ICBC

**INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED**

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

Stock Code: 1398

# 2012 Annual Report


## Company Profile

Industrial and Commercial Bank of China Limited, formerly known as Industrial and Commercial Bank of China, was established on 1 January 1984. On 28 October 2005, the Bank was wholly restructured to a joint-stock limited company. On 27 October 2006, the Bank was successfully listed on both SSE and SEHK.

Through its continuous endeavor and stable development, the Bank has developed into the top large listed bank in the world in terms of market capitalization, customers' deposits and profitability, possessing an excellent customer base, a diversified business structure, strong innovation capabilities and market competitiveness. The Bank has its presence in six continents, and its overseas network has expanded to 39 countries and regions. The Bank provides comprehensive financial products and services to 4.38 million corporate customers and 393 million personal customers by virtue of the distribution network consisting of 17,125 domestic institutions, 383 overseas institutions and over 1,771 correspondent banks worldwide, as well as through its E-banking network comprising a range of internet and telephone banking services and self-service banking centers, basically forming an internationalized trans-market operating structure focusing on commercial banking business and maintaining a leading position in the domestic market in commercial banking areas. Upholding the management tenet of "Focusing on Customers and Creating Value through Services", the Bank constantly improves its financial services to enrich brand connotation. With the brand image of "By Your Side and as Your Trust" being widely recognized, the Bank has been the banking brand of first choice for Chinese customers and the most valuable financial brand around the globe.

The Bank strives to duly implement the organic unification of economic and social responsibilities, establishing the image of a large responsible bank in the aspects of supporting economic and social development, protecting environment and resources, and participating in community services, and has won awards such as "Best Social Responsibility Financial Institution Award" and "Most Respectable Enterprise in China".

# CONTENTS

# Definitions

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

| | |
|---|---|
| HIBOR | Hong Kong Interbank Offered Rate |
| LIBOR | London Interbank Offered Rate |
| SHIBOR | Shanghai Interbank Offered Rate |
| EURIBOR | Euro Interbank Offered Rate |
| the Bank/the Group | Industrial and Commercial Bank of China Limited; or Industrial and Commercial Bank of China Limited and its subsidiaries |
| Standard Bank | Standard Bank Group Limited |
| MOF | Ministry of Finance of the People's Republic of China |
| BEA | The Bank of East Asia, Limited |
| Goldman Sachs | The Goldman Sachs Group, Inc. |
| Company Law | Company Law of the People's Republic of China |
| Articles of Association | The Articles of Association of Industrial and Commercial Bank of China Limited |
| ICBC (Almaty) | Industrial and Commercial Bank of China (Almaty) Joint Stock Company |
| ICBC (Macau) | Industrial and Commercial Bank of China (Macau) Limited |
| ICBC-AXA | ICBC-AXA Assurance Co., Ltd. |
| ICBC (Brazil) | Industrial and Commercial Bank of China (Brazil) Limited |
| ICBC (Peru) | Industrial and Commercial Bank of China (Peru) Limited |
| ICBC International | ICBC International Holdings Limited |
| ICBC (Canada) | Industrial and Commercial Bank of China (Canada) |
| ICBCFS | Industrial and Commercial Bank of China Financial Services LLC |
| ICBC (London) | Industrial and Commercial Bank of China, (London) Limited |
| ICBC (USA) | Industrial and Commercial Bank of China (USA) NA |
| ICBC (Malaysia) | Industrial and Commercial Bank of China (Malaysia) Berhad |
| ICBC (Moscow) | ZAO Industrial and Commercial Bank of China (Moscow) |
| ICBC (Europe) | Industrial and Commercial Bank of China (Europe) S.A. |
| ICBC Credit Suisse Asset Management | ICBC Credit Suisse Asset Management Co., Ltd. |
| ICBC (Thai) | Industrial and Commercial Bank of China (Thai) Public Company Limited |
| ICBC (Asia) | Industrial and Commercial Bank of China (Asia) Limited |
| ICBC (Indonesia) | PT. Bank ICBC Indonesia |
| ICBC (Middle East) | Industrial and Commercial Bank of China (Middle East) Limited |
| ICBC Leasing | ICBC Financial Leasing Co., Ltd. |
| IFRSs | The International Financial Reporting Standards promulgated by the International Accounting Standards Board, which comprise the International Accounting Standards |
| State Council | The State Council of the People's Republic of China |
| Huijin | Central Huijin Investment Ltd. |
| convertible bonds | convertible corporate bonds |
| PBC | The People's Bank of China |
| SSE | Shanghai Stock Exchange |
| SSF | National Council for Social Security Fund |
| SEHK | The Stock Exchange of Hong Kong Limited |
| Hong Kong Listing Rules | Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| Securities and Futures Ordinance of Hong Kong | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| PRC GAAP | Accounting Standards for Business Enterprises and the Application Guidance thereof promulgated by the Ministry of Finance in 2006, as well as other relevant regulations |
| CBRC | China Banking Regulatory Commission |
| CSRC | China Securities Regulatory Commission |
| Capital Regulation | Regulation Governing Capital of Commercial Banks (Provisional) promulgated by CBRC in June 2012 |

# Important Notice

The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Management members of Industrial and Commercial Bank of China Limited undertake that the information in this report contains no false record, misleading statement or material omission, and assume individual and joint and several liabilities to the authenticity, accuracy and completeness of the information in this report.

The 2012 Annual Report of the Bank and the results announcement have been considered and approved at the meeting of the Board of Directors of the Bank held on 27 March 2013. There were 16 directors eligible for attending the meeting, of whom 12 directors attended the meeting in person and four directors by proxy. Mr. Jiang Jianqing, Chairman, appointed Mr. Yang Kaisheng, Vice-Chairman, Ms. Wang Lili appointed Mr. Li Xiaopeng, Mr. Xu Shanda appointed Mr. Hong Yongmiao and Mr. Wong Kwong Shing, Frank appointed Mr. Or Ching Fai, to attend the meeting and exercise the voting right on their behalf.

The 2012 financial statements prepared by the Bank in accordance with PRC GAAP and IFRSs have been audited by Ernst & Young Hua Ming (LLP) and Ernst & Young in accordance with Chinese and International Standards on Audit respectively, with standard unqualified auditors' reports being issued.

The Board of Directors of the Bank suggested distributing cash dividends of RMB2.39 (pre-tax) for each ten shares for the fiscal year as at 31 December 2012. The declaration will be submitted for approval at the Annual General Meeting for the Year 2012.

**The Board of Directors of Industrial and Commercial Bank of China Limited**

27 March 2013

Mr. Jiang Jianqing, Legal Representative of the Bank, Mr. Yang Kaisheng, President in charge of finance of the Bank, and Mr. Shen Rujun, General Manager of the Finance and Accounting Department of the Bank, hereby warrant and guarantee that the financial statements contained in the Annual Report are authentic, accurate and complete.

## Notes on Material Risks

During the reporting period, the Bank did not identify any material risks that exerted negative impact on the Bank's development strategy and business objectives. The Bank adopted measures to manage various risks. Please refer to the section headed "Discussion and Analysis — Risk Management".

The report contains forward-looking statements on the Bank's financial positions, business performance and development. The statements are made based on existing plans, estimates and forecast, and bear upon future external events or the Group's future finance, business or performance in other aspects. The future plans, if involved, do not constitute substantial commitment to investors, and hence shall not be heavily relied on.

## Our Mission

Excellence for You

Excellent Services to Clients, Maximum Returns to Shareholders

Real Success for Our People, Great Contribution to Society

## Our Vision

A Global Leading Bank with the Best Profitability,

Performance and Prestige

## Our Value

Integrity Leads to Prosperity

Integrity, Humanity, Prudence, Innovation and Excellence

# Corporate Information

## Legal name in Chinese

中國工商銀行股份有限公司（“中國工商銀行”）

## Legal name in English

INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED (“ICBC”)

## Legal representative

Jiang Jianqing

## Registered address and office address

No. 55 Fuxingmennei Avenue, Xicheng District, Beijing, PRC

Postal code: 100140

Telephone: 86-10-66106114

Business enquiry and compliant hotline: 86-95588

Website: www.icbc.com.cn, www.icbc-ltd.com

## Principal place of business in Hong Kong

ICBC Tower, 3 Garden Road, Central, Hong Kong

## Authorized representatives

Yang Kaisheng and Hu Hao

## Board Secretary and Company Secretary

Hu Hao

Address: No. 55 Fuxingmennei Avenue,
Xicheng District, Beijing, PRC

Telephone: 86-10-66108608

Facsimile: 86-10-66107571

E-mail: ir@icbc.com.cn

## Selected newspapers for information disclosure

China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily

## Website designated by CSRC for publication of the annual report in respect of A shares

www.sse.com.cn

## The “HKExnews” website of SEHK for publication of the annual report in respect of H shares

www.hkexnews.hk

## Legal advisors

### Mainland China

King & Wood Mallesons

40/F, Office Tower A, Beijing Fortune Plaza,
7 East 3rd Ring Middle Road, Chaoyang District,
Beijing, PRC

Jun He Law Offices

20/F, China Resources Building,
8 Jianguomen North Street,
Dongcheng District, Beijing, PRC

### Hong Kong, China

Linklaters

10/F, Alexandra House, Chater Road, Central,
Hong Kong

## Share Registrars

### A Share

China Securities Depository and Clearing Corporation Limited, Shanghai Branch

36/F, China Insurance Building,
No. 166 Lujiazui Dong Road,
Pudong New Area, Shanghai, PRC

Telephone: 86-21-58708888

Facsimile: 86-21-58899400

### H Share

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong
Telephone: 852-28628555
Facsimile: 852-28650990

## Location where copies of this annual report are kept

Office of the Board of Directors of the Bank

## Place where shares and convertible bonds are listed, and their names and codes

### A Share

Shanghai Stock Exchange
Stock name: 工商銀行
Stock code: 601398

### H Share

The Stock Exchange of Hong Kong Limited
Stock name: ICBC
Stock code: 1398

### A Share Convertible Corporate Bonds

Shanghai Stock Exchange
Bond name: 工行轉債
Bond code: 113002

## Change of registration during the reporting period

Date of first registration: 22 November 1985
Query index for first registration: Website of the State Administration for Industry and Commerce of the People's Republic of China (www.saic.gov.cn)
Date of change of registration: 27 September 2012
Registration authority: State Administration for Industry and Commerce of the People's Republic of China
Corporate business license number: 100000000003965
Financial license institution number: B0001H111000001
Tax registration certificate number: Jing Shui Zheng Zi 110102100003962
Organizational code: 10000396-2
Change in main business: None
Change in controlling shareholders: None

## Name and address of auditors

### Domestic auditors

Ernst & Young Hua Ming (LLP)
Level 16, Ernst & Young Tower (Tower E3), Oriental Plaza, No. 1 East Chang'an Avenue, Dongcheng District, Beijing, PRC
CPA (Practicing): Ge Ming and Zhang Fan

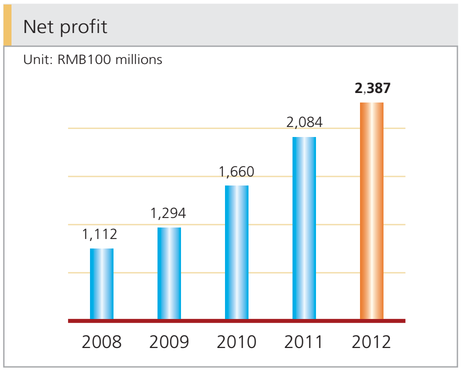
### International auditors

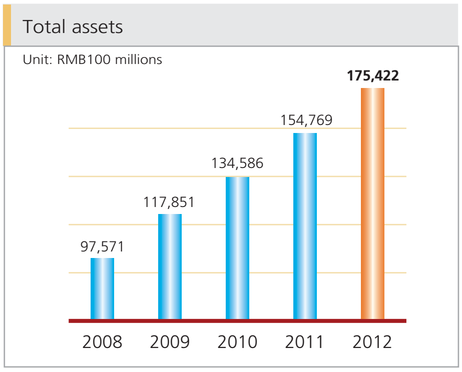
Ernst & Young
22/F, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong

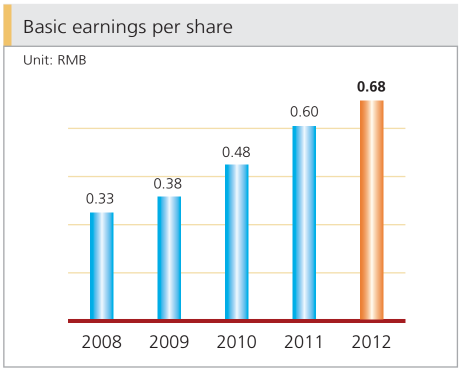
The report is prepared in both Chinese and English. In the case of discrepancy between the two versions, the Chinese version shall prevail.

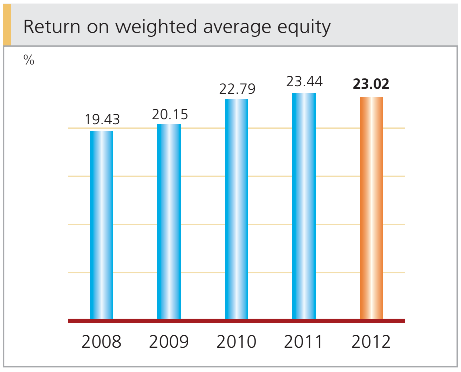
# Financial Highlights

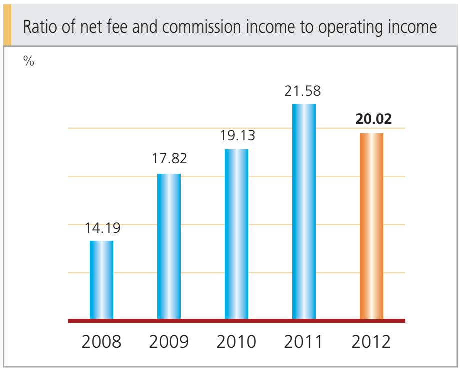
(Financial data and indicators in this Annual Report are prepared in accordance with IFRSs and, unless otherwise specified, are consolidated amounts of the Bank and its subsidiaries and denominated in Renminbi.)

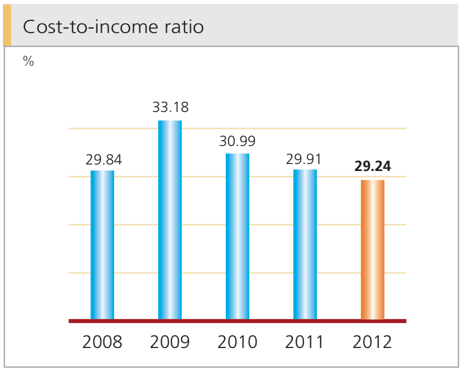


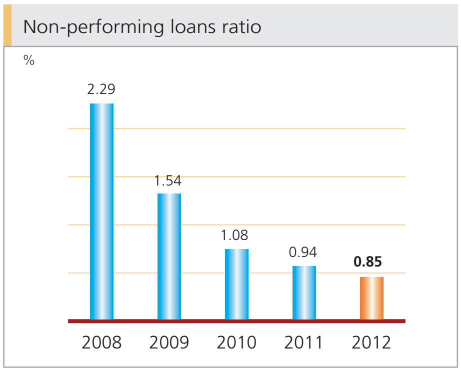



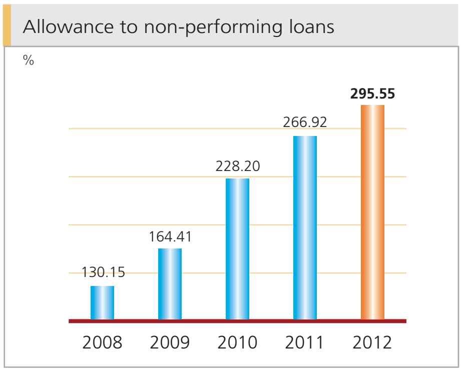



## Financial Data

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| **Annual operating results** (in RMB millions) | | | | | |
| Net interest income | 417,828 | 362,764 | 303,749 | 245,821 | 263,037 |
| Net fee and commission income | 106,064 | 101,550 | 72,840 | 55,147 | 44,002 |
| Operating income | 529,720 | 470,601 | 380,748 | 309,411 | 310,195 |
| Operating expenses | 189,940 | 169,613 | 139,480 | 120,819 | 111,335 |
| Impairment losses | 33,745 | 31,121 | 27,988 | 23,285 | 55,462 |
| Operating profit | 306,035 | 269,867 | 213,280 | 165,307 | 143,398 |
| Profit before tax | 308,687 | 272,311 | 215,426 | 167,294 | 145,376 |
| Net profit | 238,691 | 208,445 | 166,025 | 129,396 | 111,226 |
| Net profit attributable to equity holders of the parent company | 238,532 | 208,265 | 165,156 | 128,645 | 110,841 |
| Net cash flows from operating activities | 533,508 | 348,123 | 278,176 | 403,862 | 370,913 |
| **As at the end of reporting period** (in RMB millions) | | | | | |
| Total assets | 17,542,217 | 15,476,868 | 13,458,622 | 11,785,053 | 9,757,146 |
| Total loans and advances to customers | 8,803,692 | 7,788,897 | 6,790,506 | 5,728,626 | 4,571,994 |
| Allowance for impairment losses on loans | 220,403 | 194,878 | 167,134 | 145,452 | 135,983 |
| Investment | 4,083,887 | 3,915,902 | 3,732,268 | 3,599,173 | 3,048,310 |
| Total liabilities | 16,413,758 | 14,519,045 | 12,636,965 | 11,106,119 | 9,150,516 |
| Due to customers | 13,642,910 | 12,261,219 | 11,145,557 | 9,771,277 | 8,223,446 |
| Due to banks and other financial institutions | 1,486,805 | 1,341,290 | 1,048,002 | 1,001,634 | 646,254 |
| Equity attributable to equity holders of the parent company | 1,124,997 | 956,742 | 820,430 | 673,893 | 602,675 |
| Share capital | 349,620 | 349,084 | 349,019 | 334,019 | 334,019 |
| Net capital base | 1,299,014 | 1,112,463 | 872,373 | 731,956 | 620,033 |
| Net core capital base | 1,010,463 | 850,355 | 709,193 | 586,431 | 510,549 |
| Supplementary capital | 298,365 | 271,830 | 174,505 | 172,994 | 121,998 |
| Risk-weighted assets(1) | 9,511,205 | 8,447,263 | 7,112,357 | 5,921,330 | 4,748,893 |
| **Per share data** (in RMB yuan) | | | | | |
| Net asset value per share(2) | 3.22 | 2.74 | 2.35 | 2.02 | 1.80 |
| Basic earnings per share(3) | 0.68 | 0.60 | 0.48 | 0.38 | 0.33 |
| Diluted earnings per share(3) | 0.67 | 0.59 | 0.48 | 0.38 | 0.33 |
| **Credit rating** | | | | | |
| S&P(4) | A/Stable | A/Stable | A/Stable | A-/Positive | A-/Positive |
| Moody's(4) | A1/Stable | A1/Stable | A1/Stable | A1/Positive | A1/Stable |

Notes: (1) Being risk-weighted assets and market risk capital adjustment. Please refer to the section headed "Discussion and Analysis — Capital Management".

(2) Calculated by dividing equity attributable to equity holders of the parent company at the end of the reporting period by the number of shares issued at the end of the reporting period.

(3) In consideration of the rights issue in 2010, the data of 2009 and the prior years were restated.

(4) The rating results are in the form of "long-term foreign currency deposits rating/outlook".

## Financial Indicators

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| **Profitability** (%) | | | | | |
| Return on average total assets[(1)] | 1.45 | 1.44 | 1.32 | 1.20 | 1.21 |
| Return on weighted average equity[(2)] | 23.02 | 23.44 | 22.79 | 20.15 | 19.43 |
| Net interest spread[(3)] | 2.49 | 2.49 | 2.35 | 2.16 | 2.80 |
| Net interest margin[(4)] | 2.66 | 2.61 | 2.44 | 2.26 | 2.95 |
| Return on risk-weighted assets[(5)] | 2.66 | 2.68 | 2.55 | 2.43 | 2.43 |
| Ratio of net fee and commission income to operating income | 20.02 | 21.58 | 19.13 | 17.82 | 14.19 |
| Cost-to-income ratio[(6)] | 29.24 | 29.91 | 30.99 | 33.18 | 29.84 |
| **Asset quality** (%) | | | | | |
| Non-performing loans ("NPL") ratio[(7)] | 0.85 | 0.94 | 1.08 | 1.54 | 2.29 |
| Allowance to NPL[(8)] | 295.55 | 266.92 | 228.20 | 164.41 | 130.15 |
| Allowance to total loans ratio[(9)] | 2.50 | 2.50 | 2.46 | 2.54 | 2.97 |
| **Capital adequacy** (%) | | | | | |
| Core capital adequacy ratio[(10)] | 10.62 | 10.07 | 9.97 | 9.90 | 10.75 |
| Capital adequacy ratio[(10)] | 13.66 | 13.17 | 12.27 | 12.36 | 13.06 |
| Total equity to total assets ratio | 6.43 | 6.19 | 6.11 | 5.76 | 6.22 |
| Risk-weighted assets to total assets ratio | 54.22 | 54.58 | 52.85 | 50.24 | 48.67 |

Notes: (1) Calculated by dividing net profit by the average balance of total assets at the beginning and at the end of the reporting period.

(2) Calculated by dividing net profit attributable to equity holders of the parent company by the weighted average balance of equity attributable to equity holders of the parent company, which is calculated in accordance with the "Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No. 9 — Computation and Disclosure of Return on Net Assets and Earnings per Share (Revision 2010)" issued by CSRC.

(3) Calculated by the spread between yield on average balance of interest-generating assets and cost on average balance of interest-bearing liabilities.

(4) Calculated by dividing net interest income by the average balance of interest-generating assets.

(5) Calculated by dividing net profit by the average balance of risk-weighted assets and market risk capital adjustment at the beginning and at the end of the reporting period.

(6) Calculated by dividing operating expense (less business tax and surcharges) by operating income.

(7) Calculated by dividing the balance of NPL by total balance of loans and advances to customers.

(8) Calculated by dividing allowance for impairment losses on loans and advances by total balance of NPL.

(9) Calculated by dividing allowance for impairment losses on loans and advances by total balance of loans and advances to customers.

(10) Please refer to the section headed "Discussion and Analysis — Capital Management".

*Chairman* **Jiang Jianqing**

In 2012, the global financial crisis and the European debt crisis have continued to impact the global economy, and complex and profound changes lingered on the global economic landscape and financial systems. Amid the stressful situations, the Chinese economy has on the whole remained stable but the contrast between economic downturn expectations and the relatively excessive production capacity has become more prominent. At the same time, the financial regulatory reform has continued to deepen, the pace of interest rate liberalization has speeded up, the degree of financial disintermediation has become more pronounced, and the consumer demand for improved financial services has increased. In the face of the new situations and changes, the Bank has adhered to the underlying principle of "making progress while maintaining stability", coordinated overall planning on operation and management, and maintained its steady progress in stable operation characterized by increased profitability, business development, structure upgrade and risk control. The Bank has led its global peers in terms of various indicators such as capital, assets, quality, profit, market capitalization and customers' deposits, delivering a notable score sheet to investors and the whole society.

**Sustainable Development.** With a focus on the acceleration of operational transformation, the Bank has realized capital-saving development and sustainable profit growth featuring diversified operation. In 2012, the Bank realized net profit of RMB238,691 million, representing an increase of 14.5% over the previous year. Return on average total assets ("ROA") and return on weighted average equity ("ROE") were maintained at the leading international level of 1.45% and 23.02% respectively. Cost-to-income ratio was 29.24%. Accentuating financial asset service with less capital occupation, higher added value and greater customer demands as the focus of strategic transformation, the Bank intensified efforts in overall planning and system progress, and achieved a 32% increase in operating income, which facilitated the transition from an asset holding bank to an asset management bank. The Bank has actively put in efforts to serve the economic and trade relations between China and the rest of the world, meet the financial demand of customers across the globe, and promote business development on a global scale. Currently the Bank has operations in 39 countries and regions. As the single largest shareholder of Standard Bank — a leading bank in Africa, the Bank has entered into close collaboration with financial institutions in 18 countries across Africa, and formed an extensive international settlement and clearing network. By being the first amongst peers in China to finish the building of a globally integrated technology platform, and through strengthening the extension of key product lines and interactions between domestic and overseas operations, the Bank has enhanced the localization of the operation of its overseas institutions and the capability of its global services. In 2012, the Bank achieved a 21.8% increase in profit before tax of its overseas institutions, giving better play to the role of globalized operation in stabilizing profit and dispersing risks. In addition, the Bank set up ICBC-AXA through acquisition, enriching and improving its integrated service system.

**Serving Economic Development.** Persisted in seizing market opportunities and following the philosophy of commercial bank operation while serving the real economy, the Bank achieved effective combination of credit policy and industrial policy and the compatibility of financial innovation and the needs of economic development. During the year, the Bank made active efforts to bolster the development of advanced manufacturing, service industry, cultural industries and strategic emerging industries which fall in line with the direction of economic system reform, constantly improved financial services to small and medium-sized enterprises, especially the small and micro enterprises, supported the development of energy-efficient, environment-friendly and other fields of the green economy, and vigorously developed its business in extending credit to the direct consumption sector. Meanwhile, by addressing difficulties of enterprises through financial innovation, the Bank played an active part in helping enterprises diversify their financing channels and reducing financing costs through a combination of tools such as investment banking, financial leasing, bond issuance and syndicated loans, thereby promoting the formation of a new relationship between banks and enterprises which is characterized by closer and mutually beneficial collaboration. While promoting the stable and healthy economic development, the Bank succeeded in improving credit operation, reducing its NPL ratio to 0.85% representing a decrease of 0.09 percentage points from the beginning of 2012 and maintaining the overall stability of asset quality.

**Reform and Innovation.** Known for its stable operation, the Bank is also bold in reform. We regard the acceleration of reform and innovation in focused areas and key aspects as our fundamental approach for coping with complex situations, ensuring scientific development and building new competitive edges, the Bank further propelled the reform of profit center by prioritizing the enhancement of profitability in business lines. After the reform, the eight major product lines achieved a year-on-year increase of over 20% in profit. Meanwhile, the Bank deepened the reform of banking departments of provincial and regional branches and sub-branches in key counties and enhanced our capability in delivering financial services to large and medium-sized cities and key counties and towns. Highlighting the strategy of boosting the Bank by talents, the Bank pushed forward innovation in our human resources management concepts, system and practice, thus accelerating our transition from a bank with a large staff to a strong bank with talents. Emphasizing the business philosophy of "Satisfaction with ICBC", the Bank endeavored to improve the quality and efficiency of services through multiple approaches. Throughout the year the Bank built and upgraded 1,331 outlets, resulting in further improvement in outlet environment and functional distribution. Great efforts were made to develop e-banking services. As at the end of 2012, the Bank had 315 million e-banking customers, with annual transactions amounting to RMB332.6 trillion. E-banking services made up 75.1% of total transactions, meaning that over 7 out of 10 transactions were conducted through e-banking channels, and the cost of each transaction was only 1/7 of that of counter services. The Bank renovated and improved business processes, addressed over 500 process-related problems that had affected service efficiency and customer experience, and basically built an integrated, production line-based centralized processing system. Furthermore, the Bank set up the Consumer Protection Office, a move that underscored our work on the protection of financial consumers' rights.

**Effective Risk Control.** In face of the severe and complex operational environment, the Bank directed major efforts to improve the soundness and effectiveness of corporate governance and enhanced the foresight and pertinence of its risk control measures, so as to ensure its stable operation and healthy development. In compliance with the new regulatory requirements, the Bank improved relevant governance rules and decision-making procedures, and reinforced the appraisals of its corporate governance levels and the supervision over the governance of subsidiaries. In 2012, the Bank was awarded "Global Commercial Bank Transparency Gold Award", "2012 Best Corporate Governance Disclosure Awards: H-Share Category Platinum Award", "Hong Kong Corporate Governance Excellence Awards" and other notable awards. Active efforts were made to make preparations for the implementation of the Capital Regulation, further enhance the establishment of an enterprise risk management system covering on- and off-balance sheet business and institutions both at home and abroad, and deepen the application of internal rating results in multiple areas of operation and management. The Bank has filed application to the regulatory authorities in China relating to the implementation of advanced capital management approaches, in a bid to becoming one of China's first compliant banks. The Bank also carried out campaigns such as "Code of Conduct Training for Staff Members" and constantly enhanced the inspection and rectification of areas with frequent occurrences of risk incidents and irregularities, thus maintaining the controllability of various risks and low incidence of risk occurrence.

At present, the uncertain and instable international situation is interwoven with the imbalance, discordance and unsustainability of China's economic development. Besides, with the impact of internal transformation and reform of financial system, the banking industry is confronted with multifaceted challenges. We firmly believe that crisis is the springboard of reform and challenges are the cornerstone of success. We are fully capable of tiding over the difficulty and opening up a new world by grasping opportunities, forging ahead and bracing the difficulties. The 2013 score sheet is waiting for us to fill through our courage, wisdom and hard work.

**Chairman: Jiang Jianqing**

27 March 2013

# President's Statement

*President* **Yang Kaisheng**

In 2012, faced with complicated and severe economic and financial situations at home and abroad, the Bank adhered to its consistent philosophy of prudential operation in actively coping with a variety of challenges, including the continuing impact of the international financial crisis, economic slowdown, acceleration of interest rate liberalization and deepening of financial regulatory reform. It coordinated the operational management work with a focus on stepping up transformative development and launched a good start for the Bank's third three-year plan after the joint-stock reform. In 2012, the Bank realized a net profit of RMB238,691 million, representing an increase of 14.5% over the previous year, it continued to be the most profitable bank in the world and brought not only healthy return to shareholders and investors but also healthy and sustainable development to itself.

Persisting in its prudent and sustainable principle for credit management, the Bank scientifically and rationally controlled the aggregate amount and pace of lending based on changes in the macroeconomic trend, and continuously promoted the enhancement and adjustment of credit structure while actively serving the development of real economy. New RMB loans of domestic branches of the Bank amounted to RMB867,202 million, up by 12.3%, enabling the Bank to top the financial institutions in terms of credit increment, among which, loan increment to industries which met national industrial policy and economic structural adjustment direction, including advanced manufacturing, modern services, cultural industries and strategic emerging sectors was 103% of corporate loan increment, and that to small (micro) and medium-sized enterprises was 89% of corporate loan increment; the outstanding loans to small (micro) and medium-sized enterprises accounted for 72% of outstanding corporate loans. New personal loans (including bank card financing) were RMB272,177 million, accounting for 27% of the aggregate of new loans. At the same time, the Bank actively applied quota management, economic capital management and other instruments to guide credit structure adjustment, further improving the sector, customer and term structure of its credit. Also, the Bank strictly controlled lending to industries with high energy consumption, high pollution and over-capacity and actively supported the development of energy-efficient and environment-friendly sectors and other green economy sectors, evidenced by the total outstanding loan balance of RMB593.4 billion to the green economy sectors with over 99.9% of the Bank's loans being environment-friendly and environment-compliant loans.

Relying on innovation as the driving force for business development, the Bank keenly grasped market changes and customer demands, quickened product innovation and service enhancement, and promoted the transformation and upgrade of basic businesses and the rapid development of emerging businesses. Adapting to customers' needs for diversified asset allocation and wealth management orientation of deposits, the Bank created new thoughts on deposits and improved the fund price management system to accommodate interest rate liberalization, which resulted in an increase of RMB1,247,081 million in RMB customers' deposits, up by 10.5%, securing its first position amongst the world's deposit banks. In addition, it continued to strengthen its product line construction, introduced over 500 new products through independent R&D, including multiple-currency credit cards and personal account-based foreign exchange trading, increasing its varieties of financial products by 28% to 4,163, by virtue of which the Bank maintained its position as the bank with the most diversified financial products in China. Driven by financial assets services, the Bank's fee-based business was enhanced and remarkable progress was made in various businesses. The income from financial assets services increased by 32% over the previous year. The balance of wealth management products exceeded RMB1 trillion. Income from merger & acquisition and other high-end investment banking businesses rose by 1.6 times. The number of bank cards issued amounted to 470 million, with an annual consumption amount of RMB4.13 trillion, of which 77.13 million credit cards were issued with an annual consumption amount of RMB1.3 trillion, placing the Bank first in the Asia-Pacific region in the number of cards issued and consumption amount and ranking the Bank one of the top four card issuing banks in the world. Besides, turnover of internet banking exceeded RMB300 trillion, representing an increase of 17.2% over the previous year. The number of mobile banking customers totaled more than 74 million and turnover jumped by nearly 17 times. The business volume of international settlement approached USD2 trillion, making the Bank one of the leading international settlement banks in the world. Settlement and cash management, asset custody, pension business, private banking, precious metals and many other businesses also witnessed healthy development in 2012.

Adhering to its prudent principle in risk management, the Bank actively adapted to the new regulatory requirements. It further improved its framework, procedures and systems concerning risk management, strengthened the supervision over its subsidiaries and enhanced consolidated risk management to ensure effective isolation and control of risks in different markets and business segments, thus improving the Group’s enterprise risk management standard. The Bank also proactively prepared for the implementation of the Capital Regulation, developed and improved its capital planning, seized the opportunity to issue subordinated bonds of RMB20.0 billion in the domestic inter-bank market to replenish its supplementary capital. As a result, the capital adequacy ratio and core capital adequacy ratio of the Bank reached 13.66% and 10.62% respectively, fully meeting the regulatory requirements. In face of the rebound of non-performing loans (NPLs) of the banking sector resulting from the profound impact of the international financial crisis, economic slowdown and other factors, the Bank closely tracked and monitored potential risks and strengthened control over business segments with prominent risks. It effectively curbed the rebound of NPLs by accelerating its exit from loans with potential risks, intensifying efforts in loan collection, and strengthening its policies on collection and disposal of NPLs. The NPL ratio of the Bank decreased by 0.09 percentage points to 0.85%, realizing a decrease in 13 consecutive years. The allowance to NPL increased by 28.63 percentage points to 295.55%, evidencing further enhanced risk coverage capacity.

2013 is a vital year for implementation of the Bank’s new three-year plan and also a year full of opportunities and challenges. The Bank will strengthen its analysis and understanding of macro economic and financial situations, enhance its foresight and initiative in operational management, intensify its efforts in reform and innovation and operating transformation, and consolidate enterprise risk management. It will strive to attain healthy and sustainable development, create more wealth for shareholders and investors and provide better and more diversified financial services for the social and economic development.

**President: Yang Kaisheng**

27 March 2013

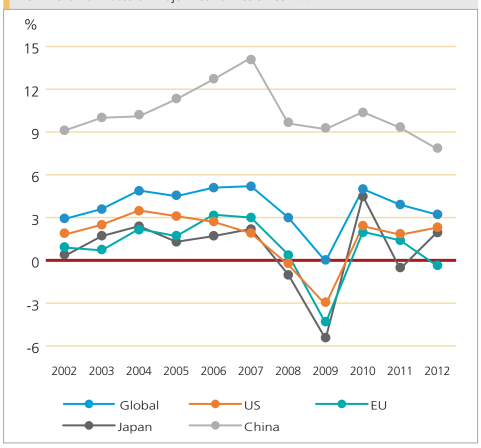
*Chairman of the Board of Supervisors* **Zhao Lin**

# ECONOMIC, FINANCIAL AND REGULATORY ENVIRONMENTS

## International Economic, Financial and Regulatory Environments

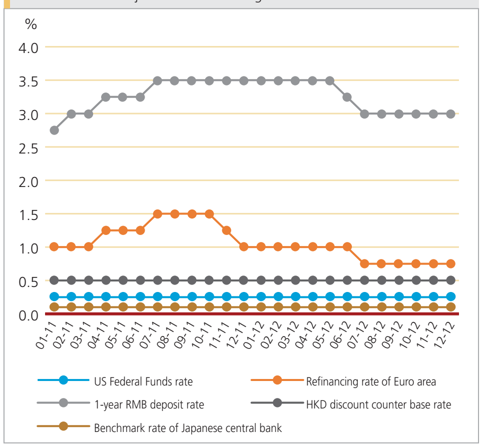
In 2012, the global economy underwent profound transformation and restructuring, with a slowdown in the recovery process. According to the Global Economy Outlook published by the International Monetary Fund (IMF) on 23 January 2013, the global economic growth rate was 3.2% in 2012, which was lower than the growth rate of 3.9% in 2011. Specifically, developed economies grew at the rate of 1.3%; emerging economies grew at the rate of 5.1%. The US economy underwent a modest recovery, with slow progress of fiscal consolidation. The impact of the European debt crisis was alleviated to some extent, with a growing impact on the real economy. Due to the shrinkage in external demand and the insufficiency in domestic consumption, the Japanese economy underwent a downturn. Most of the emerging economies slackened in growth momentum, which were confronted with challenges of the aggravation of cross-border capital flow and fluctuations and the mounting inflation. In terms of macro-policy, major developed economies have intensified their relaxed monetary policies. The US Federal Reserve (FED) continued to maintain a 0-0.25% target range of Federal Funds Rate; it launched the third round of quantitative easing policies (QE3) in September; it decided to increase its purchase of long-term government bonds by USD45 billion on a monthly basis in December when the "Operation Twist" comes to an end. The European Central Bank (ECB) announced on 5 July to curtail major refinancing rate by 25 basis points to a historical low of 0.75%, after its move to further relax its restrictions on the qualification of collateral on 20 June by which banks acquire liquidity from the Euro system. The central bank of Japan continued to maintain its zero-interest-rate policy, and constantly increased the amount of fund for asset acquisition. With greater uncertainties of external economy and the slowdown of domestic economic growth, most emerging economies have adopted relaxed monetary policies, the Central Bank of Brazil lowered its benchmark interest rate seven times consecutively to 7.5%; the Reserve Bank of India curtailed its repo rate on 17 April by 50 basis points to 8.0%, and the Bank of Korea lowered its benchmark interest rate twice by 25 basis points in July and October respectively to 2.75%.

GDP Growth Rates of Major Economies since 2002



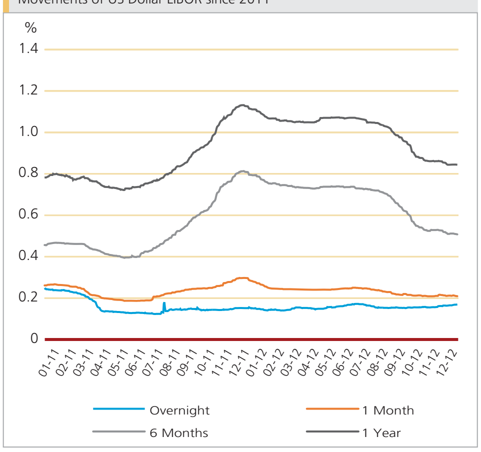

Data source: IMF, National Bureau of Statistics of China.

Interest Rates of Major Countries and Regions since 2011



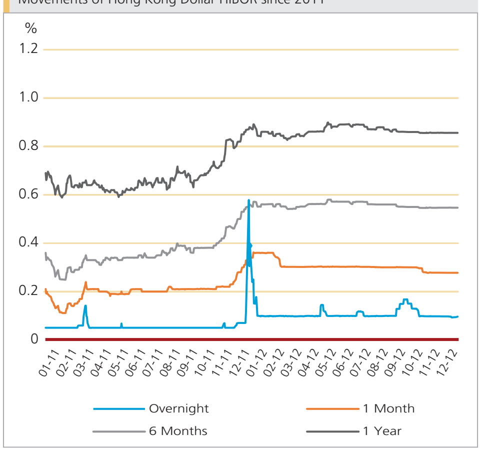

Data source: Bloomberg.

Movements of US Dollar LIBOR since 2011




Data source: Bloomberg.

Movements of Hong Kong Dollar HIBOR since 2011




Data source: Bloomberg.

Against factors as the twisting and slackening of world economic recovery, the uncertain outlook of European debt crisis, the frequent launches of quantitative easing policies by major economies, and the occurrence of international geopolitical conflicts, the international financial market presented huge volatility. Firstly, the exchange rates of major international currencies fluctuated significantly. As a result of frequent allocation and flow of global capital among major developed economies and emerging markets, the exchange rates of major currencies against US dollar increased and decreased frequently. At the end of 2012, the exchange rate of Euro and Japanese Yen against US dollar increased and decreased by 1.9% and 11.3% respectively. Korean Won and Chilean peso in emerging markets rose in value against US dollar by over 8%. Argentine peso and Brazilian Real dropped in value against US dollar by more than 9%. Secondly, the yields of major government bonds consolidated at low levels. The weak recovery of global economy escalated risk aversions, resulting in low levels of yields of US, German and Japanese government bonds. Thirdly, the global equity market went upward amidst fluctuations. Dow Jones Industrial Average and S&P 500 Index increased 7.3% and 13.5% respectively; German DAX30 Index, French CAC40 Index and UK FTSE100 Index rose by 29.1%, 15.2% and 5.8% respectively; Nikkei 225 rose by 22.9%, and MSCI emerging markets index increased by 15.1%. Fourthly, bulk commodity market suffered great volatility. Gold price fluctuated at high levels: New York Spot Gold Price increased by 7.1% to close at USD1,675.35 per ounce at the end of 2012. International crude oil price rose after declining. The Brent crude oil price closed at USD111.11 per barrel at the end of 2012, representing an increase of 3.5%. Fifthly, the global liquidity was loosened. At the end of 2012, the one-year US dollar LIBOR was 0.84%, representing a decrease of 0.29 percentage points as compared to the end of the previous year. The one-year EURIBOR was 0.54%, representing a decrease of 1.41 percentage points. The one-year HK dollar HIBOR was 0.86%, representing a decrease of 0.02 percentage points.

## Economic, Financial and Regulatory Environments in China

In 2012, in the face of complex international economic situations and tremendous challenges of domestic reform, economic development and stability, China insisted on the scientific outlook on development, directed major efforts to accelerate the transformation of economic growth pattern, and strengthened and improved its macro control efforts, with an emphasis placed on the key orientation of making progress while maintaining stability. By laying more stress on the stability of economic growth, the country made progress while maintaining stability in social and economic development, despite a slowdown in economic growth.

