	2,062	6,647	1,487	(609)	37,603	
Fee and commission expense	(696)	(1,225)	(738)	(1,963)	(382)	412	(2,629)	
Net fee and commission income	29,382	3,360	1,324	4,684	1,105	(197)	34,974	
Net trading gains	3,182	713	174	887	194	-	4,263	
Net gains on investment securities	877	301	2,146	2,447	12	-	3,336	
Other operating income ⁽¹⁾	4,650	3,996	4,648	8,644	41	(149)	13,186	
Operating income	135,810	17,147	9,506	26,653	3,857	(346)	165,974	
Operating expenses ⁽¹⁾	(53,325)	(5,092)	(3,940)	(9,032)	(1,245)	346	(63,256)	
Impairment losses on assets	(10,141)	(27)	(569)	(596)	(1,550)	-	(12,287)	
Operating profit	72,344	12,028	4,997	17,025	1,062	-	90,431	
Share of results of associates and joint ventures	-	2	344	346	-	-	346	
Profit before income tax	72,344	12,030	5,341	17,371	1,062	-	90,777	
Income tax expense							(20,543)	
Profit for the period							70,234	
Segment assets	9,612,716	1,387,651	467,926	1,855,577	904,756	(556,553)	11,816,496	
Investment in associates and joint ventures	-	49	13,244	13,293	-	-	13,293	
Total assets	9,612,716	1,387,700	481,170	1,868,870	904,756	(556,553)	11,829,789	
Include: non-current assets ⁽²⁾	85,936	20,660	62,016	82,676	5,027	(161)	173,478	
Segment liabilities	9,025,576	1,297,822	421,427	1,719,249	884,219	(556,392)	11,072,652	
Other segment items:								
Intersegment net interest (expense)/income	(215)	353	225	578	(363)	-	-	
Intersegment net fee and commission income/(expense)	101	57	186	243	(147)	(197)	-	
Capital expenditure	3,147	222	6,401	6,623	45	-	9,815	
Depreciation and amortisation	4,530	369	970	1,339	99	-	5,968	
Credit commitments	2,234,227	100,569	55,247	155,816	164,247	(242,418)	2,311,872	

(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.

Notes to the Condensed Consolidated Interim Financial Information

(Amount in millions of Renminbi, unless otherwise stated)

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

30 Segment reporting (Continued)

The Group as at and for the six month period ended 30 June 2012

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	153,524	75,140	53,050	544	856	306	(30,299)	253,121
Interest expense	(75,226)	(37,951)	(44,978)	(215)	-	(996)	30,299	(129,067)
Net interest income/(expense)	78,298	37,189	8,072	329	856	(690)	-	124,054
Fee and commission income	20,787	11,295	3,873	1,087	1	176	(498)	36,721
Fee and commission expense	(1,051)	(768)	(212)	(246)	(604)	(13)	423	(2,471)
Net fee and commission income	19,736	10,527	3,661	841	(603)	163	(75)	34,250
Net trading gains	269	242	4,363	229	313	43	2	5,461
Net gains on investment securities	20	4	883	-	104	41	-	1,052
Other operating income	155	5,954	328	35	4,277	4,804	(705)	14,848
Operating income	98,478	53,916	17,307	1,434	4,947	4,361	(778)	179,665
Operating expenses	(31,104)	(29,420)	(6,397)	(850)	(4,453)	(2,072)	778	(73,518)
Impairment (losses)/reversal on assets	(6,919)	(2,312)	190	-	(24)	(172)	-	(9,237)
Operating profit	60,455	22,184	11,100	584	470	2,117	-	96,910
Share of results of associates and joint ventures	-	-	-	154	10	63	(2)	225
Profit before income tax	60,455	22,184	11,100	738	480	2,180	(2)	97,135
Income tax expense								(22,133)
Profit for the period								75,002
Segment assets	5,791,655	1,904,947	4,871,715	43,608	62,732	229,214	(90,885)	12,812,986
Investment in associates and joint ventures	-	-	-	2,524	12	10,118	(50)	12,604
Total assets	5,791,655	1,904,947	4,871,715	46,132	62,744	239,332	(90,935)	12,825,590
Segment liabilities	6,259,605	3,973,414	1,644,599	38,629	55,702	152,746	(90,722)	12,033,973
Other segment items:								
Intersegment net interest (expense)/income	(8,689)	29,633	(20,511)	43	47	(523)	-	-
Intersegment net fee and commission income/(expense)	-	45	-	-	(409)	439	(75)	-
Capital expenditure	752	838	40	15	18	5,758	-	7,421
Depreciation and amortisation	2,385	2,873	470	46	17	1,086	-	6,877

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

30 Segment reporting (Continued)

The Group as at 31 December 2011 and for the six month period ended 30 June 2011

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	112,400	60,476	43,082	504	810	215	(26,713)	190,774
Interest expense	(43,652)	(26,715)	(36,097)	(111)	-	(697)	26,713	(80,559)
Net interest income/(expense)	68,748	33,761	6,985	393	810	(482)	-	110,215
Fee and commission income	22,250	10,877	3,094	1,375	327	191	(511)	37,603
Fee and commission expense	(925)	(814)	(224)	(333)	(727)	(50)	444	(2,629)
Net fee and commission income	21,325	10,063	2,870	1,042	(400)	141	(67)	34,974
Net trading gains	213	267	3,288	19	235	241	-	4,263
Net gains on investment securities	5	1	1,154	-	7	2,169	-	3,336
Other operating income	100	4,252	115	54	4,558	4,626	(519)	13,186
Operating income	90,391	48,344	14,412	1,508	5,210	6,695	(586)	165,974
Operating expenses	(27,889)	(25,077)	(5,791)	(433)	(5,004)	352	586	(63,256)
Impairment (losses)/reversal on assets	(11,505)	(1,183)	636	-	(34)	(201)	-	(12,287)
Operating profit	50,997	22,084	9,257	1,075	172	6,846	-	90,431
Share of results of associates and joint ventures	-	-	-	185	-	161	-	346
Profit before income tax	50,997	22,084	9,257	1,260	172	7,007	-	90,777
Income tax expense								(20,543)
Profit for the period								70,234
Segment assets	5,330,401	1,753,022	4,512,493	43,619	57,117	208,769	(88,925)	11,816,496
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	219,707	(88,973)	11,829,789
Segment liabilities	5,703,156	3,730,827	1,506,248	39,103	50,804	131,276	(88,762)	11,072,652
Other segment items:								
Intersegment net interest (expense)/income	(2,730)	26,280	(23,251)	4	39	(342)	-	-
Intersegment net fee and commission income/(expense)	-	48	-	-	(423)	442	(67)	-
Capital expenditure	937	1,037	50	19	697	7,075	-	9,815
Depreciation and amortisation	2,055	2,457	408	48	27	973	-	5,968

31 Events after the financial reporting date

With the approval of the National Development and Reform Commission and the PBOC, the Bank issued RMB Bonds listed on the Hong Kong Stock Exchange on 23 July 2012, with the aggregate principal amount of RMB1 billion and an original maturity of 3 years at the rate of 3.10% per annum.

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT

1 Credit risk

1.1 Loans and advances

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

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

Group

	As at 30 June 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
Chinese mainland	5,475,591	81.08%	5,209,694	82.14%
Hong Kong, Macau and Taiwan	797,792	11.81%	743,233	11.72%
Other countries and regions	480,281	7.11%	389,887	6.14%
Total loans and advances to customers	6,753,664	100.00%	6,342,814	100.00%

Chinese mainland

	As at 30 June 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
Northern China	862,579	15.75%	841,436	16.15%
Northeastern China	393,336	7.18%	374,612	7.19%
Eastern China	2,254,703	41.18%	2,137,377	41.03%
Central and Southern China	1,313,791	24.00%	1,251,136	24.02%
Western China	651,182	11.89%	605,133	11.61%
Total loans and advances to customers	5,475,591	100.00%	5,209,694	100.00%

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

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

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

	As at 30 June 2012			
	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total
Corporate loans				
— Trade bills	675,320	119,925	217,362	1,012,607
— Other	3,274,654	445,163	251,948	3,971,765
Personal loans	1,525,617	232,704	10,971	1,769,292
Total loans and advances to customers	5,475,591	797,792	480,281	6,753,664

	As at 31 December 2011			
	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total
Corporate loans				
— Trade bills	614,376	112,003	141,294	867,673
— Other	3,204,079	413,680	239,873	3,857,632
Personal loans	1,391,239	217,550	8,720	1,617,509
Total loans and advances to customers	5,209,694	743,233	389,887	6,342,814

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

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

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

Group

	As at 30 June 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	1,465,579	21.70%	1,379,197	21.75%
Commerce and services	1,042,985	15.44%	943,788	14.88%
Transportation and logistics	674,329	9.98%	618,591	9.75%
Real estate	532,917	7.89%	500,423	7.89%
Production and supply of electric power, gas and water	425,326	6.30%	427,311	6.74%
Mining	314,338	4.65%	280,441	4.42%
Water, environment and public utility management	188,578	2.79%	261,396	4.12%
Construction	112,224	1.66%	104,757	1.65%
Financial services	103,088	1.53%	76,366	1.20%
Public utilities	68,829	1.02%	77,759	1.23%
Other	56,179	0.84%	55,276	0.87%
Subtotal	4,984,372	73.80%	4,725,305	74.50%
Personal loans				
Mortgages	1,285,626	19.04%	1,213,322	19.13%
Credit cards	122,340	1.81%	97,659	1.54%
Other	361,326	5.35%	306,528	4.83%
Subtotal	1,769,292	26.20%	1,617,509	25.50%
Total loans and advances to customers	6,753,664	100.00%	6,342,814	100.00%

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

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

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

Chinese mainland

	As at 30 June 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	1,265,028	23.10%	1,237,694	23.75%
Commerce and services	722,424	13.19%	645,276	12.39%
Transportation and logistics	591,930	10.81%	537,908	10.33%
Real estate	355,559	6.49%	333,434	6.40%
Production and supply of electric power, gas and water	399,071	7.29%	404,103	7.76%
Mining	192,264	3.51%	175,203	3.36%
Water, environment and public utility management	188,570	3.44%	261,377	5.02%
Construction	98,195	1.79%	93,317	1.79%
Financial services	59,254	1.08%	32,580	0.63%
Public utilities	63,441	1.16%	73,080	1.40%
Other	14,238	0.28%	24,483	0.47%
Subtotal	3,949,974	72.14%	3,818,455	73.30%
Personal loans				
Mortgages	1,085,920	19.83%	1,025,988	19.69%
Credit cards	114,095	2.08%	89,453	1.72%
Other	325,602	5.95%	275,798	5.29%
Subtotal	1,525,617	27.86%	1,391,239	26.70%
Total loans and advances to customers	5,475,591	100.00%	5,209,694	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