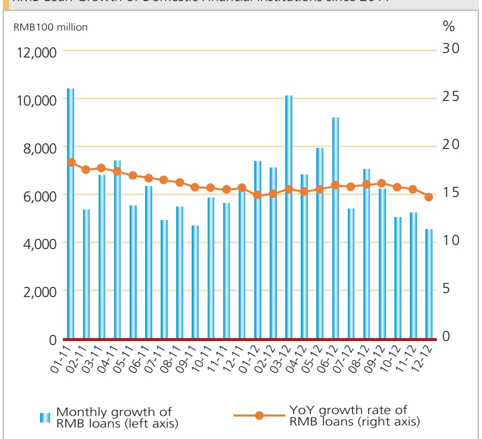
Preliminary estimate result of the National Bureau of Statistics of China shows that in 2012 the country's gross domestic product (GDP) amounted to RMB51.93 trillion, representing a year-on-year increase of 7.8%, 1.5 percentage points lower than the growth rate in the previous year. The GDP grew by 8.1%, 7.6%, 7.4% and 7.9% respectively in each of the first to fourth quarters. Capital formation, final consumption and net export contributed 3.93, 4.04 and -0.17 percentage points respectively to the GDP growth. Industrial output slowed down while tending toward stability. Industrial added value of above-scale enterprises grew by 10.0%, representing a decrease of 3.9 percentage points as compared to the growth rate in the previous year. Fixed asset investment maintained a relatively rapid expansion. In 2012, fixed asset investment (excluding peasant household) for the year amounted to RMB36.48 trillion, representing an increase of 20.6%, 3.4 percentage points lower than the growth rate in the previous year, of which property development investment for the year increased by 16.2% to RMB7.18 trillion, 11.9 percentage points lower than the previous year. Meanwhile, consumption maintained a steady pace of increase. Total retail sales of consumer goods amounted to RMB20.72 trillion, representing an increase of 14.3%. Consumer price index (CPI) showed a slowdown in the pace of increase. In 2012, China's CPI recorded an increase of 2.6%, 2.8 percentage points lower than the previous year. Meanwhile, producer price index (PPI) decreased by 1.7%. Total imports and exports slackened in growth momentum, which increased by 6.2% to USD3.87 trillion, 16.3 percentage points lower than the previous year, with a trade surplus of USD231.1 billion.

PBC continued to implement a prudent monetary policy, with efforts intensified timely and appropriately on the fine-tuning and pre-setting of relevant policies. In 2012, PBC lowered the reserve requirement ratio (RRR) on RMB deposits of deposit-taking financial institutions twice by 0.5 percentage points each time, lowering the RRR cumulatively by 1 percentage point. Meanwhile, PBC lowered the benchmark interest rate of RMB deposits and loans of financial institutions twice, in which the benchmark rate of one-year deposits was curtailed from 3.50% to 3.00%, and the benchmark rate of one-year loans was curtailed from 6.56% to 6.00%, representing a cumulative decrease of 0.50 and 0.56 percentage points, respectively. With the combination of interest rate adjustments and interest rate liberalization reform, PBC adjusted the fluctuation range of deposit and loan interest rate of financial institutions: the upper limit of fluctuation range of deposit interest rate was adjusted to 1.1 times the benchmark rate; the lower limit of fluctuation range of loan interest rate was adjusted to 0.7 times the benchmark rate.

In 2012, the money supply presented a slight increase in growth rate, with steady increase in the amount of loans granted by financial institutions. At the end of 2012, the M2 balance was RMB97.42 trillion, representing an increase of 13.8% from the end of 2011, with the growth rate increased by 0.2 percentage points. The M1 balance was RMB30.87 trillion, representing an increase of 6.5%, 1.4 percentage points lower than the previous year. The outstanding RMB and foreign currency-denominated loans of financial institutions reached RMB67.29 trillion, representing an increase of 15.6%. Specifically, the balance of RMB loans was RMB62.99 trillion, representing an increase of 15.0%, 0.8 percentage points lower than the previous year. The balance of foreign currency loans was USD683.6 billion, representing an increase of 26.9%. The total balance of deposits denominated in RMB and foreign currency of financial institutions increased by 14.1% to RMB94.29 trillion. Specifically, the balance of RMB deposits increased by 13.3% to RMB91.74 trillion, with the growth rate decreased by 0.2 percentage points. The balance of foreign currency deposits raised by 47.8% to USD406.5 billion.

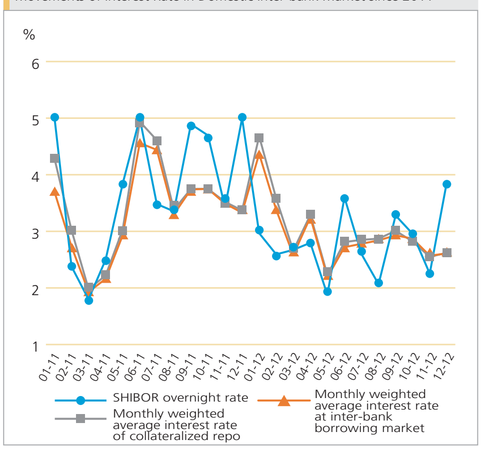
The social financing scale expanded at a fast pace. Preliminary statistics of PBC show that the social financing scale for 2012 was RMB15.76 trillion, representing an increase of RMB2.93 trillion compared with 2011. Specifically, RMB loans increased by RMB8.20 trillion, with the growth amount rising by RMB732 billion. Foreign currency-denominated loans increased by RMB916.3 billion, with the growth amount rising by RMB345.1 billion. Entrusted loans increased by RMB1.28 trillion, with the growth amount falling by RMB12.5 billion. Trust loans rose by RMB1.29 trillion, with the growth amount rising by RMB1.09 trillion. Undiscounted bank's acceptance bills increased by RMB1.05 trillion, with the growth amount rising by RMB22.7 billion. The net financing amount of enterprise bonds rose by RMB884 billion to RMB2.25 trillion, while domestic equity financing amount of non-financial enterprises decreased by RMB186.9 billion to RMB250.8 billion.

RMB Loan Growth of Domestic Financial Institutions since 2011




Data source: PBC.

Movements of Interest Rate in Domestic Inter-bank Market since 2011




Data source: PBC.

The total assets of commercial banks continued to increase, with overall stability of asset quality. According to the data of CBRC, at the end of 2012, the total assets of banking financial institutions (corporate) were RMB133.62 trillion, representing an increase of 17.9% from the end of the previous year. Commercial banks rebounded in the balance of non-performing loans (NPLs), with a further decrease in the NPL ratio and a further increase in the allowance to NPL. The balance of NPLs of commercial banks increased by RMB64.7 billion to RMB492.9 billion, while the NPL ratio dropped by 0.01 percentage points to 0.95% and the allowance to NPL increased by 17.4 percentage points to 295.5%. The capital adequacy ratio rose by 0.5 percentage points to 13.3%, while the core capital adequacy ratio increased by 0.4 percentage points to 10.6%.

The financial regulatory reform was promoted. PBC's implementation of asymmetric interest rate reduction and adjustments to the fluctuation range of deposit and loan interest rates marked an acceleration of interest rate liberalization reform, which exerted far-reaching influence on the operational behaviors of banks, the competitive environment of the banking sector and the structure of the financial sector. In May 2012, CBRC promulgated the Implementation Opinion on Granting Private Capital More Access to the Banking Sector. A strong signal that the government will grant private capital more access to the banking sector with relaxation of relevant restrictions, the move will play a positive role in propelling the marketization reform of the financial industry and building a healthy and orderly financial system that follows the inherent laws of a market economy. In June 2012, CBRC promulgated the Regulation Governing Capital of Commercial Banks (Provisional), which was effective since 1 January 2013, required commercial banks fully comply with the regulatory requirements before the end of 2018, which marked a significant move of the implementation of new regulatory standard by the banking sector and a new era of capital regulations for the banking sector in China.

PBC further improved the reformation of RMB exchange rate regime and broadened the range of exchange rate fluctuations. There were marked bi-directional fluctuations of RMB exchange rate, with a significant consolidation of exchange rate elasticity. At the end of 2012, the central parity of RMB against the US dollar was RMB6.2855 per USD1, representing an appreciation of 0.3% from the end of the previous year and an accumulative appreciation of 31.7% since the exchange rate reform in 2005. The balance of foreign exchange reserves of China increased by 4.1% to USD3.31 trillion.

The financial market maintained healthy and stable development. Trades on the monetary market remained brisk, with a slight decline in market rate. The cumulative bond repurchase on the inter-bank market for the year reached RMB141.7 trillion, representing an average daily turnover of RMB569.1 billion and an increase of 43.1%. The cumulative inter-bank borrowing amounted to RMB46.7 trillion, representing an average daily turnover of RMB187.6 billion and an increase of 40.2%. In December, the monthly weighted average interest rate of collateralized repo on the inter-bank market was 2.62%, representing a year-on-year decrease of 75 basis points. The monthly weighted average interest rate of inter-bank borrowing was 2.61%, representing a decrease of 72 basis points. There was a substantial increase in the scale of bond issuance, with a cumulative total of RMB7.97 trillion worth of bonds (excluding central bank notes) issued, representing an increase of 24.3%. The bond index on the inter-bank market presented an upward trend, and the government bond yield curve moved upward on the whole.

The stock market indices rose on the whole, with a shrinkage in market turnover. Combined turnover on the Shanghai and Shenzhen stock exchanges was RMB31.5 trillion, representing a year-on-year decrease of 25.4%. The average daily turnover was RMB129.1 billion, representing a year-on-year decrease of 25.4%. At the end of the year, the capitalization of the free float stocks on the Shanghai and Shenzhen stock markets amounted to RMB18.2 trillion, representing an increase of 10.1% from the end of 2011. The Shanghai Composite Index and the Shenzhen Component Index closed at 2269 points and 9116 points, representing an increase of 70 points and 198 points respectively. There was a decrease in the funds raised from the equity market, where enterprises and financial institutions accumulatively raised RMB386.2 billion through public offerings, additional issues and allotment of shares on the domestic and foreign equity markets, representing a decrease of 33.4%.

## Outlook for 2013

Looking into the year 2013, the global economic growth will be confronted with great uncertainties. Estimates show that in 2013 the global economy will still grow at a relatively lower pace. According to the Global Economy Outlook published by IMF, the growth rate of global economy in 2013 was lowered to 3.5%. Specifically, the growth rate of US economy would be 2.0%; the Euro zone economy will shrink by 0.2%; the Japanese economy will grow at a rate of 1.2%, and the growth rate of emerging economies would be 5.5%. Looking into the future, the global economy will be confronted with major risks as follows: firstly, the sovereign debt crisis will still be the principal source of risks that hinders global economic growth; secondly, the uncertainties of US fiscal policies will continue to serve as a blow to the US and global economy; thirdly, the impact of a new round of relaxed monetary policies launched by developed economies on the global economy will still face uncertainties; fourthly, the bleak outlook of economic growth of major economies will trigger an escalation of trade and investment protectionism; fifthly, the mounting geopolitical risks will pose an obstacle to the bilateral trade relations and the regional economic collaborations.

In 2013, China's economy will maintain its momentum for a sustainable, stable and rapid growth. China will still embrace favorable opportunities and conditions for its economic development. From a global economic perspective, despite the numerous uncertainties, the world economy is likely to maintain its slow pace of restoration, resulting in the formation of a weak but stable external environment. Domestically speaking, the rapid increase in resident income and a stronger consuming intention will prompt a sustainable increase in domestic demand. The accelerated process of urbanization, informatization, industrialization and agricultural modernization will create relatively strong momentum and potential for economic growth. Despite that, China will still face complex circumstances both at home and abroad for its economic development. The global economy will maintain its slow pace of growth. The rising trade and investment protectionism is combined with multiple challenges in trade, finance, etc faced by emerging economies. China's economy is confronted with insufficiency in maintaining stability, with obvious structural imbalance and marked aggregation in resources and environmental constraints.

In 2013, China will continue to follow the scientific outlook on development, and accelerate the transformation of economic growth pattern. By centering on the enhancement of quality and benefit of economic growth, the country will adhere to its orientation of making progress while maintaining stability, further deepen the reform and opening-up, bring into better play the role of innovation in driving economic growth, reinforce and improve macro control, actively expand domestic demand, intensify efforts for the strategic optimization of economic structure, endeavor to safeguard and improve people's livelihood, inject more vigor and dynamics into economic development, maintain the overall stability of prices so as to achieve the sustainable and healthy development of national economy. Meanwhile, China will continue to implement a proactive fiscal policy and a prudent monetary policy, ensure the continuity and stability of policies, increase the farsightedness, pertinence and flexibility of control, and properly handle the relationships among maintaining the stability of economic growth, the optimization of economic structure, the control of inflation control, and the prevention of risks. The fiscal policy will continue to focus on improving the structural tax reduction policy, devoting more efforts to the improvement of people's livelihood, proactively propelling economic restructuring, and tightening up the management of State revenues and expenditures. As for monetary policy, the country will adjust the priority, intensity and pace of policy implementation based on the actual economic operation, make comprehensive use of various monetary policy instruments, maintain the reasonable growth of social financing scale, improve the allocation of credit resources, advance steadily the interest rate liberalization and the reform of RMB exchange rate formation mechanism, conscientiously reduce the financing costs of real economic development, stick to the regulation and control of real estate market, and mitigate and fend off systematic financial risks timely and effectively. Both the fiscal and credit policies will focus on enhancing their coordination with industrial policies, fully reflecting the classified guidance to support development in some areas while limiting growth in others, continuing to input more efforts in "Sannong" (agriculture, rural areas and farmers), small and micro sized enterprises, modern services, projects for people's livelihood, indemnificatory housing and continue to support technology, cultural, tourism, energy saving and environmental protection and strategic emerging industries and the State's major infrastructure construction, so as to better serve the development of real economy.

# FINANCIAL STATEMENTS ANALYSIS

## Income Statement Analysis

In 2012, faced with complicated and rigorous operating environment, the Bank accelerated the transformation of development mode and operation based on serving the real economy and satisfying customers' financial needs, deepened reform and innovation, and continued to improve service. Moreover, the Bank strictly managed and controlled cost and maintained the stability of asset quality, resulting in a sound momentum of steady and progressive operation. The Bank realized a net profit of RMB238,691 million during the year, representing an increase of RMB30,246 million or 14.5% as compared to the previous year, return on average total assets stood at 1.45%, and return on weighted average equity was 23.02%. Operating income amounted to RMB529,720 million, representing an increase of 12.6%. Net interest income was RMB417,828 million, representing an increase of 15.2%. Non-interest income reached RMB111,892 million, representing an increase of 3.8%. Operating expenses amounted to RMB189,940 million, representing an increase of 12.0%, and the cost-to-income ratio decreased by 0.67 percentage points to 29.24%. Allowance for impairment losses was RMB33,745 million, representing an increase of 8.4%. Income tax expense increased by RMB6,130 million or 9.6% to RMB69,996 million.

### CHANGES OF KEY INCOME STATEMENT ITEMS

In RMB millions, except for percentages

| Item | 2012 | 2011 | Increase/ (decrease) | Growth rate (%) |
|---|---|---|---|---|
| Net interest income | 417,828 | 362,764 | 55,064 | 15.2 |
| Non-interest income | 111,892 | 107,837 | 4,055 | 3.8 |
| Operating income | 529,720 | 470,601 | 59,119 | 12.6 |
| Less: Operating expenses | 189,940 | 169,613 | 20,327 | 12.0 |
| Less: Allowance for impairment losses | 33,745 | 31,121 | 2,624 | 8.4 |
| Operating profit | 306,035 | 269,867 | 36,168 | 13.4 |
| Share of profits of associates and jointly-controlled entities | 2,652 | 2,444 | 208 | 8.5 |
| Profit before tax | 308,687 | 272,311 | 36,376 | 13.4 |
| Less: Income tax expense | 69,996 | 63,866 | 6,130 | 9.6 |
| Net profit | 238,691 | 208,445 | 30,246 | 14.5 |
| Attributable to: Equity holders of the parent company | 238,532 | 208,265 | 30,267 | 14.5 |
| Non-controlling interests | 159 | 180 | (21) | (11.7) |

## Net Interest Income

The Bank continued to strengthen asset and liability management, reasonably controlled credit granting volume and pace, proactively adjusted its credit structure, timely adjusted its investment strategies and optimized its investment portfolio structure. Meanwhile, the Bank also took various measures to strive for liability cost control and achieve stable growth in net interest income. In 2012, net interest income increased by RMB55,064 million or 15.2% to RMB417,828 million, accounting for 78.9% of the Bank's operating income. Interest income increased by RMB131,859 million or 22.4% to RMB721,439 million, and interest expenses increased by RMB76,795 million or 33.9% to RMB303,611 million.

The table below sets out the average balance of interest-generating assets and interest-bearing liabilities, interest income and expense, as well as average yield and average cost, respectively.

In RMB millions, except for percentages

| Item | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Average balance | Interest income/ expense | Average yield/cost (%) | Average balance | Interest income/ expense | Average yield/ cost (%) |
| **Assets** | | | | | | |
| Loans and advances to customers | 8,386,531 | 519,852 | 6.20 | 7,329,882 | 416,388 | 5.68 |
| Investment | 3,839,495 | 138,159 | 3.60 | 3,673,043 | 121,077 | 3.30 |
| Investment in bonds not related to restructuring | 3,488,859 | 130,267 | 3.73 | 3,272,997 | 112,086 | 3.42 |
| Investment in bonds related to restructuring(2) | 350,636 | 7,892 | 2.25 | 400,046 | 8,991 | 2.25 |
| Due from central banks | 2,652,396 | 41,766 | 1.57 | 2,402,963 | 38,332 | 1.60 |
| Due from banks and other financial institutions(3) | 853,392 | 21,662 | 2.54 | 475,867 | 13,783 | 2.90 |
| **Total interest-generating assets** | **15,731,814** | **721,439** | **4.59** | **13,881,755** | **589,580** | **4.25** |
| Non-interest-generating assets | 901,978 | | | 675,753 | | |
| Allowance for impairment losses | (211,109) | | | (185,263) | | |
| **Total assets** | **16,422,683** | | | **14,372,245** | | |
| **Liabilities** | | | | | | |
| Deposits | 12,509,843 | 249,422 | 1.99 | 11,364,657 | 188,650 | 1.66 |
| Due to banks and other financial institutions(3) | 1,694,972 | 43,461 | 2.56 | 1,389,833 | 32,809 | 2.36 |
| Debt securities issued | 264,493 | 10,728 | 4.06 | 150,578 | 5,357 | 3.56 |
| **Total interest-bearing liabilities** | **14,469,308** | **303,611** | **2.10** | **12,905,068** | **226,816** | **1.76** |
| Non-interest-bearing liabilities | 842,263 | | | 574,991 | | |
| **Total liabilities** | **15,311,571** | | | **13,480,059** | | |
| **Net interest income** | | **417,828** | | | **362,764** | |
| **Net interest spread** | | | **2.49** | | | **2.49** |
| **Net interest margin** | | | **2.66** | | | **2.61** |

Notes: (1) The average balances of interest-generating assets and interest-bearing liabilities represent their daily average balances. The average balances of non-interest-generating assets, non-interest-bearing liabilities and the allowance for impairment losses represent the average of the balances at the beginning of the year and that at the end of the year.

(2) Investment in bonds related to restructuring includes Huarong bonds and special government bonds during the reporting period. Please see "Note 27.(a) to the Financial Statements: Receivables" for details.

(3) Due from banks and other financial institutions includes the amount of reverse repurchase agreements, and due to banks and other financial institutions includes the amount of repurchase agreements.

The table below sets out the changes in interest income and interest expense brought by changes in volume and interest rate.

In RMB millions

| Item | Comparison between 2012 and 2011 | | |
|---|---|---|---|
| | Increase/(decrease) due to | | Net increase/ (decrease) |
| | Volume | Interest rate | |
| **Assets** | | | |
| Loans and advances to customers | 65,349 | 38,115 | 103,464 |
| Investment | 6,936 | 10,146 | 17,082 |
| Investment in bonds not related to restructuring | 8,035 | 10,146 | 18,181 |
| Investment in bonds related to restructuring | (1,099) | – | (1,099) |
| Due from central banks | 4,155 | (721) | 3,434 |
| Due from banks and other financial institutions | 9,592 | (1,713) | 7,879 |
| **Changes in interest income** | **86,032** | **45,827** | **131,859** |
| **Liabilities** | | | |
| Deposits | 23,269 | 37,503 | 60,772 |
| Due to banks and other financial institutions | 7,872 | 2,780 | 10,652 |
| Debt securities issued | 4,618 | 753 | 5,371 |
| **Changes in interest expenses** | **35,759** | **41,036** | **76,795** |
| **Changes in net interest income** | **50,273** | **4,791** | **55,064** |

Note: Changes in volume are measured by the changes in average balances, while the changes in interest rate are measured by the changes in average interest rates. Changes resulted from the combination of volume and interest rate have been allocated to the changes resulted from business volume.

### ◆ *Net Interest Spread and Net Interest Margin*

During the reporting period, interest rate liberalization reform stepped up with a large pace. PBC lowered the benchmark interest rate of RMB deposits and loans twice in June and July 2012 respectively, and meanwhile adjusted the upper limit of fluctuation range of RMB deposit interest rate for financial institutions to 1.1 times of benchmark interest rate, and adjusted the lower limit of fluctuation range of loan interest rate to 0.7 times of benchmark interest rate. The Bank actively coped with the interest rate liberalization reform, accelerated the establishment of RMB deposit market-based pricing mechanism, reinforced RMB loan pricing management and stabilized the level of net interest spread and net interest margin.

Net interest spread was 2.49%, maintaining the same level as the previous year; and net interest margin was 2.66%, representing an increase of 5 basis points as compared to the previous year.

The table below sets out the changes in the yield of interest-generating assets, cost of interest-bearing liabilities, net interest spread and net interest margin.

Percentages

| Item | 2012 | 2011 | Increase/ (decrease) (basis points) |
|---|---|---|---|
| Yield of interest-generating assets | 4.59 | 4.25 | 34 |
| Cost of interest-bearing liabilities | 2.10 | 1.76 | 34 |
| Net interest spread | 2.49 | 2.49 | – |
| Net interest margin | 2.66 | 2.61 | 5 |

## Interest Income

### ◆ *Interest Income on Loans and Advances to Customers*

Interest income on loans and advances to customers was RMB519,852 million, representing an increase of RMB103,464 million or 24.8% as compared to the previous year, of which, increase due to the growth in scale was RMB65,349 million, accounting for 63.2% of the total increase, and increase due to rise of average yield was RMB38,115 million, accounting for 36.8% of the total increase. Average yield rose 52 basis points, mainly because: the three times benchmark interest rate increase on RMB loans by PBC in 2011 exerted accumulative impact; the influence of the two times interest rate decrease in June and July 2012 had been emerging gradually; the Bank continuously carried forward credit structure adjustment, resulting in further improvement of interest rate management level.

In terms of maturity structure, the average balance of short-term loans was RMB2,850,865 million, interest income derived therefrom was RMB170,257 million, and the average yield was 5.97%. The average balance of medium to long-term loans was RMB5,535,666 million, interest income arising therefrom was RMB349,595 million, and the average yield was 6.32%.

**ANALYSIS OF THE AVERAGE YIELD OF LOANS AND ADVANCES TO CUSTOMERS BY BUSINESS LINE**

In RMB millions, except for percentages

| Item | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Average balance | Interest income | Average yield (%) | Average balance | Interest income | Average yield (%) |
| Corporate loans | 5,618,165 | 364,464 | 6.49 | 5,018,657 | 298,511 | 5.95 |
| Discounted bills | 192,354 | 14,495 | 7.54 | 111,039 | 10,316 | 9.29 |
| Personal loans | 2,099,358 | 125,775 | 5.99 | 1,823,488 | 96,755 | 5.31 |
| Overseas business | 476,654 | 15,118 | 3.17 | 376,698 | 10,806 | 2.87 |
| **Total loans and advances to customers** | **8,386,531** | **519,852** | **6.20** | **7,329,882** | **416,388** | **5.68** |

In terms of business line, interest income on corporate loans amounted to RMB364,464 million, representing an increase of RMB65,953 million or 22.1% as compared to the previous year and accounting for 70.1% of total interest income on loans and advances to customers, mainly due to an increase of RMB599,508 million in average balance of corporate loans and a rise of 54 basis points in average yield.

Interest income on discounted bills was RMB14,495 million, representing an increase of RMB4,179 million or 40.5% as compared to the previous year, mainly due to an increase of RMB81,315 million in average balance resulted from the Bank's timely reinforcement in development of discounted bills based on market supply and demand.

Interest income on personal loans was RMB125,775 million, representing an increase of RMB29,020 million or 30.0% as compared to the previous year, principally due to an increase of RMB275,870 million in average balance of personal loans and a rise of 68 basis points in average yield.

Interest income on overseas loans was RMB15,118 million, representing an increase of RMB4,312 million or 39.9% as compared to the previous year, mainly due to the continuous advancement of the Bank's internationalized development and the growth in the size of overseas loans.

### ◆ *Interest Income on Investment*

Interest income on investment was RMB138,159 million, representing an increase of RMB17,082 million or 14.1% as compared to the previous year, of which, interest income on investment in bonds not related to restructuring was RMB130,267 million, representing an increase of RMB18,181 million or 16.2%, mainly due to a rise of 31 basis points in the average yield of bonds not related to restructuring resulted from relatively high yield of new investment in bonds and the Bank's increase in bond investment at the high position of yield in line with the market trend.

Interest income on investment in bonds related to restructuring decreased by RMB1,099 million or 12.2% to RMB7,892 million from the previous year, mainly due to payment of part of the Huarong bonds in 2012, resulting in a decrease in average balance.

◆ *Interest Income on Due From Central Banks*

Due from central banks mainly includes the mandatory reserves with central banks and the surplus reserves with central banks. Interest income on due from central banks was RMB41,766 million, representing an increase of RMB3,434 million or 9.0% as compared to the previous year, mainly due to the increase in the size of due from central banks resulted from the steady growth in customers' deposits of the Bank.

◆ *Interest Income on Due from Banks and Other Financial Institutions*

Interest income on due from banks and other financial institutions was RMB21,662 million, representing an increase of RMB7,879 million or 57.2% as compared to the previous year, mainly because the Bank increased the size of fund financed in the monetary market on the precondition of guaranteed liquidity, resulting in an increase of RMB377,525 million or 79.3% in the average balance of due from banks and other financial institutions.

## Interest Expense

◆ *Interest Expense on Deposits*

Interest expense on deposits amounted to RMB249,422 million, representing an increase of RMB60,772 million or 32.2% as compared to the previous year, and accounted for 82.2% of total interest expense, of which, the increase due to the rise in average cost was RMB37,503 million, accounting for 61.7% of the total increase, and increase due to the growth in scale was RMB23,269 million, accounting for 38.3% of the total increase. Average cost rose by 33 basis points, mainly due to cumulative influence of adjustment in benchmark interest rate on RMB deposits and a rising percentage of average balance of time deposits.

**ANALYSIS OF AVERAGE DEPOSIT COST BY PRODUCTS**

In RMB millions, except for percentages

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| Item | Average balance | Interest expense | Average cost (%) | Average balance | Interest expense | Average cost (%) |
| **Corporate deposits** | | | | | | |
| Time deposits | 2,443,236 | 81,383 | 3.33 | 2,071,899 | 56,404 | 2.72 |
| Demand deposits[(1)] | 3,668,004 | 30,046 | 0.82 | 3,636,407 | 29,322 | 0.81 |
| **Subtotal** | **6,111,240** | **111,429** | **1.82** | **5,708,306** | **85,726** | **1.50** |
| **Personal deposits** | | | | | | |
| Time deposits | 3,562,534 | 122,447 | 3.44 | 3,188,465 | 88,755 | 2.78 |
| Demand deposits | 2,509,931 | 9,987 | 0.40 | 2,194,947 | 10,663 | 0.49 |
| **Subtotal** | **6,072,465** | **132,434** | **2.18** | **5,383,412** | **99,418** | **1.85** |
| **Overseas business** | **326,138** | **5,559** | **1.70** | **272,939** | **3,506** | **1.28** |
| **Total deposits** | **12,509,843** | **249,422** | **1.99** | **11,364,657** | **188,650** | **1.66** |

Note: (1) Includes outward remittance and remittance payables.

◆ *Interest Expense on Due to Banks and Other Financial Institutions*

Interest expense on due to banks and other financial institutions was RMB43,461 million, representing an increase of RMB10,652 million or 32.5% as compared to the previous year, mainly because of an increase of RMB305,139 million in average balance, as well as a rise of 20 basis points in average cost resulted from the drop in the percentage of due to banks and other financial institutions with relatively lower average cost due to continuous vibration of capital market.

◆ *Interest Expense on Debt Securities Issued*

Interest expense on debt securities issued was RMB10,728 million, representing an increase of RMB5,371 million or 100.3% as compared to the previous year, mainly attributable to the Bank's cumulative issuance of RMB108.0 billion subordinated bonds since June 2011. Please refer to "Note 38. to the Financial Statements: Debt Securities Issued" for details of the A share convertible bonds and the subordinated bonds issued by the Bank.

## Non-interest Income

In 2012, non-interest income increased by RMB4,055 million or 3.8% from the previous year to RMB111,892 million, accounting for 21.1% of total operating income.

**NON-INTEREST INCOME**

In RMB millions, except for percentages

| Item | 2012 | 2011 | Increase/ (decrease) | Growth rate (%) |
|---|---|---|---|---|
| Fee and commission income | 115,881 | 109,077 | 6,804 | 6.2 |
| Less: Fee and commission expense | 9,817 | 7,527 | 2,290 | 30.4 |
| Net fee and commission income | 106,064 | 101,550 | 4,514 | 4.4 |
| Other non-interest related gain | 5,828 | 6,287 | (459) | (7.3) |
| **Total** | **111,892** | **107,837** | **4,055** | **3.8** |

Proactively coping with the changes in the market environment, regulatory requirements and customer demands, the Bank intensified the transformation and development of fee-based business, promoted product and service innovation, truly protected consumer rights and interests, strived to develop financial asset service business, actively expanded service fields with high technical content and added value for customers, and pushed forward the sound and compliant development of fee-based business. During the year, net fee and commission income of the Bank was RMB106,064 million, representing an increase of RMB4,514 million or 4.4% as compared to the previous year, of which, income from bank card business, brand investment banking business, private banking service and pension business grew quickly. Fee and commission expense increased by RMB2,290 million or 30.4%, mainly attributable to the increase in expenses from bank card business and E-banking business. During the reporting period, income from the entrusted wealth management services amounted to RMB12,678 million and income from various agency services amounted to RMB6,564 million.

**NET FEE AND COMMISSION INCOME**

In RMB millions, except for percentages

| Item | 2012 | 2011 | Increase/ (decrease) | Growth rate (%) |
|---|---|---|---|---|
| Settlement, clearing business and cash management | 27,499 | 25,410 | 2,089 | 8.2 |
| Investment banking business | 26,117 | 22,592 | 3,525 | 15.6 |
| Bank card business | 23,494 | 17,268 | 6,226 | 36.1 |
| Personal wealth management and private banking services | 16,760 | 21,264 | (4,504) | (21.2) |
| Corporate wealth management services | 10,018 | 9,269 | 749 | 8.1 |
| Asset custody business | 5,974 | 5,892 | 82 | 1.4 |
| Guarantee and commitment business | 2,848 | 5,101 | (2,253) | (44.2) |
| Trust and agency services | 1,623 | 1,376 | 247 | 18.0 |
| Others | 1,548 | 905 | 643 | 71.0 |
| **Fee and commission income** | **115,881** | **109,077** | **6,804** | **6.2** |
| **Less: Fee and commission expense** | **9,817** | **7,527** | **2,290** | **30.4** |
| **Net fee and commission income** | **106,064** | **101,550** | **4,514** | **4.4** |

Income from settlement, clearing business and cash management was RMB27,499 million, representing an increase of RMB2,089 million or 8.2% as compared to the previous year. Specifically, income from cash management service business grew relatively faster and income from RMB settlement business maintained steady growth.

Income from investment banking business increased by RMB3,525 million or 15.6% to RMB26,117 million. Specifically, the Bank realized rapid growth in brand investment banking businesses including restructuring and merger, equity financing, structural financing and syndicated arrangement.

Income from bank card business increased by RMB6,226 million or 36.1% to RMB23,494 million, mainly due to the increase in income from bank card installment payment business and consumption commission income.

Income from corporate wealth management services amounted to RMB10,018 million, representing an increase of RMB749 million or 8.1%, which was mainly driven by the steady increase in corporate wealth management business.

Income from trust and agency services increased by RMB247 million or 18.0% to RMB1,623 million, mainly attributable to an increase in income from entrusted loan business.

Pursuant to the macro environmental changes and financial regulatory requirements, the Bank increased support for the development of small and micro enterprises, ceased to charge the commitment fee and treasury management fee for loans to small and micro enterprises and strictly restrained the charging of financial advisory fee and consultation fee. Furthermore, the Bank comprehensively streamlined and normalized the fee management and implemented the Price List for Services of Industrial and Commercial Bank of China (2012 Version) as of 1 April. Subject to the impact of policy and market environment, income from guarantee and commitment as well as part of personal wealth management service reduced to some extent.

**OTHER NON-INTEREST RELATED GAIN**

In RMB millions, except for percentages

| Item | 2012 | 2011 | Increase/ (decrease) | Growth rate (%) |
|---|---|---|---|---|
| Net trading income | 510 | 444 | 66 | 14.9 |
| Net loss on financial assets and liabilities designated at fair value through profit or loss | (5,114) | (271) | (4,843) | N/A |
| Net gain on financial investments | 608 | 219 | 389 | 177.6 |
| Other operating income, net | 9,824 | 5,895 | 3,929 | 66.6 |
| **Total** | **5,828** | **6,287** | **(459)** | **(7.3)** |

Other non-interest income was RMB5,828 million, representing a decrease of RMB459 million or 7.3% as compared to the previous year. Specifically, net loss on financial assets and liabilities designated at fair value through profit or loss increased by RMB4,843 million, mainly due to an increase in expenses from structural deposits paid to customers. Net of other operating income increased by RMB3,929 million, mainly resulting from an increase of RMB2,695 million in net gain from foreign exchange and foreign exchange products.

## Operating Expenses

**OPERATING EXPENSES**

In RMB millions, except for percentages

| Item | 2012 | 2011 | Increase/ (decrease) | Growth rate (%) |
|---|---|---|---|---|
| Staff costs | 96,240 | 87,881 | 8,359 | 9.5 |
| Including: Salaries and bonuses | 63,256 | 57,943 | 5,313 | 9.2 |
| Premises and equipment expenses | 23,487 | 21,121 | 2,366 | 11.2 |
| Business tax and surcharges | 35,066 | 28,875 | 6,191 | 21.4 |
| Amortisation | 1,781 | 1,426 | 355 | 24.9 |
| Others | 33,366 | 30,310 | 3,056 | 10.1 |
| **Total** | **189,940** | **169,613** | **20,327** | **12.0** |

The Bank exercised strict cost management and control. Operating expenses were RMB189,940 million, representing an increase of RMB20,327 million or 12.0% as compared to the previous year. Of which, salaries and bonuses increased by 9.2% (increased by 8.7% excluding newly acquired institutions); business tax and surcharges increased by RMB6,191 million or 21.4% to RMB35,066 million, mainly driven by the growth in taxable interest income; other operating expenses increased by 10.1% to RMB33,366 million; and cost-to-income ratio dropped by 0.67 percentage points to 29.24% as compared to the previous year.

## Impairment Losses

Impairment losses on assets increased by RMB2,624 million or 8.4% from the previous year to RMB33,745 million, of which, impairment losses on loans increased by RMB740 million or 2.3% to RMB32,572 million. The Bank strengthened risk prevention and control, maintaining stable loan quality. Please refer to "Note 26. to the Financial Statements: Loans and Advances to Customers" and "Note 15. to the Financial Statements: Impairment Losses on Assets Other than Loans and Advances to Customers" for details.

## Income Tax Expense

Income tax expense increased by RMB6,130 million or 9.6% from the previous year to RMB69,996 million. The effective tax rate was 22.7%. The effective tax rate was lower than the statutory tax rate mainly because the interest income arising from PRC government bonds held by the Bank is exempt from income tax under the tax law. Please see "Note 16. to the Financial Statements: Income Tax Expense" for the reconciliation of income tax expense applicable to profit before tax at the PRC statutory income tax rate and the effective income tax rate.

# Segment Information

The Bank's principal operating segments include corporate banking, personal banking and treasury operations. The Bank adopts the Management of Value Accounting (MOVA) to evaluate the performance of each of its operating segments.

### SUMMARY OPERATING SEGMENT INFORMATION

In RMB millions, except for percentages

| Item | 2012 Amount | 2012 Percentage (%) | 2011 Amount | 2011 Percentage (%) |
|---|---|---|---|---|
| Corporate banking | 285,765 | 54.0 | 249,684 | 53.1 |
| Personal banking | 154,056 | 29.1 | 143,794 | 30.5 |
| Treasury operations | 85,993 | 16.2 | 72,281 | 15.4 |
| Others | 3,906 | 0.7 | 4,842 | 1.0 |
| **Total operating income** | **529,720** | **100.0** | **470,601** | **100.0** |

Please refer to the section headed "Discussion and Analysis — Business Overview" for the details of the development of each of these operating segments.

### SUMMARY GEOGRAPHICAL SEGMENT INFORMATION

In RMB millions, except for percentages

| Item | 2012 Amount | 2012 Percentage (%) | 2011 Amount | 2011 Percentage (%) |
|---|---|---|---|---|
| Head Office | 47,565 | 9.0 | 34,176 | 7.3 |
| Yangtze River Delta | 107,028 | 20.2 | 99,137 | 21.1 |
| Pearl River Delta | 69,316 | 13.1 | 65,021 | 13.8 |
| Bohai Rim | 104,030 | 19.6 | 95,896 | 20.4 |
| Central China | 70,442 | 13.3 | 61,987 | 13.2 |
| Western China | 82,994 | 15.7 | 72,686 | 15.4 |
| Northeastern China | 29,821 | 5.6 | 27,482 | 5.8 |
| Overseas and others | 18,524 | 3.5 | 14,216 | 3.0 |
| **Total operating income** | **529,720** | **100.0** | **470,601** | **100.0** |

Note: Please see "Note 52. to the Financial Statements: Segment Information" for the Bank's classification of geographic regions.

## Balance Sheet Analysis

In 2012, international and domestic economies continued to face the complex operating structure, the State continued to carry out proactive financial policy and prudent monetary policy, PBC decreased the benchmark interest rate on RMB deposits and loans for financial institutions and adjusted the floating range of interest rates on deposits and loans, and therefore competition among peers was increasingly fierce. Based on the development needs of the real economy, the Bank reasonably controlled the aggregate amount and pace of lending and deepened the loan structure adjustment. The Bank flexibly arranged its investment schedule and priorities and optimized its investment portfolio by closely monitoring the trends of the domestic and international financial markets. It actively adopted measures to promote steady growth in due to customers, and meanwhile expanded the scale of other liabilities, thereby ensuring a stable and sustainable growth of funding sources.

## Assets Deployment

As at the end of 2012, total assets of the Bank was RMB17,542,217 million, representing an increase of RMB2,065,349 million or 13.3% from the end of the previous year, of which total loans and advances to customers (collectively referred to as "loans") increased by RMB1,014,795 million or 13.0%, investment increased by RMB167,985 million or 4.3%, and cash and balances with central banks increased by RMB412,787 million or 14.9%. In terms of structure, investment accounted for 23.3% of total assets, representing a decrease of 2.0 percentage points from the end of the previous year; due from banks and other financial institutions accounted for 3.6%, representing an increase of 0.5 percentage points from the end of the previous year; and reverse repurchase agreements accounted for 3.1%, representing an increase of 0.8 percentage points from the end of the previous year.

**ASSETS DEPLOYMENT**

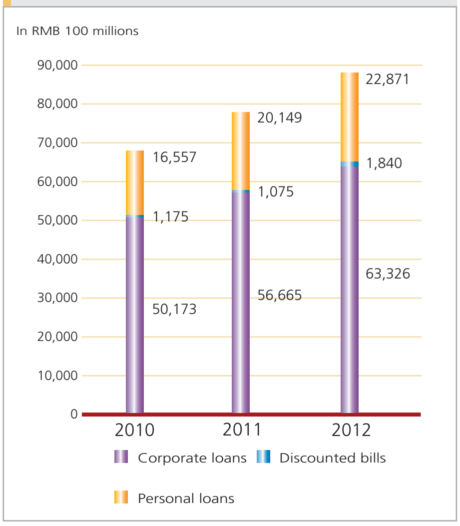
In RMB millions, except for percentages

| | At 31 December 2012 | | At 31 December 2011 | |
|---|---|---|---|---|
| Item | Amount | Percentage (%) | Amount | Percentage (%) |
| Total loans and advances to customers | 8,803,692 | — | 7,788,897 | — |
| Less: Allowance for impairment losses on loans | 220,403 | — | 194,878 | — |
| Loans and advances to customers, net | 8,583,289 | 48.9 | 7,594,019 | 49.1 |
| Investment | 4,083,887 | 23.3 | 3,915,902 | 25.3 |
| Cash and balances with central banks | 3,174,943 | 18.1 | 2,762,156 | 17.8 |
| Due from banks and other financial institutions | 636,450 | 3.6 | 478,002 | 3.1 |
| Reverse repurchase agreements | 544,579 | 3.1 | 349,437 | 2.3 |
| Others | 519,069 | 3.0 | 377,352 | 2.4 |
| **Total assets** | **17,542,217** | **100.0** | **15,476,868** | **100.0** |

## Loans

In 2012, the Bank reasonably controlled the aggregate amount and pace of lending, thoroughly adjusted credit structure, optimized credit resource allocation and promoted coordinated development of regional credit in accordance with changes in macroeconomic environment and financial regulatory requirements as well as development needs of real economy. The Bank actively bolstered the development of advanced manufacturing, modern services, cultural industries and strategic emerging sectors, continuously improved the financial services for small (micro) and medium-sized enterprises, and strengthened credit support for trade finance and the reasonable credit demands of individuals, maintaining a stable and appropriate level of lending. As at the end of 2012, loans amounted to RMB8,803,692 million, representing an increase of RMB1,014,795 million or 13.0% from the end of the previous year, of which, RMB-denominated loans of domestic operations increased by RMB867,202 million or 12.3% to RMB7,890,779 million from the end of the previous year.

Composition of Loans



### DISTRIBUTION OF LOANS BY BUSINESS LINE

In RMB millions, except for percentages

| Item | At 31 December 2012 Amount | At 31 December 2012 Percentage (%) | At 31 December 2011 Amount | At 31 December 2011 Percentage (%) |
|---|---|---|---|---|
| Corporate loans | 6,332,578 | 71.9 | 5,666,511 | 72.7 |
| Discounted bills | 184,011 | 2.1 | 107,460 | 1.4 |
| Personal loans | 2,287,103 | 26.0 | 2,014,926 | 25.9 |
| **Total** | **8,803,692** | **100.0** | **7,788,897** | **100.0** |

### DISTRIBUTION OF CORPORATE LOANS BY MATURITY

In RMB millions, except for percentages

| Item | At 31 December 2012 Amount | At 31 December 2012 Percentage (%) | At 31 December 2011 Amount | At 31 December 2011 Percentage (%) |
|---|---|---|---|---|
| Short-term corporate loans | 2,470,061 | 39.0 | 1,965,458 | 34.7 |
| Medium to long-term corporate loans | 3,862,517 | 61.0 | 3,701,053 | 65.3 |
| **Total** | **6,332,578** | **100.0** | **5,666,511** | **100.0** |

### DISTRIBUTION OF CORPORATE LOANS BY PRODUCT LINE

In RMB millions, except for percentages

| Item | At 31 December 2012 Amount | At 31 December 2012 Percentage (%) | At 31 December 2011 Amount | At 31 December 2011 Percentage (%) |
|---|---|---|---|---|
| Working capital loans | 2,795,081 | 44.1 | 2,273,487 | 40.1 |
| Of which: Trade finance | 1,033,073 | 16.3 | 889,115 | 15.7 |
| Project loans | 3,017,048 | 47.7 | 2,849,116 | 50.3 |
| Property loans | 520,449 | 8.2 | 543,908 | 9.6 |
| **Total** | **6,332,578** | **100.0** | **5,666,511** | **100.0** |

Corporate loans increased by RMB666,067 million or 11.8%. In terms of maturity, short-term corporate loans increased by RMB504,603 million or 25.7%, accounting for 75.8% of the total increase in all corporate loans; medium to long-term corporate loans increased by RMB161,464 million or 4.4%, accounting for 24.2% of the total increase, mainly resulted from the Bank's active adjustment on credit structure. In terms of product type, working capital loans increased by RMB521,594 million or 22.9%, of which, trade finance increased by RMB143,958 million or 16.2%, mainly because the Bank continued to support the credit demands of enterprises in the production and circulation areas; project loans increased by RMB167,932 million or 5.9%, mainly attributable to support provided to national key projects under construction and continuing projects; and property loans decreased by RMB23,459 million or 4.3%, mainly because the Bank prudently granted property loans in line with the risk status in the real estate market.

Discounted bills increased by RMB76,551 million or 71.2%, mainly because the Bank strengthened the adjustment on the scale and structure of bill assets and intensified support to the real economy based on macroeconomy and the trend of interest rate in bill market.

### DISTRIBUTION OF PERSONAL LOANS BY PRODUCT LINE

In RMB millions, except for percentages

| Item | At 31 December 2012 Amount | At 31 December 2012 Percentage (%) | At 31 December 2011 Amount | At 31 December 2011 Percentage (%) |
|---|---|---|---|---|
| Personal housing loans | 1,340,891 | 58.6 | 1,189,438 | 59.0 |
| Personal consumption loans | 381,611 | 16.7 | 381,209 | 18.9 |
| Personal business loans | 319,709 | 14.0 | 266,232 | 13.2 |
| Credit card overdrafts | 244,892 | 10.7 | 178,047 | 8.9 |
| **Total** | **2,287,103** | **100.0** | **2,014,926** | **100.0** |

Personal loans increased by RMB272,177 million or 13.5%, mainly because the Bank implemented the differentiated housing credit policy, enriched the product system of personal loans and promoted the steady development of personal loan business in adherence to the national macroeconomic policy. Specifically, personal housing loans increased by RMB151,453 million or 12.7%, accounting for 55.6% of the increase of personal loans, principally due to the recovery of real estate market to some extent and the steady growth in personal housing loans resulted from the decrease of benchmark interest rate on loans in the second half of 2012 and the release of some rigid demands in real estate market; personal business loans increased by RMB53,477 million or 20.1%, mainly because the Bank focused on the commodity exchange market and increased efforts in marketing and servicing to promote the development of relevant businesses; personal consumption loans increased by RMB402 million or 0.1%, as the Bank intensified the management on the usage of personal consumption loans and proactively adjusted loan product structure, resulting in the slowdown of its growth rate; and credit card overdrafts increased by RMB66,845 million or 37.5%, mainly due to the continual development of credit card installment repayment business as well as the stable growth of credit card issuance and consumption volume.

### DISTRIBUTION OF LOANS BY REMAINING MATURITY

In RMB millions, except for percentages

| Remaining maturity | At 31 December 2012 Amount | At 31 December 2012 Percentage (%) | At 31 December 2011 Amount | At 31 December 2011 Percentage (%) |
|---|---|---|---|---|
| Impaired or overdue | 94,638 | 1.1 | 86,172 | 1.1 |
| Less than 1 year | 3,731,752 | 42.4 | 3,168,485 | 40.7 |
| 1–5 years | 1,987,754 | 22.6 | 1,848,131 | 23.7 |
| Over 5 years | 2,989,548 | 33.9 | 2,686,109 | 34.5 |
| **Total** | **8,803,692** | **100.0** | **7,788,897** | **100.0** |

Note: The overdue loans refer to the loans of which principal or interest has become overdue. For loans repaid on an installment basis, only the amount which is not repaid upon maturity is deemed overdue. Please see "Note 53.(a) to the Financial Statements: Credit risk" for definition of impaired loans.

As at the end of 2012, loans with a remaining maturity of more than 1 year amounted to RMB4,977,302 million, accounting for 56.5% of the loans; loans with a remaining maturity of less than 1 year amounted to RMB3,731,752 million, accounting for 42.4% of the loans; and impaired or overdue loans amounted to RMB94,638 million, accounting for 1.1% of the loans.

Please see "Discussion and Analysis — Risk Management" for detailed analysis of loan scale and loan quality.

## Investment

In 2012, the Bank precisely seized opportunities in the market, flexibly organized its investment schedule and focus, optimized the investment structure in strict adherence to the trends in financial markets, and continuously improved the return on investment portfolios on the basis of guaranteed liquidity and controllable risks. As at the end of 2012, investment amounted to RMB4,083,887 million, representing an increase of RMB167,985 million or 4.3% as compared to the end of the previous year.

### INVESTMENT

In RMB millions, except for percentages

| Item | At 31 December 2012 Amount | At 31 December 2012 Percentage (%) | At 31 December 2011 Amount | At 31 December 2011 Percentage (%) |
|---|---|---|---|---|
| **Debt instruments** | **4,067,207** | **99.6** | **3,912,033** | **99.9** |
| Investment in bonds not related to restructuring | 3,719,302 | 91.1 | 3,402,795 | 86.9 |
| Investment in bonds related to restructuring | 260,096 | 6.4 | 397,996 | 10.2 |
| Other debt instruments | 87,809 | 2.1 | 111,242 | 2.8 |
| **Equity instruments and others** | **16,680** | **0.4** | **3,869** | **0.1** |
| **Total** | **4,083,887** | **100.0** | **3,915,902** | **100.0** |

Bonds not related to restructuring amounted to RMB3,719,302 million, representing an increase of RMB316,507 million or 9.3% as compared to the end of last year. Investment in bonds related to restructuring amounted to RMB260,096 million, representing a decrease of RMB137,900 million as compared to the end of the previous year, because MOF and China Huarong Asset Management Co., Ltd. established a jointly-managed fund and the Bank honored part of the Huarong bonds. For details of the investment in bonds related to restructuring, please refer to "Note 27.(a) to the Financial Statements: Receivables".

### DISTRIBUTION OF INVESTMENT IN BONDS NOT RELATED TO RESTRUCTURING BY ISSUERS

In RMB millions, except for percentages

| Item | At 31 December 2012 Amount | At 31 December 2012 Percentage (%) | At 31 December 2011 Amount | At 31 December 2011 Percentage (%) |
|---|---|---|---|---|
| Government bonds | 875,876 | 23.5 | 858,194 | 25.2 |
| Central bank bills | 553,216 | 14.9 | 682,676 | 20.1 |
| Policy bank bonds | 1,587,949 | 42.7 | 1,318,582 | 38.7 |
| Other bonds | 702,261 | 18.9 | 543,343 | 16.0 |
| **Total** | **3,719,302** | **100.0** | **3,402,795** | **100.0** |

In terms of distribution by issuers, government bonds increased by RMB17,682 million or 2.1%; central bank bills decreased by RMB129,460 million or 19.0%; policy bank bonds increased by RMB269,367 million or 20.4%; and other bonds increased by RMB158,918 million or 29.2%, mainly because portion of the central bank bills matured during the reporting period and the Bank moderately increased investment in policy bank bonds and high-quality credit bonds.

### DISTRIBUTION OF INVESTMENT IN BONDS NOT RELATED TO RESTRUCTURING BY REMAINING MATURITY

In RMB millions, except for percentages

| | At 31 December 2012 | | At 31 December 2011 | |
|---|---|---|---|---|
| Remaining maturity | Amount | Percentage (%) | Amount | Percentage (%) |
| Undated[1] | 436 | 0.0 | 391 | 0.0 |
| Less than 3 months | 92,356 | 2.5 | 96,420 | 2.8 |
| 3–12 months | 795,265 | 21.4 | 498,240 | 14.6 |
| 1–5 years | 1,786,793 | 48.0 | 1,868,781 | 55.0 |
| Over 5 years | 1,044,452 | 28.1 | 938,963 | 27.6 |
| **Total** | **3,719,302** | **100.0** | **3,402,795** | **100.0** |

Note: (1) Refers to impaired bonds.

In terms of remaining maturity structure, the increase in bonds not related to restructuring within 1-year maturity was mainly because part of central bank bills would become mature soon. Medium to long-term bonds not related to restructuring increased over the end of last year, mainly because the Bank moderately increased its investment in medium to long-term bonds in order to boost its yield level.

### DISTRIBUTION OF INVESTMENT IN BONDS NOT RELATED TO RESTRUCTURING BY CURRENCY

In RMB millions, except for percentages

| | At 31 December 2012 | | At 31 December 2011 | |
|---|---|---|---|---|
| Item | Amount | Percentage (%) | Amount | Percentage (%) |
| RMB | 3,627,651 | 97.5 | 3,329,079 | 97.8 |
| USD | 64,165 | 1.7 | 52,213 | 1.6 |
| Other foreign currencies | 27,486 | 0.8 | 21,503 | 0.6 |
| **Total** | **3,719,302** | **100.0** | **3,402,795** | **100.0** |

In terms of currency structure, RMB-denominated bonds increased by RMB298,572 million or 9.0%; and USD-denominated bonds increased by the equivalent of RMB11,952 million or 22.9%, and other foreign currency bonds increased by the equivalent of RMB5,983 million or 27.8%, mainly due the Bank's moderate increase in investment in foreign currency bonds based on the changes in foreign currency liquidity.

### DISTRIBUTION OF INVESTMENT BY HOLDING PURPOSE

In RMB millions, except for percentages

| | At 31 December 2012 | | At 31 December 2011 | |
|---|---|---|---|---|
| Item | Amount | Percentage (%) | Amount | Percentage (%) |
| Financial assets at fair value through profit or loss | 221,671 | 5.4 | 152,208 | 3.9 |
| Available-for-sale financial assets | 920,939 | 22.6 | 840,105 | 21.5 |
| Held-to-maturity investments | 2,576,562 | 63.1 | 2,424,785 | 61.9 |
| Receivables | 364,715 | 8.9 | 498,804 | 12.7 |
| **Total** | **4,083,887** | **100.0** | **3,915,902** | **100.0** |

As at the end of 2012, the Group held RMB1,753,318 million of financial bonds[1], including RMB1,587,949 million of policy bank bonds and RMB165,369 million of bonds issued by banks and non-bank financial institutions, accounting for 90.6% and 9.4% of financial bonds, respectively.

**TOP 10 FINANCIAL BONDS HELD BY THE GROUP**

In RMB millions, except for percentages

| Debt securities | Nominal value | Annual interest rate | Maturity date | Impairment loss |
|---|---|---|---|---|
| Policy bank bonds 2006 | 20,000 | 3.26% | 7 December 2013 | – |
| Policy bank bonds 2010 | 19,410 | 3.60% | 3 February 2015 | – |
| Policy bank bonds 2007 | 18,170 | 5.07% | 29 November 2017 | – |
| Policy bank bonds 2008 | 16,700 | 4.83% | 4 March 2015 | – |
| Policy bank bonds 2008 | 14,170 | 4.95% | 11 March 2018 | – |
| Policy bank bonds 2011 | 13,480 | 4.49% | 25 August 2018 | – |
| Policy bank bonds 2010 | 11,390 | 3.97% | 20 January 2017 | – |
| Policy bank bonds 2007 | 11,380 | 4.94% | 20 December 2014 | – |
| Policy bank bonds 2010 | 11,050 | 3.51% | 27 July 2020 | – |
| Policy bank bonds 2011 | 10,840 | 4.68% | 26 September 2016 | – |

## Due from Banks and Other Financial Institutions

Due from banks and other financial institutions was RMB636,450 million, representing an increase of RMB158,448 million or 33.1% from the end of the previous year. The increase in due from banks and other financial institutions was mainly because the Bank strengthened the effort in fund operation to enhance the fund use efficiency.

## Reverse Repurchase Agreements

Reverse repurchase agreements were RMB544,579 million, representing an increase of RMB195,142 million or 55.8% from the end of the previous year. This was mainly because the Bank's funds at the end of the reporting period was sufficient, and the Bank lent funds to the market through bonds under reverse repurchase agreements.

## Liabilities

As at the end of 2012, total liabilities of the Bank amounted to RMB16,413,758 million, representing an increase of RMB1,894,713 million or 13.0% from the end of the previous year.

**LIABILITIES**

In RMB millions, except for percentages

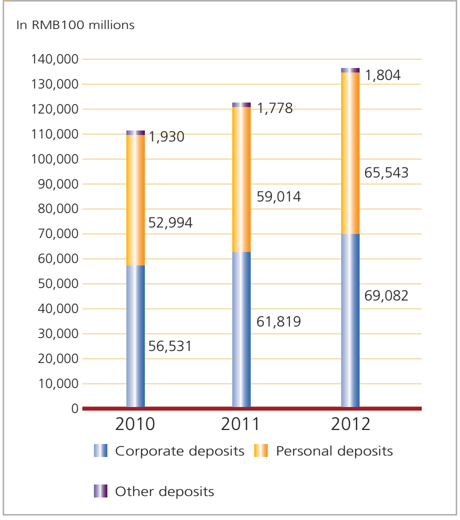
| | At 31 December 2012 | | At 31 December 2011 | |
|---|---|---|---|---|
| Item | Amount | Percentage (%) | Amount | Percentage (%) |
| Due to customers | 13,642,910 | 83.1 | 12,261,219 | 84.5 |
| Due to banks and other financial institutions | 1,486,805 | 9.1 | 1,341,290 | 9.2 |
| Repurchase agreements | 237,764 | 1.4 | 206,254 | 1.4 |
| Debt securities issued | 232,186 | 1.4 | 204,161 | 1.4 |
| Others | 814,093 | 5.0 | 506,121 | 3.5 |
| **Total liabilities** | **16,413,758** | **100.0** | **14,519,045** | **100.0** |

1 Financial bonds refer to the debt securities issued by financial institutions on the bond market, including bonds issued by policy banks, banks and non-bank financial institutions but excluding debt securities related to restructuring and central bank bills.

## Due to Customers

Customers' deposits are the Bank's main source of fund. In 2012, the Bank fully exerted its comprehensive advantage in financial service, enhanced the deposit market competitiveness by strengthening overall cooperation and coordination, actively expanded new markets and new customers, and exercised differentiated management on interest rate of deposits, in order to promote a continuous and steady growth in deposits business. As at the end of 2012, the balance of due to customers was RMB13,642,910 million, representing an increase of RMB1,381,691 million or 11.3% when compared to the end of the previous year. In terms of customer structure, the balance of corporate deposits increased by RMB726,300 million or 11.7%; and personal deposits increased by RMB652,850 million or 11.1%. In terms of maturity structure, the balance of time deposits increased by RMB968,891 million or 17.0%, while the balance of demand deposits increased by RMB410,259 million or 6.4%.

Composition of Due to Customers




### DISTRIBUTION OF DUE TO CUSTOMERS BY BUSINESS LINE

In RMB millions, except for percentages

| Item | At 31 December 2012 Amount | At 31 December 2012 Percentage (%) | At 31 December 2011 Amount | At 31 December 2011 Percentage (%) |
|---|---|---|---|---|
| **Corporate deposits** | | | | |
| Time deposits | 2,915,072 | 21.4 | 2,364,558 | 19.3 |
| Demand deposits | 3,993,173 | 29.3 | 3,817,387 | 31.1 |
| **Subtotal** | **6,908,245** | **50.7** | **6,181,945** | **50.4** |
| **Personal deposits** | | | | |
| Time deposits | 3,754,118 | 27.5 | 3,335,741 | 27.2 |
| Demand deposits | 2,800,169 | 20.5 | 2,565,696 | 20.9 |
| **Subtotal** | **6,554,287** | **48.0** | **5,901,437** | **48.1** |
| **Other deposits(1)** | **180,378** | **1.3** | **177,837** | **1.5** |
| **Total** | **13,642,910** | **100.0** | **12,261,219** | **100.0** |

Note: (1) Includes outward remittance and remittance payables.

### DISTRIBUTION OF DUE TO CUSTOMERS BY GEOGRAPHIC AREA

In RMB millions, except for percentages

| Item | At 31 December 2012 Amount | At 31 December 2012 Percentage (%) | At 31 December 2011 Amount | At 31 December 2011 Percentage (%) |
|---|---|---|---|---|
| Head Office | 116,069 | 0.9 | 144,770 | 1.2 |
| Yangtze River Delta | 2,873,019 | 21.1 | 2,614,237 | 21.3 |
| Pearl River Delta | 1,801,666 | 13.2 | 1,609,536 | 13.1 |
| Bohai Rim | 3,430,503 | 25.1 | 3,085,768 | 25.2 |
| Central China | 1,931,610 | 14.2 | 1,727,284 | 14.1 |
| Western China | 2,272,311 | 16.6 | 1,981,823 | 16.2 |
| Northeastern China | 858,125 | 6.3 | 786,509 | 6.4 |
| Overseas and others | 359,607 | 2.6 | 311,292 | 2.5 |
| **Total** | **13,642,910** | **100.0** | **12,261,219** | **100.0** |

**DISTRIBUTION OF DUE TO CUSTOMERS BY REMAINING MATURITY**

In RMB millions, except for percentages

| Remaining maturity | At 31 December 2012 Amount | At 31 December 2012 Percentage (%) | At 31 December 2011 Amount | At 31 December 2011 Percentage (%) |
|---|---|---|---|---|
| Demand[1] | 7,076,646 | 51.9 | 6,660,720 | 54.4 |
| Less than 3 months | 2,041,502 | 15.0 | 1,896,819 | 15.5 |
| 3–12 months | 2,964,264 | 21.7 | 2,615,102 | 21.3 |
| 1–5 years | 1,533,049 | 11.2 | 1,071,244 | 8.7 |
| Over 5 years | 27,449 | 0.2 | 17,334 | 0.1 |
| **Total** | **13,642,910** | **100.0** | **12,261,219** | **100.0** |

Note: (1) Includes time deposits payable on demand.

In terms of the currency structure, the balance of RMB deposits amounted to RMB13,076,332 million, which accounted for 95.8% of the total balance of due to customers, representing an increase of RMB1,247,081 million or 10.5% as compared to the end of the previous year. The balance of foreign currency deposits was equivalent to RMB566,578 million, representing an increase of RMB134,610 million or 31.2%, mainly because RMB exchange rate fluctuated increasingly in both directions since 2012, the Bank further improved the competitiveness of its foreign exchange business through enhancing its foreign exchange pricing capability to achieve relatively rapid growth in foreign exchange deposits.

## Due to Banks and Other Financial Institutions

Due to banks and other financial institutions was RMB1,486,805 million, representing an increase of RMB145,515 million or 10.8% as compared to the end of the previous year, mainly to ensure stability in the Bank's source of fund, and its active absorption of short-term inter-bank deposits, thereby supporting the development of each asset business effectively.

## Debt Securities Issued

The balance of debt securities issued amounted to RMB232,186 million, representing an increase of RMB28,025 million or 13.7% from the end of the previous year. This was mainly because the Bank issued RMB-denominated subordinated bonds in the amount of RMB20.0 billion in June 2012. For particulars of subordinated bonds issued by the Bank and its subsidiaries, please refer to "Note 38. to the Financial Statements: Debt Securities Issued".

## Shareholders' Equity

As at the end of 2012, shareholders' equity amounted to RMB1,128,459 million in aggregate, representing an increase of RMB170,636 million or 17.8% as compared to the end of the previous year. Equity attributable to equity holders of the parent company amounted to RMB1,124,997 million, representing an increase of RMB168,255 million or 17.6%. Please refer to the "Financial Statements: Consolidated Statement of Changes in Equity" for details.

**SHAREHOLDERS' EQUITY**

In RMB millions

| Item | At 31 December 2012 | At 31 December 2011 |
|---|---|---|
| Share capital | 349,620 | 349,084 |
| Equity component of convertible bonds | 2,708 | 2,954 |
| Reserves | 400,128 | 291,370 |
| Retained profits | 372,541 | 313,334 |
| **Equity attributable to equity holders of the parent company** | **1,124,997** | **956,742** |
| **Non-controlling interests** | **3,462** | **1,081** |
| **Total shareholders' equity** | **1,128,459** | **957,823** |

For details of off-balance sheet items, please refer to "Note 47. to the Financial Statements: Commitments and Contingent Liabilities".

# BUSINESS OVERVIEW

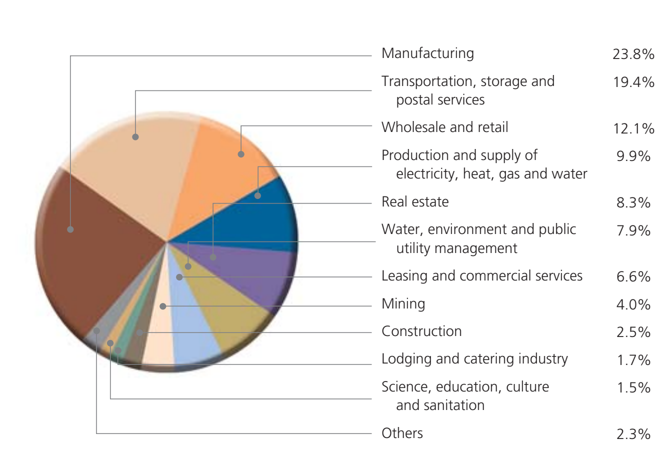
## Corporate Banking

In 2012, the Bank continued to advance the transformation of corporate banking, kept optimizing the business structure and effectively adapted itself to the interest rate marketization, to realize sustainable development of corporate banking. The Bank introduced all-product marketing and comprehensive financial services and promoted interaction between commercial banking and investment banking, so as to satisfy customers' diversified financial needs. It also enhanced business innovation and boosted the development of financial assets services such as asset management, entrusted management, agency trade, underwriting and consultancy, agency sales, etc. Relying on the global service network and the integrated technological platform of domestic and overseas operations, the Bank accelerated the development of global cash management and cross-border RMB business, and enhanced its global service capability and its brand's international influence. Through innovation of the marketing system, the Bank provided differentiated services for customers at different tiers, enhanced the marketing and service quality for key customers, and expanded the customer base by winning over more small and medium enterprise (SME) customers. The Bank was awarded the "Best Corporate Bank in China" by *Global Finance*. At the end of 2012, the Bank had 4.38 million corporate customers, representing an increase of 270 thousand customers from the end of the previous year; among them, 143 thousand corporate customers had loan balances with the Bank, representing an increase of 16 thousand customers. According to statistics from PBC, at the end of 2012, the Bank ranked first in the banking industry in terms of corporate loans and corporate deposits, with a market share of 11.8% and 12.6%, respectively.

### Corporate Deposits and Loans

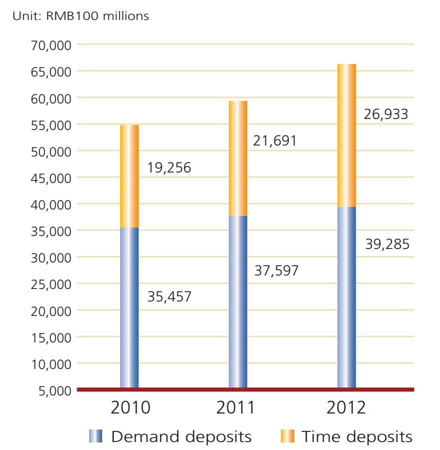
In response to changes in the macroeconomic environment, the Bank optimized the distribution of lending and further adjusted the credit structure for steady and healthy development of the credit business. It proactively provided support for the real economy, satisfied funding needs of key national investment projects under construction and continuing construction, extended more loans to Central and Western China and Northeastern China and vigorously expanded its businesses in the four new markets of advanced manufacturing, modern service industry, cultural industries and strategic emerging industries. The Bank also strengthened management of lending to local government financing vehicles (LGFVs) and controlled loans to the real estate industry and industries with high energy consumption, high pollution and overcapacity, and gave financial support to all kinds of major energy-

Breakdown of Corporate Loans by Industry




Note: Domestic operations data

Growth of Corporate Deposits




Note: Domestic operations data

conserving and emission-reduction projects. It also enhanced product innovation and accelerated the development of high-profit and capital-saving loan products. The Bank promoted financing to the supply chain of enterprises to drive the development of SMEs credit business. Besides, it actively engaged in syndicated loan business and won the "Best Performance Award" and "Best Deal Award" by China Banking Association. In addition, the Bank stepped up its efforts to compete for major group customers and industrial leaders, and look for new customers among core enterprises and upstream and downstream SMEs of supply chains, in a bid to realize balanced growth of large, medium and small customers with high quality. At the end of 2012, the balance of domestic corporate loans reached RMB5,844,835 million, representing an increase of RMB629,230 million or 12.1% over the end of the previous year.

In response to challenges posed by the liberalization of interest rates, the Bank leveraged on its advantages in integrated financial services such as corporate wealth management, cash management, E-banking and assets custody to sharpen its market competitiveness in corporate deposits business. The Bank, based on its advantages in customer resources and service networks, explored new customers in the upstream and downstream of industrial chains to expand its customer base and to absorb and accumulate customers' funds. At the end of 2012, the balance of domestic corporate deposits amounted to RMB6,621,725 million, representing an increase of RMB692,976 million or 11.7% from the end of the previous year.

## Small and Medium Enterprise Business

In conformity with government's support to the development of SMEs, the Bank was dedicated to providing professional, efficient and convenient financial services to SME customers. The Bank served SME customers in an all-round manner by building an independent system of small enterprise credit policies, process and products and giving priority to credit resource allocation in this regard. The Bank promoted its specialized operations, bringing the number of small enterprise franchised institutions providing financial services to over 1,400 and the number of employees qualified for SME credit business to 35 thousand. It also accelerated the application of new products and propelled the promotion of exclusive financing products such as small business revolving loans, online revolving loans and standard plant mortgage loans to meet diverse financing needs of small enterprise customers. In addition, the Bank offered financing services to supply chains surrounding core enterprises, and provided financial solutions to small and micro enterprises in specialized markets and industrial clusters, so as to expand the customer base. Moreover, it strengthened management over entrusted payment of lending funds, and strictly controlled small enterprise credit risk to ensure the sound development of small enterprise credit business. The Bank was awarded by China Association of Small and Medium Enterprises as "Excellent Service Organization for SMEs". At the end of 2012, the balance of loans to domestic small (micro) and medium-sized enterprises was RMB4,231,203 million, representing an increase of 15.2% from the end of the previous year, among which the balance of loans to medium-sized enterprises was RMB2,391,127 million and that to small and micro enterprises was RMB1,840,076 million, up by 20.7% and 8.9%, respectively.

**LOANS TO DOMESTIC SMALL (MICRO) AND MEDIUM-SIZED ENTERPRISES**

In RMB millions, except for percentages

| | At 31 December 2012 | | At 31 December 2011 | |
|---|---|---|---|---|
| Item | Amount | Percentage (%) | Amount | Percentage (%) |
| **Loans to small (micro) and medium-sized enterprises** | **4,231,203** | **51.1** | **3,671,696** | **50.2** |
| Of which: Medium-sized enterprises | 2,391,127 | 28.9 | 1,981,619 | 27.1 |
| Small and micro enterprises | 1,840,076 | 22.2 | 1,690,077 | 23.1 |

Note: The percentage refers to the proportion of loans of domestic branches. Loans to small and micro enterprises include personal business loans.

## Institutional Banking

The Bank carried out the strategy of "all-institutional banking" to enhance the sustainable development capacity of institutional banking. It intensified its efforts in financially serving people's livelihood, promoted its comprehensive financial services solutions, and accelerated the building of comprehensive service management system for social insurance and housing allowance. It won the bid for "2013–2014 banking agency collection for non-tax items under central finance", maintaining its leading position in the number of newly opened accounts for nontax collection. The number of financial social security IC cards increased by 1.6 times over the previous year and the number of business cards to central budget units rose by 37.8%. The Bank also promoted inter-bank cooperation and propelled development of such businesses as RMB financing, payment and settlement agency, foreign exchange clearing, international settlement and trade finance, increasing the number of contracted customers of the bank-to-bank platform by 100 to 271, and increasing the number of domestic correspondent banks by 25 to 141. In addition, with reference to new policies and regulations governing the capital market, the Bank strengthened its innovative cooperation with securities companies to level up its service quality, and both the number of customers and the volume of funds involved in third-party depository maintained a leading position among peers. Besides, the Bank conducted comprehensive marketing to issuance companies, to reinforce all-round cooperation in bancassurance, payroll payment agency service, assets custody, cash management and other fields.

## Settlement and Cash Management

The Bank continued to promote its "E Express for Capital Verification" to expand its customer base. It adopted the strategies of cluster marketing and chain marketing to consolidate the size of customer base and optimize customer structure. The Bank also upgraded the functions of "Caizhi Account" cards, corporate self-service machines and other products, and introduced new businesses like "deposits automatic transfer", to enhance the brand influence of "Caizhi Account" and expand the scale of settlement business. At the end of 2012, the Bank had 5.36 million corporate settlement accounts and the volume of corporate RMB settlement had reached RMB1,446 trillion, enabling the Bank to maintain its position as a market leader.

The Bank expanded the coverage of cash management products and services, and promoted high-end cash management services such as Collection Manager, bill pool and fund pool, raising its competitive edge in the cash management market. It also improved the business procedures for cash management to lift the business efficiency. Besides, it conducted cluster marketing to the manufacturing industry and service industry to expand the customer base. With increasingly stronger market influence of cash management business, the Bank won the "Best Large Corporate/MNC Treasury & Working Capital Bank (China)" by *The Asset*, and the "Leading Counterparty Bank in Asia Pacific" and the "Best Cash Management Bank in China" by *The Asian Banker*. At the end of 2012, the Bank had 813 thousand cash management customers, representing an increase of 23.0% from the end of the previous year.

## International Settlement and Trade Finance

Leveraging on the Bank's advantages in local and foreign currency resources and close interaction between domestic and overseas branches, the Bank improved its product portfolios integrating financing, settlement, wealth management and trading, to enhance its services to import and export enterprises. It also provided import advance payment financing and export order financing to diversify the international trade finance product line. Accommodating to the trend of industrial movement, the Bank intensified its financial support to international trade finance in Central and Western China and Northeastern China, so as to optimize the regional structure of the business. Moreover, it continued to advance the intensive operation of international settlement and trade finance and put into operation all document processing center systems in domestic and overseas institutions, accumulatively completing business centralization of international settlement documents and trade finance in 39 domestic institutions and 34 overseas institutions. In 2012, domestic branches disbursed an aggregate of USD146.1 billion in international trade finance, representing an increase of 52.2% from last year. The transaction volume of international settlement reached USD1,925.2 billion, representing an increase of 25.8%, of which USD534.3 billion was processed by overseas institutions.

### Investment Banking

The Bank carried on with promoting the synergy between investment banking and commercial banking, expanded equity financing, restructuring and M&A, structured financing, bond underwriting and other investment banking services. Seizing opportunities created by additional private placement of listed companies, mezzanine financing of key customers and initial public offering of large central enterprises, the Bank improved its equity financing product line consisting of equity investment funds as lead bank, enterprise listing advisory and private equity advisory, to meet enterprises' equity financing needs. It made use of its advantages in "financing + consulting" comprehensive restructuring and M&A service mode to promote the M&A and integration of domestic coal industry and improve its capacity in cross-border M&A operation. Besides, the Bank broadened non-credit financing channels for enterprises and innovated and developed such new products as debt restructuring and overseas greenfield investment consulting, to improve the quality of its financial consulting service. The Bank enriched the investment banking R&D products system, broadened channels for electronic investment banking and improved the quality of advisory service. It also expanded its bond underwriting business and underwrote RMB348.6 billion worth of debt financing instruments in 2012. Given the ever-increasing influence of its investment banking brand, the Bank was awarded the "Best Bank in Investment Banking" by *Securities Times* for four consecutive years. In 2012, the investment banking income was RMB26,117 million, representing an increase of 15.6% from the previous year.

### Asset Custody Services

The Bank actively responded to the prior downturn of the capital markets, intensified its business innovation and consolidated its leading market position. It vigorously developed fund custody products with fixed income, and successively launched several new fund custody products, including innovative wealth management bond funds, the first cross-market ETF and the first initiating fund. With an increase of 30.5% in fund custody scale compared with the end of the previous year, it maintained its position as a market leader. The Bank intensified marketing to key insurance companies, making the number of insurance custody customers exceed 70 and the insurance assets under its custody increase steadily. Its global custody business maintained strong momentum and the number of QFII customers ranked first among Chinese-funded banks and the QDII asset size under its custody topped the custody market. In addition, the Bank strengthened cooperation with asset management institutions to promote "Custody Wealth Management", bill custody, futures asset custody and other services, so that the structure of custody business can be optimized. The Bank was recognized as the best custodian bank in China by renowned financial journals twice in a row, including the *Global Custodian*, *Global Finance* and *The Asset*, further improving its brand impact. At the end of 2012, the total net value of assets under the Bank's custody reached RMB3,955.3 billion, representing an increase of 12.0% from the end of the previous year.

### Pension Services

Relying on its market advantages in complete business qualifications and rich service experience, the Bank accelerated its expansion of the pension market to increase its business scale. It worked out customized enterprise annuity service schemes based on customer needs to improve the service capacity to large corporate customers. The Bank promoted integrated enterprise annuity schemes such as the "Ruyi Pension Management" to expand the enterprise annuity market of SMEs. It also introduced a series of welfare schemes and pension management products named "Ruyi Life" to meet the welfare fund management needs of employees from enterprises and public institutions. At the end of 2012, the Bank provided pension management services for 34,140 enterprises, representing an increase of 4,716 from the end of the previous year; the pension funds under the Bank's trusteeship amounted to RMB51.2 billion; the Bank managed 11.68 million individual pension accounts, and the pension funds under the Bank's custody totaled RMB229.3 billion. The Bank led the market in terms of the scale of enterprise annuity funds under the Bank's trusteeship, number of individual enterprise annuity accounts and enterprise annuity funds under the Bank's custody.

### Precious Metal Business

In the face of fluctuations of the precious metal market, the Bank proactively adjusted its business structure and diversified its products to promote continuously steady growth in precious metal business. It innovatively introduced industrial chain gold leasing business and provided customers with forward swap services, to help customers lock out leasing risks and thereby promote rapid development of financing business. Giving play to its advantages in gold storage business, the Bank explored new functions such as universal storage and withdrawal and conversion extension to realize sustained growth of gold storage business. Besides, the Bank accelerated innovation in physical precious metal products, introduced 115 new products including precious metal products of culture series, to satisfy customers' needs in investment, collection, maintenance and appreciation of values of precious metal. The Bank improved the functions of trading systems, and introduced deferred trading to corporate customers, realizing two-way trading and AIP trading of Paper Precious Metals. In 2012, the total amount of precious metal business reached RMB1.09 trillion. The Bank cleared RMB254.6 billion on behalf of Shanghai Gold Exchange, maintaining the leading position among peers.

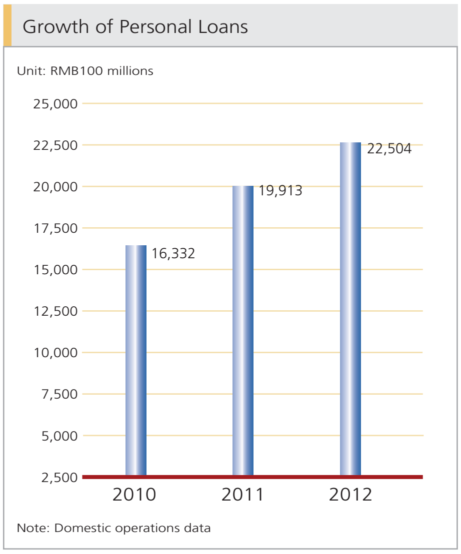
## Personal Banking

In 2012, in face of challenges brought about by fierce competition of the banking sector and interest rate marketization, the Bank continued to carry out its "strong personal banking" strategy to advance the transformation of personal banking operation. Targeting at new markets and new customers, public and private departments of the Bank jointly conducted cluster marketing to develop commodity trading market and explore such livelihood fields as social insurance, health care and transportation. Relying on its ICBC Business Friendship Club and Celebrity Wealth Management Club, the Bank created new marketing channels and expanded its business scale. In addition, the Bank continued to upgrade its service channels, put more self-service machines into operation and broadened the commodity trading market and the service channels of major county regions. Centering on the star service system for personal customers, the Bank stepped up efforts in the building of a marketing service team, accelerated the transformation of customer service mode and improved its ability in identifying and obtaining new quality customers. What's more, the Bank accelerated product innovation and enhanced the competitive edge of personal banking business, securing its leading position among peers in terms of savings deposits, personal loans, banking wealth management and credit card business. The Bank was awarded the "Best Retail Bank in China" by The *Asian Banker* twice in a row. At the end of 2012, the Bank had 393 million personal customers, including 7.79 million personal loan customers, representing an increase of 30.53 million and 400 thousand from the end of the previous year, respectively. According to statistics from PBC, as at the end of 2012, the Bank ranked first in the industry in terms of both the size of savings deposits and personal loans, with a market share of 16.3% and 13.9% respectively.

### Savings Deposits

The Bank further promoted coordinated marketing of corporate banking and personal banking, explored source markets and expanded customer base by focusing on payroll payment agency service and commodity trading market business, which helped to consolidate the basis for savings deposits growth. Adapting to interest rate liberalization, the Bank enhanced refined management of interest rates, reasonably determined the deposit interest rates and pricing of wealth management products, attracted and retained customers with quality wealth management products, and promoted orderly circulation of customer funds in the Bank's system, realizing the coordinated development of savings deposits and wealth management business. The Bank also accelerated the construction of new outlets in key counties, quickened self-service machine installation and broadened the service channels to extend the service coverage. At the end of 2012, the balance of the Bank's domestic savings deposits amounted to RMB6,481,891 million, representing an increase of RMB638,032 million or 10.9% from the end of the previous year, of which demand savings deposits increased by 8.8% and time savings deposits increased by 12.6%.

## Personal Loans




The Bank implemented differentiated housing credit policy to support the credit needs of the borrowers eligible for first personal housing and improvement housing mortgage and propelled steady growth in personal housing loans. Adapting to new consumption needs, the Bank accelerated product innovation and upgrading, promoted public consumption loans, including household consumption loans, personal cultural consumption loans, and personal overseas study loans. It also introduced Personal Business Loan of Small Amounts of Money to meet small-amount financing needs of personal business activities, and promoted personal business loans for key commodity trading markets. For investment and wealth management customers, the Bank also introduced pledged loans of Paper Precious Metals and Internet banking pledged loans of wealth management products to meet new types of financing needs of customers. Moreover, the Bank enhanced the ICBC Brand of Happy Loan consisting of personal housing loans, personal consumption loans and personal business loans. At the end of 2012, domestic personal loans amounted to RMB2,250,410 million, representing an increase of RMB259,139 million or 13.0% from the end of the previous year, of which, personal housing loans increased by RMB148,217 million or 12.6%, and personal business loans increased by RMB51,978 million or 19.7%.

## Personal Wealth Management

Based on customer needs, the Bank intensified innovation in wealth management products and optimized product structure to maintain its leading position in the market. The Bank diversified its exclusive banking wealth management products and optimized the customized wealth management product mechanism to enhance its differentiated customer services and expand personal wealth management services in commodity trading markets and economically developed regions. In addition, the Bank strengthened cooperation with asset management institutions, conducted agency sales for several new fund products, kept the preferential fees for fund acquisition via E-banking channels and distributed RMB761.4 billion worth of funds, leading its peers in the banking industry. Moreover, the Bank leveraged on the stable return of government debts to explore the market of customers with low risk appetite and conducted agency sales of RMB60 billion worth of government debts, securing its leading market position. It also reinforced marketing of insurance products, organized many special marketing campaigns and conducted agency sales of RMB86 billion worth of personal insurance products, ranking No.1 among peers. In 2012, sales of various personal wealth management products amounted to RMB4,670.6 billion, representing an increase of 12.9% compared with the previous year, of which agency sales of personal banking wealth management products increased by 57.3% to RMB907.4 billion.