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

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

Group

	As at 30 June 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
Unsecured loans	1,996,547	29.56%	1,914,569	30.18%
Guaranteed loans	1,223,988	18.12%	1,133,818	17.88%
Collateralised and other secured loans				
— loans secured by property and other immovable assets	2,623,580	38.85%	2,471,936	38.97%
— other pledged loans	909,549	13.47%	822,491	12.97%
Total loans and advances to customers	6,753,664	100.00%	6,342,814	100.00%

Chinese mainland

	As at 30 June 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
Unsecured loans	1,471,787	26.88%	1,461,846	28.06%
Guaranteed loans	1,047,102	19.12%	973,326	18.68%
Collateralised and other secured loans				
— loans secured by property and other immovable assets	2,279,117	41.62%	2,156,711	41.40%
— other pledged loans	677,585	12.38%	617,811	11.86%
Total loans and advances to customers	5,475,591	100.00%	5,209,694	100.00%

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(2) Analysis of impaired loans and advances to customers

(i) Impaired loans and advances by geographical area

Group

	As at 30 June 2012			As at 31 December 2011		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland	61,431	96.57%	1.12%	61,159	96.61%	1.17%
Hong Kong, Macau and Taiwan	1,225	1.93%	0.15%	1,171	1.85%	0.16%
Other countries and regions	959	1.50%	0.20%	976	1.54%	0.25%
Total	63,615	100.00%	0.94%	63,306	100.00%	1.00%

Chinese mainland

	As at 30 June 2012			As at 31 December 2011		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Northern China	8,524	13.88%	0.99%	9,796	16.02%	1.16%
Northeastern China	5,938	9.67%	1.51%	7,322	11.97%	1.95%
Eastern China	19,608	31.91%	0.87%	16,558	27.07%	0.77%
Central and Southern China	22,037	35.87%	1.68%	21,959	35.90%	1.76%
Western China	5,324	8.67%	0.82%	5,524	9.04%	0.91%
Total	61,431	100.00%	1.12%	61,159	100.00%	1.17%

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

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

(ii) Impaired loans and advances by customer type

Group

	As at 30 June 2012			As at 31 December 2011		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	53,704	84.42%	1.08%	54,188	85.60%	1.15%
Personal loans	9,911	15.58%	0.56%	9,118	14.40%	0.56%
Total	63,615	100.00%	0.94%	63,306	100.00%	1.00%

Chinese mainland

	As at 30 June 2012			As at 31 December 2011		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	51,768	84.27%	1.31%	52,282	85.49%	1.37%
Personal loans	9,663	15.73%	0.63%	8,877	14.51%	0.64%
Total	61,431	100.00%	1.12%	61,159	100.00%	1.17%

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

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

(iii) Impaired loans and advances by geography and industry

	As at 30 June 2012			As at 31 December 2011		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland						
Corporate loans and advances						
Manufacturing	21,598	33.95%	1.71%	21,894	34.58%	1.77%
Commerce and services	10,525	16.54%	1.46%	7,752	12.25%	1.20%
Transportation and logistics	12,565	19.75%	2.12%	12,716	20.09%	2.36%
Real estate	1,194	1.88%	0.34%	1,850	2.92%	0.55%
Production and supply of electric power, gas and water	4,187	6.58%	1.05%	6,017	9.50%	1.49%
Mining	197	0.31%	0.10%	219	0.35%	0.12%
Water, environment and public utility management	280	0.44%	0.15%	394	0.62%	0.15%
Construction	241	0.38%	0.25%	281	0.44%	0.30%
Financial services	3	0.00%	0.01%	3	0.00%	0.01%
Public utilities	781	1.23%	1.23%	968	1.53%	1.32%
Other	197	0.32%	1.38%	188	0.31%	0.77%
Subtotal	51,768	81.38%	1.31%	52,282	82.59%	1.37%
Personal loans						
Mortgages	4,173	6.56%	0.38%	3,990	6.30%	0.39%
Credit cards	2,009	3.16%	1.76%	1,475	2.33%	1.65%
Other	3,481	5.47%	1.07%	3,412	5.39%	1.24%
Subtotal	9,663	15.19%	0.63%	8,877	14.02%	0.64%
Total for Chinese mainland	61,431	96.57%	1.12%	61,159	96.61%	1.17%
Hong Kong, Macau, Taiwan and other countries and regions	2,184	3.43%	0.17%	2,147	3.39%	0.19%
Total	63,615	100.00%	0.94%	63,306	100.00%	1.00%

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

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

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

	As at 30 June 2012			Net
	Impaired loans	Individually assessed allowance	Collectively assessed allowance	
Chinese mainland	61,431	(35,447)	(8,690)	17,294
Hong Kong, Macau and Taiwan	1,225	(614)	(86)	525
Other countries and regions	959	(482)	(10)	467
Total	63,615	(36,543)	(8,786)	18,286

	As at 31 December 2011			Net
	Impaired loans	Individually assessed allowance	Collectively assessed allowance	
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

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

(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.

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.1 Loans and advances (Continued)

(3) *Loans and advances rescheduled (Continued)*

All rescheduled loans are classified as “substandard” or below. All rescheduled loans are subject to a surveillance period 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 either not past due or not impaired as at 30 June 2012 and 31 December 2011.

As at 30 June 2012 and 31 December 2011, within impaired loans and advances, rescheduled loans and advances that were overdue for 90 days or less were insignificant.

(4) *Overdue loans and advances to customers*

Analysis of overdue loans and advances by geographical area

	As at 30 June 2012	As at 31 December 2011
Chinese mainland	73,795	61,947
Hong Kong, Macau and Taiwan	5,154	5,835
Other countries and regions	1,055	348
Subtotal	80,004	68,130
Less: total loans and advances to customers which have been overdue for less than 3 months	(34,662)	(29,725)
Total loans and advances to customers which have been overdue for more than 3 months	45,342	38,405
Individually assessed impairment allowance — for loans and advances to customers which have been overdue for more than 3 months	(27,897)	(24,679)

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.2 Debt securities

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

	As at 30 June 2012					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
— Government	743,673	–	9,762	1,588	–	755,023
— Public sector and quasi-governments	17,545	–	–	–	–	17,545
— Policy banks	345,072	–	5,011	5,581	–	355,664
— Financial institutions	85,477	–	188	999	260	86,924
— Corporate	231,436	104	753	1,731	1,626	235,650
— China Orient	160,000	–	–	–	–	160,000
Subtotal	1,583,203	104	15,714	9,899	1,886	1,610,806
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	91,987	11,938	31,555	20,700	343	156,523
— Public sector and quasi-governments	21,785	20,113	9,662	20	202	51,782
— Financial institutions	19,127	37,428	49,670	46,781	17,055	170,061
— Corporate	9,256	2,408	2,064	17,333	7,296	38,357
Subtotal ⁽¹⁾	142,155	71,887	92,951	84,834	24,896	416,723
Total ⁽²⁾	1,725,358	71,991	108,665	94,733	26,782	2,027,529

(1) Included mortgage-backed securities as follows:

	As at 30 June 2012					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	–	424	534	932	2,802	4,692
US Alt-A mortgage-backed securities	–	18	6	95	1,006	1,125
US Non-Agency mortgage-backed securities	–	76	74	97	2,070	2,317
Total	–	518	614	1,124	5,878	8,134

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.2 Debt securities (Continued)

	As at 31 December 2011					Total
	Unrated	AAA	AA	A	Lower than A	
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					Total
	Unrated	AAA	AA	A	Lower than A	
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)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.2 Debt securities (Continued)

- (2) The Group's available for sale and held to maturity debt securities are individually assessed for impairment. The Group's accumulated impairment charges on available for sale and held to maturity debt securities at 30 June 2012 amounted to RMB4,954 million and RMB353 million, respectively (31 December 2011: RMB9,135 million and RMB354 million). The carrying value of the available for sale and held to maturity debt securities considered impaired as at 30 June 2012 were RMB6,868 million and RMB890 million, respectively (31 December 2011: RMB8,323 million and RMB957 million).

In terms of the unrated debt securities above, their grades in accordance with issuers are as follows:

	As at 30 June 2012					Total
	Unrated	AAA	AA	A	Lower than A	
Issuers in Chinese mainland						
— Government	–	–	743,573	100	–	743,673
— Public sector and quasi-governments	17,545	–	–	–	–	17,545
— Policy banks	–	–	11,526	333,546	–	345,072
— Financial institutions	1,034	347	95	63,719	20,282	85,477
— Corporate	166,042	248	3,643	43,138	18,365	231,436
— China Orient	160,000	–	–	–	–	160,000
Subtotal	344,621	595	758,837	440,503	38,647	1,583,203
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	–	22,366	67,466	629	1,526	91,987
— Public sector and quasi-governments	335	9,478	11,442	255	275	21,785
— Financial institutions	258	253	9,074	8,882	660	19,127
— Corporate	8,566	–	31	129	530	9,256
Subtotal	9,159	32,097	88,013	9,895	2,991	142,155
Total	353,780	32,692	846,850	450,398	41,638	1,725,358

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.2 Debt securities (Continued)

	As at 31 December 2011					Total
	Unrated	AAA	AA	A	Lower than A	
Issuers in Chinese mainland						
— Government	–	–	727,728	–	–	727,728
— Public sector and quasi-governments	20,593	–	–	–	–	20,593
— Policy banks	6	–	6,814	313,036	–	319,856
— Financial institutions	4,385	347	–	35,051	5,268	45,051
— Corporate	140,890	248	2,571	37,996	14,313	196,018
— China Orient	160,000	–	–	–	–	160,000
Subtotal	325,874	595	737,113	386,083	19,581	1,469,246
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	–	18,971	103,770	–	1,901	124,642
— Public sector and quasi-governments	179	7,700	11,908	787	165	20,739
— Financial institutions	227	371	17,432	13,743	439	32,212
— Corporate	6,076	–	–	197	243	6,516
Subtotal	6,482	27,042	133,110	14,727	2,748	184,109
Total	332,356	27,637	870,223	400,810	22,329	1,653,355

1.3 Repossessed assets

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

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

1 Credit risk (Continued)

1.4 Derivatives

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

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

	As at 30 June 2012	As at 31 December 2011
Exchange rate derivatives		
Currency forwards and swaps, and cross-currency interest rate swaps	11,667	13,848
Currency options	80	153
Interest rate derivatives		
Interest rate swaps	5,386	5,826
Interest rate options	–	10
Equity derivatives	48	4
Commodity derivatives	37	17
	17,218	19,858

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

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market Risk (Continued)

2.1 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

The table below shows the VaR of the trading book by types of risk for the six month periods ended 30 June 2012 and 2011:

Unit: USD million

	Six month period ended 30 June					
	2012			2011		
	Average	High	Low	Average	High	Low
Bank trading VaR						
Interest rate risk	2.53	3.65	1.73	0.94	1.43	0.47
Foreign exchange risk	1.93	7.63	1.40	0.51	1.74	0.17
Volatility risk	0.04	0.08	0.01	0.04	0.12	0.01
Total Bank trading VaR	2.95	7.94	2.09	1.08	1.89	0.60

The Bank's VaR for the six month periods ended 30 June 2012 and 2011 was calculated 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.