Relying on the star-class services for personal customers, the Bank picked up speed in expanding Elite Club Account customers and enhanced the image of Elite Club Brand. By bringing into play the leading technological advantages of chip card business, the Bank promoted the chip cards of Elite Club Accounts to improve its customer service quality, and it promoted cross-selling of products to increase the number of high-net-worth individual customers using its core products. The Bank also built a high quality service team and enhanced its service capability to provide on-stop package services for wealthy customers. The number of employees with certificates of Associate Financial Planner (AFP) and Certified Financial Planner (CFP) was 21,425 and 3,533 respectively, securing the leading position in the banking industry. At the end of 2012, the number of Elite Club Account customers and wealthy customers stood at 20.42 million and 4.02 million respectively, representing an increase of 35.9% and 5.0% compared with the end of the previous year respectively.

## Private Banking

The Bank provided high-net-worth customers with RMB8 million or more personal financial assets with private banking services including financial management, asset management, consulting, private wealth accumulation and cross-border financing. In 2012, the Bank quickened its service network expansion for private banking, and apart from the ten private banking branches, the Bank accumulatively established 26 private banking centers, making the business gradually cover all national markets of high-end customers. It also proactively expanded the overseas business, and established the Private Banking Center (Europe) in Paris to improve its cross-border financial assets management and services. The Bank integrated quality resources across the whole bank to enrich the exclusive product line of private banking, providing private banking customers with financial services integrating investment and financing in public and private sectors at home and abroad. The Bank was awarded the title of the best private banking in China by *Euromoney* and *Asia Banker*, respectively. At the end of 2012, the Bank had a pool of over 26 thousand private banking customers and managed RMB473.2 billion worth of assets.

## Bank Card Business

In 2012, the Bank boosted product innovation and service upgrading in terms of its bank card business and accelerated expansion of new markets, further consolidating its leading position in the banking industry. At the end of 2012, the Bank had issued approximately 470 million bank cards, an increase of 56.30 million cards from the end of the previous year. Annual consumption volume of bank cards stood at RMB4,131.4 billion, representing an increase of 29.0% from the previous year. Income from bank card business amounted to RMB23,494 million, representing an increase of 36.1%.

### ◆ *Credit Card Business*

The Bank issued five types of cards, namely transportation card, business card, CNPC refueling card, housing fund card and co-brand air travel card, and expanded the volume of card issuance. It strengthened marketing to group merchants to increase the proportion of merchants with high turnover, high trading volume and high income and quicken the growth of acquiring business. Taking advantage of the trend of new consumption industries, the Bank strengthened its advantages in installment payment for cars, and promoted credit card payment for consumption in household electrical appliances, general merchandises, education, travel and culture, to meet citizens' needs in consumption financing and promote the sustainable growth of credit card payment business. Based on market demand, the Bank innovatively introduced Multi-currency ICBC Credit Card, ICBC QuickPay Card, ICBC Money Fund Credit Card and other products to enrich its credit card product line. The Bank was the first to launch ICBC-AE Centurion Black Card in China to meet customers' needs for customized high-end services. The Bank also extended the service contents of SMS banking to cover statement of account inquiry, transaction detail inquiry and automatic repayment activation. The Bank won the titles of "Best Credit Card Bank in China" granted by *Global Finance* and "Comprehensive Model Award" and "Excellent Service Award" given by China Banking Association. At the end of 2012, 77.13 million credit cards were issued, representing an increase of 6.48 million from the end of the previous year; the consumption volume stood at RMB1,302.6 billion, representing an increase of 33.4% from the previous year; the balance of domestic personal credit card overdrafts amounted to RMB241,425 million, representing an increase of RMB63,625 million or 35.8%. The Bank led the peers in terms of volume of cards issued, consumption volume and overdrafts.

◆ *Debit Card Business*

Focusing on the issuance of co-brand debit cards, the Bank intensified industry cooperation and joint marketing to attract new customers and expand the volume of card issuance. It reinforced innovation of chip cards and launched the first single chip debit card, the first chip debit card with eID function and the first precious metal series debit card in China and other new products, maintaining its leading market position. It accelerated the promotion of chip cards, extended the product line of chip cards and propelled the rapid growth of the issuance volume of chip cards. In addition, the Bank seized the market opportunities to carry out many promotion activities for card-based consumption to expand the amount of payment by cards. At the end of 2012, 390 million debit cards were issued, representing an increase of 49.82 million from the end of the previous year. Debit card consumption amounted to RMB2,828.8 billion in 2012, representing an increase of 27.0% from the previous year.

| Item | At 31 December 2012 | At 31 December 2011 | Growth Rate (%) |
|---|---|---|---|
| Issued bank cards (unit: 10,000) | 46,886 | 41,256 | 13.6 |
| Debit cards | 39,173 | 34,191 | 14.6 |
| Credit cards | 7,713 | 7,065 | 9.2 |
| | 2012 | 2011 | Growth Rate (%) |
| Consumption Volume (in RMB100 millions) | 41,314 | 32,034 | 29.0 |
| Average consumption volume per card [(1)] (in RMB yuan) | 9,354 | 8,240 | 13.5 |

Note: (1) Average consumption volume per card = Consumption volume during the reporting period/Average monthly cards issued during the reporting period.

## Treasury Operations

In 2012, the Bank, facing complex financial environment, aimed at enhancing its profitability and achieved sound development of asset size and performance through active product innovation, timely adjustment of investment and trading strategies, optimization of capital operation, improvement of business management level and prevention of business risks.

### Money Market Activities

In 2012, interest rate in the money market rose first and then declined, posting an overall slight decrease. Considering the needs of liquidity management, the Bank carried out capital operation flexibly based on improved predictions on the market trends. In terms of capital borrowing, the Bank leveraged its leading market position to reduce borrowing costs, thereby ensuring the liquidity security and maintaining a reasonable cash reserve ratio. In terms of capital lending, the Bank timely adjusted the financing term, proactively expanded capital lending channels and enlarged the financing customer base, so as to increase yield on capital lending. In 2012, domestic operations of the Bank traded RMB21.90 trillion, of which lending amounted to RMB13.42 trillion, taking the first place in the market in terms of trading amount.

In respect of foreign currencies, the tension of liquidity on onshore market was relieved. The Bank strengthened the position management for foreign exchange funds and set aside funds to cope with large amount payment, to ensure sufficient supply of foreign exchange payment. It also arranged term structure rationally and appropriately lengthened terms of inter-bank lending and borrowing to improve the yield. In addition, the Bank closely observed market developments and selected counterparties prudently to mitigate credit risk. In 2012, the Bank's foreign exchange transaction volume in money markets amounted to USD291.8 billion.

### Trading Book Business

In 2012, indicators in the RMB bond market witnessed an upward trend in general. Under the strategies of duration control and market timing, the Bank adjusted positions flexibly based on interest rate trends. Amid the higher interest rate at the beginning of the year, the Bank appropriately expanded the exposure of trading book bonds; amid the downward interest rate, the Bank employed the strategy of cutting its holding and reduced the duration of bond portfolios in trading book and thus realized income from bond interest rate spread. The Bank also strictly controlled the general position of interest rate swaps to mitigate fluctuations in the losses and gains of interest rate swap business. In the year, the transaction volume of RMB bonds in trading book was RMB311.7 billion.

In respect of foreign currencies, the yields on government bonds of major developed economies tended to stabilize at a low level. Seizing the opportunities of market fluctuations, the Bank conducted short-term trading, mainly in US government bonds, and it strictly controlled trading risks, while achieving an aggregate transaction volume of USD8.2 billion of foreign currency bond in trading book.

### Banking Book Investment

In 2012, the bond yield curve showed remarkable changes in different stages, and in general it presented a flatly upward trend. The Bank rationally arranged the timing of investment based on its further study on the market trend. It made more bond investments in the first and fourth quarters when the yield was high to increase the yield on the investment portfolios. The Bank insisted on higher value investing, arranging durations of bonds reasonably, and investing in medium and short-term bonds with higher value when the yield curve showed a flat trend. It increased investment in policy financial bonds and quality corporate bonds and increased the proportion of debentures to optimize the structure of investment portfolio.

In respect of foreign currencies, the continuing sovereign debt crisis in Europe gave rise to severe turbulence in international financial markets. The Bank proactively adjusted the investment variety and structure and seized good opportunities to increase its holdings of financial institution bonds and overseas USD bonds of Chinese-funded enterprises to improve yield on investment portfolios. Besides, it also reinforced regional management of investment, and increased its investment in products in the United States, South Korea, Australia and other regions, so as to enhance portfolio security.

### Franchise Treasury Business

The Bank expanded its franchise treasury product line to enhance market competitiveness. It began to engage in foreign exchange trading in personal account, two-way personal foreign exchange trading, corporate Internet banking foreign exchange trading and other new businesses. The franchise foreign exchange trading volume (excluding Paper Precious Metals) reached USD52 billion, representing an increase of 52.0% compared with the previous year. Grasping opportunities brought by more flexible RMB exchange rates, the Bank increased the promotion of foreign exchange purchase and sales, introduced such products as RMB foreign exchange option portfolio and portfolio of RMB foreign exchange option with trade finance and engaged in foreign exchange trading in emerging markets, including Thai Baht, Philippine Peso and South Africa Rand. In 2012, the volume of franchise foreign exchange purchase and sales amounted to USD427.1 billion, representing an increase of 11.8% compared with the previous year. With the basis on standard hedging exchange rate and interest rate risk management products, the Bank conducted foreign exchange derivatives business and upgraded functions of the trading systems to enhance the service quality of foreign exchange derivatives business and promote steady development of franchise derivatives business.

### Bill Business

In 2012, closely tracking the market trends, the Bank intensified its inputs in bill business. It proactively supported enterprises by discounting bills, to satisfy their financing needs and serve the development of the real economy. It also increased the number of SME customers of discounted bills, expanded the customer base for discounted bills and continued to improve the customer structure. Besides, the Bank increased the bill purchase and sales frequency, accelerated the turnover of bill business and enhanced the efficiency and profitability of bill trading. It also vigorously developed electronic commercial bill business and optimized the structure of bill products. In addition, the Bank improved the asset quality of bills and strictly controlled business risks to ensure sustained and healthy development of the bill business. In 2012, the trading volume of bill business was RMB1,871.4 billion, representing an increase of 35.9% compared with the previous year.

### Wealth Management Business

Based on the market trend, the Bank strengthened product and business innovation to meet the investment needs of customers. It segmented the personal customer markets, providing commodity market customers with exclusive wealth management product "Merchant Friend Wealth", offering exclusive wealth management products "New Outlets" to newly-established outlets and conducting issuance specific to the regions with high wealth management demands, such as the Yangtze River Delta and Pearl River Delta. The Bank strived to provide corporate customers with tailored wealth management services by combining pooled products and special account wealth management. It introduced several series of "profit-gaining" wealth management products with different terms, increased the redemption proportion of T+0 wealth management products and shortened the time for fund transfer of wealth management products to improve fund utilization efficiency of customers. It also broadened the sales channels of wealth management products, made online sales available for all products and sold wealth management products through mobile banking. In addition, the Bank timely and accurately disclosed information on wealth management products, guaranteed investors' right to know, so as to ensure sound and healthy development of wealth management business. The Bank was awarded the "Best Asset Management Bank" by *Global Entrepreneur*. In 2012, the total sales of banking wealth management products amounted to RMB5,916.5 billion, of which the sales of personal wealth management products and corporate wealth management products was RMB3,763.2 billion and RMB2,153.3 billion, respectively.

## Distribution Channels

### Domestic Branch Network

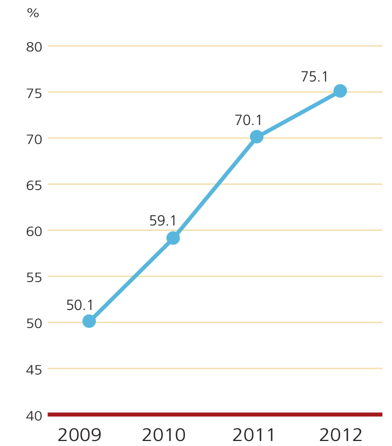
In 2012, centering on customer services, the Bank continued to pushed forward the channel optimization. It rationally expanded the channels and network in fast-developing new urban areas and emerging cities, and established and put into operation 433 new outlets in the year. The Bank stepped up the reconstruction of outlets with small business area, few employees and low performance, and adjusted 547 outlets with low efficiency, thereby effectively improving the service capabilities of outlets. The Bank strengthened the distribution of physical outlets and self-service banking outlets by building 1,777 independent self-service banking outlets, enhancing the service level of self-service channels.

At the end of 2012, the Bank had 17,125 domestic institutions, including the Head Office, 31 Tier-one Branches, 5 branches directly controlled by the Head Office, 26 banking offices of Tier-one Branches, 400 Tier-two Branches, 3,069 Tier-one Sub-branches, 13,520 outlets, 34 institutions directly controlled by the Head Office and their branches, and 39 majority controlling subsidiaries and their branches.

## E-banking

Being customer-centered and market-oriented, the Bank continuously reinforced its leading position in innovation, expedited developing new fields, new markets and new customers, accelerated overseas business expansion and further strengthened risk prevention and control to ensure the balanced and rapid development of E-banking business in scale, quality and efficiency. The Bank vigorously promoted the brand of "ICBC Mobile Banking" and focused on the expansion of major markets such as mobile banking and e-commerce, which enhanced its brand recognition and further consolidated its market competitiveness. In 2012, the transaction volume of E-banking increased by 17.2% compared with the previous year. The number of E-banking transactions accounted for 75.1% of total transactions of the Bank, representing an increase of 5 percentage points from the previous year, further enhancing the role of E-banking as a transaction channel.

Proportion of E-banking Business




Note: The proportion of E-banking business refers to the number of E-banking transactions against the total number of transactions of the Bank

### ◆ *Internet Banking*

The Bank consolidated the position of Internet banking as the major transaction channel and introduced personal Internet banking systems accommodating to Apple Mac, Google and Android Tablet, covering all the mainstream operating systems, browsers and tablets. The Bank provided private banking zone in the Internet banking system for PC users and iPad users, building up an exclusive service platform for quality customers. It also added innovative functions to the corporate banking system, including foreign exchange trading and Gold Accumulation Products service, to enrich the corporate Internet banking product lines. The Bank was awarded the "Best Consumer Internet Bank in China" and "Best Corporate/Institutional Internet Bank in China" by *Global Finance*.

### ◆ *Telephone Banking*

The Bank upgraded its voice menu for telephone banking to realize clear voice menu design, simple ID verification and convenient self-service registration procedures. Self-help voice service of telephone banking was made clearer and more convenient and the self-service level of telephone banking was enhanced. 95588 telephone banking maintained its service at a high level. In the year, the telephone banking answered more than 95% of the calls, and over 90% of the calls were answered within 20 seconds.

### ◆ *Mobile Banking*

In fast response to new demands for mobile financial services, the Bank launched some new services, including mobile life customer-end, mobile online customer services, mobile banking donation and position marketing. The Bank advanced quality service project of mobile banking, optimized the handling procedures of mobile banking and simplified the operating steps to make the operation of mobile banking conform to users' habits to a larger extent and enhance customer experience of mobile banking. At the end of 2012, the number of mobile banking customers increased by 54.5% from the end of the previous year, and the trading volume increased by nearly 16 times.

◆ *Self-service Banking*

The Bank accelerated the installation of self-service equipment and extended its service channels to new business areas such as the commodity trading markets and major counties. By simplifying the processing procedures of self-service terminals, the Bank increased the business varieties, set prices reasonably and intensified advertising on the functions of self-service equipment as well as the customer diversion and guidance for counter-based businesses to raise the efficiency of self-service equipment and diversion rate of counter-based businesses. At the end of 2012, the Bank owned 17,437 self-service banking outlets, representing an increase of 26.6% from the end of the previous year, and 70,202 ATMs, up 18.7%. The volume of ATM transactions amounted to RMB6,605.2 billion, up 35.8%.

## Service Enhancement

In 2012, the Bank actively pushed forward the activities themed with "Satisfaction with ICBC", implemented service improvement strategy with thorough solutions. The bank mainly focused on improvement of counter service and resolution of prominent problems in order to build a long-term and effective working mechanism. As a result of these measures, the Bank improved its services in every aspect, increased its overall service level to a large extent and continuously optimized customers' experience.

The efficiency of customer services was rapidly raised and customer experience was continuously enhanced. The Bank continued to intensify its efforts in solving the problems of long queue for banking services. Through comprehensively promoting the service quality and queuing management system of outlets, imposing special supervision over key outlets and strengthening monitoring and analysis of the queuing problem, the Bank made great progress in solving the problem of long queue and significantly enhanced customer experience. By the end of the reporting period, the Bank conducted queuing monitoring over 13,364 outlets, which showed that the average waiting time of customers decreased by 37% compared with the peak value and the time for customers to wait for banking services in a long queue was effectively shortened.

Complaints from customers were significantly reduced and customer satisfaction level rose constantly. The Bank effectively increased the efficiency of customer complaint handling process, and raised the level of satisfaction in this regard by in-depth analysis and sorting out complaints and consultation data throughout the Bank, solving prominent problems and dealing with strong feedback from customers, reducing complaints from key branches, and urging response to specific complaints. During the reporting period, the number of customer complaints and repeated complaints decreased by 73% and 91%, respectively, and customer satisfaction rate in relation to complaint handling rose to 96%.

Customer service channels were further broadened and customer services were made more convenient. The Bank further optimized its network layout by establishing new outlets, relocation, redecoration, and optimization and adjustment of existing outlets. It further strengthened its service facilities accessible to disabled persons in outlets and improved the service standard for disabled persons. In addition, the Bank further intensified its efforts in self-service equipment installation and maintenance, promoted self-service card issuance machine and other new equipment and further enhanced the friendliness and attraction of self service, enabling the proportion of self-service trading volume to increase to 75% of the total trading volume of the Bank in the year. In the "Civilized and Normative Service of the Chinese Banking Industry" campaign in 2012, 116 outlets of the Bank were selected as the top 1000 institutions, ranking top in terms of number of selected outlets among peers in the banking industry for three consecutive years.

The business procedures were upgraded and business handling was smoother. The Bank advanced comprehensive reform and upgrading of business procedures as a permanent cure for service efficiency improvement its outlets, and it actively carried out cross-department, cross-institution, cross-platform and cross-business business procedure reform and upgrading. The 533 pressing problems affecting customer experience and teller experience which were reported as prominent issues by basic-level branches were solved in an all-round manner, notably improving customer experience. The Bank continued to deepen reform on centralized business processing, and the centralized handling proportion of counter-based corporate non-cash business arrived at 97%, which further demonstrated the effect of its concentrated business processing and enhanced the level of its business operation and service supporting.

The long-acting mechanism for service improvement is increasingly optimized and the monitoring on service quality became more timely and efficient. Based on new requirements of modern financial services and new changes in customer demands, the Bank strengthened the construction of its service policy regime, and established a service policy framework covering areas such as service standards, supervision and inspections, appraisal and assessment, thereby laying a solid institutional foundation for customer service improvement. The Bank further strengthened the supervision over and monitoring on the execution of service standards at operation outlets, organized and carried out off-site service inspections at operating outlets, promoted the application of service quality monitoring and evaluation system and queuing management system at operating outlets, conducted third-party survey on personal customer satisfaction, and figured out the customer satisfaction status across the Bank and major factors that influenced the customer satisfaction, so as to provide statistical support for its customer service improvement and consolidate the foundation for its customer service work.

## Internationalized and Diversified Operation

### Implementing internationalized and diversified operation strategy

In 2012, the Bank actively and steadily carried forward its internationalized and diversified operation strategy, serving the development of foreign trade and outbound investment of China. The global service network has taken shape, and the network layout of overseas institutions has been persistently improved, which further enriched and improved the comprehensive service network and increased the contribution of its internationalized and diversified subsidiaries to the Group's profits and their strategic synergy. Through strengthening cooperative interaction between domestic and overseas institutions and extending the globalized IT system, the Bank expanded its global product lines in an in-depth fashion. Adhering to the principle of "one policy for one institution" and the combination of integration and differentiated management, the Bank improved the performance assessment mechanism and the authorization and credit extension management, constantly enhancing the operational capacity of overseas institutions. It also enhanced the cross-border, cross-market and cross-product-line risk prevention and control constantly, and the consolidated risk management of the Group was strengthened as well. Besides, the Bank proactively promoted the construction of the remuneration management system of the Group and reinforced the reserve of international talents.

### Operating results for the reporting period

The operating and localization capacities of overseas institutions continued to improve. ICBC (Asia), ICBC (Macau), Standard Bank Argentina S.A. and Vientiane Branch have become mainstream banks in local markets, and there are many institutions with high profitability such as ICBC (Thai), ICBC (Indonesia), ICBC (Europe), Seoul Branch, ICBC (London) and New York Branch. At the end of the reporting period, total assets of overseas institutions (including overseas branches, subsidiaries and investments in Standard Bank) of the Bank were USD162,722 million, representing an increase of USD37,993 million or 30.5% from the end of the previous year, and they accounted for 5.8% of the Group's total assets, representing an increase of 0.7 percentage points. Total loans amounted to USD71,883 million, representing an increase of USD6,358 million or 9.7%, and total deposits were USD57,414 million, representing an increase of USD8.28 billion or 16.9%. Profit before tax during the reporting period was USD1,673 million, representing an increase of 21.8% compared with the previous year.

### MAJOR INDICATORS FOR OVERSEAS INSTITUTIONS

| Item | Assets (in USD millions) | | Profit before tax (in USD millions) | | Number of institutions | |
|---|---|---|---|---|---|---|
| | At the end of 2012 | At the end of 2011 | 2012 | 2011 | At the end of 2012 | At the end of 2011 |
| Hong Kong and Macau | 78,189 | 69,035 | 727 | 679 | 169 | 150 |
| Asia-Pacific region (except Hong Kong and Macau) | 30,431 | 23,753 | 344 | 187 | 71 | 65 |
| Europe | 16,966 | 14,324 | 132 | 86 | 15 | 13 |
| America | 46,592 | 21,976 | 70 | 46 | 127 | 10 |
| Africa[(1)] | 5,244 | 5,122 | 400 | 375 | 1 | 1 |
| Eliminations | (14,700) | (9,481) | | | | |
| **Total** | **162,722** | **124,729** | **1,673** | **1,373** | **383** | **239** |

Note: (1) The assets represent the balance of the Bank's investment in Standard Bank and the profit before tax represents the Bank's gain on investment recognized by the Bank during the reporting period.

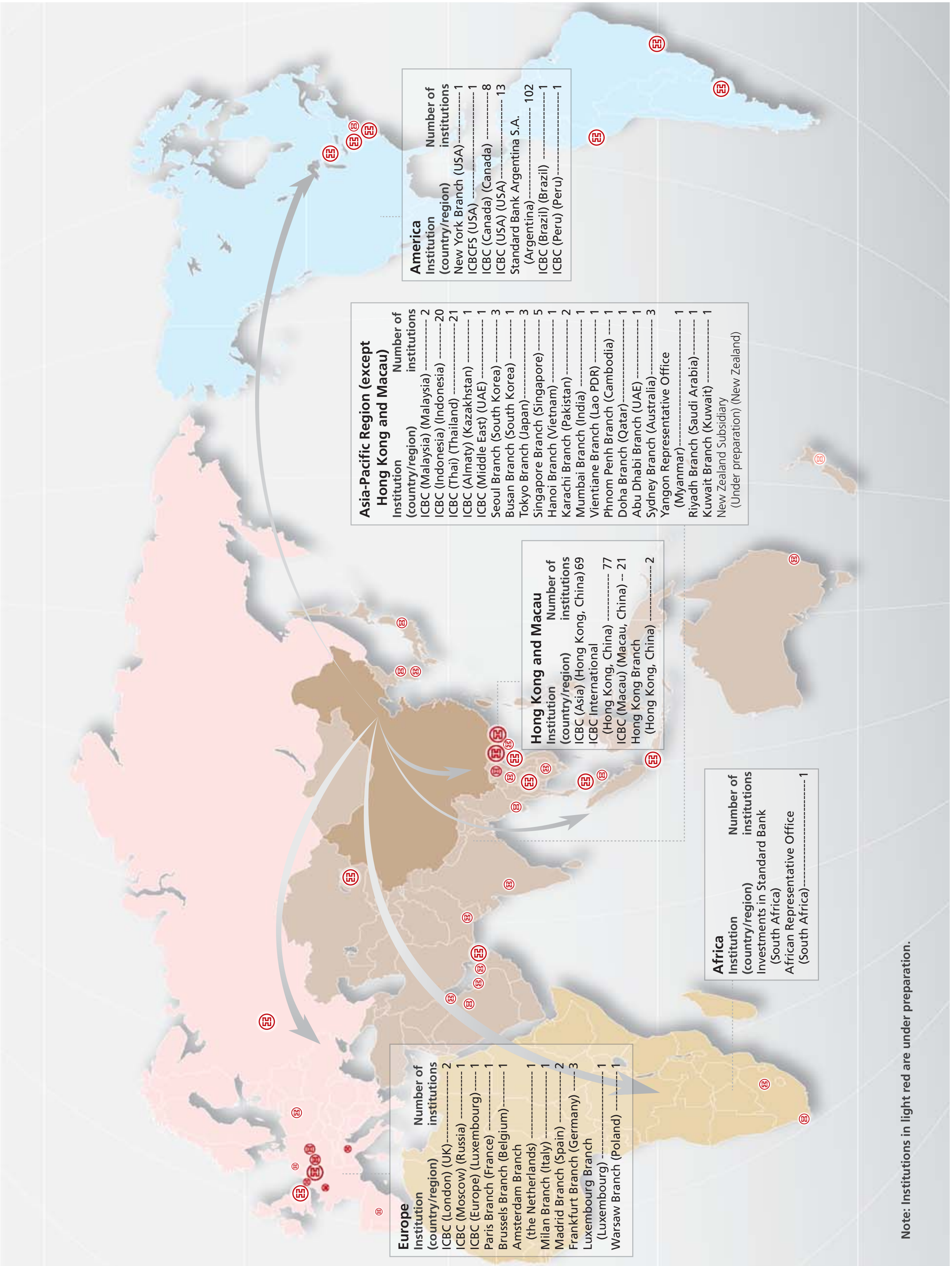
## Institutional Building

The Bank took new steps in expanding the network of overseas institutions. In America, the share delivery had been completed for the acquisition of 80% shares in The Bank of East Asia (U.S.A) N.A., which was renamed ICBC (U.S.A.). It is the first acquisition of controlling shares in banks made by a Chinese institution in the United States. The share delivery had been completed for the acquisition of 80% shares in Standard Bank Argentina S.A., and the Bank became the first Chinese bank to acquire a controlling stake in an overseas mainstream commercial bank in local market. ICBC (Brazil) was formally established, and the establishment of ICBC (Peru) was approved by overseas regulatory authorities. In Europe, Warsaw Branch has successfully come into operation, and Lisbon Representative Office has started physical operation, extending the Bank's presence to 10 European countries. In Asia-Pacific Region, the applications for establishing Riyadh Branch and Kuwait Branch have been approved by the central banks of the host countries. The service network is increasingly improved in the Gulf region. The wholesale banking license of Singapore Branch has been upgraded to a Qualifying Full Bank (QFB) license, making Singapore Branch one of the first China-funded banks to hold this license. The application for the establishment of New Zealand subsidiary is under steady progress.

The capacity of ICBC in providing diversified services is improved steadily. The Bank established ICBC-AXA by an acquisition, further expanding its scope of business and providing customers with a wider range of financial services.

At the end of 2012, the Bank had 383 overseas institutions in 39 countries and regions, and established correspondent banking relationship with 1,630 overseas banking institutions in 138 countries and regions. A global service network covering six continents in Asia, Africa, Latin America, Europe, North America and Australia has been established.

## DISTRIBUTION MAP OF OVERSEAS INSTITUTIONS



## Business Overview of Global Key Product Lines

◆ *Retail and private banking*

To expedite the development of overseas retail banking business and product innovation, the Bank continued to authorize more overseas institutions to provide account opening witness service, improved the facility of handling overseas debit cards at home, and launched new businesses such as electronic traveler's cheque. In addition, the Private Banking Center (Europe) was established and the product and service platform of the Private Banking Center (Hong Kong) was improved. At the end of 2012, overseas institutions had a total of 1,640.9 thousand personal customers, representing an increase of 1,085.9 thousand compared with the previous year; the balance of personal deposits in overseas institutions reached USD11.56 billion, representing an increase of USD2,868 million over the end of last year; the outstanding personal loans were USD5,795 million, representing an increase of USD2,088 million.

◆ *Bank Cards*

The Bank deepened the cooperation in global networking with China UnionPay, expanded the collaboration with VISA International, issued ICBC-AE Centurion Black Card and ICBC-AE Centurion Platinum Card jointly with American Express, launched ICBC JCB RMB/JPY Dual Currency Credit Card jointly with Japan Credit Bureau (JCB company), and signed card issuing and acquiring agreement with Diners Card International. It integrated the global resources for bank card business handling, improved the cross-border service capacity and promoted the handling of bank card business by domestic and overseas institutions. At the end of 2012, the Bank issued 298 thousand credit cards abroad, representing an increase of 58 thousand cards over the end of last year; it issued 201 thousand debit cards abroad, representing an increase of 58 thousand cards over the end of last year; the annual consumption amount of bank cards amounted to USD390 million; and the number of overseas institutions issuing bank cards abroad reached 21.

◆ *E-banking*

Adhering to the principle of "one policy for one institution", the Bank promoted the comprehensive development of Internet banking, telephone banking and mobile banking of overseas institutions. Overseas institutions launched innovative products such as ICBC electronic password device, Internet paper precious metals, and promoted key businesses like personal global account management. ICBC (Macau) launched mobile banking services. At the end of 2012, 26 overseas institutions launched Internet banking services and 14 launched telephone banking services; personal Internet banking customers of overseas institutions increased by 39% over the end of the previous year and corporate customers increased by 34%.

◆ *Clearing*

The cross-border RMB clearing system was successfully put into operation, enabling automatic switching of clearing criteria among different systems and platforms and providing diversified clearing services to meet customers' individualized demands for payment and clearing. The Bank successfully launched clearing products such as RMB and EUR "Full Remittance" and global cross-border batch remittance; it promoted "T+0" transfer and remittance in foreign currency at home and cross-straits RMB one-day clearing products. In addition, the Bank promoted the application of the clearing inquiry and management system, which improved its clearing inquiry service capacity. The USD, EUR and JPY clearing centers are operating soundly and steadily. The clearing center of the Head Office saw its cross-time-zone clearing ability remarkably enhanced for USD and JPY and its cross-time-zone continuous operating mechanism improved continuously. In 2012, the clearing amount of the New York, Frankfurt and Tokyo clearing centers were USD1,478.5 billion, EUR795.7 billion and JPY1,744.5 billion, respectively.

◆ *Specialized Financing*

Through various emerging businesses such as "project + financing" and overseas M&A, the Bank proactively supported the "Going Global" efforts of Chinese-funded enterprises as a joint leading organization of China-UK infrastructure cooperation project, providing business information and relevant financial services for Chinese-funded enterprises to invest and develop contracted projects in the UK. Besides, the Bank provided branded overseas M&A loans, serving M&A projects in resources, energy and machinery industries with loans and acquisition financial consultation. It provided financing service to China National Offshore Oil Corporation for its acquisition of Nexen (Canada). By the end of 2012, the Bank has supported a total of 70 "Going Global" projects of 52 Chinese-funded enterprises in 38 countries in the five continents with financing of USD15.2 billion.

◆ *Global Cash Management*

Having established the Asia-Pacific Cash Management Centre and the China-Africa Cash Management Framework, the Bank further established cash management centers in Europe and Americas. A three-tier service system consisting of the Head Office, regional centers and domestic and overseas institutions and covering Asia-Pacific region, Africa, Europe and America has taken shape. It put the global cash management system into operation in all institutions covered with the comprehensive business processing system of foreign institutions (FOVA), and signed SWIFT cooperation agreements on cash management with six new banks, effectively expanding the service coverage of the Bank. The Bank provided services such as global account opening, payment authorization, account information inquiry, global payroll payment agency service, centralized collection and payment and cash pool to meet customer demands actively. By the end of 2012, the global cash management business had expanded to cover nearly 50 countries and regions, and its customers reached 3,332, representing an increase of 49.3% from the end of the previous year.

◆ *Investment Banking*

Relying on the international network, the Bank carried forward the internationalized development of its investment banking business, completed the first cross-border M&A fund project, supported the acquisition of Steyr (Austria), and concluded key cross-border M&A projects such as the acquisition of the Subah nickel minefield in Indonesia by State Development & Investment Corporation, and the acquisition of Dexia Asset Management, a European company, by GCS Capital. ICBC International proactively strengthened interactive cooperation between domestic and overseas institutions, fully engaged in large IPO projects in the capital market of Hong Kong, made great breakthrough in sponsor and underwriting. According to the statistics of Dealogic, an industry database, ICBC International completed 62% of the total financing amount of all Hong Kong IPO projects, taking the first place once again in Chinese investment banking industry. It actively explored the international market while expanding the Hong Kong market, and took part in the IPO of Carlyle Group in the U.S., a world-famous investment management company, as the joint book manager and joint lead underwriter.

◆ *Asset Management*

The Bank gave the Group's holistic advantages into full play, established the global investment transaction system, and constantly improved its innovation level. The Bank expanded overseas investment management business in an all-round way; laid stress on participating in overseas IPO projects through providing investors with investment opportunities and returns in overseas markets; actively marketed the RMB asset management business to sovereign institutions in South East Asia and Africa; improved the operation model of foreign currency products to satisfy the customer demands for foreign currency wealth management; innovated and launched various gold arbitraging wealth management portfolios consisting of foreign exchange, precious metals and fixed-yield investment products to improve the profitability of the products. With ICBC (Macau) as the overseas precious metal business pivot, the Bank sold branded physical silver products and gold accumulation products via Internet banking and over the counter in the offshore market, and launched the agency gold contract transaction business in The Hong Kong Mercantile Exchange. In 2012, overseas institutions sold 745 kilograms of precious metal.

◆ *Cross-border RMB Business*

Seizing the opportunities of the deepened RMB internationalization, the Bank carried forward the leap-forward development of cross-border RMB business. Vientiane Branch was designated by the central bank of Laos as the only RMB clearing bank in Laos. Singapore Branch was designated by PBC as the RMB clearing bank in Singapore. The construction of the offshore RMB center of ICBC (Asia) is ongoing steadily. The first RMB certificate of deposit was successfully issued in the London market. Besides, the Bank completed the first cross-border RMB leasing in China and the first batch of agency offshore RMB clearing and delivery, underwrote offshore RMB-denominated bonds of nearly RMB30 billion. ICBC (Moscow) became the biggest RMB market maker in MICEX-RTS, a combined conglomerate of foreign exchange and stock exchange in Russia. In 2012, cross-border business amounted to over RMB1.5 trillion, accumulating 366 cross-border RMB interbank current accounts. 25 overseas institutions have launched cross-border business, and the clearing network spread to 67 countries and regions around the world.

## Controlled Subsidiaries and Major Equity Participating Company

◆ *Overseas Subsidiaries*

**INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED**

ICBC (Asia) is a wholly owned Hong Kong registered bank by ICBC, and has an issued share capital of HKD4,129 million. It provides comprehensive commercial banking services and the major businesses include commercial credit, trade finance, investment service, retail banking, E-banking, custody, credit card, receiving bank services for IPOs and dividend distribution. At the end of 2012, ICBC (Asia) recorded total assets of USD54,916 million and net assets of USD5,148 million. It generated a net profit of USD518 million during the year.

**ICBC INTERNATIONAL HOLDINGS LIMITED**

ICBC International, a wholly-owned subsidiary of the Bank as well as a full-licensed investment bank in Hong Kong, has a paid-up capital of HKD4,839 million. It mainly renders a variety of investment banking services, including listing sponsor and underwriting, equity financing, bond financing, direct investment, securities brokerage and fund management. At the end of 2012, it recorded total assets of USD852 million and net assets of USD663 million.

### INDUSTRIAL AND COMMERCIAL BANK OF CHINA (MACAU) LIMITED

ICBC (Macau) is the largest local legal banking entity and the second largest commercial bank in Macau. It has a registered capital of MOP461 million, in which the Bank holds an 89.33% stake, ICBC (Macau) mainly engages in comprehensive commercial banking services such as deposit, loan, trade finance and international settlement. At the end of 2012, ICBC (Macau) recorded total assets of USD14,595 million and net assets of USD1,074 million respectively. It generated a net profit of USD138 million in 2012 during the year.

### INDUSTRIAL AND COMMERCIAL BANK OF CHINA (MALAYSIA) BERHAD

ICBC (Malaysia) is a wholly-owned subsidiary of the Bank established in Malaysia. With a registered capital of MYR331 million, it is able to provide a full range of commercial banking services. At the end of 2012, ICBC (Malaysia) recorded total assets of USD1,029 million and net assets of USD118 million. It generated a net profit of USD4.97 million during the year.

### PT. BANK ICBC INDONESIA

ICBC (Indonesia) is a full-licensed commercial banking subsidiary registered in Indonesia, with a paid-up capital of IDR1.5 trillion, in which ICBC holds a 97.5% stake. ICBC (Indonesia) mainly specializes in financial services such as deposit, loan and trade finance, settlement, agency services, inter-bank borrowing and lending and foreign exchange. At the end of 2012, ICBC (Indonesia) recorded total assets of USD2,498 million and net assets of USD182 million. It generated a net profit of USD11.76 million during the year.

### INDUSTRIAL AND COMMERCIAL BANK OF CHINA (THAI) PUBLIC COMPANY LIMITED

ICBC (Thai), a subsidiary of the Bank, has a registered capital of THB14,187 million, in which the Bank holds a 97.7% stake. ICBC (Thai) holds a comprehensive banking license and provides various services including deposit, loan, trade finance, remittance, settlement, leasing and consulting. At the end of 2012, ICBC (Thai) recorded total assets of USD4,227 million and net assets of USD491 million. It generated a net profit of USD15.61 million during the year.

### INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ALAMATY) JOINT STOCK COMPANY

ICBC (Almaty), a wholly-owned subsidiary of the Bank, was incorporated in Kazakhstan with a registered capital of KZT8,933 million. It principally engages in commercial banking services such as deposit, loan, international settlement and trade and finance, foreign currency exchange, guarantee, account management, Internet banking and bank card service. At the end of 2012, ICBC (Almaty) recorded total assets of USD225 million and net assets of USD75.34 million. It generated a net profit of USD2.67 million during the year.

### INDUSTRIAL AND COMMERCIAL BANK OF CHINA (MIDDLE EAST) LIMITED

ICBC (Middle East), a wholly-owned subsidiary of the Bank, was incorporated in United Arab Emirates with a registered capital of USD50 million. Its scope of business covers investment banking and commercial banking businesses. At the end of 2012, ICBC (Middle East) recorded total assets of USD1,091 million and net assets of USD67.81 million. It generated a net profit of USD5.77 million during the year.

### INDUSTRIAL AND COMMERCIAL BANK OF CHINA (LONDON) LIMITED

ICBC (London), a wholly-owned subsidiary of the Bank, was incorporated in the United Kingdom with a registered capital of USD200 million. It provides a full spectrum of banking services such as exchange and remittance, loan, trade finance, international settlement, funds clearing, agency and custody. At the end of 2012, ICBC (London) recorded total assets of USD2,885 million and net assets of USD271 million. It generated a net profit of USD23.85 million during the year.

### INDUSTRIAL AND COMMERCIAL BANK OF CHINA (EUROPE) S.A.

ICBC (Europe), a wholly-owned subsidiary of the Bank, was incorporated in Luxembourg with a registered capital of EUR115 million. Paris Branch, Amsterdam Branch, Brussels Branch, Milan Branch, Madrid Branch and Warsaw Branch are structured under ICBC (Europe), which mainly offers corporate and retail banking services such as deposit, withdrawal, remittance, settlement, loan, trade finance, capital, investment banking, custody, franchise wealth management. At the end of 2012, ICBC (Europe) recorded total assets of USD4,309 million and net assets of USD193 million. It generated a net profit of USD24.45 million during the year.

### ZAO INDUSTRIAL AND COMMERCIAL BANK OF CHINA (MOSCOW)

ICBC (Moscow), a wholly-owned subsidiary of the Bank, was incorporated in Russia with a registered capital of RUB2.31 billion. It mainly provides a full spectrum of corporate banking services including loan, settlement, trade finance, deposit, foreign currency exchange, franchise treasury business, global cash management and corporate financial consulting as well as remittance for natural persons without account. ICBC (Moscow) is ruble clearing bank for RMB trading against ruble on China Foreign Exchange Trade System, important market maker and RMB clearing bank for RMB trading against ruble on MICEX-RTS. At the end of 2012, ICBC (Moscow) recorded total assets of USD472 million and net assets of USD83.60 million. It generated a net profit of USD4.90 million during the year.

### INDUSTRIAL AND COMMERCIAL BANK OF CHINA (CANADA)

ICBC (Canada) is a subsidiary of the Bank in Canada with a paid-up capital of CAD83.00 million, in which the Bank holds a 80% stake. Holding a full commercial banking license, ICBC (Canada) provides various corporate and retail banking services such as deposit, loan, settlement remittance, trade finance, foreign exchange trading, funds clearing, RMB cross-border settlement, RMB currency notes, cash management, E-banking, bank card service and investment and financing information consulting. At the end of 2012, ICBC (Canada) recorded total assets of USD775 million and net assets of USD102 million. It generated a net profit of USD3.50 million during the year.

### INDUSTRIAL AND COMMERCIAL BANK OF CHINA FINANCIAL SERVICES LLC

ICBCFS, as a wholly-owned subsidiary of the Bank in the United States, has a registered capital of USD50.00 million. It mainly specializes in securities clearing business in Europe and America, and offers professional banking services including securities clearing, settlement and financing, accounting and transaction statement in European and American markets for institutional customers. At the end of 2012, ICBCFS recorded total assets of USD36,498 million and net assets of USD69.24 million. It generated a net profit of USD9.01 million during the year.