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market Risk (Continued)

2.1 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

Unit: USD million

	Six month period ended 30 June					
	2012			2011		
	Average	High	Low	Average	High	Low
BOCHK trading VaR						
Interest rate risk	2.18	3.81	1.24	0.97	1.21	0.65
Foreign exchange risk	2.08	3.25	1.31	0.81	1.64	0.25
Equity risk	0.06	0.29	0.00	0.02	0.05	0.00
Commodity risk	0.02	0.13	0.00	0.01	0.07	0.00
Total BOCHK trading VaR	3.09	4.35	2.18	1.24	1.88	0.87
BOCI trading VaR*						
Equity derivatives unit	0.48	1.04	0.21	1.75	3.32	0.89
Fixed income unit	1.16	2.21	0.76	1.66	2.61	0.70

* 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.

(2) Banking book

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

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.2 GAP analysis

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

	As at 30 June 2012						Total
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non- interest bearing	
Assets							
Cash and due from banks and other financial institutions	330,033	128,822	256,274	30,908	–	62,332	808,369
Balances with central banks	2,119,937	131	506	25	–	67,314	2,187,913
Placements with and loans to banks and other financial institutions	353,433	115,397	117,053	3,391	–	–	589,274
Government certificates of indebtedness for bank notes issued	–	–	–	–	–	61,931	61,931
Precious metals	–	–	–	–	–	118,339	118,339
Financial assets at fair value through profit or loss	14,050	10,909	11,626	23,445	14,468	2,393	76,891
Derivative financial assets	–	–	–	–	–	40,690	40,690
Loans and advances to customers, net	1,453,007	1,639,573	3,311,067	46,560	51,538	104,097	6,605,842
Investment securities							
— available for sale	61,254	67,095	132,453	215,504	101,358	29,472	607,136
— held to maturity	45,004	81,028	202,450	472,144	284,110	–	1,084,736
— loans and receivables	8,328	9,256	41,211	24,541	211,580	–	294,916
Investment in associates and joint ventures	–	–	–	–	–	12,604	12,604
Property and equipment	–	–	–	–	–	138,577	138,577
Investment properties	–	–	–	–	–	16,313	16,313
Deferred income tax assets	–	–	–	–	–	17,987	17,987
Other assets	3,249	8,151	6,060	–	–	146,612	164,072
Total assets	4,388,295	2,060,362	4,078,700	816,518	663,054	818,661	12,825,590

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.2 GAP analysis (Continued)

	As at 30 June 2012						Total
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non- interest bearing	
Liabilities							
Due to banks and other financial institutions	836,274	203,831	324,408	107,028	564	110,137	1,582,242
Due to central banks	75,769	7,587	32,593	-	-	-	115,949
Bank notes in circulation	-	-	-	-	-	62,070	62,070
Placements from banks and other financial institutions	142,043	89,248	36,117	-	-	-	267,408
Derivative financial liabilities	-	-	-	-	-	31,978	31,978
Due to customers	5,535,398	1,064,860	1,950,578	805,192	20,498	106,038	9,482,564
Bonds issued	2,369	2,250	95	68,212	98,782	-	171,708
Other borrowings	7,875	15,636	5,466	1,367	-	-	30,344
Current tax liabilities	-	-	-	-	-	20,152	20,152
Retirement benefit obligations	-	-	-	-	-	5,593	5,593
Deferred income tax liabilities	-	-	-	-	-	3,360	3,360
Other liabilities	2,495	4,369	1,045	420	148	252,128	260,605
Total liabilities	6,602,223	1,387,781	2,350,302	982,219	119,992	591,456	12,033,973
Total interest repricing gap	(2,213,928)	672,581	1,728,398	(165,701)	543,062	227,205	791,617

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.2 GAP analysis (Continued)

	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	–	–	–	–	–	19,264	19,264
Other assets	947	1,177	2,835	–	–	111,773	116,732
Total assets	4,082,405	1,981,136	3,650,871	812,963	581,526	720,888	11,829,789

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.2 GAP analysis (Continued)

	As at 31 December 2011						Total
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Non- interest bearing	
Liabilities							
Due to banks and other financial institutions	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	-	-	-	-	-	2,966	2,966
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	512,950	11,072,652
Total interest repricing gap	(2,389,025)	702,865	1,703,906	73,372	458,081	207,938	757,137

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.3 Foreign currency risk

The tables below summarise the Group's exposure to exchange rate risk as at 30 June 2012 and 31 December 2011. The Group's exposure to RMB is provided in the tables below for comparison purposes. Included in the tables are the carrying amounts of the assets and liabilities of the Group along with off-balance sheet positions and credit commitments in RMB equivalent, categorised by the original currencies. Derivative financial instruments are included in the net off-balance sheet position using notional amounts.

	As at 30 June 2012							Total
	RMB	USD	HKD	EURO	JPY	GBP	Other	
Assets								
Cash and due from banks and other financial institutions	720,882	49,766	10,309	11,681	1,599	1,194	12,938	808,369
Balances with central banks	1,655,599	337,265	7,071	156,217	9,181	17	22,563	2,187,913
Placements with and loans to banks and other financial institutions	460,590	79,498	11,590	4,003	455	12,013	21,125	589,274
Government certificates of indebtedness for bank notes issued	–	–	58,825	–	–	–	3,106	61,931
Precious metals	–	–	4,561	–	–	–	113,778	118,339
Financial assets at fair value through profit or loss	16,304	25,968	33,609	976	–	–	34	76,891
Derivative financial assets	10,143	11,380	16,185	679	229	646	1,428	40,690
Loans and advances to customers, net	5,004,755	989,764	478,310	39,894	18,181	7,880	67,058	6,605,842
Investment securities								
— available for sale	221,634	228,489	80,479	13,384	25,419	231	37,500	607,136
— held to maturity	1,039,893	27,654	7,022	2,971	2,644	–	4,552	1,084,736
— loans and receivables	279,448	3,312	–	716	–	–	11,440	294,916
Investment in associates and joint ventures	6,239	1,545	4,820	–	–	–	–	12,604
Property and equipment	70,691	50,188	13,145	129	1,267	1,360	1,797	138,577
Investment properties	5,841	–	9,012	–	–	–	1,460	16,313
Deferred income tax assets	17,299	376	163	–	–	–	149	17,987
Other assets	125,048	19,752	14,105	776	470	1,309	2,612	164,072
Total assets	9,634,366	1,824,957	749,206	231,426	59,445	24,650	301,540	12,825,590

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.3 Foreign currency risk (Continued)

	As at 30 June 2012							Total
	RMB	USD	HKD	EURO	JPY	GBP	Other	
Liabilities								
Due to banks and other financial institutions	977,132	402,304	19,399	62,435	12,692	5,418	102,862	1,582,242
Due to central banks	48	108,735	7,164	-	-	-	2	115,949
Bank notes in circulation	-	-	58,825	-	-	-	3,245	62,070
Placements from banks and other financial institutions	76,847	154,463	5,001	14,954	1,132	13,287	1,724	267,408
Derivative financial liabilities	3,772	12,640	12,649	1,205	107	674	931	31,978
Due to customers	7,706,586	699,734	661,755	151,269	27,276	44,193	191,751	9,482,564
Bonds issued	147,972	23,728	8	-	-	-	-	171,708
Other borrowings	-	30,344	-	-	-	-	-	30,344
Current tax liabilities	15,357	37	3,136	226	-	793	603	20,152
Retirement benefit obligations	5,593	-	-	-	-	-	-	5,593
Deferred income tax liabilities	1,132	937	1,171	3	-	-	117	3,360
Other liabilities	176,434	23,801	52,163	2,786	689	1,232	3,500	260,605
Total liabilities	9,110,873	1,456,723	821,271	232,878	41,896	65,597	304,735	12,033,973
Net on-balance sheet position	523,493	368,234	(72,065)	(1,452)	17,549	(40,947)	(3,195)	791,617
Net off-balance sheet position	164,609	(327,482)	118,652	1,722	(14,370)	42,589	21,493	7,213
Credit commitments	1,460,106	626,897	106,679	70,789	10,564	10,891	40,702	2,326,628

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.3 Foreign currency risk (Continued)

	As at 31 December 2011							Total
	RMB	USD	HKD	EURO	JPY	GBP	Other	
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	18,547	348	217	–	–	–	152	19,264
Other assets	84,246	15,589	11,894	1,401	557	1,124	1,921	116,732
Total assets	9,005,749	1,582,418	721,281	151,218	83,929	21,248	263,946	11,829,789

IV FINANCIAL RISK MANAGEMENT (Continued)

2 Market risk (Continued)

2.3 Foreign currency risk (Continued)

	As at 31 December 2011							Total
	RMB	USD	HKD	EURO	JPY	GBP	Other	
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	1,048	5	2	-	99	2,966
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	749,910	149,500	33,423	40,064	265,034	11,072,652
Net on-balance sheet position	392,441	361,005	(28,629)	1,718	50,506	(18,816)	(1,088)	757,137
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

2.4 Price risk

The Group is exposed to equity risk on its available for sale listed equity securities. As at 30 June 2012, a 5% fluctuation in listed equity prices from the 30 June 2012 price would impact the fair value of available for sale listed equity positions by RMB238 million (31 December 2011: RMB274 million). For those available for sale equities considered impaired, the impact would be taken to the income statement. The Group is also exposed to commodity risk, mainly related to bullion. The Group manages such risk together with foreign exchange risk (Note IV.2.1).