**INDUSTRIAL AND COMMERCIAL BANK OF CHINA (USA) NA**

ICBC (USA), a controlled subsidiary of the Bank in the United States, has a paid-up capital of USD169 million, in which the Bank holds an 80% stake. Holding a full-functional commercial banking license registered in the UFIQAC, ICBC (USA) is a member of Federal Deposit Insurance Corporation, providing corporate and retail banking services such as deposit, loan, settlement and remittance, trade finance, cross-border settlement, cash management, E-banking and bank card services. At the end of 2012, ICBC (USA) recorded total assets of USD762 million and net assets of USD170 million. It generated a net profit of USD0.63 million since the completion date of the acquisition till the end of the year.

**STANDARD BANK ARGENTINA S.A.**

On 30 November 2012, the Bank completed the acquisition of 80% stake in Standard Bank Argentina S.A., making the Bank a controlling shareholder of Standard Bank Argentina S.A., which is in the process of changing its name. With the full-functional commercial banking license and a registered capital of ARS847 million, Standard Bank Argentina S.A. specializes in deposit, loan, settlement and remittance, trade finance, foreign exchange trading, capital settlement, financial market, cash management, investment banking, E-banking, credit card services, retail banking and SME services. At the end of 2012, Standard Bank Argentina S.A. recorded total assets of USD4,268 million and net assets of USD419 million.

◆ *Domestic Subsidiaries*

**ICBC CREDIT SUISSE ASSET MANAGEMENT CO., LTD.**

ICBC Credit Suisse Asset Management, a subsidiary of the Bank, has a registered capital of RMB200 million, in which the Bank holds a 80% stake. It mainly engages in fund placement, fund distribution, asset management and such other businesses as approved by the CSRC, and owns many business qualifications including mutual fund, QDII, enterprise annuity, specific asset management, domestic and overseas investment manager of social security fund, RQFII, insurance capital management and special asset management. It is one of the fund companies with "full-qualification" in the industry. ICBC Credit Suisse Asset Management (International) Co., Ltd., the subsidiary of ICBC Credit Suisse Asset Management in Hong Kong, has acquired the business qualifications for RQFII and domestic investment manager of social security fund. In 2012, ICBC Credit Suisse Asset Management has won various awards including "Top 10 Golden Bull Fund Company" and "Annual Golden Bull Bond Fund" from *China Securities Journal* and "Top 10 Star Fund Company" from *Securities Times*. At the end of 2012, it managed a total of 28 mutual funds and several enterprise annuities and special account portfolios, and the size of the assets under management amounted to approximately RMB156.8 billion, recorded total assets of RMB1,013 million and net assets of RMB801 million, and generated an annual net profit of RMB197 million.

**ICBC FINANCIAL LEASING CO., LTD.**

ICBC Leasing, a wholly-owned subsidiary of the Bank, has a registered capital of RMB8.0 billion. It mainly engages in financial leasing in the fields of aviation, shipping and large-scale equipment and various leasing products and provides a variety of financial and industrial services including rental assignment, investment funds, securitization of investment assets, assets transactions and management. In 2012, ICBC Leasing was awarded the "Most Influential Financial Leasing Company" by *Financial Times*. At the end of the year, ICBC Leasing recorded total assets of RMB119,049 million, net assets of RMB11,017 million, and generated an annual profit of RMB1,166 million.

**ICBC-AXA ASSURANCE CO., LTD.**

ICBC-AXA, a subsidiary of the Bank, has a registered capital of RMB3,705 million, in which the Bank holds a 60% stake. ICBC-AXA engages in a variety of insurance businesses such as life insurance, health insurance and accident insurance, and re-insurance of these businesses, businesses in which use of insurance capital is permitted by laws and regulations of the State, and other businesses approved by the CIRC. On 5 July 2012, the Bank completed the transfer of 60% equity interests of AXA-Minmetals Assurance Co., Ltd. AXA-Minmetals Assurance Co., Ltd officially changed its name to ICBC-AXA Assurance Co., Ltd. on 6 July 2012. At the end of 2012, ICBC-AXA recorded total assets of RMB10,951 million and net assets of RMB2,691 million.

◆ *Majority Equity Participation Company*

**STANDARD BANK GROUP LIMITED**

Standard Bank is the largest commercial bank in Africa. The Bank holds 20.05% ordinary shares of Standard Bank. The Bank continued to push forward the strategic cooperation with Standard Bank, initiated a total of 132 cooperative projects in a variety of fields such as corporate banking, settlement and cash management, information technology, financial market and precious metals, among which, the total value of the agreements entered between the two banks in relation to financing to Africa amounted to USD7.7 billion. During the reporting period, two new large cooperative projects in relation to information and technology and commodity financing were launched. At the end of 2012, Standard Bank recorded total assets of ZAR1,544,220 million and net assets of ZAR130,173 million, and generated an annual net profit of ZAR19,411 million.

## Information Technology and Product Innovation

The Bank continued to carry forward the "Technology Driven" development strategy to ensure the safe and stable operation of its IT system, pushed forward IT infrastructure construction, and accelerated product innovation, provided powerful support for improving its service level and business efficiency, boosting its internationalized operation and consolidating its risk management. In 2012, nine scientific and technological products of the Bank were chosen as the "Best Bank in Scientific and Technological Development". The Bank was awarded "Best Bank in Data Center" by *Global Entrepreneur* and "Best Bank in Operation" by the Association of Global Database Users.

### Vigorous Propulsion of System Application Building

Persist in the principle of independent research and development, the Bank launched a number of basic service platforms and products in fields such as customer service, operational management and risk management. It improved functions of its corporate service platform in relation to supply chain finance, housing allowance, capital depository, and cash management. Besides, taking advantages of IT scientific innovation and equipment interface, the Bank vigorously promoted system construction such as outlet queuing guide and advance form-filling and service reservation to improve customer service efficiency and quality. The Bank continuously improved and comprehensively promoted the performance appraisal management system (MOVA), actively pushed forward the construction of relevant systems in relation to financial asset services. It implemented the new version of internet information system, mobile office system and uniform communication platform. In accordance with the requirements in relation to the implementation of the New Capital Accord, the Bank comprehensively constructed an IT system covering risk management and asset management of the whole Group. Great breakthrough has been made in the construction of the pre-transaction risk control system of the financial market. Additional IT support was provided to overseas institutions, and the Science and Technology Service Center (Hong Kong) was established. The core business processing system (FOVA) has been adopted by 36 overseas institutions. The Bank comprehensively carried out planning and research and development of its integrated application system, provided important platform for the improvement of the overall competitiveness of the Bank. In 2012, the Bank obtained 61 patents from the State Intellectual Property Office, and the total number of patents owned by the Bank increased to 224.

### Continuous Deepening in Product and Service Innovation

Focusing on bank-wide transformation, the Bank further pushed forward its product and service innovation. The Bank deepened its financial asset service and product innovation and launched services and products such as paper crude oil, two-way foreign exchange trading, and paper precious metals conversion. it launched credit-related products such as commodity-pledge financing to electronic supply chain, small business account card-based revolving loans and personal business loans to promote the credit structural adjustment. It innovatively launched payment and settlement services such as account manager and lump-sum remittance and small withdrawal, e-banking products including Android Internet Banking, Mobile Life customer terminal, intelligent answering of SMS banking and self-service card issuing machines. Overseas institutions launched products and services such as iPhone mobile banking, ICBC electronic password device and telephone banking. The Bank deepened special product innovation for important customers and key districts, launched wealth management reservation for high-end customers, special e-banking for private banking, SMEs mobile payment terminal and other products. It continuously improved business procedures and realized the handling of several businesses for customers by one password authentication and once one signing and confirmation and processing of relevant related businesses. At the end of 2012, the Bank had 4,163 products, representing an increase of 28.4%.

### Continuous Improvement in Information Technology Management and Innovation Management Level

In 2012, the Bank's information system maintained a safe and steady operation, and its level of production, operation and management and service capacity were further improved. The trial in relation to running both the intra-city double-center system and the host computer of the Data Center was completed, and the security system of business operation was further improved. The Bank persistently carried out key projects such as optimization of systematic function, automation of operation, network upgrading and construction of intra-city computer room of Tier-one Branches, and established the most sophisticated customer security protection system in the banking industry. In addition, the Bank deepened product innovation management, continuously expanded sources of creative ideas, strengthened the integration of project needs, strengthened the quality management of business demands, and extensively applied scientific innovation methods such as product configuration, customer experience and standardization of product design, continuously pushed forward the risk management of new product research and development. In addition, the Bank enhanced product tracking evaluation, established unified code for product application channels, realized centralized management on sales and usage of products through various channels in the whole Bank. The Bank improved its product management regulations and built a team of product managers.

## Human Resources Management

Focusing on the Bank's strategic needs of the internationalized and diversified operation and adhering to the concept of people-oriented, service collaboration and scientific management, the Bank continued to deepen its cadre system and institutional competitiveness enhancement reform, constantly improved the remuneration incentive mechanism, continued to enhance the duty performing capabilities and constantly pushed forward the innovation of concepts, methods, systems and mechanisms, so as to provide strong human resources support to the transformative development of the Bank.

## Human Resources Management and Incentive and Disciplinary Measures

Accommodating to new situation and requirements of the reform and development of the whole Bank, it continuously pushed forward the group-based, market-based and diversified reform of its cadre system and built a centralized and open human resources allocation platform. The Bank broadened its vision of selection and recruitment of employees, and exercised more competitive selection and recruitment of professionals on a global basis through overseas public recruitment and recommendation by agencies; boosted the orderly staff flow among different regions, institutions and professions to enrich employees' working experiences and ease the regional imbalance of business development and human resources allocation; and accelerated building a Group-wide compensation governance mechanism, and strove to establish and improve the compensation incentive mechanism that complies with the Bank's governance requirements and the goal of sustainable development, fits the risk management system and the talent development strategy and reflects employees' values and contribution, so as to improve the scientific level of its compensation resources allocation.

## Management and Development of Human Resources

With the mission of supporting the growth of employees and business, the Bank organized all-staff training in a centralized way to improve its operation and management and international competitiveness. The Bank tapped training resources and built training systems and platforms, aiming to construct ICBC-featured training infrastructure. Centering on the training of managerial staff, professionals and business personnel and with a focus on the training of internationalized talents, professional qualification certification training and customer manager training, the Bank organized 36 thousand sessions of training for 2.79 million persons, with an average of 10.6 days per person. Based on the needs of staff growth and business development, the Bank made training plans for the Head Office and branches with highlights on standardized management and effective implementation of the training plans.

## Reform of Head Office and Branches

The Bank continuously advanced the profit center reform and brought the Asset Management Department and the Investment Banking Department into the reform. Hence, the profit centers increased to eight, and generated profit before tax of RMB58,921 million in 2012. In addition, the Bank pushed forward the Bank-wide reform of the legal affairs management system and carried out in 14 Tier-one Branches. It completed the institutional reform of centralized credit approval management in all Tier-one Branches and Branches Directly Controlled by the Head Office and set up 26 private banking centers. With the core of stimulating the operational vitality of institutions, the Bank continued to promote the deepening reform in banking offices of provincial (district) branches and the reform in county-level branches and outlets. The Head Office set up a consumer's rights protection office, established cash management centers in Europe and America, the Private Banking Center (Europe) and the IT Service Center (Hong Kong).

## Corporate Culture Management

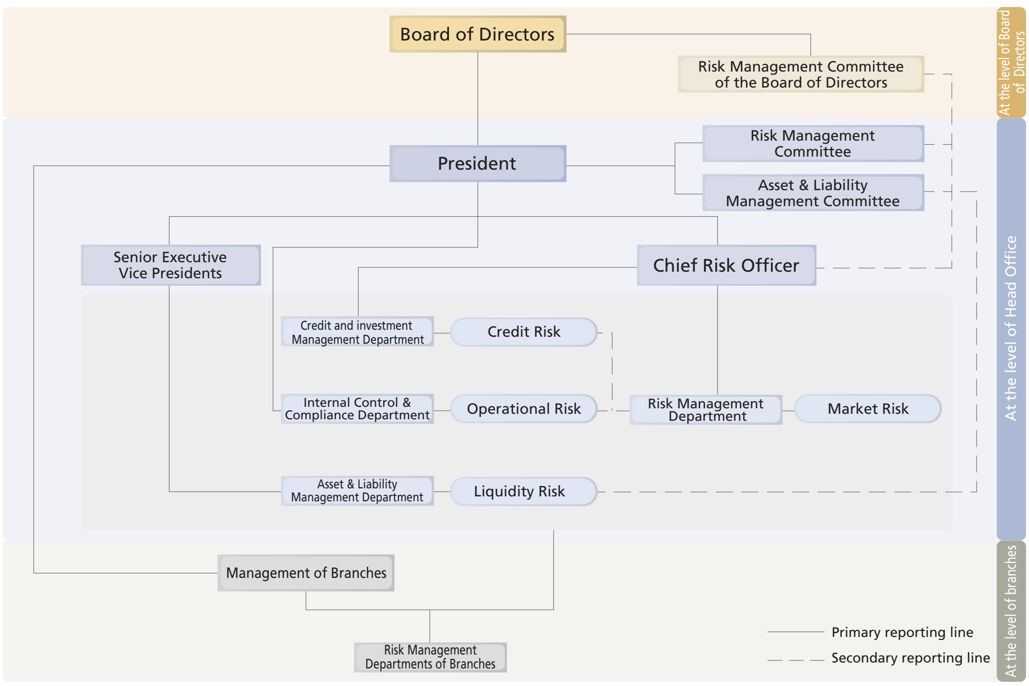
The Bank stepped up efforts in training on its corporate culture for the staff of domestic and overseas institutions, and raised their understanding and sense of identification of the Bank's corporate culture system by vividly interpreting its culture with stories and cartoons. In addition, the Bank launched themed educational activities to guide the staff to sense the essence of excellent financial services and promote the change of their service concepts. It also organized the third "Touching ICBC" Employees Award Ceremony, setting role models to spread the Bank's positive energy and guiding the staff to follow the Bank's core value. The Bank actively enhanced risk culture through holding seminars on risk culture, and embedded the corporate culture into its operational management. The Bank intensified the cultivation of characteristic culture by holding experience exchange meetings on corporate culture and carrying out "Corporate Culture Building Festival", thus creating an active cultural atmosphere for bank-wide reform and development. Besides, the Bank publicized its core value of "Integrity Leads to Prosperity" through its official website, which improved the public awareness of its corporate culture.

# RISK MANAGEMENT

## Enterprise Risk Management System

The enterprise risk management system is a process where the Board of Directors, the Senior Management and other employees of the Bank perform their respective duties and responsibilities to take effective control of all the risks at various business levels in order to provide reasonable guarantee to the achievement of objectives of the Bank. The principles of risk management include matching of return with risk, internal checking and balance with consideration as to efficiency, risk diversification, combination of quantitative and qualitative analysis, use of dynamic adaptability adjustments and gradual improvement, etc.

The Bank's organizational structure of risk management comprises the Board of Directors and its special committees, the Senior Management and its special committees, the Risk Management Department, the Internal Audit Department, etc. The risk management organizational structure is illustrated below:




Note: Substantial risks including country risk and reputational risk have been incorporated into the enterprise risk management framework.

In 2012, the Bank proactively improved the enterprise risk management system, made more effort in the formulation of enterprise risk management regulations, and further enhanced the risk management capability at the group level. The Bank prepared the risk management planning for 2012–2014, where it clarified the strategic objectives of building itself as a diversified and internationalized commercial bank with leading risk management. The Bank also developed the measures for implementation of regulatory indicators of CARPALs, where management requirements and working mechanisms were established. Furthermore, the Bank amended the measures regarding risk assessment and limit management to enable the overall adaptability and farsightedness of the enterprise risk management system. Accordingly, the Bank further improved the overall level of its enterprise risk management.

## Credit Risk

### Credit Risk Management

The Bank is primarily exposed to credit risk. Credit risk is the risk that loss is caused to banking business when the borrower or counterparty fails to meet its contractual obligations. The Bank's credit risks mainly originate from loans, treasury operations (including due from banks, due to banks, reverse repurchase agreements, corporate bonds and financial bonds investment), receivables and off-balance sheet credit business (including guarantees, commitments and financial derivatives trading).

The Bank strictly observed the guidance from CBRC regarding credit risk management and other regulatory requirements, earnestly executed established strategies and objectives under the leadership of the Board of Directors and the Senior Management, implemented an independent, integrated and vertical credit risk management mode, continuously optimized the credit flow, and formed a management organizational structure featuring the separation of the front office, the middle office and the back office of the credit business. The Board of Directors assumes the final responsibility to the effectiveness of the implementation and monitoring of credit risk management. The Senior Management is responsible to execute the strategies, overall policy and system regarding credit risk management approved by the Board of Directors. The Credit Risk Management Committee of the Senior Management is the review and decision-making organ of the Bank in respect of credit risk management, and is responsible to review material and important affairs of credit risk management, and performs its duty in accordance with the Working Regulations for the Credit Risk Management Committee. The credit risk management departments at different levels undertake the responsibility to coordinate the work of credit risk management at respective levels, and the business departments play their roles in implementing credit risk management policies and standards in respective business areas.

The Bank's credit risk management has the following characteristics: (1) standardized credit management processes are followed throughout the Bank; (2) the principles and processes of risk management focus on the entire process of credit business, covering customer investigation, credit rating, loan evaluation, loan review and approval, loan payment and post-lending monitoring; (3) special organization is set up to supervise the entire process of credit business; (4) the qualification of the employees who are responsible for credit review and approval is strictly reviewed; and (5) a series of information management systems are designed to monitor the risks on a timely basis.

In 2012, in response to the changes in the overall economic environment and financial regulatory requirements and according to the macroeconomic dynamics and industrial restructuring trends, the Bank adhered to provide financial services for the real economy, adjusted and improved various credit policies in a timely manner, made greater efforts in credit restructuring and continued the building of the credit system. The Bank strictly controlled the credit risks of key areas, standardized the credit operations flow, and strengthened the basic system construction for post-lending management. The Bank innovated off-site monitoring approaches and measures, advanced management of loans with potential risk and collection and disposal of NPLs, and constantly improved the function and application range of the credit risk management system. As a result, credit risk management of the Bank was fully enhanced.

◆ *Credit Risk Management of Corporate Loans*

The Bank continued to advance the development of the credit system and further optimized the credit policy system. The Bank perfected basic management rules for low-risk credit business, loan guarantees, unsecured loans, etc., actively promoted the adaptability reform of the credit operations flow and balanced business handling efficiency and risk control under the new system of vertical concentration of approval and centralized control of credit risk. The Bank formulated and implemented regional credit policies pursuant to the national strategic planning for key regions, boosted cross-regional cooperation of affiliates, and gave full play to the regulating role of regional credit policies.

The Bank improved industry credit policies and enhanced industry-specific risk management. Subject to the macroeconomic policy and the orientation of the government's industry policy, the Bank timely formulated and adjusted the credit policy for certain industries and further expanded the coverage of industrial credit policies. The Bank navigated credit extension and credit structure adjustment in a scientific manner and further promoted the construction of a "green credit" system by continuing to implement stringent limit management for industries with excess capacity and actively supporting the development of advanced manufacturing, modern service, cultural and strategic emerging industries as well as green industries which support energy saving and environmental protection.

The Bank strengthened risk management of loans to local government financial vehicles (LGFVs). The Bank earnestly followed the relevant policies of the State Council and regulatory requirements of CBRC, timely adjusted policies on loans to LGFVs, and accelerated the rectification and credit enhancement of loans to LGFVs. The Bank prudently dealt with the exit of loans to LGFVs, strictly controlled new loans to LGFVs, and withdrew the approval authority on loans to LGFVs, thereby effectively managing loans to LGFVs.

The Bank strengthened risk management of the real estate industry. In response to changes in relevant policies of the government and the real estate market, the Bank adjusted the credit policy for the real estate industry in a timely fashion, further improved the property loan system and enhanced the risk prevention and control capability on property loans. The Bank also continued to implement stringent industry limit management and strictly controlled the extension of property loans. Moreover, the Bank strengthened capital management and loan proceeds close-end management for real estate projects, tightly controlled new loans to the real estate industry of cities where house purchase restriction was implemented, and reinforced off-site monitoring and analysis of property loans, to prevent and control risks in a timely manner.

The Bank strengthened risk management in relation to trade finance. Facing complicated business development environment, the Bank defined strict access standards for trade finance business, and intensified the dynamic management of key enterprises and logistics monitoring enterprises. The Bank strengthened trade contract management, invoice authenticity verification and risk management of related party transactions, used a variety of internal and external information platforms and means to strengthen trade background authenticity verification and strictly prevent false trading, and optimized system functions to improve system capability in preventing and combating fraudulent transactions. Besides, the Bank further regulated commodity finance business operations, controlled entry criteria of logistics monitoring enterprises and export monitoring modes, and beefed up risk alert and warning management where risk alerts were generated and business rectifications were carried out for affiliates surpassing the limit.

The Bank enhanced risk management of small enterprise loans. The Bank further revised its credit policies for small enterprise loans, conducted entry thresholds management, optimized credit extension modes for small enterprises, and promoted the real-time credit mode. The Bank adjusted credit repayment management requirements and enhanced management of agency repayment of loan proceeds. The Bank carried out risk investigations, exerted focused monitoring and pressures against small enterprise customers with potential risks, strengthened potential risk prevention and control in key areas and regions, gave risk alert and warning and required rectification for institutions with prominent risks. The Bank streamlined functions of the small enterprises business system, and applied the monitoring system for small enterprise loan uses, realizing automatic monitoring and management of uses of loan proceeds.

In addition, the Bank continued to improve the level of IT-based credit management. The Bank enhanced the functions of the asset management system in terms of credit risk control, product and service innovation and business flow, and promoted the application of the global credit management system (GCMS) in overseas institutions.

### ◆ *Credit Risk Management of Personal Loans*

The Bank continued to promote the comprehensive credit management for personal customers and successfully applied the comprehensive credit system for personal customers, effectively controlling the total financing amount of personal customers in personal loans, credit cards, etc. The Bank strengthened compliance management of personal loans, to ensure that the business was handled in compliance with laws and regulations. The Bank also perfected personal loan collection mechanism construction, paid more attention to update and maintenance of customer information, and improved rules and regulations and system functions. In addition, the Bank strengthened the monitoring and analysis of the quality of personal loans, alerted affiliates with potential risks in a timely manner, and increased the efforts in recovery and disposal of loans.

The Bank actively adjusted the structure of personal credit products and optimized the allocation of personal credit resources. The Bank strictly controlled the entry criteria for borrowers and continued to implement differentiated housing credit policies for personal housing loans. Besides, the Bank strengthened the management of uses of personal loans, suspended extension of personal housing mortgage loans and personal consumption loans, vigorously developed personal consumption loan business, and promoted product innovation.

The Bank further standardized and improved the operation process for credit business and continued to improve the level of IT-based personal credit management. The Bank also further optimized system functions, innovatively launched automatic approval process for personal housing loans to enhance credit approval efficiency, standardized system operation management, and simplified and improved the business operation.

◆ *Credit Risk Management of Credit Card Business*

The Bank implemented more prudent credit management, optimized allocation of resources, improved credit policies and credit standards of credit card business, integrated the credit card policies into the credit policy system of the Bank, and enhanced the dynamic management of credit to high-risk customers. The Bank also commissioned the comprehensive credit system for personal customers, realized system control of credit approval process and credit limit of credit card business, continuously optimized real-time monitoring system for credit card risk, and boosted automatic identification and hard control of risks. Furthermore, the Bank reinforced asset management of credit card business in a comprehensive manner, strengthened the monitoring and analysis of asset quality, increased efforts in collection of overdue loans and sped up recovery and disposal of NPLs.

◆ *Credit Risk Management of Treasury Operations*

The Bank's treasury business is exposed to credit risk mainly as a result of bonds investment and trading, interbank offering and bills with reverse repurchase agreements. The RMB bond investment portfolio mainly included bonds issued by the Chinese government and other domestic issuers. The foreign currency debt securities investment portfolio mainly included investment-level bonds. Credit risk management measures adopted by the Bank in relation to treasury operations mainly comprised defining customers' entry criteria, controlling credit limit, controlling investment limit (scale), controlling margin proportion, rating management and controlling authorization limit for single transactions. Except sovereign bonds, central bank bills and other government bonds, the Bank purchased bonds from any the entity within the limit of the line of credit of the entity approved by the Bank. The Bank set limits for each inter-bank offering and adopted the principle of management for both credit and authorization.

In 2012, the Bank continued to strengthen risk management of treasury operations by improving the risk monitoring and analysis mechanism and intensifying credit concentration management for financial institutional customers. The Bank also timely adjusted bonds investment structure according to changes in debt and credit policies, thus effectively reducing credit risk of bonds investment portfolios.

◆ *Credit Asset Quality Management*

According to the regulatory requirement on loan risk classification, the Bank implemented five-tier classification management in relation to loan quality and classified loans into five categories: pass, special mention, substandard, doubtful and loss, based on the possibility of collecting the principal and interest of loans. In order to implement sophisticated management of credit asset quality and improve risk management, the Bank implemented the twelve-tier internal classification system for corporate loans. The Bank applied five-tier classification management to personal credit assets and ascertained the class of the loans based on the number of months for which the lender is in default, anticipated loss rate, credit rating, collaterals and other quantitative and qualitative factors.

In 2012, the Bank improved its credit assets large-amount NPL management measures for corporate customers, established warning line management of some small-amount NPLs, and further enhanced collection and disposal of non-performing loans and the bank card overdraft of personal customers. The Bank increased cash recovery efforts, strived to increase the proportion of cash repayment and the rate of collection, disposal and recovery, and expedited the write-off of bad debts. The Bank ensured the stable, ordered and compliant management and disposal of NPLs by taking various measures including clarifying authorization, conducting strict review, improving mechanisms and optimizing systems.

## Credit Risk Analysis

### DETAILS OF THE BANK'S MAXIMUM EXPOSURE TO CREDIT RISK WITHOUT TAKING ACCOUNT OF ANY COLLATERAL AND OTHER CREDIT ENHANCEMENTS

In RMB millions

| Item | At 31 December 2012 | At 31 December 2011 |
|---|---|---|
| Balances with central banks | 3,098,883 | 2,702,011 |
| Due from banks and other financial institutions | 636,450 | 478,002 |
| Financial assets held for trading | 20,317 | 30,675 |
| Financial assets designated at fair value through profit or loss | 201,208 | 121,386 |
| Derivative financial assets | 14,756 | 17,460 |
| Reverse repurchase agreements | 544,579 | 349,437 |
| Loans and advances to customers | 8,583,289 | 7,594,019 |
| Financial investments | 3,858,420 | 3,759,972 |
| Receivables | 364,715 | 498,804 |
| Held-to-maturity investments | 2,576,562 | 2,424,785 |
| Available-for-sale financial assets | 917,143 | 836,383 |
| Others | 220,183 | 114,909 |
| **Subtotal** | **17,178,085** | **15,167,871** |
| **Credit commitments** | **2,076,206** | **1,976,592** |
| **Maximum credit risk exposure** | **19,254,291** | **17,144,463** |

### DISTRIBUTION OF LOANS BY FIVE-TIER CLASSIFICATION

In RMB millions, except for percentages

| Item | At 31 December 2012 | | At 31 December 2011 | |
|---|---|---|---|---|
| | Amount | Percentage (%) | Amount | Percentage (%) |
| Pass | 8,501,566 | 96.57 | 7,484,060 | 96.09 |
| Special mention | 227,551 | 2.58 | 231,826 | 2.97 |
| Non-performing loans | 74,575 | 0.85 | 73,011 | 0.94 |
| Substandard | 29,418 | 0.33 | 24,092 | 0.31 |
| Doubtful | 36,482 | 0.42 | 38,712 | 0.50 |
| Loss | 8,675 | 0.10 | 10,207 | 0.13 |
| **Total** | **8,803,692** | **100.00** | **7,788,897** | **100.00** |

Loan quality maintained stable. As at the end of 2012, according to the five-tier classification, pass loans amounted to RMB8,501,566 million, representing an increase of RMB1,017,506 million from the end of the previous year and accounting for 96.57% of total loans, up 0.48 percentage points. Special mention loans stood at RMB227,551 million, representing a decrease of RMB4,275 million and accounting for 2.58% of total loans, down 0.39 percentage points. Outstanding NPLs amounted to RMB74,575 million, increased by RMB1,564 million, and NPL ratio was 0.85%, down 0.09 percentage points.

**DISTRIBUTION OF LOANS AND NPLS BY BUSINESS LINE**

In RMB millions, except for percentages

| | At 31 December 2012 | | | | At 31 December 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| Item | Loan | Percentage (%) | NPL | NPL Ratio (%) | Loan | Percentage (%) | NPL | NPL Ratio (%) |
| Corporate loans | 6,332,578 | 71.9 | 60,977 | 0.96 | 5,666,511 | 72.7 | 62,263 | 1.10 |
| Discounted bills | 184,011 | 2.1 | – | – | 107,460 | 1.4 | – | – |
| Personal loans | 2,287,103 | 26.0 | 13,598 | 0.59 | 2,014,926 | 25.9 | 10,748 | 0.53 |
| **Total** | **8,803,692** | **100.0** | **74,575** | **0.85** | **7,788,897** | **100.0** | **73,011** | **0.94** |

The balance of non-performing corporate loans stood at RMB60,977 million, decreased by RMB1,286 million from the end of the previous year, and NPL ratio was 0.96%, down 0.14 percentage points. The balance of non-performing personal loans stood at RMB13,598 million, increased by RMB2,850 million, and NPL ratio was 0.59%, up 0.06 percentage points, which was mainly due to the increase in NPL amount of personal business loans, personal consumption loans and bank card overdrafts as a result of decrease of operating results or salaries of borrowers affected by the slower economic growth.

**DISTRIBUTION OF LOANS AND NPLS BY GEOGRAPHIC AREA**

In RMB millions, except for percentages

| | At 31 December 2012 | | | | At 31 December 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| Item | Loan | Percentage (%) | NPL | NPL Ratio (%) | Loan | Percentage (%) | NPL | NPL Ratio (%) |
| Head Office | 312,927 | 3.6 | 2,811 | 0.90 | 248,044 | 3.2 | 2,105 | 0.85 |
| Yangtze River Delta | 1,936,722 | 22.0 | 15,465 | 0.80 | 1,743,851 | 22.4 | 11,367 | 0.65 |
| Pearl River Delta | 1,240,314 | 14.1 | 10,171 | 0.82 | 1,090,247 | 14.0 | 10,802 | 0.99 |
| Bohai Rim | 1,558,968 | 17.7 | 13,180 | 0.85 | 1,409,314 | 18.1 | 12,826 | 0.91 |
| Central China | 1,190,327 | 13.5 | 13,885 | 1.17 | 1,047,939 | 13.5 | 13,564 | 1.29 |
| Western China | 1,524,074 | 17.3 | 10,774 | 0.71 | 1,311,132 | 16.8 | 14,622 | 1.12 |
| Northeastern China | 514,030 | 5.8 | 5,308 | 1.03 | 462,909 | 5.9 | 5,216 | 1.13 |
| Overseas and others | 526,330 | 6.0 | 2,981 | 0.57 | 475,461 | 6.1 | 2,509 | 0.53 |
| **Total** | **8,803,692** | **100.0** | **74,575** | **0.85** | **7,788,897** | **100.0** | **73,011** | **0.94** |

The Bank continuously optimized the geographic credit mix and promoted a balanced allocation of credit resources for different geographic areas, maintaining the stability of credit quality. The Bank actively supported the development of the western region, the rise of the central region and the revitalization of the northeastern region, and granted RMB406,451 million loans to the three areas, up 14.4%, higher than the average growth rate of the total loans.

## DISTRIBUTION OF CORPORATE LOANS AND NON-PERFORMING CORPORATE LOANS OF DOMESTIC BRANCHES BY INDUSTRY

In RMB millions, except for percentages

| Item | At 31 December 2012 | | | | At 31 December 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | Loan | Percentage (%) | NPL | NPL Ratio (%) | Loan | Percentage (%) | NPL | NPL Ratio (%) |
| Manufacturing | 1,392,266 | 23.8 | 22,442 | 1.61 | 1,121,413 | 21.5 | 23,432 | 2.09 |
| Chemical industry | 214,625 | 3.7 | 3,115 | 1.45 | 174,423 | 3.3 | 3,506 | 2.01 |
| Machinery | 212,086 | 3.6 | 2,721 | 1.28 | 180,605 | 3.5 | 2,328 | 1.29 |
| Metal processing | 173,477 | 3.0 | 2,570 | 1.48 | 143,597 | 2.8 | 1,698 | 1.18 |
| Iron and steel | 135,925 | 2.3 | 1,402 | 1.03 | 106,396 | 2.0 | 1,946 | 1.83 |
| Textiles and apparels | 135,744 | 2.3 | 3,179 | 2.34 | 114,382 | 2.2 | 3,365 | 2.94 |
| Computer, telecommunications equipment, and other electronic equipment | 94,558 | 1.6 | 1,103 | 1.17 | 56,920 | 1.1 | 1,721 | 3.02 |
| Transportation equipment | 72,752 | 1.3 | 1,312 | 1.80 | 63,189 | 1.2 | 1,469 | 2.32 |
| Non-metallic mineral | 63,599 | 1.1 | 1,710 | 2.69 | 52,047 | 1.0 | 1,726 | 3.32 |
| Petroleum processing, coking and nuclear fuel | 55,161 | 0.9 | 312 | 0.57 | 41,687 | 0.8 | 301 | 0.72 |
| Others | 234,339 | 4.0 | 5,018 | 2.14 | 188,167 | 3.6 | 5,372 | 2.85 |
| Transportation, storage and postal services | 1,135,626 | 19.4 | 9,538 | 0.84 | 1,052,529 | 20.2 | 12,173 | 1.16 |
| Wholesale and retail | 705,800 | 12.1 | 14,186 | 2.01 | 535,270 | 10.2 | 8,212 | 1.53 |
| Production and supply of electricity, heat, gas and water | 579,726 | 9.9 | 2,727 | 0.47 | 587,723 | 11.3 | 5,099 | 0.87 |
| Real estate | 487,186 | 8.3 | 4,297 | 0.88 | 512,178 | 9.8 | 4,775 | 0.93 |
| Water, environment and public utility management | 464,000 | 7.9 | 341 | 0.07 | 499,196 | 9.6 | 1,102 | 0.22 |
| Leasing and commercial services | 382,835 | 6.6 | 959 | 0.25 | 349,508 | 6.7 | 747 | 0.21 |
| Mining | 233,124 | 4.0 | 473 | 0.20 | 179,474 | 3.4 | 524 | 0.29 |
| Construction | 145,798 | 2.5 | 932 | 0.64 | 115,047 | 2.2 | 1,054 | 0.92 |
| Lodging and catering industry | 101,489 | 1.7 | 796 | 0.78 | 60,849 | 1.2 | 907 | 1.49 |
| Science, education, culture and sanitation | 84,339 | 1.5 | 578 | 0.69 | 67,673 | 1.3 | 693 | 1.02 |
| Others | 132,646 | 2.3 | 983 | 0.74 | 134,745 | 2.6 | 1,098 | 0.81 |
| **Total** | **5,844,835** | **100.0** | **58,252** | **1.00** | **5,215,605** | **100.0** | **59,816** | **1.15** |

In 2012, the Bank enhanced credit restructuring efforts, and proactively supported the development of advanced manufacturing, service sector, cultural industry and strategic emerging industries in line with the country's economic structural adjustment orientation. The increment of the loans to the manufacturing industry was RMB270,853 million, up 24.2%, which was mainly attributable to advanced manufacturing industries including equipment manufacturing and agricultural products processing industries as well as leading enterprises in some traditional industries; and the increment of loans to the wholesale and retail industry, mainly part of the loans to the service sector, was RMB170,530 million, together with that to the manufacturing industry accounting for 70.1% of new corporate loans granted. Loans granted to the transportation, storage and postal services industry increased by RMB83,097 million, mainly to support the key projects under construction and major continued projects. Loans to the water, environment and public utility management industry and the real estate industry decreased by RMB35,196 million and RMB24,992 million respectively, mainly benefiting from the Bank's effort to adjust credit structure and continue to control loans granted to the urban construction area and implement strict quota management of the real estate industry.

The Bank further enhanced risk management of loans to prevent industry credit risk. There was a significant decrease in the NPL balance in the transportation, storage and postal services, the production and supply of electricity, heat, gas and water and the manufacturing industries. Macro-economic downturn led to defaults of some wholesale enterprises engaging in steel products and building materials business and increase of NPLs to the wholesale and retail industry.

## CHANGES IN ALLOWANCE FOR IMPAIRMENT LOSSES ON LOANS

In RMB millions

| | Individually assessed | Collectively assessed | Total |
|---|---|---|---|
| **At the beginning of the year** | **35,409** | **159,469** | **194,878** |
| Charge for the year | 2,286 | 30,286 | 32,572 |
| Including: Impairment allowances charged | 13,933 | 103,257 | 117,190 |
| Impairment allowances transferred | 84 | (84) | – |
| Reversal of impairment allowances | (11,731) | (72,887) | (84,618) |
| Accreted interest on impaired loans | (944) | – | (944) |
| Write-offs | (6,279) | (1,249) | (7,528) |
| Recoveries of loans and advances previously written off | 701 | 191 | 892 |
| Other changes | 232 | 301 | 533 |
| **At the end of the year** | **31,405** | **188,998** | **220,403** |

As at the end of 2012, the allowance for impairment losses on loans stood at RMB220,403 million, a year-on-year increase of RMB25,525 million. Allowance to NPL was 295.55%, up 28.63 percentage points, further strengthened its capability of resisting risks; and allowance to total loans was 2.50%.

### DISTRIBUTION OF LOANS BY COLLATERAL

In RMB millions, except for percentages

| Item | At 31 December 2012 | | At 31 December 2011 | |
|---|---|---|---|---|
| | Amount | Percentage (%) | Amount | Percentage (%) |
| Loans secured by mortgages | 3,754,475 | 42.6 | 3,234,332 | 41.5 |
| Including: Personal housing loans | 1,340,891 | 15.2 | 1,189,438 | 15.3 |
| Pledged loans | 1,087,051 | 12.4 | 792,016 | 10.2 |
| Including: Discounted bills | 184,011 | 2.1 | 107,460 | 1.4 |
| Guaranteed loans | 1,269,028 | 14.4 | 1,201,184 | 15.4 |
| Unsecured loans | 2,693,138 | 30.6 | 2,561,365 | 32.9 |
| **Total** | **8,803,692** | **100.0** | **7,788,897** | **100.0** |

Loans secured by mortgages stood at RMB3,754,475 million, representing an increase of RMB520,143 million or 16.1% from the end of the previous year. Pledged loans amounted to RMB1,087,051 million, representing an increase of RMB295,035 million or 37.3%, which is mainly due to the increase in scale of discounted bills. Unsecured loans amounted to RMB2,693,138 million, representing an increase of RMB131,773 million or 5.1% from the end of the previous year.

### OVERDUE LOANS

In RMB millions, except for percentages

| Overdue periods | At 31 December 2012 | | At 31 December 2011 | |
|---|---|---|---|---|
| | Amount | % of total | Amount | % of total |
| 3 to 6 months | 9,485 | 0.11 | 4,475 | 0.06 |
| 6 to 12 months | 11,903 | 0.14 | 6,539 | 0.08 |
| Over 12 months | 40,707 | 0.46 | 47,001 | 0.60 |
| **Total** | **62,095** | **0.71** | **58,015** | **0.74** |

Note: Loans and advances to customers are deemed overdue when either the principal or interest is overdue. For loans and advances to customers repayable by installments, the total amount of loans is deemed overdue if part of the installments is overdue.

### RENEGOTIATED LOANS

Renegotiated loans and advances amounted to RMB7,188 million, representing a decrease of RMB1,124 million or 13.5% as compared to the end of the previous year. Renegotiated loans and advances overdue for over three months amounted to RMB3,969 million, a decrease of RMB1,755 million.

### EXTENDED LOANS

The balance of extended loans amounted to RMB14,232 million, representing a decrease of RMB2,985 million from the end of the previous year, of which the NPL balance was RMB2,869 million, representing a decrease of RMB1,138 million from the end of last year.

### BORROWER CONCENTRATION

The total amount of loans granted by the Bank to the single largest customer and top ten single customers accounted for 4.0% and 17.9% of the Bank's net capital respectively. The total amount of loans granted to the top ten single customers was RMB232,364 million, accounting for 2.6% of the total loans. The table below shows the details of the loans granted to the top ten single borrowers of the Bank as at the end of 2012.

In RMB millions, except for percentages

| Borrower | Industry | Amount | % of total |
|---|---|---|---|
| Borrower A | Transportation, storage and postal services | 52,307 | 0.6 |
| Borrower B | Transportation, storage and postal services | 25,650 | 0.3 |
| Borrower C | Transportation, storage and postal services | 23,749 | 0.3 |
| Borrower D | Transportation, storage and postal services | 23,145 | 0.2 |
| Borrower E | Transportation, storage and postal services | 21,275 | 0.2 |
| Borrower F | Transportation, storage and postal services | 19,756 | 0.2 |
| Borrower G | Mining | 19,500 | 0.2 |
| Borrower H | Production and supply of electricity, gas and water | 16,656 | 0.2 |
| Borrower I | Transportation, storage and postal services | 15,579 | 0.2 |
| Borrower J | Transportation, storage and postal services | 14,747 | 0.2 |
| **Total** | | **232,364** | **2.6** |

## Market Risk

Market risk is the risk of loss, in respect of the Bank's on and off-balance sheet activities, arising from adverse movements in market rates (including interest rates, exchange rates, stock price and commodity prices). The Bank is primarily exposed to interest rate risk and exchange rate risk (including gold).

The Bank's market risk management is the process of identifying, measuring, monitoring, controlling and reporting market risk for the purposes of setting up and enhancing the market risk management system, specifying responsibilities and process, determining and standardizing the measurement approaches, limit management indicators and market risk reports, controlling and mitigating market risk and improving the level of market risk management. The objective of market risk management is to control market risk exposures within a tolerable level and maximize risk-adjusted return according to the Bank's risk appetite.

The Bank strictly complies with the Guidelines on Market Risk Management of Commercial Banks issued by CBRC and other related regulatory requirements, implements an independent, centralized and coordinated market risk management model under the leadership of the Board of Directors and the Senior Management, and formed a management organizational structure featuring the segregation of the front office, the middle office and the back office in the financial market business. The Board of Directors assumes the final responsibility to implementation and monitoring of market risk management. The Senior Management is responsible to execute the strategies, overall policy and system regarding market risk management approved by the Board of Directors. The Market Risk Management Committee of the Senior Management is the review and decision-making organ of the Bank in respect of market risk management, and is responsible to review material affairs of market risk management and performs its duty in accordance with the Working Regulations for the Market Risk Management Committee. The market risk management departments at different levels undertake the responsibility to coordinate the work of market risk management at respective levels, and the business departments play their roles in implementing market risk management policies and standards in respective business areas.

In 2012, the Bank continued to strengthen its consolidated management of market risk and comprehensively enhanced the management and measurement of market risk at the Group's level. The Bank vigorously promoted the preparation for the implementation of IMA for market risk of the advanced measurement approach (AMA) for capital management, and perfected market risk reporting and management of the Group. The Bank also optimized measurement models and data management of market risk, improved the market risk measurement methodology, actively carried out IMA verification for market risk, and popularized core application of IMA. Moreover, the Bank accelerated overseas expansion of the global market risk management (GMRM) system, measurement and monitoring of which covered all overseas branches and some overseas subsidiaries, laying a foundation for the implementation of AMA for capital management.

## Banking Book and Trading Book

In order to take more effective market risk management measures and accurately measure regulatory capital arising from market risk, the Bank categorized all on- and off-balance sheet assets and liabilities into its trading book and banking book according to the nature and characteristics of these accounts. The trading book includes tradable financial instruments and commodity positions held by the Bank for the purposes of trading or hedging the risks of other items in the trading book, whereas all other positions are included in the banking book.

## Market Risk Management of the Banking Book

- *Interest Rate Risk Management*

Interest rate risk is the risk of loss in the overall gain and economic value of the banking book arising from adverse movements in interest rate and term structure etc. Interest rate risks mainly include re-pricing risk, yield curve risk, benchmark rate risk and option risk, of which, repricing risk and benchmark rate risk are the Bank's primary interest rate risks.

The Bank's interest rate risk management is aimed at maximizing the risk-adjusted net interest income within the tolerable level of interest rate risk according to its risk management and risk appetite. The Bank adheres to the prudence principle in interest rate risk management of the banking book. The department in charge of interest rate risk management of the banking book and business departments jointly monitor and forecast interest rate trends and manage the interest rate risk based on monitoring results to maximize the risk-adjusted income.

In 2012, the Bank improved its consolidated management framework of interest rate risk at the Group's level, and strengthened the consolidated monitoring of interest risk of the Group. Besides, the Bank closely followed policy trends and market changes, and actively met the challenges along with the interest rate liberalization reform. Moreover, the Bank enhanced the monitoring, analysis and measurement of interest rate risk, reinforced the limit management of interest rate risk, and continuously optimized the interest rate risk management system to lay a technical foundation for the sophisticated management of interest rate risk.

- *Exchange Rate Risk Management*

Exchange rate risk is the risk of adverse movements of exchange rate resulting in losses from the foreign currency exposure arising from the currency structures mismatch between foreign currency assets and liabilities.

The Bank's objective of exchange rate risk management is to control the impact of exchange rate fluctuations on the Bank's financial position and shareholders' equity to a tolerable extent. The Bank mitigates such risk principally by limit management and hedging of risks. The Bank carries out sensitivity analysis and stress testing of exchange rate risk on a quarterly basis, and submits exchange rate risk reports to the Senior Management and the Market Risk Management Committee.

## Market Risk Management of the Trading Book

The Bank continued to improve risk measurement and product control of the trading book by adopting multiple methods including value at risk (VaR), sensitivity analysis and exposure analysis to measure and manage products in the trading book. The Bank further also optimized the market risk limit management system based on trading portfolios, perfected the limit management indicators, promoted the limit management in overseas institutions, and realized dynamic monitoring and management with the help of its global market risk management (GMRM) system.

## Market Risk Analysis

◆ *Interest Rate Risk Analysis*

In 2012, as China's interest rate liberalization reform was deepened and accelerated, a new financial market price formation and transmission mechanism was gradually established, and market interest rates fluctuated in a greater span. In response to the new challenges of interest rate risk management, the Bank estimated and analyzed the impact of interest rate policy adjustments, actively studied and developed solutions, optimized and upgraded functions of the interest rate management system, and strengthened monitoring and analysis of the interest rate implementation as well as comparisons with the peers, thereby preventing the interest rate repricing risk during the downtrend and improving the interest rate risk management.

As at the end of 2012, the Bank had a cumulative interest rate sensitivity negative exposure within one year of RMB199,519 million, representing a decrease of RMB711,332 million from the end of the previous year, mainly because of the increase of loans repriced or matured within one year. Cumulative interest rate sensitivity positive exposure over one year stood at RMB1,125,251 million, representing a decrease of RMB648,853 million, mainly due to the significant increase of medium and long-term customers' deposits and the coming maturity of some central bank bills. The structure of the Bank's interest rate risk exposure according to the contractual repricing date or maturity date (whichever is earlier) is shown in the following table:

**INTEREST RATE RISK EXPOSURE**

In RMB millions

| | Less than 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years |
|---|---|---|---|---|
| At 31 December 2012 | (1,539,586) | 1,340,067 | (48,908) | 1,174,159 |
| At 31 December 2011 | (1,887,041) | 976,190 | 584,145 | 1,189,959 |

Note: Please refer to "Note 53.(c)(iii) to the Financial Statements: Interest rate risk".

The following table illustrates the interest rate sensitivity analysis of the Bank on the assumption that the overall interest rate in the market moves in parallel and risk management actions that the Management may take to mitigate interest rate risk are not taken into account:

**INTEREST RATE SENSITIVITY ANALYSIS**

In RMB millions

| | At 31 December 2012 | | At 31 December 2011 | |
|---|---|---|---|---|
| Changes of interest rate in basis points | Impact on net interest income | Impact on equity | Impact on net interest income | Impact on equity |
| Increase by 100 basis points | (6,994) | (22,489) | (12,509) | (19,151) |
| Decrease by 100 basis points | 6,994 | 23,851 | 12,509 | 20,417 |

Note: Please refer to "Note 53.(c)(iii) to the Financial Statements: Interest rate risk".

◆ *Exchange Rate Risk Analysis*

In 2012, the People's Bank of China further improved the Renminbi exchange rate formation mechanism. Renminbi appreciated slightly with obvious characteristics of two-way fluctuations, exchange rate elasticity was significantly enhanced, and the exchange rate of Renminbi against US dollar appreciated 0.3% during the year. The Bank closely watched the changes in external market and internal funds, actively took a combination of measures such as price leverage to adjust and optimize the aggregate amount and structure of foreign exchange assets and liabilities, and controlled the exchange rate risk of the Bank while maintaining a coordinated development of foreign exchange deposit and loan businesses.

**FOREIGN EXCHANGE EXPOSURE**

In RMB (USD) millions

| Item | At 31 December 2012 | | At 31 December 2011 | |
|---|---|---|---|---|
| | RMB | USD equivalent | RMB | USD equivalent |
| Exposure of on-balance sheet foreign exchange items, net | 266,916 | 42,820 | 265,290 | 42,104 |
| Exposure of off-balance sheet foreign exchange items, net | (187,054) | (30,008) | (183,307) | (29,092) |
| **Total foreign exchange exposure, net** | **79,862** | **12,812** | **81,983** | **13,012** |

Please refer to "Note 53.(c)(ii) to the Financial Statements: Currency risk" for the exchange rate sensitivity analysis.

◆ *Market Risk Analysis of the Trading Book*

The Bank applied the Historical Simulation Method (adopting a confidence interval of 99%, holding period of one day and historical data of 250 days) to measure the VaR of the interest rate risk, foreign exchange rate risk, and commodity risk of fundamental commodity products and derivative products of the trading books of the Head Office and all overseas branches.

**VALUE AT RISK (VAR) OF THE TRADING BOOK**

In RMB millions

| Item | 2012 | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | Period end | Average | Maximum | Minimum | Period end | Average | Maximum | Minimum |
| Interest rate risk | 14 | 28 | 81 | 7 | 39 | 44 | 103 | 23 |
| Foreign exchange rate risk | 28 | 28 | 60 | 3 | 15 | 14 | 81 | 3 |
| Commodity risk | 0 | 7 | 20 | 0 | 1 | 4 | 63 | 1 |
| **Total portfolio VaR** | **32** | **41** | **88** | **22** | **41** | **46** | **101** | **24** |

Note: Please refer to "Note 53.(c)(i) to the Financial Statements: VaR".

## Liquidity Risk

Liquidity risk is the risk that the Bank, despite its solvency, is unable to raise funds on a timely basis or at a reasonable cost to fund the asset growth or to settle liabilities as they fall due. Liquidity risk includes financing liquidity risk and market liquidity risk. Financing liquidity risk refers to the risk that the Bank fails to satisfy the funding needs in a timely and effective manner without affecting daily operation or financial position of the Bank, while market liquidity risk refers to the risk that the Bank is unable to raise funds through the disposal of assets at a reasonable market price as a result of market illiquidity or market volatility.

Liquidity risk may arise from the following events or factors: withdrawal of customers' deposits, drawing of loans by customers, overdue payment of debtors, mismatch of asset and liability, difficulties in realization of assets, operating losses, derivatives trading risk and risk associated with its affiliates.

### Liquidity Risk Management

In 2012, according to the macroeconomic environment and the changes to financial regulatory policies, the Bank further strengthened the development of its liquidity risk management system and the management of liquidity risk. The Bank established the RMB treasury operation management framework for overseas institutions, and formulated the annual management scheme for RMB treasury operation of overseas institutions. With risks under control, the Bank supported the RMB business development of overseas institutions, and improved the Group's RMB liquidity risk management. It attached great importance to the capital operation of off-balance sheet businesses, continuously expanded the monitoring coverage for liquidity risk of off-balance sheet businesses, and intensified monitoring to enhance the coordination and management capabilities of liquidity risks of both on- and off-balance sheet businesses. The Bank tracked the development of PBC second-generation payment system, and improved functions of the liquidity management module of the Bank's payment system, hence preparing grounds for liquidity management.

◆ *Liquidity Risk Management System and Governance Structure*

The Bank's liquidity risk management system conforms to the overall development strategy and the entire risk management system of the Bank, and commensurate with the scale, business nature, complexity and other aspects of the Bank. The system includes the following fundamental elements: effective monitoring by the Board of Directors and the Senior Management; sound strategy, policy and procedures for liquidity risk management; sound identification, measurement, monitoring and control procedures for liquidity risk; sound internal control and effective supervision mechanism; effective and comprehensive information management system; and effective crisis handling mechanism.

The Bank's governance structure in respect of liquidity risk management embodies the decision-making system comprising the Board of Directors and its special committees as well as the Asset & Liability Management Committee and the Risk Management Committee of the Head Office; the supervision system consisting of the Board of Supervisors, the Internal Audit Bureau and the Internal Control & Compliance Department; and the execution system made up of the Asset & Liability Management Department, the business departments and the operation management departments of the Head Office. Each of these systems undertakes corresponding decision making, execution and supervision functions in respect of liquidity risk management in accordance with their respective responsibilities.

◆ *Objective, Strategy and Important Policy of Liquidity Risk Management*

The objective of liquidity risk management of the Bank is to meet the liquidity needs of asset, liability and off-balance sheet activities and meet its payment obligation to external parties on a timely basis and to effectively balance fund profitability and security no matter during the normal operation or at a highly stressed condition through the development of a scientific and comprehensive liquidity risk management mechanism and the implementation of effective identification, measurement, monitoring and reporting measures on liquidity risk. On this basis, the Bank aims to strengthen liquidity risk management and monitoring of affiliates and to mitigate the overall liquidity risk of the Group.

The strategy of liquidity risk management of the Bank is to establish a centralized liquidity risk management mode based on the thorough consideration of the organizational structure and major business characteristics of the Bank as well as regulatory policies, and list out concrete policies in relation to specific matters of liquidity risk management. Important policies for liquidity risk management are formulated in accordance with external and macro operating environments and business development of the Bank, with a view to striking an effective balance among security, liquidity and profitability.

◆ *Liquidity Risk Management Mode*

The mode of liquidity risk management of the Bank is consolidated liquidity risk management based on management of liquidity risk at the entity level, of which, the Head Office manages the liquidity risk of the Bank in a unified and centralized manner and ensures liquidity security of the Bank through the dynamic adjustment of the aggregate amount and structure of assets and liabilities, whereas the affiliates assume primary responsibilities to respective liquidity risk management, and undertake corresponding responsibilities to liquidity management as required by the Head Office.

◆ *Stress Testing*

Following the prudence principle, the Bank employs the scenario analysis method and the sensitivity analysis method to perform the stress testing on liquidity risk. The Bank has taken full consideration of various macroscopic and microscopic factors that may influence the Bank's liquidity status to set stress scenarios against those products, businesses and institutions with concentrated liquidity risk in line with the characteristics and complexity of the Bank's businesses. The Bank performs stress testing on a quarterly basis, and when necessary, may carry out temporary and special stress testing at a particular time in accordance with changes in the external operating environment and regulatory requirements.

## Liquidity Risk Analysis

In 2012, PBC continued to adopt a sound monetary policy, and strived to make the policy more targeted, flexible and forward-looking. It applied reserve ratio requirement, open market operations and other monetary policies to regulate the money supply in the market, and strengthened the liquidity management of the banking system, realizing a relatively balance between money demand and supply. The Bank paid close attention to the trend of market funds, and dynamically adjusted its liquidity management strategy and fund operation tempo in accordance with the Bank's assets and liabilities, business development and liquidity status. The Bank continuously improved the scale and structure of liquidity reserve assets at all levels, effectively reduced the use of low-efficiency funds while ensuring bank-wide liquidity security, raised its fund use efficiency and practically improved its ability to deal with liquidity risk.

In respect of foreign currencies, the Bank closely observed the changes in market interest rates and funds, adjusted foreign currency liquidity management strategy and internal and external fund prices in a flexible manner, coordinated the balanced development of foreign currency assets and liabilities business while ensuring a safe liquidity level.

In 2012, the deposit and loan businesses of the Bank achieved coordinated development, the asset and liability structure was further improved, and liquidity risk management ability was further strengthened. Relevant indicators reflecting the Bank's liquidity status all met the regulatory requirements. See the table below for details:

| Item | | Regulatory Criteria | At 31 December 2012 | At 31 December 2011 | At 31 December 2010 |
|---|---|---|---|---|---|
| Liquidity ratio (%) | RMB | >=25.0 | 32.5 | 27.6 | 31.8 |
| | Foreign currency | >=25.0 | 65.2 | 90.6 | 53.4 |
| Loan-to-deposit ratio (%) | RMB and foreign currency | <=75.0 | 64.1 | 63.5 | 62.0 |

Note: The regulatory indicators in this table are calculated in accordance with the regulatory requirements, definitions and accounting standards applicable to the relevant period. The comparative figures are not restated.

The Bank also assessed the liquidity risk status by using liquidity exposure analysis. As at the end of 2012, relatively big changes in the liquidity exposure of the Bank mainly occurred for the following terms: 1 to 3 months, 3 months to 1 year and over 1 year. The increased due from banks and other financial institutions in the corresponding period reduced the negative exposure for the 1 to 3 months category; the increase in customer loans and the approaching maturity of some central bank bills reduced the negative exposure for the 3 months to 1 year category; the increase of medium and long-term customers' deposits as well as the payment of part of the Huarong bonds led to the reduction of the positive exposure for the over 1 year category. Demand deposits of the Bank continued to grow because of a high deposition rate, and at the same time, the Bank made major investment in central bank bills, treasury bonds and other high-liquidity assets, together with sufficient liquidity reserves, which have driven the cumulative positive liquidity exposure to further increase compared to the end of last year. Therefore, the overall liquidity of the Bank was safe. The liquidity exposure analysis of the Bank as at the end of 2012 is shown in the table below:

**LIQUIDITY EXPOSURE ANALYSIS**

In RMB millions

| | Overdue/ repayable on demand | Less than 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Undated | Total |
|---|---|---|---|---|---|---|---|---|
| At 31 December 2012 | (7,008,584) | (439,485) | (461,287) | (697) | 2,158,073 | 4,046,904 | 2,833,535 | 1,128,459 |
| At 31 December 2011 | (6,707,099) | (459,158) | (618,315) | (311,001) | 2,613,952 | 3,815,715 | 2,623,729 | 957,823 |

Note: Please refer to "Note 53.(b) to the Financial Statements: Liquidity risk".

## Operational Risk

### Operational Risk Management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, employees and IT systems or from external events, including legal risk, but excluding strategic and reputational risk. There are seven major types of operational risks faced by the Bank, including internal fraud, external fraud, employment system and workplace safety, customers, products and business activities, damage to physical assets, IT system events and execution, delivery and process management. Among these, the execution, delivery and process management and the customers, products and business activities constitute major sources of operational risk losses of the Bank.

The Bank strictly followed the requirements of the Guidance to the Operational Risk Management of Commercial Banks issued by CBRC. Under the leadership of the Board of Directors and the Senior Management, the Bank adopted the operational risk control mode of "integrated management, classified control". The Board of Directors undertakes relevant responsibility for the effectiveness of the operational risk management according to the Articles of Association, and the Senior Management is responsible for implementing the strategy, overall policy and system for operational risk management approved by the Board of the Directors. The Operational Risk Management Committee under the Senior Management, as the organizer and coordinator of operational risk management of the Bank, is responsible for reviewing and approving significant matters related to operational risk management and working under the Working Regulations for the Operational Risk Management Committee. Marketing and product departments at various levels form the first line of defense of operational risk management, which assume direct responsibility for operational risk management in each business line; internal control and compliance departments at various levels assume the duty of operating the second line of defense of operational risk management, which are responsible for the overall management of operational risks of institutions at various levels and for the arrangement and organization for the establishment and implementation of operational risk management system at each level; discipline enforcement, security, human resources, IT, finance & accounting, legal affairs, operation management, credit management and risk management departments at all levels, together with comprehensive management departments, form the second line of defense of operational risk management. They serve as the classification control departments for operational risk of all institutions, and are responsible for the control of specific types of operational risks; internal audit departments at all levels form the third line of defense of operational risk management, which are responsible for auditing and evaluating the functioning of the Bank's operational risk management framework.

In 2012, in accordance with latest regulatory requirements concerning operational risk and the trends of operational risk, the Bank strengthened the refined management of operational risks in key fields and core links, smoothly promoted the preparations for the implementation of the advanced measurement approach (AMA), and further improved the operational risk management control mechanism. The Bank formulated the Measures for Operational Risk Management, the Administrative Measures for Reporting of Material Operational Risk Events and the Administrative Measures for Operational Risk and Internal Control Self-assessment, distributed the Manual for Monitoring of Operational Risk, and improved the three-tier policy and regulation system for operational risk management comprising the measures for operational risk management, relevant administrative measures and detailed rules, and manuals. The Bank upgraded the operational risk management system, and boosted the expansion of the management system to overseas institutions. It kept improving the monitoring indicator system for operational risk, reinforced the quality control for the Group's operational risk data, and consolidated the basis for adopting the advanced measurement approach for operational risk. The Bank enhanced the measurement modules of advanced measurement approaches and system functions, and propelled the application of capital measurement results. In addition, the Bank strengthened the operational risk management for all business lines, improved the operational risk control system for them, and stepped up the monitoring and inspection of operational risk.

### Legal Risk

Legal risk is the risk of incurring legal sanctions, regulatory penalties, financial losses, reputational losses or other negative consequences that arise out of or in connection with the failure of the Bank to comply with relevant laws, regulations, administrative rules, regulatory provisions and requirements of other relevant rules in the operational management of the Bank; the unfavorable legal defects that exist in products, services or information provided, transactions engaged in, and contracts, agreements or other documents executed, by the Bank; legal disputes (legal or arbitration proceedings) between the Bank and its customers, counterparties and stakeholders; important changes in relevant laws and regulations, administrative rules, regulatory provisions and other relevant rules; and other relevant legal events that occur internally and externally.

Based on the objective to ensure legal and compliant operation, the Bank always attaches importance to establishing a sound legal risk management system and forging a full-process legal risk prevention and control mechanism to support and secure business innovation and market competition, and prevent and eliminate various potential or practical legal risks. The Board of Directors is responsible to review and determine the strategy and policy relating to legal risk management, and assumes the ultimate responsibility of legal risk management. The Senior Management is responsible to execute the legal risk management strategy and policy, formulate relevant systems and measures, and examine and approve relevant important affairs. The Legal Affairs Department of the Head Office is the functional department in charge of legal risk management across the Bank, relevant business departments provide related support and assistance on the work regarding legal risk prevention and control, and the affiliates and domestic and overseas branches undertake the responsibility of legal risk management of their respective institutions.

In 2012, the Bank steadily pushed forward the reform of its legal affairs management system, reinforced the role of the Legal Affairs Department of the Head Office as the Bank's core legal risk control department, and enhanced the legal risk prevention and control ability of branches' legal affairs departments. The Bank continued to advance the Group's consolidated management of legal risk, and improved the mechanism and process in this regard. It improved the quality of legal consulting and review, and applied legal means to support the internationalized and diversified operations as well as the development and innovation of various businesses. It pushed forward the upgrading of litigation management system, strengthened the management of legal proceedings, in particular where the Bank was the defendant, prevented and minimized the risk of being prosecuted in legal proceedings, and kept improving its case management capability. The Bank followed due standards in contract management, strengthened the management of authorization, trademark and the protection of relevant intellectual properties.

## Anti-money Laundering

In strict compliance with applicable laws and regulations concerning anti-money laundering, the Bank actively implemented the "risk-based" regulatory requirements in respect of anti-money laundering, earnestly fulfilled the obligation to anti-money laundering as a commercial bank, and fully enhanced the compliance level.

In 2012, international and domestic regulators imposed stricter requirements on anti-money laundering. The Bank abided by laws and regulations in China and countries (regions) where its institutions were located, and played its due role in anti-money laundering and counter-terrorist financing. As the first pilot bank in China, the Bank spared no efforts in the pilot reporting of high-value and suspicious transactions, hence providing practices for the reform of domestic regulatory system. It applied the working mechanism of "centralization, systematization, professionalism" for anti-money laundering across the whole bank, and built a centralized and effective anti-money laundering mode. The Bank formulated multiple internal control rules concerning anti-money laundering such as the administrative measures for the identification of customer identity and the keeping of customer identity documents and transaction records. It developed the new-generation anti-money laundering monitoring system, launched the integrated anti-money laundering management system, and made an overall plan for the building of an integrated domestic and overseas anti-money laundering monitoring system. The Bank stepped up efforts in maintaining customer information and made it more complete and authentic. Besides, the Bank launched the anti-money laundering assessment project and organized self-investigations and compliance inspections concerning anti-money laundering for overseas institutions, thereby improving the control of the Group's anti-money laundering and counter-terrorist financing risks. The Bank also carried out publicity activities and trainings on anti-money laundering to raise employees' awareness of anti-money laundering risk prevention and professional competency.

During the reporting period, no domestic or overseas institutions or any employees were found to be or were suspected of being involved in money laundering or terrorist financing activities.

## Reputational Risk

Reputational risk is the risk of negative assessment or comments on a commercial bank from stakeholders as a result of its operation, management and other behaviors or external events. Reputational risk may arise in any part of the Bank's operation and management, and usually co-exists and correlates with credit risk, market risk, operational risk and liquidity risk.

Reputational risk management of the Bank refers to the process and method which provide the basis for ensuring the achievement of the overall objective of reputational risk management, including the establishment and improvement of the reputational risk management system through the identification, assessment, monitoring and handling of reputational risk factors and reputational events. The Bank adheres to the prevention oriented principle and incorporates reputational risk management into each aspect of operational management of the Bank and every customer service process, with a view to controlling and mitigating reputational risk based on its source and minimizing the possibility of occurrence of and influence from reputational events.

As the highest decision-making body of the Bank's reputational risk management, the Board of Directors is responsible for formulating strategies and policies concerning reputational risk management that are in line with the strategic objective of the Bank. The Senior Management is responsible for implementing such strategies and policies established by the Board of Directors and leading reputational risk management of the Bank. The Bank has established a special reputational risk management team to take charge of the daily management of reputational risk.

In 2012, the Bank boosted the building of the reputational risk management system and working mechanism, and formulated administrative measures for reputational risk. It streamlined the Group's reputational risk management structure and management process, and intensified the reputational risk management for overseas branches and controlling institutions. The Bank investigated reputational risk, established a tiered ledger for reputational risk management, and emphasized the control in advance and mitigation of reputational risk factors. It paid constant attention to the impact of new media such as Weibo on reputational risk management, and studied new changes in dissemination pattern and corresponding management measures for reputational risk.

## Country Risk

Country risk is the risk incurred to a bank arising from the inability or refusal by the borrower or debtor to repay bank debt, losses suffered by the bank or its commercial presence in such country or region and other losses due to economic, political, social changes and events in a country or a region. Country risk may be triggered by deterioration of economic conditions, political and social turmoil, asset nationalization or expropriation, government's refusal to pay external debt, foreign exchange control or currency depreciation in a country or region.

The Bank strictly observes the Guidelines on the Management of Country Risk by Banking Financial Institutions and other regulatory requirements of CBRC, implemented a management model where responsibilities of each department or business line are clearly defined under the leadership of the Board of Directors and the Senior Management. The Board of Directors assumes the ultimate responsibility for the effectiveness of country risk management. The Senior Management is responsible to execute the country risk management policies approved by the Board of Directors. The Credit Risk Management Committee of the Head Office is responsible to review matters regarding credit risk management. The Bank manages and controls country risk through a series of management tools, including country risk assessment and rating, country risk limits for the entire group and continuous statistics, analysis and monitoring of country risk exposure, as well as country risk assessment using stress tests. The Bank reviews the country risk rating and limits at least annually and makes adjustments when necessary.

In 2012, facing the complicated and volatile international conditions, the Bank continued to strengthen country risk management, and improve the country risk management system by revising relevant policy and process. The Bank closely watched changes in risk exposures, constantly tracked, monitored and reported country risk, and timely updated and adjusted the country risk rating and limits. It also conducted stress testing on country risk. In addition, the Bank strengthened the early warning mechanism for country risk, improved relevant contingency plans, effectively controlled country risk while pushing ahead the internationalization strategy.

# CAPITAL MANAGEMENT

The Bank implements a comprehensive capital management which is composed of capital adequacy ratio management, economic capital management, book capital management, and aggregate capital and structure management. Capital management takes capital as the object as well as an instrument for its management activities, including measurement, planning, allocation, monitoring, evaluation, operation and others. The objectives of the Bank's capital management include: (1) maintaining reasonable capital adequacy ratio to continue to meet regulatory rules and policy requirement on capital, and keeping stable capital base to ensure the Bank's business growth and the implementation of its business development and strategic plan and to achieve comprehensive, coordinated and sustainable development; (2) adopting the advanced capital measurement approach, improving the internal assessment procedures for capital adequacy, disclosing information on capital management, covering all types of risk, and ensuring the secure operation of the Bank; (3) applying quantified results of various risks, establishing a bank value management system centering around economic capital, improving the policy, process and application management system, strengthening the capital constraint and incentive mechanism, enhancing the Bank's product pricing and decision-making capabilities, and improving the capital allocation efficiency; (4) making reasonable use of various capital instruments, continuously enhancing capital strength, refining capital structure, improving capital quality, reducing capital cost, and generating maximum return to shareholders.

In 2012, the Bank strengthened the capital constraint mechanism, applied economic capital management instruments, and intensified the control of the aggregate and structure of risk assets. It disposed of and reduced inefficient and invalid capital consumption, effectively controlled the growth of risk weighted assets of off-balance sheet business, and improved the capital allocation efficiency and capital adequacy ratio.

## Allocation and Management of Economic Capital

Economic capital management of the Bank includes three major procedures: measurement, allocation and evaluation. Economic capital indicators include Economic Capital (EC), Risk-Adjusted Return on Capital (RAROC) and Economic Value-added (EVA). All the above are applied in credit resource allocation, business plan, expenditure allocation, performance assessment, quota management and product pricing, etc. The Bank intensified the adjustment of the aggregate amount and structure of risk-weighted assets through its economic capital management, further raising the level of resource allocation efficiency and return on capital.

In 2012, the Bank further improved its economic capital management, strengthened the capital constraint mechanism, and strictly implemented the measures for quota management. By utilizing economic capital management instruments, it disseminated relevant regulatory policies on loans to local government financing vehicles (LGFV). It upgraded the credit assets structure, improved the capital management effectiveness, and propelled the application of economic capital in branch management and forefront businesses. By setting limits for economic capital, the Bank effectively controlled the growth of risk weighted assets and improved the capital utilization efficiency. The Bank introduced internal ratings-based (IRB) approach and other advanced capital measurement approaches, updated the economic capital measurement standard (V4.1), and improved the functions of the capital management system. The Bank improved the economic capital measurement and evaluation policy for credit business, and drove the adjustment of the bank-wide credit structure.

## Capital Adequacy Ratio and Leverage Ratio

The Bank calculates capital adequacy ratio and core capital adequacy ratio in accordance with the Regulations Governing Capital Adequacy of Commercial Banks and related regulations promulgated by CBRC, and sets out the objective of capital adequacy ratio management based on the development strategy and risk appetite of the Bank.

As at the end of 2012, the Bank's capital adequacy ratio and core capital adequacy ratio stood at 13.66% and 10.62% respectively, both met regulatory requirements. The capital adequacy ratio and the core capital adequacy ratio increased by 0.49 percentage points and 0.55 percentage points from the end of last year, respectively, mainly because (1) the Bank's profit increased steadily, effectively replenished its core capital; (2) during the reporting period, the Bank issued an aggregate RMB20.0 billion worth of RMB subordinated bonds, all of which were used to replenish supplementary capital; (3) the growth of risk weighted assets was effectively kept under control.

### CAPITAL ADEQUACY RATIO

In RMB millions, except for percentages

| Item | At 31 December 2012 | At 31 December 2011 |
|---|---|---|
| **Core capital** | **1,044,564** | **882,300** |
| Share capital | 349,620 | 349,084 |
| Reserves[(2)] | 691,482 | 532,135 |
| Minority interests | 3,462 | 1,081 |
| **Supplementary capital** | **298,365** | **271,830** |
| General provisions for loan impairment | 88,037 | 77,889 |
| Long term subordinated bonds | 187,585 | 167,655 |
| Convertible bonds | 22,558 | 24,615 |
| Other supplementary capital | 185 | 1,671 |
| **Total capital base before deductions** | **1,342,929** | **1,154,130** |
| **Deductions** | **43,915** | **41,667** |
| Goodwill | 24,287 | 22,223 |
| Unconsolidated equity investments | 19,574 | 18,957 |
| Others | 54 | 487 |
| **Net capital base** | **1,299,014** | **1,112,463** |
| **Net core capital base** | **1,010,463** | **850,355** |
| **Risk weighted assets and market risk capital adjustment** | **9,511,205** | **8,447,263** |
| **Core capital adequacy ratio** | **10.62%** | **10.07%** |
| **Capital adequacy ratio** | **13.66%** | **13.17%** |

Notes: (1) Please refer to "Note 53.(d) to the Financial Statements: Capital management".

(2) Mainly includes the valid portion of capital reserve, surplus reserves, general reserve and the valid portion of retained profits.

### LEVERAGE RATIO

In RMB millions, except for percentages

| Item | At 31 December 2012 |
|---|---|
| Core capital | 1,044,564 |
| Deductions of core capital | 34,101 |
| **Net core capital** | **1,010,463** |
| Balance of adjusted on-balance sheet assets | 17,539,405 |
| Balance of adjusted off-balance sheet items | 2,145,853 |
| **Balance of adjusted on- and off-balance sheet assets** | **19,651,157** |
| **Leverage ratio** | **5.14%** |

Note: Calculated based on relevant provisions in the Administrative Measures for Leverage Ratio of Commercial Banks promulgated by CBRC.

## Capital Financing Management

To guarantee the continuous, stable and sound development of businesses, and to further enhance its comprehensive competitiveness, risk resistance ability and sustainable profitability, the Bank publicly issued RMB20.0 billion worth of RMB subordinated bonds in the national inter-bank bond market on 11-13 June 2012.

For details of relevant fundraising activities, please refer to "Details of Changes in Share Capital and Shareholding of Substantial Shareholders — Details of Securities Issuance and Listing".

# PREPARATION FOR THE IMPLEMENTATION OF THE CAPITAL REGULATION

## Building the Three Pillars

Pursuant to the overall planning of CBRC for the implementation of the new capital regulatory standards, the Bank constantly strengthened enterprise risk management, kept improving credit risk management, and accelerated market risk management. The Bank maintained a leading level in operational risk management among peers, implemented prudent liquidity risk management and steadily pressed ahead with the preparatory work for the implementation of the New Capital Accord. During the reporting period, CBRC inspected and accepted the implementation of the advanced capital management methods in the Bank and the meeting of the Board of Directors of the Bank reviewed and approved the Compliance & Implementation Planning for Three Pillars of the Capital Regulation.

### Pillar 1

In respect of credit risk, the Bank further optimized the customer rating model, improved the group legal person customer rating system with "unified model, regulations and system", and reinforced the group management of the internal rating of credit risks. It pushed forward the optimization of the internal rating system and model and constantly improved the business verification system of internal rating business. Besides, the Bank continuously promoted the application of internal rating results in credit approval, risk monitoring and early warning, risk limit setting, economic capital measurement and performance appraisal.

In respect of market risk, the Bank continued to improve the market risk management system based on the internal model approach (IMA). It also optimized the measurement mode and data management of market risks, promoted the global market risk management system (GMRM) abroad, actively carried out the testing of the market risk internal model approach, and promoted the application of the IMA in limit management, stress test, capital measurement and risk reporting.

In respect of operational risk, the Bank continued to promote the building of the advanced measurement approach (AMA) for operational risk, and improved the AMA system. The Bank further optimized the AMA model and the AMA information system, and promoted the application of the project results under AMA for operational risk.

### Pillar 2

During the reporting period, the Bank completed the system construction of internal capital adequacy assessment process (ICAAP), and put the assessment system for substantive risks, the forecasting system for capital adequacy and the integrated stress testing system into operation. It further improved the level of enterprise risk management on the basis of meeting the regulatory requirements of Pillar 2.

### Pillar 3

The Bank closely examined the regulatory requirements of CBRC on information disclosure of Pillar 3 and the disclosure practices of its international peers. Taking its practical situation into consideration, the Bank built the information disclosure policy system under Pillar 3 and completed the formulation of the template information disclosure. At the end of 2012, the Bank has met the requirements under the Capital Regulation in information disclosure under Pillar 3 and has equipped with the ability of the information disclosure under Pillar 3.

## Countermeasures for the Capital Management

In June 2012, CBRC officially issued the Capital Regulation which further specified the definition of capital adequacy ratio and improved the regulatory requirements on capital adequacy ratio: core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of domestic systematically important banks shall not be lower than 8.5%, 9.5% and 11.5% respectively. The Bank analyzed the influence of the Capital Regulation on the business development of commercial banks to explore new supplementary channels for new capital instruments. The meeting of the Board of Directors and the shareholders' general meeting of the Bank reviewed and approved the 2012-2014 Capital Planning of Industrial and Commercial Bank of China Limited. The meeting of the Board of Directors reviewed and approved the Compliance Planning for Capital Adequacy Ratio of Industrial and Commercial Bank of China.

The 2012-2014 Capital Planning of Industrial and Commercial Bank of China Limited took the capital needed for future business development and capital investment demands, the influence of the Capital Regulation on capital adequacy ratio, supplementary capital replenished by future retained profits and supplementary capital needed for the compliance with new regulatory requirements into comprehensive consideration, made a plan for specific capital supplementary ways and limit, conducted systematic and non-systematic stress testing under various contexts and proposed specific work arrangements for the implementation of the capital planning. According to the 2012-2014 Capital Planning of Industrial and Commercial Bank of China Limited, on the basis of the compliance with capital adequacy ratio, the capital adequacy of the Bank will keep a range for the safety margin and buffer so as to prevent capital adequacy ratio from falling below the requirements of regulatory policies on accidental occasions and to satisfy the temporary needs for capital. On the basis of keeping capital adequacy ratio at a reasonable level, the Bank attached great importance to balance the relation between capital adequacy and return on capital, stabilized capital adequacy ratio, avoided idle capital resulted from large fluctuation of capital adequacy ratio to improve capital utilization and increase return on capital. With the focus on capital replenishment and constraint mechanism, the Bank will further improve the capital management system and promote the enterprise capital management. It will strengthen the overall management of capital replenishment and utilization, and effectively constrain venture capital from expanding with economic capital management measures to ensure that capital adequacy ratio meets the regulatory requirements and remains stable.

The Capital Regulation specifies that the Bank shall achieve the compliance of capital adequacy ratio with new regulatory requirements before the end of 2018 and encouraged qualified commercial banks to reach the compliance ahead of the schedule. In accordance with relevant regulatory policies and the Compliance Planning for Capital Adequacy Ratio of Industrial and Commercial Bank of China, the Bank will strive to reach the compliance of capital adequacy ratio ahead of the schedule and maintain the capital adequacy ratio at a level to fulfill the regulatory requirements.

On 29 November 2012, CBRC issued the Guiding Opinions on Capital Instrument Innovation of Commercial Banks. The Bank actively explored the supplementary channels for new capital instruments, specified the working thoughts of capital instrument innovation and formulated the plan for launching new capital instruments. The meeting of the Board of Directors reviewed and approved the Proposal on the Issue of Eligible Tier-2 Capital Instruments with Write-down Feature up to RMB60 billion Equivalent by the End of 2014 on 15 January 2013 and has been reviewed and approved at the Bank's first Extraordinary General Meeting of 2013 on 20 March 2013. The Bank will formulate specific plan for launching qualified secondary capital instruments according to relevant regulatory policy framework of CBRC and the approval results of the shareholders' general meeting, submit it to the Board of Directors for approval and then implement it at an appropriate time.

# OUTLOOK

In 2013, the Chinese economy is expected to sustain the stable and rapid growth, and significant progress will continue to be made in the economic restructuring and deepened financial system reform. The Bank will embrace strategic opportunities in its operation and development, but will also face many uncertainties for its transformation and development.

The Bank will embrace various opportunities in 2013. Firstly, the innovation and fostering of strategic emerging sectors and the upgrading and transformation of traditional sectors will not only open up new "blue ocean" for credit business of the Bank, but also provide a field for the Bank to improve its service mode and accelerate its transformation from the traditional financing agency into a new financial service agency. Secondly, new urbanization will bring a steady increase in demands for financial services, which will provide consistent driving forces and large room for the development of relevant businesses of the Bank such as financing, wealth management, agency settlement, etc. Thirdly, the State is exerting itself in expanding the domestic consumption, which will boost an increase and upgrade of financial service demand, especially the demand for improvement and security of people's livelihood. This will provide new opportunities for the Bank's business innovation and development. Fourthly, the acceleration of the "Going Global" initiatives and "productivity export" of domestic enterprises as well as the constantly achieved breakthrough in cross-border RMB businesses will bring favorable conditions for the Bank to establish a global business system.

In 2013, the Bank will also face many challenges in its operation and development, including: firstly, the subsequent impacts of the international financial crisis and the European debt crisis continue to linger on, and the global economic recovery slows down and China's economy enters a stage of profound transformation and adjustment. There are some uncertainties in the external economic environment, which will have certain impact on the formulation and implementation of the operation and development strategies of the Bank. Secondly, the implementation of the Capital Regulation will strengthen capital constraints on commercial banks, pressing domestic commercial banks to transform their development mode into a capital-intensive one. Rules and regulations on service charges of commercial banks will be issued progressively, which will further regulate domestic banks' operation of fee-based businesses, requiring banks to plan and develop their fee-based businesses in a more scientific way. Thirdly, the two interest rate adjustments in 2012 will start to show effects in 2013, which will have some restrictions on the growth of loan-deposit interest rate spread of commercial banks. Meanwhile, the expansion of the floating band for deposit and loan interest rates may further intensify interbank competition for customers and market.

The Bank will continue to carry out its three-year plan in a profound way, further emancipate the minds and consolidate the strengths, and accelerate the transformation of development mode in deepened reform and innovation to constantly enhance the stability, coordination and sustainability of development. Specifically, the Bank will focus on the following aspects:

Firstly, vigorously push forward transformation and upgrade of business development. The Bank will continuously adjust the credit structure and further forge a credit pattern with less capital occupied, asset of high quality, high comprehensive returns and strong sustainability to ensure sound and stable quality of credit asset. It will also comprehensively promote the transformation and upgrade of personal and corporate banking businesses, drive financial asset services to grow rapidly, improve and strengthen financial market business to constantly expand the market share and enhance the sustainable profitability.

Secondly, actively and steadily push forward the internationalized and diversified operation. The Bank will continue to explore differentiated and localized development mode for overseas institutions, actively push forward the development of the global key product lines and increase the guidance to overseas institutions to improve their comprehensiveness and competitiveness among peers; centering on the Group's overall development strategy, it will make overall planning for comprehensive business lines layout and license setting to further improve the Bank's trans-market services capability.

Thirdly, strive to improve the level of services and constantly improve the quality of services. The Bank will actively promote product innovation and procedure optimization, strive to improve financial services for SMEs, agriculture, farmers and rural areas, and consumption, and provide greater support to weak economic areas, constantly improving the capability of serving the real economy; relying on information technology, it will also continue to improve the marketing, transaction and service systems to provide customers with the new experience of interactive applications.

Fourthly, persistently promote the reform of operation and management and improve the Group's governance system. The Bank will implement a resources allocation and business development strategy with capital management as the mainline, improve the resources allocation pattern of the Group, constantly carry forward procedure optimization and centralized business operation to improve the overall operating efficiency of the Group.