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

3 Liquidity risk

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

	As at 30 June 2012							
	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	-	117,953	274,412	128,822	236,274	50,908	-	808,369
Balances with central banks	-	297,029	1,890,222	131	506	25	-	2,187,913
Placements with and loans to banks and other financial institutions	-	-	353,407	115,388	116,839	3,640	-	589,274
Government certificates of indebtedness for bank notes issued	-	61,931	-	-	-	-	-	61,931
Precious metals	-	118,339	-	-	-	-	-	118,339
Financial assets at fair value through profit or loss	-	1,057	12,665	9,619	10,175	25,901	17,474	76,891
Derivative financial assets	-	14,664	2,364	6,145	7,417	5,078	5,022	40,690
Loans and advances to customers, net	18,082	66,053	318,269	768,556	1,742,554	1,566,100	2,126,228	6,605,842
Investment securities								
— available for sale	-	-	37,765	41,632	140,134	271,899	115,706	607,136
— held to maturity	-	-	16,567	41,126	163,881	543,910	319,252	1,084,736
— loans and receivables	-	-	8,202	8,350	36,652	30,132	211,580	294,916
Investment in associates and joint ventures	-	-	-	-	-	5,130	7,474	12,604
Property and equipment	-	-	-	-	-	-	138,577	138,577
Investment properties	-	-	-	-	-	-	16,313	16,313
Deferred income tax assets	-	-	-	-	15	17,972	-	17,987
Other assets	964	27,387	35,371	32,462	34,774	13,367	19,747	164,072
Total assets	19,046	704,413	2,949,244	1,152,231	2,489,221	2,534,062	2,977,373	12,825,590

IV FINANCIAL RISK MANAGEMENT (Continued)

3 Liquidity risk (Continued)

	As at 30 June 2012							
	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	-	525,909	177,804	208,052	415,528	254,385	564	1,582,242
Due to central banks	-	72,539	3,230	7,587	32,593	-	-	115,949
Bank notes in circulation	-	62,070	-	-	-	-	-	62,070
Placements from banks and other financial institutions	-	-	142,043	89,248	36,117	-	-	267,408
Derivative financial liabilities	-	10,704	2,027	2,828	5,402	7,129	3,888	31,978
Due to customers	-	4,018,210	1,265,371	1,157,567	2,181,439	838,176	21,801	9,482,564
Bonds issued	-	-	368	2,250	95	45,213	123,782	171,708
Other borrowings	-	-	319	400	798	10,951	17,876	30,344
Current tax liabilities	-	-	58	13	19,528	553	-	20,152
Retirement benefit obligations	-	-	371	128	574	2,161	2,359	5,593
Deferred income tax liabilities	-	-	-	-	234	3,126	-	3,360
Other liabilities	-	49,484	44,723	61,667	51,136	38,899	14,696	260,605
Total liabilities	-	4,738,916	1,636,314	1,529,740	2,743,444	1,200,593	184,966	12,033,973
Net liquidity gap	19,046	(4,034,503)	1,312,930	(377,509)	(254,223)	1,333,469	2,792,407	791,617

(Amount in millions of Renminbi, unless otherwise stated)

IV FINANCIAL RISK MANAGEMENT (Continued)

3 Liquidity risk (Continued)

	As at 31 December 2011							Total
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	
Assets								
Cash and due from banks and other financial institutions	-	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	19,210	-	19,264
Other assets	1,147	9,402	22,996	20,110	31,419	12,718	18,940	116,732
Total assets	12,777	764,372	2,352,845	951,628	2,506,685	2,415,591	2,825,891	11,829,789

IV FINANCIAL RISK MANAGEMENT (Continued)

3 Liquidity risk (Continued)

	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	-	-	-	-	-	2,966	-	2,966
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	996,927	204,390	11,072,652
Net liquidity gap	12,777	(3,886,641)	625,317	(407,214)	372,733	1,418,664	2,621,501	757,137

IV FINANCIAL RISK MANAGEMENT (Continued)

4 Fair value of financial assets and liabilities

During the six month period ended 30 June 2012, there were no significant transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments of the Group.

During the six month period ended 30 June 2012, the changes in the business or economic circumstances did not have significant impact on the fair value of the Group's financial assets and financial liabilities.

5 Capital management

The tables below summarise the capital adequacy ratios and the composition of regulatory capital of the Group as at 30 June 2012 and 31 December 2011. The Group complied with the externally imposed capital requirements to which it is subject.

	As at 30 June 2012	As at 31 December 2011
Capital adequacy ratio	13.00%	12.98%
Core capital adequacy ratio	10.15%	10.08%

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

IV FINANCIAL RISK MANAGEMENT (Continued)

5 Capital management (Continued)

	As at 30 June 2012	As at 31 December 2011
Components of capital base		
Core capital:		
Share capital	279,114	279,122
Reserves ⁽¹⁾	434,326	389,156
Minority interests	35,422	33,223
Total core capital	748,862	701,501
Supplementary capital:		
Collective impairment allowances	67,537	63,428
Long-term subordinated bonds issued	123,782	123,451
Convertible bonds issued (Note III.21)	39,776	39,776
Other ⁽¹⁾	11,265	8,108
Total supplementary capital	242,360	234,763
Total capital base before deductions	991,222	936,264
Deductions:		
Goodwill	(1,732)	(1,727)
Investments in entities engaged in banking and financial activities which are not consolidated	(8,946)	(9,383)
Investment properties	(16,313)	(14,616)
Investments in commercial corporations	(27,083)	(28,587)
Other deductible items ⁽²⁾	(16,189)	(17,680)
Total capital base after deductions	920,959	864,271
Core capital base after deductions ⁽³⁾	719,318	671,244
Risk weighted assets and market risk capital adjustment ⁽⁴⁾	7,085,046	6,656,034

(1) Pursuant to regulations released by the 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 calculation.