In 2013, the Bank plans to increase total assets by approximately RMB1,700.0 billion, total liabilities by approximately RMB1,500.0 billion, and maintains the year-end NPL ratio within 1.20%.

# OTHER INFORMATION DISCLOSED PURSUANT TO REGULATORY REQUIREMENTS

## Major Regulatory Indicators

| Item | | Regulatory criteria | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Liquidity ratio (%) | RMB | >=25.0 | 32.5 | 27.6 | 31.8 |
| | Foreign currency | >=25.0 | 65.2 | 90.6 | 53.4 |
| Loan-to-deposit ratio (%) | RMB and foreign currency | <=75.0 | 64.1 | 63.5 | 62.0 |
| Percentage of loans to single largest customer (%) | | <=10.0 | 4.0 | 3.6 | 3.5 |
| Percentage of loans to top 10 customers (%) | | | 17.9 | 19.3 | 22.8 |
| Loan migration ratio (%) | Pass | | 1.9 | 2.0 | 2.6 |
| | Special mention | | 4.1 | 7.3 | 4.8 |
| | Substandard | | 28.1 | 32.8 | 43.4 |
| | Doubtful | | 4.4 | 4.9 | 10.9 |

Note: The regulatory indicators in the table are calculated in accordance with related regulatory requirements, definitions and accounting standards applicable to the corresponding period. The comparative figures are not restated.

The following table is prepared pursuant to the format prescribed by CSRC in the "No. 2 Standards on the Content and Format of Information Disclosure of Companies with Public Offerings — Content and Format of the Annual Report" (Revision 2012).

## Financial Instruments Measured at Fair Value

### MOVEMENT OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

In RMB millions

| Item | Balance at the beginning of the year | Balance at the end of the year | Changes in Current year | Effects on profit for the year |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 152,208 | 221,671 | 69,463 | (252) |
| Available-for-sale financial assets | 838,942 | 919,798 | 80,856 | (588) |
| Derivative financial assets | 17,460 | 14,756 | (2,704) | (2,818) |
| **Total financial assets** | **1,008,610** | **1,156,225** | **147,615** | **(3,658)** |
| Financial liabilities at fair value through profit or loss | (171,973) | (319,742) | (147,769) | (59) |
| Derivative financial liabilities | (12,617) | (13,261) | (644) | (706) |
| **Total financial liabilities** | **(184,590)** | **(333,003)** | **(148,413)** | **(765)** |

Regarding the financial instruments at fair value of the Bank, the best evidence for their fair value is prices at the active market. If the market for a financial instrument is not active, valuation techniques shall be used. Most valuation techniques adopt observable inputs only, but those for some financial instruments contain one or more unobservable inputs. Financial instruments at fair value of the Bank are mainly investments in bonds denominated in RMB, investments in bonds denominated in foreign currencies and derivative financial instruments. The fair values of investments in bonds denominated in RMB are mainly determined by market prices or valuation techniques of observable inputs. The fair values of investments in bonds denominated in foreign currencies are mainly determined by prices of brokers, valuation service providers and dealers. The fair values of ordinary derivative financial instruments are principally determined based on the valuation techniques commonly used by industry participants, and observable market information is applied for inputs of valuation techniques as far as possible, including spot/forward foreign exchange, prices of precious metals and commodities and market yield curve. As for structured financial instruments such as structured deposits and corresponding risk hedging transactions, models such as Heston are used for the calculation of fair values. Inputs for this model include yield, forward exchange rate and exchange rate fluctuation, and the model uses the prices in the active market for standard European options with the same subject to calibrate model parameters. The fair values of some structured financial instruments are based on quoted prices from dealers.

The Bank formulated relatively comprehensive rules and regulations and built a relatively sound internal control mechanism for internal control concerning the measurement of fair values. Under the guidance of the Basic Rules for the Management of Fair Value Measurement for Financial Instruments, the Bank formulated measurement measures for fair values of forward contracts, swap contracts, foreign exchange option contracts and structured derivative financial instruments. The measures made clear the valuation techniques and parameter selection for the above businesses and relevant concepts, models and parameter solving methods. During the fair value measurement process as required by accounting standards, the Bank established a mechanism where front-office business departments take charge of the day-to-day transaction management of measurement objects, finance & accounting departments take lead in the formulation of accounting policies for measurement as well as valuation techniques and methods and their application, and risk management departments undertake the verification of transaction information and model system.

## Reconciliation of Differences between the Financial Statements Prepared under PRC GAAP and those under IFRSs

In respect of the financial statements of the Bank prepared under PRC GAAP and those under IFRSs, net profit attributable to equity holders of the parent company for the year ended 31 December 2012 and equity attributable to equity holders of the parent company as at the end of the reporting period have no differences.

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

### SECURITIES INVESTMENT

| S/N | Type | Stock code | Stock name | Initial investment cost (RMB Yuan) | Number of shares held (10,000 shares/ units) | Book value at the end of the period (RMB Yuan) | Percentage of total securities investment at the end of the period (%) | Gain/(loss) during the reporting period (RMB Yuan) |
|---|---|---|---|---|---|---|---|---|
| 1 | Stock | 1299 (Hong Kong, China) | AIA | 92,556,985 | 540 | 131,315,405 | 89.7 | 26,856,665 |
| 2 | Stock | 3988 (Hong Kong, China) | BOC | 15,396,976 | 540 | 15,068,869 | 10.3 | 3,392,450 |
| Other securities investment held as at the end of the reporting period | | | | | — | | | |
| Gain/(loss) from sale of securities investment during the reporting period | | | | — | — | — | — | 4,627,478 |
| **Total** | | | | **107,953,961** | **—** | **146,384,274** | **100.0** | **34,876,593** |

Note: The stocks specified above are recognized as financial assets held for trading. The Bank held shares in AIA and Bank of China through its controlling subsidiary, ICBC (Asia).

## SHARES IN OTHER LISTED COMPANIES

| Stock code | Stock name | Initial investment cost (RMB Yuan) | Percentage of the investee's total equities (%) | Book value at the end of the period (RMB Yuan) | Gain/(loss) during the period(2) (RMB Yuan) | Change in owner's equity during the reporting period (RMB Yuan) | Accounting item | Source of shares |
|---|---|---|---|---|---|---|---|---|
| SBK (South Africa) | Standard Bank Group | 33,834,079,292 | 20.05 | 32,689,280,602 | 2,492,765,286 | (642,859,103) | Investments in associates and jointly-controlled entities | Investment with self-owned capital |
| 966 (Hong Kong, China) | CHINA TAIPING | 95,490,974 | 1.58 | 339,449,347 | — | 26,322,004 | Available-for-sale financial assets | Purchase from market |
| 601998 | CNCB | 167,223,692 | 0.07 | 133,137,576 | (29,586,128) | 41,844,716 | Available-for-sale financial assets | Purchase from market |
| MY (U.S.) | Mingyang Wind Power | 341,450,000 | 8.79 | 82,172,989 | (246,613,549) | (70,798,641) | Available-for-sale financial assets | Investment with self-owned capital |
| FSS (Thailand) | FSS | 65,751,384 | 24.07 | 79,813,864 | 9,724,869 | — | Investments in associates and jointly-controlled entities | Investment with self-owned capital |
| 871 (Hong Kong, China) | XIANGYU DREDG | 121,752,858 | 5.74 | 75,298,004 | (48,724,248) | 6,431,939 | Available-for-sale financial assets | Debt-equity swap |
| 2468 (Hong Kong, China) | TRONY SOLAR | 168,439,670 | 11.88 | 52,979,726 | (106,227,438) | 55,471,375 | Available-for-sale financial assets | Investment with self-owned capital |
| 2099 (Hong Kong, China) | CHINA GOLD INTL | 45,697,299 | 0.30 | 26,198,295 | (19,418,948) | 8,648,424 | Available-for-sale financial assets | Investment with self-owned capital |
| M-CHAI-CS (Thailand) | M-CHAI-CS | 4,963,064 | 4.87 | 19,922,368 | 423,846 | 11,219,712 | Available-for-sale financial assets | Purchase from market |
| 001740 (Korea) | SkNetworks | 10,063,627 | 0.10 | 11,897,632 | 208,975 | (1,311,786) | Available-for-sale financial assets | Debt-equity swap |
| BKI-CS (Thailand) | BKI-CS | 3,413,359 | 0.16 | 7,190,847 | 295,514 | 1,934,629 | Available-for-sale financial assets | Purchase from market |
| 1115 (Hong Kong, China) | TIBET 5100 | 1,462,089 | 0.05 | 2,495,639 | — | 399,913 | Available-for-sale financial assets | Investment with self-owned capital |
| 307 (Hong Kong, China) | UP ENERGY DEV | 5,305,212 | 0.14 | 1,364,254 | (4,080,247) | (276,685) | Available-for-sale financial assets | Debt-equity swap |
| 564 (Hong Kong, China) | ZMJ | 1,394,154 | 0.07 | 1,316,415 | — | (77,739) | Available-for-sale financial assets | Purchase from market |
| 2196 (Hong Kong, China) | FOSUN PHARMA | 1,256,304 | 0.04 | 1,235,335 | — | (20,969) | Available-for-sale financial assets | Purchase from market |
| 1193 (Hong Kong, China) | CHINA RES GAS | 910,289 | <0.01 | 856,205 | — | (54,084) | Available-for-sale financial assets | Purchase from market |
| 003620 (Korea) | Ssangyong Motor | 2,423,366 | 0.08 | 847,136 | (1,545,938) | 1,484,231 | Available-for-sale financial assets | Debt-equity swap |
| 1829 (Hong Kong, China) | CMEC | 636,833 | 0.02 | 742,563 | — | 105,730 | Available-for-sale financial assets | Purchase from market |
| 1918 (Hong Kong, China) | SUNAC | 167,513 | <0.01 | 179,998 | — | 54,487 | Available-for-sale financial assets | Purchase from market |
| 4642 (Malaysia) | YHS | 500,091 | 0.02 | 175,079 | (321,796) | 400,349 | Available-for-sale financial assets | Purchase from market |
| 532 (Singapore) | EQUATION CORP LTD | 152,816 | <0.01 | 3,825 | (148,991) | 149,183 | Available-for-sale financial assets | Purchase from market |
| **Total** | | **34,872,533,886** | **—** | **33,526,557,699** | **2,046,751,207** | **(560,932,315)** | | |

Notes: (1) The shares in CHINA TAIPING were held by ICBC (Asia), a controlling subsidiary of the Bank; shares in Mingyang Wind Power, TIBET 5100, XIANGYU DREDG, TRONY SOLAR, China Gold INTL and UP ENERGY DEV were held by ICBC International, a controlling subsidiary of the Bank; shares in FSS, M-CHAI-CS and BKI-CS were held by ICBC (Thai), a controlling subsidiary of the Bank; shares in Sk Networks and Ssangyong Motor were held by Seoul Branch of the Bank; shares in ZMJ, FOSUN PHARMA, CHINA RES GAS, CMEC and SUNAC were held by ICBC Credit Suisse Asset Management, a controlling subsidiary of the Bank; and shares in YHS and EQUATION CORP LTD were held by Singapore Branch of the Bank.

(2) Refers to dividend income, investment income of associates and impairment losses.

## SHARES IN UNLISTED FINANCIAL INSTITUTIONS

| Company | Initial investment cost (RMB Yuan) | Number of shares held (10,000 shares) | Shareholding percentage (%) | Book value at the end of the period (RMB Yuan) | Gain/(loss) during the period[2] (RMB Yuan) | Change in owner's equity during the reporting period (RMB Yuan) | Accounting item | Source of shares |
|---|---|---|---|---|---|---|---|---|
| China UnionPay Co., Ltd | 146,250,000 | 11,250.00 | 3.84 | 146,250,000 | 3,937,500 | — | Available-for-sale financial assets | Investment with self-owned capital |
| Xiamen International Bank | 102,301,500 | N/A | 10.92 | 102,301,500 | — | — | Available-for-sale financial assets | Investment with self-owned capital |
| Guangdong Development Bank | 56,522,225 | 2,722.29 | 0.18 | 56,522,225 | — | — | Available-for-sale financial assets | Investment with self-owned capital |
| Joint Electronic Teller Services Limited | 8,208,370 | 0.0024 | 0.03 | 7,270,877 | 2,412,479 | — | Available-for-sale financial assets | Investment with self-owned capital |
| Bangkok BTMU Ltd. | 4,272,984 | 20.00 | 10.00 | 4,152,304 | 407,297 | — | Available-for-sale financial assets | Investment with self-owned capital |
| Huarong Xiangjiang Bank | 3,500,000 | 353.64 | 0.09 | 3,617,582 | — | — | Available-for-sale financial assets | Investment with self-owned capital |
| Luen Fung Hang Insurance Co., Ltd. | 1,518,440 | 2.40 | 6.00 | 1,354,444 | 468,410 | — | Available-for-sale financial assets | Investment with self-owned capital |
| Bank of Guilin | 420,000 | 149.91 | 0.12 | 1,289,934 | 130,940 | — | Available-for-sale financial assets | Investment with self-owned capital |
| Bank of Nanchang | 300,000 | 39.00 | 0.03 | 522,646 | 50,700 | — | Available-for-sale financial assets | Investment with self-owned capital |
| **Total** | **323,293,519** | **—** | **—** | **323,281,512** | **7,407,326** | | | |

Notes: (1) The shares in Joint Electronic Teller Services Limited were held by ICBC (Asia) and ICBC (Macau), controlling subsidiaries of the Bank; shares in Bangkok BTMU Ltd. were held by ICBC (Thai), a controlling subsidiary of the Bank; and shares in Luen Fung Hang Insurance Co., Ltd. were held by ICBC (Macau), a controlling subsidiary of the Bank.

(2) Refers to dividend income.

## PURCHASE AND SALE OF SHARES IN OTHER LISTED COMPANIES

| | Stock name | Shares held at the beginning of the period (share) | Shares bought/sold during the reporting period (share) | Shares held at the end of the period (share) | Fund utilized (RMB Yuan) | Investment income generated (RMB Yuan) |
|---|---|---|---|---|---|---|
| Buy | — | 44,117,650 | 144,117,644 | 188,235,294 | 66,308,999 | – |
| Sell | — | 58,704,578 | 56,279,154 | 2,425,424 | – | 295,013,112 |

Adhering to the core value of "Integrity Leads to Prosperity", the Bank has continuously improved its social responsibility system consisting of " Value Creator, Brand Builder, Green Bank, Creditworthy Bank, Harmonious Bank and Charity Bank". During the reporting period, the Bank gained widespread recognition for its performance of corporate social responsibility from all social circles. It was honored with many awards in this regard, such as "Best Social Responsibility Financial Institution Award", "Best Public Welfare Contribution Award in Social Responsibility" and "Most Responsible Enterprise" and was selected again as a constituent stock of Hang Seng Corporate Sustainability Index Series and first joined the United Nations Global Compact among the domestic commercial banks.

## Value Creator

During the reporting period, facing complicated and changing international and domestic economic situations, the Bank always persisted in serving the development of the real economy, following the macro-control policies of China as the guide, maintained a reasonable and balanced growth of the total credit amount, and made more efforts to adjust the credit structure. On such basis, the Bank effectively supported China's steady, coordinated and rapid economic growth by means of credit leverage. The Bank also promoted the upgrade of the industrial structure and intensified the support to strategic emerging industries to boost the steady and coordinated development of regional economies. Besides, it provided greater financial support for SMEs, and channeled more credit resources to agricultural entities, illustrating its mission and values of supporting the sound and sustainable development of the real economy as a premier bank.

## Brand Builder

With the goal of creating the best financial services provider to people's satisfaction, the Bank constantly improved its service channels and means by innovation so as to continuously improve customer experience. During the reporting period, the Bank actively carried out the "Feel Satisfied with ICBC" campaign and promoted the service improvement strategy through strengthening the innovation of new products, expanding service channels, innovate means of service, streamlining business procedures and improving service efficiency. It strove to build first-class financial service brands such as the No. 1 retail bank in China, leading corporate and investment banking, excellent institutional banking, best settlement and cash management bank in China, largest credit card issuer in China, best custodian bank in China, first-class pension management and service agency in China, best asset management bank in China and leading IT platforms.

## Green Bank

The Bank made more efforts to make rules and regulations on green credit, and formulated green credit policies for 54 industries. It made "green" adjustments to the credit structure of the whole Bank. At the end of the reporting period, both the number of qualified environment-friendly clients and outstanding loans to them accounted for more than 99.9% of its total domestic corporate clients and total outstanding loans. ICBC made full use of its leading technical advantages for building green channels and promoting the electronic banking business. In addition, the Bank also raised the awareness of energy conservation and advocating green office. It cut the energy consumption and managed to save office paper. Besides, the staff of the Bank, together with young volunteers, actively dedicated themselves to environmental protection causes, participating in various kinds of public welfare events such as voluntary tree planting and green traveling campaigns, taking practical actions to protect ecological environment.

## Creditworthy Bank

The Bank commits itself to protecting customers' rights and interests, keeps watch on investor relation management and actively performs the obligation of fighting against financial crimes, thus winning trust of customers, gaining recognition from shareholders and earning respect of the society with "creditworthiness". During the reporting period, the Bank took the lead in establishing a customers' rights protection office, revised and issued a new service price list. To handle customer complaints and right-protection cases reliably and effectively, the Bank established a complaints management working model in which service management departments coordinate and special departments fulfill their respective responsibilities. It also actively devoted itself to popularizing financial knowledge among financial customers by organizing more than 50 thousand activities and handing out 9 million leaflets. The Bank continuously improved investor relations management, increased returns to shareholders and unblocked communication channels to secure legitimate rights and interests of all shareholders, especially minority investors. In addition, it improved the internal control system, created the compliance culture, performed its responsibilities of anti-money laundering, and improved the anti-corruption system, contributing to financial security and stability.

## Harmonious Bank

The Bank has been active in building and maintaining a harmonious labor relation through earnestly securing the legitimate rights and interests of its staff, highlighting democracy in staff management, paying attention to their professional growth, giving more people-oriented care, and emphasizing ethnic unity and cultural harmony, in a bid for mutual growth of the Bank and its staff. The Bank adopted various means such as satisfaction surveys and interviews among its staff to get a comprehensive grip of the staff opinions at all levels, and pushed hard to solve various problems of the staff about their salary and welfare and career development. It actively promoted the innovated means of staff training such as live online classes, digital library, and knowledge database, and completed 36 thousand sessions of training in various forms with 2.79 million persons involved, which means 10.6 days of training per person. The Bank highly valued the health and security of its employees, respected and cared for special groups, organized regular physical examinations for employees. It extensively launched heart-warming programs for employees' psychological health, women staff, retirees and employees in difficulties.

## Charity Bank

The Bank dedicated itself to giving back to the society through active participations in disaster relief, poverty alleviation, cultural and educational undertakings, community services and other public welfare activities as an outstanding corporate citizen.

It made great contributions to the disaster relief work in Yunnan Province, Hebei Province and other areas affected by disasters with money and goods donations, and made utmost efforts to provide financial services to help people in those areas to restore production and rebuild their homes.

During the reporting period, the Bank invested RMB12.00 million in a series of green poverty alleviation, sanitary poverty alleviation and educational poverty alleviation programs: it reconstructed supporting facilities and built green poverty alleviation demonstration villages; donated RMB2.15 million in building a student dorm building covering an area of no less than 500 square meters for Batai Township Central School in Wanyuan City, Zhibao Township Central Primary School in Tongjiang County and Huaqiao Primary School in Zhengzhi Town of Nanjiang County respectively; donated a new ambulance equipped with type-B ultrasonic machine to Wanyuan, Tongjiang and Nanjiang respectively; expanded the coverage of the "Safety of Mothers and Babies 120" campaign; and continued to carry out projects such as the "Edible Tree Fungus Cultivation" project, "Little Kitchens of Love" project and "Lifeline Express" project.

The Bank actively devoted itself to promoting the development of cultural industry, providing financial services to Shanghai Art Fair 2012 and Shanghai New Year Concert. It held an exhibition with the theme "Land of Wealth — from Money Shop to Modern Bank" in Taiwan to illustrate the historical development of financial services of China, building a cultural bridge for the cross-straits communication of the financial industry. The Bank supported the construction and operation of the exhibition halls of China Art Museum and Power Station of Art and organized the "Spring with New Hope" charity party event, "World in the Chinese Eyes" national photo exhibition and "ICBC Cup" calligraphy and seal-cutting exhibition. The Bank also sponsored 33 scientists in their basic natural science studies.

Please refer to the 2012 Corporate Social Responsibility Report of Industrial and Commercial Bank of China Limited posted on the official website for further information on social responsibilities of the Bank.

# Details of Changes in Share Capital and Shareholding of Substantial Shareholders

## Changes in Share Capital

### DETAILS OF CHANGES IN SHARE CAPITAL

Unit: Share

| | | At 31 December 2011 | | Increase/ decrease during the reporting period (+, -) | At 31 December 2012 | |
|---|---|---|---|---|---|---|
| | | Number of shares | Percentage (%) | Conversion of convertible bonds | Number of shares | Percentage (%) |
| I. | **Shares subject to restrictions on sales** | 0 | 0.0 | 0 | 0 | 0.0 |
| II. | **Shares not subject to restrictions on sales** | 349,083,252,791 | 100.0 | 535,504,735 | 349,618,757,526 | 100.0 |
| | 1. RMB-denominated ordinary shares | 262,289,208,241 | 75.1 | 535,504,735 | 262,824,712,976 | 75.2 |
| | 2. Foreign shares listed overseas | 86,794,044,550 | 24.9 | 0 | 86,794,044,550 | 24.8 |
| III. | **Total number of shares** | 349,083,252,791 | 100.0 | 535,504,735 | 349,618,757,526 | 100.0 |

Note: "Foreign shares listed overseas", namely H shares, are within the same meaning as defined in the "No. 5 Standards on the Content and Format of Information Disclosure of Companies with Public Offerings — Content and Format of the Report of Change in Corporate Shareholding" (Revision 2007) of CSRC.

## Details of Securities Issuance and Listing

Details of securities issuance in the three years prior to the end of the reporting period of the Bank are as follows:

◆ *Rights Issue of A Shares and H Shares*

In November 2010, the Bank conducted the rights issue of A shares and H shares as approved under the written approval (Zheng Jian Xu Ke [2010] No. 1579 and Zheng Jian Xu Ke [2010] No. 1583, respectively) issued by CSRC. The Bank issued a total of 11,262,153,213 A shares and 3,737,542,588 H shares with a nominal value of RMB1.00 per share, raising gross proceeds of RMB33,674 million and HKD13,044 million under the A share rights issue and the H share rights issue, respectively. After deducting all expenses incidental to the rights issue, the net proceeds of approximately RMB44,620 million were used to replenish the capital base of the Bank. For details of the rights issue, please refer to relevant announcements previously disclosed and the 2010 Annual Report.

◆ *Issuance of A Share Convertible Bonds*

In August 2010, the Bank issued A share convertible bonds with an aggregate nominal value of RMB25.0 billion as approved under the written approval (Zheng Jian Fa Xing Zi [2010] No. 1155) issued by CSRC and had them listed on SSE. The Bank issued a total of 250,000,000 A share convertible bonds with a nominal value of RMB100.00 each and with a term of six years commencing from the date of issuance, being from 31 August 2010 to 31 August 2016. For details of the issuance, please refer to relevant announcements previously disclosed and the 2010 Annual Report.

◆ *Issuance of Subordinated Bonds*

The Bank issued subordinated bonds in an amount of RMB20.0 billion in the inter-bank bond market in June 2012 to replenish the supplementary capital of the Bank. It issued subordinated bonds in an amount of RMB22.0 billion on a revolving basis in the inter-bank bond market in September 2010 to substitute for the redeemed portion of the subordinated bonds issued in 2005, and issued subordinated bonds in an amount of RMB38.0 billion and RMB50.0 billion in the inter-bank bond market in June 2011 and December 2011 respectively, so as to replenish the supplementary capital of the Bank.

In November 2010 and November 2011, ICBC (Asia), a subsidiary of the Bank, issued the subordinated notes with nominal value of USD500 million and RMB1.5 billion respectively.

For information on the issuance of subordinated bonds by the Bank and its subsidiaries, please refer to "Note 38 to the Financial Statements: Debt Securities Issued" for details.

◆ *Issuance of Other Bonds*

The Bank issued offshore RMB bonds in an amount of RMB1.0 billion in August 2012 in Hong Kong. The unsecured bonds had a term of three years, and a nominal interest rate of 3%.

◆ *Employee Shares*

The Bank did not have any employee shares.

## Particulars of Shareholders

### Number of Shareholders and Particulars of Shareholding

As at the end of the reporting period, the Bank had a total number of 940,158 shareholders, including 150,578 holders of H shares and 789,580 holders of A shares.

## PARTICULARS OF SHAREHOLDING OF THE TOP 10 SHAREHOLDERS OF THE BANK

Unit: Share

| | |
|---|---|
| Total number of shareholders at the end of 2012 | 940,158 (number of holders of A shares and H shares on the register of shareholders as at 31 December 2012) |
| Total number of shareholders at the end of the 5th business day prior to the release date of this annual report | 919,698 (number of holders of A shares and H shares on the register of shareholders as at 21 March 2013) |

Particulars of shareholding of the top 10 shareholders
(The following data are based on the register of shareholders as at 31 December 2012)

| Name of shareholder | Nature of shareholder | Type of shares | Shareholding percentage (%) | Total number of shares held | Number of shares subject to restriction on sales | Number of pledged or locked-up shares |
|---|---|---|---|---|---|---|
| Huijin | State-owned | A shares | 35.5 | 123,965,210,282 | 0 | None |
| MOF | State-owned | A shares | 35.3 | 123,316,451,864 | 0 | None |
| HKSCC Nominees Limited | Foreign legal person | H shares | 24.6 | 86,011,832,362 | 0 | Unknown |
| Ping An Life Insurance Company of China, Ltd. — Traditional — Ordinary insurance products | Other domestic entities | A shares | 0.8 | 2,806,269,049 | 0 | None |
| ICBC Credit Suisse Asset Management Co., Ltd. — ICBC — Asset management for specific customers | Other domestic entities | A shares | 0.3 | 1,053,190,083 | 0 | None |
| An-Bang Insurance (Group) Company — Traditional insurance products | Other domestic entities | A shares | 0.2 | 544,890,787 | 0 | None |
| China Life Insurance Company Limited — Traditional — Ordinary insurance products — 005L — CT001 Hu | Other domestic entities | A shares | 0.1 | 494,912,641 | 0 | None |
| Sino Life Insurance Co., Ltd. — Traditional — Ordinary insurance products | Other domestic entities | A shares | 0.1 | 386,771,556 | 0 | None |
| China Life Insurance Company Limited — Participating — Individual participating — 005L — FH002 Hu | Other domestic entities | A shares | 0.1 | 374,415,643 | 0 | None |
| China Pacific Life Insurance Co., Ltd. — Traditional — Ordinary insurance products | Other domestic entities | A shares | 0.1 | 283,287,898 | 0 | None |

Notes: (1) Particulars of shareholding of H shareholders were based on the number of shares set out in the Bank's register of shareholders maintained at the H share registrar.

(2) Both "China Life Insurance Company Limited — Traditional — Ordinary insurance products — 005L — CT001 Hu" and "China Life Insurance Company Limited — Participating — Individual participating — 005L — FH002 Hu" are managed by China Life Insurance Company Limited. Apart from these, the Bank is not aware of any connected relations or concerted action among the afore-mentioned shareholders.

## Particulars of Substantial Shareholders

During the reporting period, the Bank's substantial shareholders and de facto controller remained unchanged.

- *Controlling shareholders*

The largest single shareholder of the Bank is Huijin, whose full name is Central Huijin Investment Ltd. Incorporated on 16 December 2003, Huijin is a state-owned company founded by the State according to the Company Law. Both of its registered capital and paid-in capital is RMB828,209 million. Its registered address is New Poly Plaza, 1 Chaoyangmen North Street, Dongcheng District, Beijing, its organizational code is 71093296-1, and its legal representative is Lou Jiwei. Huijin, which is the wholly-owned subsidiary of China Investment Corporation, makes equity investment in state-owned key financial institutions as authorized by the State, and exercises the contributor's rights and obligations in such financial institutions up to its contribution on behalf of the State to achieve preservation and appreciation of state-owned financial assets. Huijin does not engage in any other commercial activities nor does it intervene in the daily operation of those state-owned key financial institutions which it holds shares. As at 31 December 2011, Huijin had total assets of RMB2,020,950,210.8 thousand, total liabilities of RMB148,784,181 thousand, and owner's equity of RMB1,872,166,029.8 thousand. It realized net profit of RMB337,478,750.8 thousand in 2011. The net cash flows from operating activities, investing activities and financing activities of Huijin in 2011 totaled RMB-37,693,774.5 thousand.[1]

Huijin held approximately 35.5% of the shares of the Bank as at 31 December 2012. Huijin has increased its shareholding in the Bank through on-market purchase on SSE since 10 October 2011. From 10 October 2011 to 9 October 2012, Huijin increased its holding by 127,617,332 A shares of the Bank accumulatively, accounting for 0.037% of the total shares issued by the Bank as at 31 December 2012.

On 10 October 2012, the Bank was notified by Huijin that Huijin intended to continue to increase, in its own capacity, its shareholding in the Bank by acquiring shares from the secondary market within six months from 10 October 2012. From 10 October 2012 to 31 December 2012, Huijin increased its holding by 196,520,086 A shares of the Bank accumulatively, accounting for 0.056% of the total shares issued by the Bank as at 31 December 2012.

1 The operating results, financial position and cash flows of Huijin in 2012 shall be determined after the financial statements of all institutions controlled or held by Huijin have been audited.

As at 31 December 2012, enterprises whose shares are directly held by Huijin are listed below:

| SN | Enterprise | Proportion of Huijin's shareholding (%) |
|---|---|---|
| 1 | China Development Bank Corporation | 47.63 |
| 2 | Industrial and Commercial Bank of China Limited (A; H) | 35.46 |
| 3 | Agricultural Bank of China Limited (A; H) | 40.21 |
| 4 | Bank of China Limited (A; H) | 67.72 |
| 5 | China Construction Bank Corporation (A; H) | 57.21 |
| 6 | China Everbright Bank Company Limited (A) | 48.37 |
| 7 | China Export & Credit Insurance Corporation(1) | 73.63 |
| 8 | China Reinsurance (Group) Corporation | 84.91 |
| 9 | New China Life Insurance Company Limited (A; H) | 31.23 |
| 10 | China Jianyin Investment Limited | 100.00 |
| 11 | China Galaxy Financial Holdings Company Limited | 78.57 |
| 12 | Shenyin & Wanguo Securities Co., Ltd | 55.38 |
| 13 | China International Capital Corporation Limited | 43.35 |
| 14 | China Securities Co., Ltd | 40.00 |
| 15 | China Investment Securities Co., Ltd | 100.00 |
| 16 | UBS Securities Company Limited | 14.01 |
| 17 | China Everbright Industry Group Limited | 100.00 |
| 18 | Jiantou CITIC Asset Management Co., Ltd. | 70.00 |
| 19 | Guotai Junan Investment Management Co., Ltd. | 14.54 |

Notes: (1) As at 31 December 2012, the industrial and commercial procedures for Huijin to purchase the shares of China Export & Credit Insurance Corporation are underway.

(2) A represents A share listed company, while H represents H share listed company.

The second largest single shareholder of the Bank is MOF, which held approximately 35.3% of the shares of the Bank as at 31 December 2012. MOF is a constituent part of the State Council, and is responsible for overseeing the State's fiscal revenue and expenditure, formulating the financial and taxation policies, and supervising State finance at a macro level.

### ◆ *Particulars of other Corporate Shareholders Holding 10% Shares or More (excluding HKSCC Nominees Limited)*

None.

### ◆ *Particulars of the De Facto Controller*

None.

## Interests and Short Positions Held by Substantial Shareholders and Other Persons

### Substantial Shareholders and Persons Having Notifiable Interests or Short Positions Pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance of Hong Kong

As at 31 December 2012, the Bank had received notices from the following persons stating that they had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the Securities and Futures Ordinance of Hong Kong:

#### HOLDERS OF A SHARES

| Name of substantial shareholder | Capacity | Number of A shares held (share) | Nature of interests | Approximate percentage of issued A shares (%) | Approximate percentage of total issued shares (%) |
|---|---|---|---|---|---|
| MOF[1] | Beneficial owner | 118,006,174,032 | Long position | 44.90 | 33.75 |
| Huijin[2] | Beneficial owner | 118,006,174,032 | Long position | 44.90 | 33.75 |

Notes: (1) According to the register of shareholders of the Bank as at 31 December 2012, MOF held 123,316,451,864 shares in the Bank.

(2) According to the register of shareholders of the Bank as at 31 December 2012, Huijin held 123,965,210,282 shares in the Bank.

#### HOLDERS OF H SHARES

| Name of substantial shareholder | Capacity | Number of H shares held (share) | Nature of interests | Approximate percentage of issued H shares (%) | Approximate percentage of total issued shares (%) |
|---|---|---|---|---|---|
| SSF | Beneficial owner | 10,405,376,524 | Long position | 11.99 | 2.98 |
| Temasek Holdings (Private) Limited | Interest of controlled corporations | 5,235,843,470 | Long position | 6.03 | 1.50 |
| JPMorgan Chase & Co. | Beneficial owner | 652,143,385 | Long position | 0.75 | 0.19 |
| | Investment manager | 1,404,910,833 | Long position | 1.62 | 0.40 |
| | Custodian-corporation/ approved lending agent | 4,042,223,891 | Long position | 4.66 | 1.16 |
| | Total | 6,099,278,109 | | 7.03 | 1.74 |
| | Beneficial owner | 273,429,763 | Short position | 0.32 | 0.08 |
| Blackrock, Inc. | Interest of controlled corporations | 4,875,947,147 | Long position | 5.62 | 1.39 |
| | | 444,854,551 | Short position | 0.51 | 0.13 |

## Particulars of A Share Convertible Bonds

### PARTICULARS OF HOLDING OF THE TOP 10 HOLDERS OF THE A SHARE CONVERTIBLE BONDS

Unit: RMB

| Name of bondholder | Amount held |
|---|---|
| Sunshine Life Insurance Co., Ltd. — Participating insurance products | 1,953,938,000 |
| Bosera Enhanced Convertible Bond-type Securities Investment Fund | 682,318,000 |
| An-Bang Insurance (Group) Company — Traditional insurance products | 642,093,000 |
| China Life Insurance Company Limited — Participating — Individual participating (insurance product) — 005L — FH002 Hu | 632,348,000 |
| Guotai Junan Investment Management Co., Ltd. | 603,784,000 |
| UBS AG | 596,637,000 |
| First Capital Securities Co., Ltd. | 551,523,000 |
| China Life Insurance (Group) Company — Traditional — Ordinary insurance products | 466,768,000 |
| Dacheng Jingfeng Classification Bond Fund | 465,386,000 |
| China Life Insurance Company Limited — Traditional — Ordinary insurance products — 005L — CT001 Hu | 450,306,000 |

Note: Pursuant to the Notice on Participation of Convertible Corporate Bonds in Collateralized Bond Repurchase Business and relevant rules of SSE, convertible bonds of the Bank have participated in collateralized bond repurchase since 21 May 2012. The Bank consolidated and summed up relevant data according to the register of holders of A share convertible bonds at the end of the reporting period provided by China Securities Depository and Clearing Corporation Limited and the information on holders of specific accounts for collateralized bond repurchase of settlement participants.

### ◆ *Particulars of Guarantors of Convertible Bonds*

The Bank had no guarantor of convertible bonds.

### ◆ *Adjustment of Conversion Price of Convertible Bonds*

On 31 August 2010, the Bank issued A share convertible bonds with an aggregate nominal value of RMB25.0 billion and an initial conversion price of RMB4.20 per share.

In 2010, as approved by domestic and overseas regulatory authorities, the Bank issued 11,262,153,213 A shares to the then existing A shareholders and 3,737,542,588 H shares to H shareholders, respectively. Upon completion of the rights issue of A shares and since 26 November 2010, the conversion price of ICBC Convertible Bonds has been adjusted to RMB4.16 per share from RMB4.20 per share. Upon completion of the rights issue of H shares and since 27 December 2010, the conversion price of ICBC Convertible Bonds has been adjusted to RMB4.15 per share from RMB4.16 per share.

On 31 May 2011, the Annual General Meeting for the Year 2010 of the Bank considered and approved the 2010 ICBC Profit Distribution Plan for payment of cash dividends of RMB1.84 (pre-tax) per ten shares to holders of A shares and H shares whose names appear on the register of shareholders of the Bank after the close of market on 14 June 2011. Pursuant to relevant undertakings in the Prospectus on Issuance of the A Share Convertible Corporate Bonds of Industrial and Commercial Bank of China Limited and relevant laws and regulations, the conversion price of ICBC Convertible Bonds has been adjusted to RMB3.97 per share from RMB4.15 per share since 15 June 2011.

On 31 May 2012, the Annual General Meeting for the Year 2011 of the Bank considered and approved the 2011 ICBC Profit Distribution Plan for payment of cash dividends of RMB2.03 (pre-tax) per ten shares to holders of A shares and H shares whose names appear on the register of shareholders of the Bank after trading hours on 13 June 2012. Pursuant to relevant undertakings in the Prospectus on Issuance of the A Share Convertible Corporate Bonds of Industrial and Commercial Bank of China Limited and relevant laws and regulations, the conversion price of ICBC Convertible Bonds has been adjusted to RMB3.77 per share from RMB3.97 per share since 14 June 2012.

### ◆ *Conversion of Convertible Bonds*

The conversion period of ICBC Convertible Bonds started on 1 March 2011. As at 31 December 2012, a total of 23,234,740 bonds were converted into A shares of the Bank, making the accumulated converted shares reach the number of 600,211,699. As at the end of the reporting period, there were still 226,765,260 ICBC Convertible Bonds trading in the market, accounting for 90.71% of the total ICBC Convertible Bonds issued by the Bank.

### ◆ *Credit Rating of Convertible Bonds*

China Chengxin Securities Appraisal Co., Ltd. traced and analyzed the credit standing of the convertible corporate bonds of the Bank and issued a credit rating report (Xin Ping Wei Han Zi [2012] Gen Zong No. 006). The Bank was rated AAA with a stable prospect, and the credit rating for the bonds of the current period was AAA.

# Directors, Supervisors, Senior Management, Employees and Institutions

## Basic Information on Directors, Supervisors and Senior Management[(1)]

| Name | Position | Gender | Age | Tenure[(2)] | Number of shares held at the beginning of the year | Number of shares held at the end of the year | Reasons for changes |
|---|---|---|---|---|---|---|---|
| Jiang Jianqing | Chairman of the Board of Directors, Executive Director | Male | 59 | November 2011–November 2014 | 0 | 0 | — |
| Yang Kaisheng | Vice Chairman, Executive Director, President | Male | 63 | November 2011–November 2014 | 0 | 0 | — |
| Zhao Lin | Chairman of the Board of Supervisors | Male | 58 | May 2011–May 2014 | 0 | 0 | — |
| Wang Lili | Executive Director, Senior Executive Vice President | Female | 61 | April 2010–April 2013 | 0 | 0 | — |
| Li Xiaopeng | Executive Director, Senior Executive Vice President | Male | 53 | October 2010–October 2013 | 0 | 0 | — |
| Huan Huiwu | Non-executive Director | Male | 59 | November 2011–November 2014 | 0 | 0 | — |
| Wang Xiaoya | Non-executive Director | Female | 48 | January 2012–January 2015 | 0 | 0 | — |
| Ge Rongrong | Non-executive Director | Female | 44 | January 2012–January 2015 | 0 | 0 | — |
| Li Jun | Non-executive Director | Male | 53 | November 2011–November 2014 | 0 | 0 | — |
| Wang Xiaolan | Non-executive Director | Male | 57 | January 2012–January 2015 | 0 | 0 | — |
| Yao Zhongli | Non-executive Director | Male | 58 | January 2012–January 2015 | 0 | 0 | — |
| Xu Shanda | Independent Non-executive Director | Male | 65 | September 2010–September 2013 | 0 | 0 | — |
| Wong Kwong Shing, Frank | Independent Non-executive Director | Male | 64 | January 2012–January 2015 | 0 | 0 | — |
| Malcolm Christopher McCarthy | Independent Non-executive Director | Male | 68 | March 2013–March 2016 | 0 | 0 | — |
| Kenneth Patrick Chung | Independent Non-executive Director | Male | 55 | March 2013–March 2016 | 0 | 0 | — |
| Or Ching Fai | Independent Non-executive Director | Male | 63 | May 2012–May 2015 | 0 | 0 | — |
| Hong Yongmiao | Independent Non-executive Director | Male | 48 | August 2012–August 2015 | 0 | 0 | — |
| Wang Chixi | Shareholder Supervisor | Female | 57 | November 2011–November 2014 | 0 | 0 | — |
| Dong Juan | External Supervisor | Female | 60 | May 2012–May 2015 | 0 | 0 | — |
| Meng Yan | External Supervisor | Male | 57 | May 2012–May 2015 | 0 | 0 | — |
| Zhang Wei | Employee Supervisor | Male | 50 | August 2012–August 2015 | 0 | 0 | — |
| Zhu Lifei | Employee Supervisor | Male | 58 | September 2010–September 2013 | 0 | 0 | — |
| Li Mingtian | Employee Supervisor | Male | 56 | July 2012–July 2015 | 0 | 0 | — |
| Luo Xi | Senior Executive Vice President | Male | 52 | December 2009– | 0 | 0 | — |
| Liu Lixian | Secretary of Party Discipline Committee | Male | 58 | October 2005– | 0 | 0 | — |
| Yi Huiman | Senior Executive Vice President | Male | 48 | July 2008– | 0 | 0 | — |
| Zhang Hongli | Senior Executive Vice President | Male | 47 | May 2010– | 0 | 0 | — |
| Wang Xiquan | Senior Executive Vice President | Male | 52 | September 2012– | 0 | 0 | — |
| Wei Guoxiong | Chief Risk Officer | Male | 57 | August 2006– | 0 | 0 | — |
| Lin Xiaoxuan | Chief Information Officer | Male | 47 | November 2010– | 0 | 0 | — |
| Hu Hao | Board Secretary | Male | 50 | December 2010– | 0 | 0 | — |

**DIRECTORS LEAVING POSTS DURING THE REPORTING PERIOD**

| Name | Position | Gender | Age | Tenure[3] | Number of shares held at the beginning of the year | Number of shares held at the end of the year | Reasons for changes |
|---|---|---|---|---|---|---|---|
| Gao Jianhong | Non-executive Director | Male | 48 | December 2008–January 2012 | 0 | 0 | — |
| Li Chunxiang | Non-executive Director | Female | 57 | February 2009–January 2012 | 0 | 0 | — |
| Li Xiwen | Non-executive Director | Male | 64 | December 2008–January 2012 | 0 | 0 | — |
| Wei Fusheng | Non-executive Director | Male | 57 | February 2009–January 2012 | 0 | 0 | — |
| Leung Kam Chung, Antony | Independent Non-executive Director | Male | 60 | October 2008–May 2012 | 0 | 0 | — |
| Qian Yingyi | Independent Non-executive Director | Male | 56 | October 2008–August 2012 | 0 | 0 | — |

Notes: (1) Please refer to the section headed "Directors, Supervisors, Senior Management, Employees and Institutions — Appointment and Removal".