Pursuant to the regulation "Guideline on Strengthening Credit Risk Management for Local Government Financing Vehicle ("LGFV") Loans" (Yinjianfa [2010] No.110) released by the CBRC in December 2010, the risk weighted assets have been adjusted based on the coverage of cash flows for each LGFV loan.

Appendix

(Amount in millions of Renminbi, unless otherwise stated)

APPENDIX I UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

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

1 Liquidity ratios

	As at 30 June 2012	As at 31 December 2011
RMB current assets to RMB current liabilities	53.99%	47.04%
Foreign currency current assets to foreign currency current liabilities	66.76%	56.16%

The liquidity ratios are calculated in accordance with the relevant provisions of the PBOC and the CBRC. Financial data as at 30 June 2012 and 31 December 2011 is based on 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 30 June 2012				
Spot assets	1,133,277	22,275	259,565	1,415,117
Spot liabilities	(783,271)	(189,622)	(312,014)	(1,284,907)
Forward purchases	879,682	181,654	414,040	1,475,376
Forward sales	(1,197,694)	(61,457)	(363,088)	(1,622,239)
Net options position*	42	(79)	25	(12)
Net long/(short) position	32,036	(47,229)	(1,472)	(16,665)
Net structural position	17,068	98,299	25,566	140,933
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

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

APPENDIX I UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

3 Cross-border claims

The Group is principally engaged in business operations within 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 30 June 2012				
Asia Pacific excluding Chinese mainland				
Hong Kong	20,225	5,618	619,155	644,998
Other Asia Pacific locations	97,102	24,441	228,377	349,920
Subtotal	117,327	30,059	847,532	994,918
North and South America	56,952	27,882	459,164	543,998
Europe	95,030	9,892	192,022	296,944
Middle East and Africa	2,822	102	21,153	24,077
Total	272,131	67,935	1,519,871	1,859,937
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

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

APPENDIX I UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (Continued)

4 Overdue assets

For the purposes of the table below, the entire outstanding balance of “loans and advances to customers” and “placements with and loans to banks and other financial institutions” are considered overdue if either principal or interest payment is overdue.

(1) Total amount of overdue loans and advances to customers

	As at 30 June 2012	As at 31 December 2011
Total loans and advances to customers which have been overdue for		
within 3 months	34,662	29,725
between 3 to 6 months	5,695	7,718
between 6 to 12 months	11,910	3,656
over 12 months	27,737	27,031
Total	80,004	68,130
Percentage		
within 3 months	0.51%	0.47%
between 3 to 6 months	0.08%	0.12%
between 6 to 12 months	0.18%	0.05%
over 12 months	0.41%	0.43%
Total	1.18%	1.07%

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

The total amount of overdue placements with and loans to banks and other financial institutions as at 30 June 2012 and 31 December 2011 is not considered material.

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

There are no differences in the Group’s operating results for the six month periods ended 30 June 2012 and 30 June 2011 or total equity as at 30 June 2012 and as at 31 December 2011 presented in the Group’s condensed consolidated interim financial information prepared under IFRS and those prepared under CAS.

Definitions

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

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

Notes to the Financial Highlights:

1. Non-interest income = net fee and commission income + net trading gains/(losses) + net gains/(losses) on investment securities + other operating income
2. Operating income = net interest income + non-interest income
3. In accordance with IFRS, due to the influence of rights issue, basic earnings per share of the previous years were recalculated.
4. Return on average total assets = profit for the period ÷ average total assets. Average total assets = (total assets at the beginning of reporting period + total assets at the end of reporting period) ÷ 2, annualised.
5. Return on average equity = profit attributable to the equity holders of the Bank ÷ average owner's equity, annualised. It is calculated according to No. 9 Preparation and Reporting Rules of Information Disclosure of Public Offering Companies — Calculation and Disclosure of Return on Average Equity and Earnings per Share (Revised in 2010) (CSRC Announcement [2010] No. 2) issued by the CSRC.
6. Net interest margin = net interest income ÷ average balance of interest-earning assets, annualised. Average balance is average daily balance derived from the Bank's management accounts (unreviewed).
7. Non-interest income to operating income = non-interest income ÷ operating income
8. Cost to income ratio (calculated under domestic regulations) is calculated according to the *Interim Measures of the Performance Evaluation of State-owned and State Holding Financial Enterprises* (Cai Jin [2009] No.3) formulated by the MOF.
9. Credit cost = impairment losses on loans ÷ average balance of loans. Average balance of loans = (balance of loans at the beginning of reporting period + balance of loans at the end of reporting period) ÷ 2, annualised.
10. Investment securities include securities available for sale, securities held to maturity, securities classified as loans and receivables and financial assets at fair value through profit or loss.
11. Net assets per share = capital and reserves attributable to the equity holders of the Bank at the end of reporting period ÷ number of ordinary shares in issue at the end of reporting period.
12. Identified impaired loans to total loans = identified impaired loans at the end of reporting period ÷ total loans at the end of reporting period
13. Non-performing loans to total loans = non-performing loans at the end of reporting period ÷ total loans at the end of reporting period. It is calculated according to the *Guidelines on the Corporate Governance and Supervision of State-owned Commercial Banks* (Y.J.F [2006] No.22).
14. Allowance for loan impairment losses to non-performing loans = allowance for loan impairment losses at the end of reporting period ÷ non-performing loans at the end of reporting period. It is calculated according to the *Guidelines on the Corporate Governance and Supervision of State-owned Commercial Banks* (Y.J.F [2006] No.22).

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