(2) The current terms of Mr. Jiang Jianqing, Mr. Yang Kaisheng, Ms. Wang Lili and Mr. Li Xiaopeng as Directors of the Bank are set out in the above table and their terms as Senior Management members of the Bank started from October 2005.

(3) According to the Articles of Association, before the newly elected directors take office, the current directors shall continue to act as directors.

## Biographies of Directors, Supervisors and Senior Management

### Jiang Jianqing, Chairman, Executive Director

Mr. Jiang has served as Chairman of the Board of Directors and Executive Director of Industrial and Commercial Bank of China Limited since October 2005. He joined ICBC in 1984, and was appointed as President in February 2000. Mr. Jiang previously served in several positions including Deputy Head of ICBC Shanghai Branch, President of Shanghai Urban Cooperation Commercial Bank (now known as Bank of Shanghai), Head of ICBC Shanghai Branch and Senior Executive Vice President of ICBC. At present, he is concurrently a member of the Monetary Policy Committee of the People's Bank of China, Vice Chairman of China Society for Finance and Banking, and a tutor to PhD students of Shanghai Jiao Tong University. He graduated from Shanghai University of Finance and Economics and Shanghai Jiao Tong University, and received a Master's degree in Engineering and a Doctorate degree in Management from Shanghai Jiao Tong University.

### Yang Kaisheng, Vice Chairman, Executive Director, President

Mr. Yang has served as Vice Chairman, Executive Director and President of Industrial and Commercial Bank of China Limited since October 2005. He joined ICBC in 1985, and served in several positions including Deputy General Manager of ICBC Discipline Enforcement Office, General Manager of ICBC Planning and Information Department, Head of ICBC Shenzhen Branch, Senior Executive Vice President of ICBC, President of China Huarong Asset Management Corporation. He graduated from Wuhan University with a Doctorate degree in Economics.

### Zhao Lin, Chairman of the Board of Supervisors

Mr. Zhao has served as Chairman of the Board of Supervisors of Industrial and Commercial Bank of China Limited since June 2008. He was appointed as Executive Director and Senior Executive Vice President of China Construction Bank in September 2004, and previously was Deputy Head of Hubei Branch, Deputy General Manager and General Manager of the Executive Office of the Head Office, Chief Auditor, and Senior Executive Vice President of China Construction Bank. He graduated from Zhongnan University of Economics and Law, and received the Executive Master of Business Administration (EMBA) degree from Tsinghua University. He is a senior economist.

## Wang Lili, Executive Director, Senior Executive Vice President

Ms. Wang has served as Senior Executive Vice President of Industrial and Commercial Bank of China Limited since October 2005, and Executive Director since April 2010. She was appointed as Senior Executive Vice President upon joining ICBC in November 2000. She previously served in several positions including General Manager of the Credit Management Department, General Manager of the Risk Management Department, and Assistant to President of Bank of China. She once also served as Chairperson of Bank of China (Canada) and Yien Yieh Commercial Bank Ltd. (Hong Kong), respectively. Currently she is China's representative of APEC Business Advisory Council, a member of APEC Women Leaders' Network, a board member of International Swaps and Derivatives Association, Vice Chairperson of China Chamber of International Commerce, Chairperson of the Board of Directors of ICBC (London) Limited, Chairperson of Standard Bank Argentina S.A., Vice Chairperson of China Society of International Finance, Vice Chairperson of National Debt Association of China, and Vice Chairperson of the Board of Directors of Hong Kong Mercantile Exchange. She graduated from Nankai University and received an MBA degree from University of Birmingham, UK.

## Li Xiaopeng, Executive Director, Senior Executive Vice President

Mr. Li has served as Senior Executive Vice President of Industrial and Commercial Bank of China Limited since October 2005, and Executive Director since October 2010. He joined ICBC in 1984, and was appointed as Senior Executive Vice President of ICBC in September 2004. He previously served in several positions including Deputy Head of ICBC Henan Branch, General Manager of the Banking Department of the Head Office, Head of ICBC Sichuan Branch, Vice President of China Huarong Asset Management Corporation, and Assistant to President of ICBC and Head of ICBC Beijing Branch. He serves concurrently as Chairman of ICBC Financial Leasing Co., Ltd., Chairman of ICBC Credit Suisse Asset Management Co., Ltd., Vice Chairman of China Urban Financial Society, Vice Chairman of China Institute of Rural Finance, Head of the Financial Leasing Committee of China Banking Association. He graduated from Zhengzhou University and received a Doctorate degree in Economics from Wuhan University.

## Huan Huiwu, Non-executive Director

Mr. Huan has served as Non-executive Director of Industrial and Commercial Bank of China Limited since February 2009. He joined the Ministry of Finance (MOF) in 1982, and served as Chief of the Cadre Deployment Division of the Department of Human Resources, Chief of the Cadre Deployment Division of the Department of Human Resources and Education, Deputy Director-General of the Department of Human Resources and Education, and Executive Deputy Secretary of the Party Committee (at the rank of Director-General). He graduated from the Party School of the Central Committee of the Communist Party of China as a postgraduate in Economics and Administration.

## Wang Xiaoya, Non-executive Director

Ms. Wang has served as Non-executive Director of Industrial and Commercial Bank of China Limited since January 2012. She joined Central Huijin Investment Ltd. in 2012. She previously taught at Central China Normal University where she served as Assistant Lecturer and Lecturer. She joined the Research Bureau of the People's Bank of China in 1997 where she served as Deputy Chief of division, Chief of division and Deputy Director and served as Deputy Mayor of Tongliao City in Inner Mongolia Autonomous Region at the same time. Ms. Wang graduated from the Graduate School of Chinese Academy of Social Sciences and received a Doctorate degree in Economics. Ms. Wang also received a Bachelor of Law degree and a Master of Economics degree from the Political and Education Faculty and Economics Faculty of Central China Normal University. Ms. Wang Xiaoya is a researcher and is currently a Member of the Post-Doctoral Academic Committee and a Post- Doctoral Co-mentor at the People's Bank of China Research Institute of Finance.

## Ge Rongrong, Non-executive Director

Ms. Ge has served as Non-executive Director of Industrial and Commercial Bank of China Limited since January 2012. She has worked at Huijin since 2005 and had served as Deputy Officer and Officer of the Construction Bank Share Management Division of the Banking Department at Huijin and an Employee Supervisor of Huijin. Ms. Ge previously served as Lecturer at the Economics Management College of Beijing University of Industry in 1994, and subsequently served as Assistant Researcher at China Eagle Securities Company and staff member of the Department of Public Offering and Supervision at China Securities Regulatory Commission. Ms. Ge graduated from China University of Technology and received a Doctorate degree in Management. Ms. Ge also received a Bachelor's degree in Engineering from Zhejiang University and a Master's degree in Economics from Beijing Normal University. She is a senior economist.

## Li Jun, Non-executive Director

Mr. Li has served as Non-executive Director of Industrial and Commercial Bank of China Limited since December 2008. He joined Central Huijin Investment Ltd. in 2008. He previously served as Assistant Representative of Beijing Representative Office of the Bank of Credit and Commerce International, Deputy Representative of BNP Paribas China Representative Office, Consultant of the International Banking Department of Banco Bilbao Vizcaya Argentaria, Deputy General Manager of the Research Centre of China Technology Trust and Investment Company, General Manager of the Research Department of China Sci-Tech Securities, and Professor of the Finance Department of the School of Economics and Management of the University of Science and Technology Beijing. Mr. Li is concurrently a Non-executive Director of Shenyin & Wanguo Securities Co., Ltd. He graduated from University of Madrid in Spain and received a Doctorate degree in Business Management.

## Wang Xiaolan, Non-executive Director

Mr. Wang has served as Non-executive Director of Industrial and Commercial Bank of China Limited since January 2012. He joined the Department of Industry and Transportation of the Ministry of Finance in 1982. He served as Deputy Chief, Chief and Deputy Director-General of the State-owned Assets Administration Commission from 1989. Mr. Wang served as Chief, Assistant Commissioner and Deputy Supervision Commissioner of the General Office in the Financial Supervision Commissioner Office of the Ministry of Finance in Beijing from 1997. Mr. Wang served as Deputy Supervision Commissioner and Supervision Commissioner (at the rank of Director-General) of the Financial Supervision Commissioner Office of the Ministry of Finance in Chongqing City from 2004. Mr. Wang graduated from Central University of Finance and received a Bachelor's degree in Economics. Mr. Wang Xiaolan is a senior economist, a certified public accountant and is qualified to practise as a registered asset appraiser.

## Yao Zhongli, Non-executive Director

Mr. Yao has served as Non-executive Director of Industrial and Commercial Bank of China Limited since January 2012. He joined the Ministry of Finance in 1991 and served as Deputy Officer and Officer at the Theory Department of China Financial and Economic News of the Ministry of Finance and Deputy Chief Editor (at the rank of Deputy Director-General) and Chief Editor (at the rank of Director-General) of China Financial and Economic News of the Ministry of Finance. He graduated from the Economics Faculty of Peking University and received a Doctorate degree in Economics. Mr. Yao also received a Bachelor's degree in Economics and a Master's degree in Economics from the Economics Faculty of Sichuan University and the Economics Faculty of Peking University, respectively. Mr. Yao Zhongli is a senior editorial specialist.

## Xu Shanda, Independent Non-executive Director

Mr. Xu has served as Independent Non-executive Director of Industrial and Commercial Bank of China Limited since September 2007. From January 2000 to 2007, he was appointed as Deputy Commissioner of the State Administration of Taxation ("SAT"). He worked as Deputy Director-General of the Tax System Reformation Department of SAT, Deputy Director-General and Director-General of the Policy and Legislation Department of SAT, Director-General of Local Taxes Department of SAT, Director-General of Supervisory Bureau of SAT and a member of the National Committee of the 11th Chinese People's Political Consultative Conference. Currently, he is Chairman of the China Certified Tax Agents Association, consultant to the China Public Finance Society, member of the Chinese Economist 50 Forum and member of the 50 Forum Academic Auditing Committee. He is an Independent Non-executive Director of China Pacific Insurance (Group) Co., Ltd., part-time professor and invited researcher of Tsinghua University, Peking University, National School of Administration, Xi'an Jiaotong University, University of Science & Technology of China, Nankai University, Central University of Finance and Economics and Zhejiang Engineering University. He received his Bachelor's degree from Department of Automation, Tsinghua University, Master's degree in Agricultural Economics & Management from the Chinese Academy of Agricultural Sciences, and Master's degree in Finance from the University of Bath in UK.

## Wong Kwong Shing, Frank, Independent Non-executive Director

Mr. Wong has served as Independent Non-executive Director of Industrial and Commercial Bank of China Limited since January 2009. He previously held a number of senior positions with regional responsibility at financial institutions including Citibank, JPMorgan and NatWest, and took positions as Chairman of Hong Kong Futures Exchange Limited, Chairman of the Leveraged Foreign Exchange Trading Ordinance Arbitration Panel and member of the Foreign Exchange and Money Market Practices Committee of Hong Kong Association of Banks. He joined DBS Bank in 1999, and served as Vice Chairman of DBS Bank Ltd., Director and Chief Operating Officer of DBS Bank Ltd. and DBS Group Holdings, and Chairman of DBS Bank (Hong Kong) and Chairman of DBS Bank (China). He also served as an Independent Non-executive Director of the National Healthcare Group Pte Ltd under the Ministry of Health of Singapore. At present, he is concurrently a Director of PSA International Pte Ltd, Mapletree Investments Pte Ltd and China Mobile Limited, and a member of the Hong Kong Financial Services Development Council.

## Malcolm Christopher McCarthy, Independent Non-executive Director

Sir M.C. McCarthy has served as Independent Non-executive Director of Industrial and Commercial Bank of China Limited since December 2009. Sir M.C. McCarthy worked first as an economist for ICI before joining the UK Department of Trade and Industry where he held various posts from economic adviser to undersecretary. He subsequently worked as a senior executive of Barclays Bank first in Japan and then North America. He served as Chairman and Chief Executive of Office of Gas and Electricity Markets (Ofgem), Chairman of the Financial Services Authority (FSA), a non-executive director of HM Treasury, Chairman of the board of directors of J.C. Flowers & Co. UK Ltd, a non-executive director of NIBC Holding N.V and NIBC Bank N.V. Currently Sir M.C. McCarthy serves as a non-executive director of Intercontinental Exchange, OneSavings Bank plc and Castle Trust Capital plc, and a director of the School Board of Said Business School of Oxford University and a Trustee of IFRS Foundation. He is an Honorary Fellow of Merton College, an Honorary Doctorate of the University of Stirling, an Honorary Fellow of Cass Business School, and a Freeman of the City of London. He has a MA History at Merton College of Oxford University, PhD Economics of Stirling University, and MS at Graduate School of Business of Stanford University.

## Kenneth Patrick Chung, Independent Non-executive Director

Mr. Chung has served as Independent Non-Executive Director of Industrial and Commercial Bank of China Limited since December 2009. Mr. Chung joined Deloitte Haskins and Sells London Office in 1980. He became a partner of PricewaterhouseCoopers in 1992, and was a financial service specialist of PricewaterhouseCoopers (Hong Kong and China) since 1996. Previously, he was the human resources partner of PricewaterhouseCoopers (Hong Kong), the responsible partner of the audit department of PricewaterhouseCoopers (Hong Kong and China), the global lead partner of the audit engagement team for Bank of China Limited, the honorary treasurer of The Community Chest of Hong Kong and was a member of the Ethics Committee, Limitation of Professional Liability Committee, Communications Committee, and the Investigation Panel of the Hong Kong Society of Accountants. Mr. Chung has also served as the audit partner for the restructurings and initial public offerings of Bank of China Limited, Bank of China (Hong Kong) Limited and Bank of Communications Co. Ltd. Currently, Mr. Chung serves as the honorary treasurer of International Social Service Hong Kong Branch. He is a member of the Institute of Chartered Accountants in England and Wales, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Macau Society of Certified Practising Accountants. Mr. Chung received a bachelor's degree in economics from the University of Durham.

## Or Ching Fai, Independent Non-executive Director

Mr. Or has served as Independent Non-Executive Director of Industrial and Commercial Bank of China Limited since May 2012. Mr. Or previously served as General Manager and a Director of The Hongkong and Shanghai Banking Corporation Limited, Chairman of HSBC Insurance Limited, Chief Executive and Vice Chairman of Hang Seng Bank Limited, Chairman of Hang Seng Insurance Company Limited and Hang Seng Bank (China) Limited, a Director of Cathay Pacific Airways Limited, and a Director of Hutchison Whampoa Limited. He was Chairman of the Hong Kong Association of Banks, Vice President and a Council Member of the Hong Kong Institute of Bankers, Chairman of the Financial Services Advisory Committee and a member of the Services Promotion Programme Committee of the Hong Kong Trade Development Council, a member of the Risk Management Committee of the Hong Kong Exchanges and Clearing Limited, a member of the Aviation Development Advisory Committee, Chairman of Executive and Campaign Committee of the Community Chest of Hong Kong, a Council Member of The University of Hong Kong, an Adviser of the Employers' Federation of Hong Kong. Mr. Or currently acted as Chairman, CEO and Executive Director of China Strategic Holdings Limited, Chairman and Independent Non-executive Director of Esprit Holdings Limited, Vice Chairman and an Independent Non-executive Director of G-Resources Group Limited, an Independent Non-executive Director of Chow Tai Fook Jewellery Group Limited and Television Broadcasts Limited, Acting Chairman of the Council of City University of Hong Kong, and a Vice Patron of the Board of the Community Chest of Hong Kong. Mr. Or graduated from The University of Hong Kong with a Bachelor's degree in Economics and Psychology. He was awarded a Silver Bauhinia Star from the Hong Kong Special Administrative Region and Honorary University Fellowships from The University of Hong Kong in 2009. He is a Justice of the Peace.

## Hong Yongmiao, Independent Non-executive Director

Mr. Hong has served as Independent Non-Executive Director of Industrial and Commercial Bank of China Limited since August 2012. Mr. Hong was previously in charge of the National Science Fund for Distinguished Overseas Young Scholars supported by the National Natural Science Foundation of China, and has acted as President of the Chinese Economists Society in North America, and editor for journals such as *Journal of Econometrics* and *Econometric Theory*. He is currently an Ernest S. Liu Professor of Economics and International Studies at Cornell University in the United States, and Dean of the School of Economics and the Wang Yanan Institute for Studies in Economics at Xiamen University. He has been enrolled as one of the first participants of the "Thousand Talents Plan" and serves as a lecture professor of the "Changjiang Scholars" launched by the Ministry of Education and a part-time professor in some scientific and research institutions and colleges, including Tsinghua University, Chinese Academy of Sciences and Shandong University. He is also a committee member of the academic board of Economic Research Journal of the Chinese Academy of Social Sciences and China Economic Quarterly published by Peking University, and Co-Editor of China Journal of Economics published by Tsinghua University. Mr. Hong graduated from Xiamen University with a Bachelor of Science degree and a Master's degree in Economics from Xiamen University, and obtained his Doctorate degree in Economics from the University of California San Diego.

### Wang Chixi, Shareholder Supervisor

Ms. Wang has served as Supervisor of Industrial and Commercial Bank of China Limited since October 2005. In 2003, she was appointed as full-time Supervisor (at the rank of Director-General) and General Manager of the Supervisory Board Office of ICBC as designated by the State Council. She joined ICBC in 2005. She had taken several positions including Deputy Director-General of the Financial Audit Department of the National Audit Office, Deputy Director-General of the Agricultural, Forestry and Sea Products Audit Bureau of the National Audit Office and was appointed as full-time Supervisor (at the rank of Director-General) and General Manager of the Board of Supervisors' Office of Agricultural Bank of China as designated by the State Council. She graduated from Shenyang Agricultural College, and is a PRC Certified Public Accountant (as a non-practising member).

### Dong Juan, External Supervisor

Ms. Dong has served as External Supervisor of Industrial and Commercial Bank of China Limited since May 2009. She is currently Chairperson of the Board of Directors of Grandchina International Consulting Co., Ltd. She previously served as Deputy Chief and Chief of the Foreign Trade Division of Commerce and Trade Department of the MOF, Director-General of the Enterprise Affairs Department of the State Administration of State-owned Assets, Director-General of the Evaluation Department of the MOF, and an independent non-executive director of Shanghai Qiangsheng Holding Co., Ltd., Baocheng Investment Co., Ltd. and The Ming An (Holdings) Company Limited. At present, Ms. Dong concurrently serves as an independent non-executive director of Sinotex Investment & Development Co., Ltd. Ms. Dong graduated from Shanxi Finance and Economics Institute and from Dongbei University of Finance and Economics with a Master's degree in economics. Ms. Dong is also a PRC Certified Public Accountant (as a non-practising member).

### Meng Yan, External Supervisor

Mr. Meng has served as External Supervisor of Industrial and Commercial Bank of China Limited since May 2009. Currently, he is Dean, Professor and Tutor to PhD students in the School of Accountancy of Central University of Finance and Economics ("CUFE"). He is also an Executive Council Member of the Accounting Society of China, a Council Member of the China Audit Society, an Executive Council Member of the Banking Accounting Society of China, a member of the Steering Committee on Teaching and Learning of Business Administration Disciplines of Higher Education Institutions under the Ministry of Education, and a member of the National Accounting Master Education Steering Committee. Mr. Meng served as Head of the Department of Accountancy of CUFE. He was also an Expert Consultant of the Accounting Standards Committee of the MOF for accounting standards, an Expert Consultant of the MOF for independent auditing standards, and an Expert Consultant of the MOF for enterprise performance evaluation and an independent non-executive director of Beijing North Star Company Limited, China Merchants Property Development Company and Beijing Bashi Media Co., Ltd. At present, he concurrently serves as an independent supervisor of China COSCO Holdings Company Limited, and an independent non-executive director of Yantai Wanhua Polyurethane Co., Ltd., Jolimark Holdings Limited and COFCO Property (Group) Co., Ltd. Mr. Meng obtained his Doctorate degree in economics from the Research Institute for Fiscal Science of the MOF.

### Zhang Wei, Employee Supervisor

Mr. Zhang has served as Employee Supervisor of Industrial and Commercial Bank of China Limited since August 2006. He joined ICBC in 1994, and has served as General Manager of the Legal Affairs Department since 2004. Currently, he is also Vice Chairman of the Banking Law Research Institute and an executive council member of the Securities Law Research Institute of China Law Society, a council member of China Society for Finance and Banking and a professor of China University of Political Science and Law. He graduated from Peking University with a Doctorate degree in Law and is a research fellow.

### Zhu Lifei, Employee Supervisor

Mr. Zhu has served as Employee Supervisor of Industrial and Commercial Bank of China Limited since September 2010. He joined ICBC in 1984 and has served as Executive Deputy General Manager of the Trade Union Working Committee since 2010. He had previously served in several positions including Head of ICBC Anhui Branch, ICBC Heilongjiang Branch and ICBC Liaoning Branch. He graduated from Northeast Institute of Technology, and is a senior economist.

### Li Mingtian, Employee Supervisor

Mr. Li has served as Employee Supervisor of Industrial and Commercial Bank of China Limited since July 2012. He joined ICBC in 1984 and has served as Deputy Secretary of the Party Discipline Committee since 2001 and concurrently as Director of the Discipline Enforcement Department since 2004. He had previously served as Deputy Director of the Human Resources Department, Deputy General Manager of the Banking Department, and Deputy Head and CPC Committee member of Shaanxi Branch. He graduated from Hunan University of Finance and Economics with a Master's degree in Economics. He is a senior economist.

### Luo Xi, Senior Executive Vice President

Mr. Luo has served as Senior Executive Vice President of Industrial and Commercial Bank of China Limited since December 2009. He joined Agricultural Bank of China ("ABC") in December 1987, and was appointed as Assistant to President and General Manager of the International Department in January 2002, Senior Executive Vice President of ABC in March 2004, and Executive Director and Senior Executive Vice President of Agricultural Bank of China Limited in January 2009. He previously served several positions including Deputy Head of ABC Hainan Branch, Deputy Head of ABC Fujian Branch, General Manager of ABC Assets Preservation Department, General Manager of ABC Asset Risk Supervision Department and General Manager of ABC International Department. He is concurrently Chairman of ZAO Industrial and Commercial Bank of China (Moscow) and Industrial and Commercial Bank of China (Canada), Vice Chairman of China Society of International Finance, Director of Consumer Protection Committee of China Banking Association, and member of the Foreign Policy Advisory Committee of the Ministry of Foreign Affairs. He graduated from the Graduate School of the People's Bank of China and received a Master's degree in Economics.

### Liu Lixian, Secretary of Party Discipline Committee

Mr. Liu has served as Secretary of Party Discipline Committee of Industrial and Commercial Bank of China Limited since October 2005. He was appointed as Executive Vice President of China Huarong Asset Management Corporation in September 2003, and joined ICBC in 2005. He previously served in several positions including Deputy Director-General of the Bribery and Corruption Inspection Department, Deputy Director-General of the General Bureau of Anti-bribery and Corruption, Director-General of the Inspection Technology Bureau, and Director-General of the Inspection Theory Research Institute of the Supreme People's Procuratorate. He graduated from Jilin University.

### Yi Huiman, Senior Executive Vice President

Mr. Yi has served as Senior Executive Vice President of Industrial and Commercial Bank of China Limited since July 2008. He joined ICBC in 1985, and was appointed as member of the Senior Management in October 2005. He served in several positions at ICBC including Deputy Head of Zhejiang Branch, Deputy Head and Head of Jiangsu Branch, and Head of Beijing Branch. He is concurrently Chairman of Industrial and Commercial Bank of China (Malaysia) Berhad. He obtained a Master's degree in Executive Business Administration from Guanghua School of Management of Peking University.

### Zhang Hongli, Senior Executive Vice President

Mr. Zhang has served as Senior Executive Vice President of Industrial and Commercial Bank of China Limited since May 2010. Previously, he had been serving as a member of the Global Banking Management Committee and Head of Asia-Pacific of Deutsche Bank Global Banking and Chairman of Deutsche Bank (China) Co., Ltd. since October 2004. He worked as Financial Manager at the headquarters of Hewlett-Packard since July 1991, a Director and Head of the China operations of Schroders PLC since July 1994, an Executive Director of Goldman Sachs Asia and the Chief Representative of Goldman Sachs (China) LLC Beijing Representative Office since June 1998, and Head of Deutsche Bank Investment Banking Greater China, Vice Chairman of Deutsche Bank Asia and Chairman of Deutsche Bank China from March 2001 to September 2004. He is concurrently the Chairman of ICBC International Holdings Limited, Vice Chairman of Standard Bank Group Limited (SBG), and Chairman of Industrial and Commercial Bank of China (USA) NA. Mr. Zhang received a Bachelor's degree from Heilongjiang Bayi Agricultural University and a Master's degree in Genetics from the University of Alberta, Canada, as well as a Master's degree in Business Administration (MBA) from the Santa Clara University in California, USA, and a Doctorate degree in Management Science and Engineering from the Chinese Academy of Social Sciences.

### Wang Xiquan, Senior Executive Vice President

Mr. Wang has served as Senior Executive Vice President of Industrial and Commercial Bank of China Limited since September 2012. He joined ICBC in 1985 and has served as a member of Senior Management of Industrial and Commercial Bank of China Limited since April 2010. He previously served in several positions at ICBC, including Head of Yangquan Branch in Shanxi Province, Deputy Head of Hebei Branch, General Manager of the Asset Risk Management Department, Director-General of the Internal Audit Department and General Manager of the Human Resources Department. He graduated from Nanjing University, and received a Doctorate degree in Management.

### Wei Guoxiong, Chief Risk Officer

Mr. Wei has served as Chief Risk Officer of Industrial and Commercial Bank of China Limited since August 2006. He joined ICBC in 1987, and was appointed as General Manager of the Credit Management Department in 2001. He previously served in several positions at ICBC including Acting Head of Wenzhou Branch, Deputy Head of Zhejiang Branch and General Manager of the Industrial and Commercial Credit Department of the Head Office. He graduated from Tianjin University of Finance and Economics, and received a Master's degree in Economics.

### Lin Xiaoxuan, Chief Information Officer

Mr. Lin has served as Chief Information Officer of Industrial and Commercial Bank of China Limited since November 2010. Mr. Lin joined ICBC in 1989, and has served as General Manager of Information and Technology Department of ICBC from 2001, and Chief Officer of Information and Technology, and concurrently General Manager of Information and Technology Department, of ICBC since July 2009. He also served as Chief of Technology Protection Section and Head of Software Development and Operation Centre of ICBC Fujian Branch, Deputy General Manager of Technology Protection Department of the Head Office and later General Manager of Information and Technology Department of ICBC, and for a certain period of time concurrently served as General Manager of Data Centre of ICBC. Currently, Mr. Lin is also the President of Financial Computer of China Magazine. He graduated from East China Normal University and received a Master's degree in Engineering. He is a research fellow.

### Hu Hao, Board Secretary

Mr. Hu has served as Board Secretary of Industrial and Commercial Bank of China Limited since December 2010. Mr. Hu joined ICBC in 1984, serving successively as Deputy General Manager of the Industrial and Commercial Credit Department, Deputy General Manager of the Credit Management Department, General Manager of the Institution Operations Department and General Manager of the International Banking Department. He previously served as President of Chinese Mercantile Bank, Chairman of Industrial and Commercial Bank of China Luxembourg S.A., Deputy Director-General of Construction and Administration Bureau of South-to-North Water Diversion Middle Route Project, and a director of Taiping General Insurance Company Limited and Taiping Life Insurance Co., Ltd. Currently, Mr. Hu is also General Manager of Corporate Strategy and Investor Relations Department of the Head Office of ICBC, and a Director of Xiamen International Bank. Mr. Hu graduated from Hunan University, and received a Doctorate degree in Economics from the Graduate School of the Chinese Academy of Social Sciences. He is a senior economist.

Mr. Huan Huiwu, Ms. Wang Xiaoya, Ms. Ge Rongrong, Mr. Li Jun, Mr. Wang Xiaolan and Mr. Yao Zhongli were nominated by Huijin to serve as Non-executive Directors of the Bank. Huijin holds interests in shares of the Bank. Please refer to the section headed "Details of Changes in Share Capital and Shareholding of Substantial Shareholders — Interests and Short Positions Held by Substantial Shareholders and Other Persons" for further details.

## Appointment and Removal

- *Directors*

At the First Extraordinary General Meeting of 2011 held on 29 November 2011, Ms. Wang Xiaoya, Ms. Ge Rongrong, Mr. Wang Xiaolan and Mr. Yao Zhongli were elected as Non-executive Directors of the Bank, whose appointment was approved by CBRC in January 2012; Mr. Wong Kwong Shing, Frank was re-appointed as Independent Non-executive Director of the Bank, and his new term of office took effect from January 2012. At the First Extraordinary General Meeting of 2012 held on 23 February 2012, Mr. Or Ching Fai was elected as Independent Non-executive Director of the Bank, and his appointment was approved by CBRC in May 2012. At the Annual General Meeting for the Year 2011 held on 31 May 2012, Mr. Hong Yongmiao was elected as Independent Non-executive Director of the Bank, whose appointment was approved by CBRC in August 2012. At the First Extraordinary General Meeting of 2013 held on 20 March 2013, Mr. Malcolm Christopher McCarthy and Mr. Kenneth Patrick Chung were re-appointed as Independent Non-executive Directors of the Bank, and their terms of office took effect from March 2013.

Mr. Gao Jianhong, Ms. Li Chunxiang, Mr. Li Xiwen and Mr. Wei Fusheng ceased to act as Non-executive Directors of the Bank with effect from January 2012. Mr. Leung Kam Chung, Antony ceased to act as Independent Non-executive Director of the Bank with effect from May 2012. Mr. Qian Yingyi ceased to act as Independent Non-executive Director of the Bank with effect from August 2012.

- *Supervisors*

After the review and approval by the Annual General Meeting for the Year 2011 held on 31 May 2012, Ms. Dong Juan and Mr. Meng Yan were re-appointed as External Supervisors, and the appointment took effect from the date of review and approval by the meeting. At the enlarged meeting of the Trade Union Working Committee of the Bank held on 24 July 2012, Mr. Zhang Wei was re-elected as Employee Supervisor of the Bank, and the appointment took effect from 4 August 2012; Mr. Li Mingtian was elected as Employee Supervisor of the Bank, and the appointment took effect from the date of election at the enlarged meeting of the Trade Union Working Committee.

- *Senior Management*

At the meeting of the Board of Directors held on 29 August 2012, Mr. Wang Xiquan was appointed as Senior Executive Vice President of the Bank, and the appointment was approved by CBRC on 6 September 2012.

## Annual Remuneration

Unit: RMB10,000

| Name | Remuneration from the Bank | | | | Remuneration in shareholder entities |
|---|---|---|---|---|---|
| | Remuneration paid (before tax) ① | Contribution by the employer to social insurance, housing allowance, annuities, and additional medical insurances ② | Part-time fee ③ | Total remuneration before tax ④=①+②+③ | |
| Jiang Jianqing | 88.0 | 25.6 | — | 113.6 | — |
| Yang Kaisheng | 81.2 | 23.4 | — | 104.6 | — |
| Zhao Lin | 79.0 | 23.2 | — | 102.2 | — |
| Wang Lili | 75.4 | 22.6 | — | 98.0 | — |
| Li Xiaopeng | 75.4 | 22.6 | — | 98.0 | — |
| Huan Huiwu | — | — | — | — | 78.0 |
| Wang Xiaoya | — | — | — | — | 73.8 |
| Ge Rongrong | — | — | — | — | 73.8 |
| Li Jun | — | — | — | — | 78.0 |
| Wang Xiaolan | — | — | — | — | 73.8 |
| Yao Zhongli | — | — | — | — | 73.8 |
| Xu Shanda | — | — | — | — | — |
| Wong Kwong Shing, Frank | — | — | 49.0 | 49.0 | — |
| Malcolm Christopher McCarthy | — | — | 41.0 | 41.0 | — |
| Kenneth Patrick Chung | — | — | 41.2 | 41.2 | — |
| Or Ching Fai | — | — | 24.2 | 24.2 | — |
| Hong Yongmiao | — | — | 14.0 | 14.0 | — |
| Wang Chixi | 72.4 | 18.3 | — | 90.7 | — |
| Dong Juan | — | — | 30.0 | 30.0 | — |
| Meng Yan | — | — | 28.0 | 28.0 | — |
| Zhang Wei | — | — | 5.0 | 5.0 | — |
| Zhu Lifei | — | — | 5.0 | 5.0 | — |
| Li Mingtian | — | — | 2.1 | 2.1 | — |
| Luo Xi | 75.4 | 22.6 | — | 98.0 | — |
| Liu Lixian | 75.4 | 22.6 | — | 98.0 | — |
| Yi Huiman | 75.4 | 22.6 | — | 98.0 | — |
| Zhang Hongli | 75.4 | 17.3 | — | 92.7 | — |
| Wang Xiquan | 74.0 | 21.7 | — | 95.7 | — |
| Wei Guoxiong | 72.8 | 21.9 | — | 94.7 | — |
| Lin Xiaoxuan | 72.8 | 21.4 | — | 94.2 | — |
| Hu Hao | 72.8 | 20.6 | — | 93.4 | — |

Notes: (1) According to the requirements of relevant government authorities, the total final remuneration payable to the Chairman of the Board of Directors, the President, the Chairman of the Board of Supervisors, Executive Directors, Supervisors and other Senior Management members is still subject to final confirmation by relevant government authorities. Additional details of remuneration will be disclosed when they have been determined.

(2) Mr. Gao Jianhong, Ms. Li Chunxiang, Mr. Li Xiwen and Mr. Wei Fusheng ceased to act as Non-executive Directors of the Bank as of January 2012.

(3) Mr. Leung Kam Chung, Antony ceased to act as Independent Non-executive Director of the Bank as of May 2012, and his part-time fee in 2012 was RMB208 thousand (before tax); Mr. Qian Yingyi ceased to act as Independent Non-executive Director of the Bank as of August 2012, and his part-time fee in 2012 was RMB327 thousand (before tax).

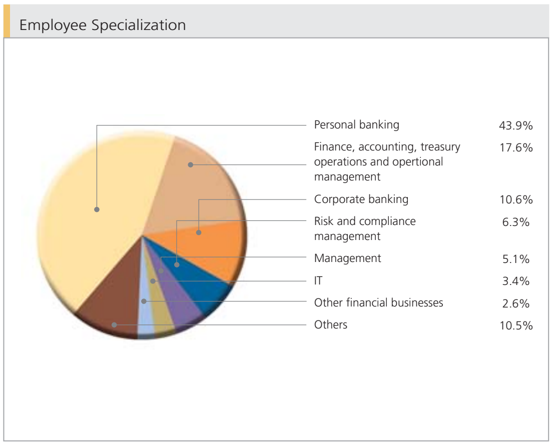
(4) The amount of remuneration received by Mr. Huan Huiwu, Ms. Wang Xiaoya, Ms. Ge Rongrong, Mr. Li Jun, Mr. Wang Xiaolan and Mr. Yao Zhongli listed above were obtained from Huijin due to duty performance as the Bank's Directors during the reporting period.

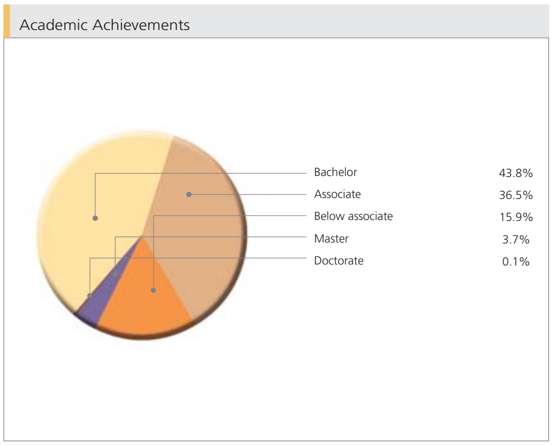
As at the end of the reporting period, the Bank did not implement share incentives, and none of the Directors, Supervisors and members of the Senior Management held share options or were granted restricted shares of the Bank.

## Basic Information on Employees and Institutions

As at the end of 2012, the Bank had 427,356 employees[1], representing an increase of 18,497 persons compared with the end of the previous year, of whom 3,702 were employees in major domestic subsidiaries and 9,210 were local employees in overseas institutions.

### SPECIALIZATIONS AND ACADEMIC ACHIEVEMENTS OF DOMESTIC EMPLOYEES




At the end of 2012, the Bank had a total of 17,508 institutions, representing an increase of 621 as compared with the end of the previous year. Among them, there were 17,125 domestic operation and 383 overseas institutions.

### GEOGRAPHIC DISTRIBUTION OF ASSETS, INSTITUTIONS AND EMPLOYEES

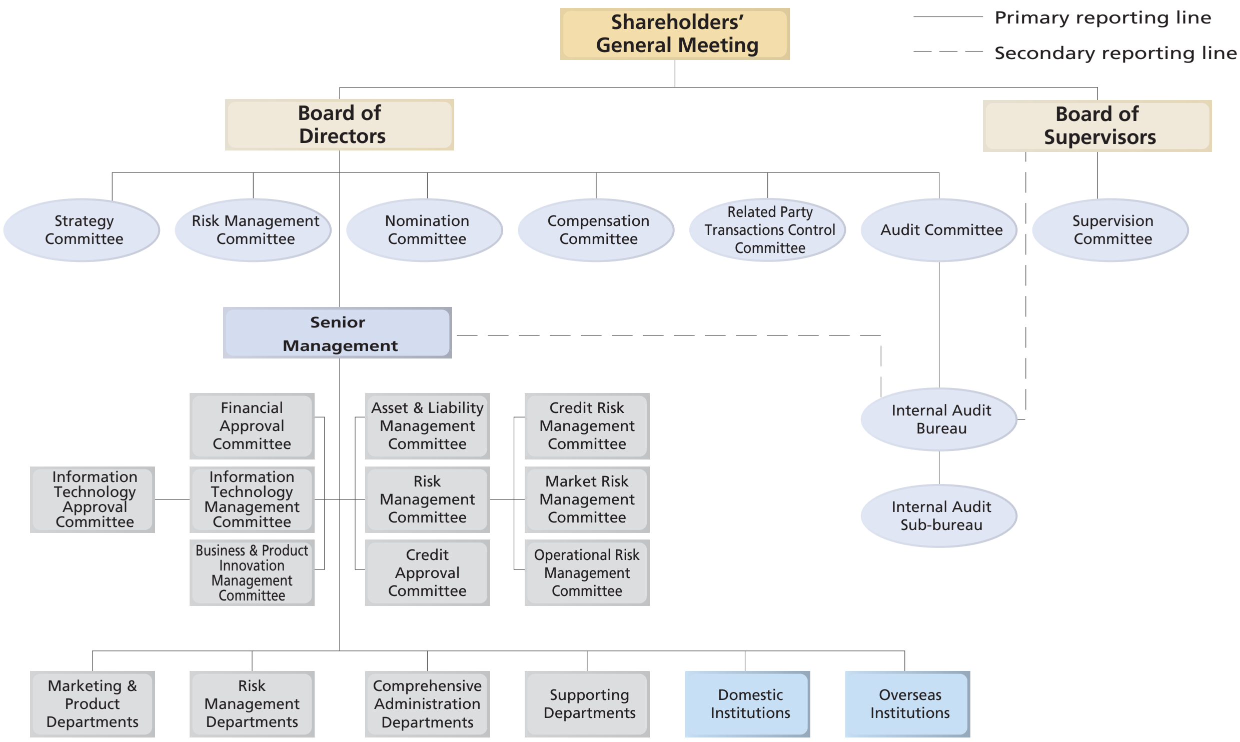
| | At 31 December 2012 | | | | | |
|---|---|---|---|---|---|---|
| Item | Assets (in RMB millions) | Percentage (%) | Institutions | Percentage (%) | Employees | Percentage (%) |
| Head Office | 8,224,142 | 33.6 | 35 | 0.2 | 14,575 | 3.4 |
| Yangtze River Delta | 3,294,148 | 13.5 | 2,624 | 15.0 | 54,875 | 12.8 |
| Pearl River Delta | 2,296,600 | 9.4 | 2,139 | 12.2 | 46,703 | 10.9 |
| Bohai Rim | 3,902,655 | 16.0 | 2,836 | 16.2 | 66,949 | 15.7 |
| Central China | 2,095,440 | 8.6 | 3,664 | 20.9 | 89,113 | 20.9 |
| Western China | 2,466,885 | 10.1 | 3,999 | 22.9 | 91,275 | 21.4 |
| Northeastern China | 923,766 | 3.8 | 1,789 | 10.2 | 50,954 | 11.9 |
| Overseas and others | 1,234,420 | 5.0 | 422 | 2.4 | 12,912 | 3.0 |
| **Total** | **24,438,056** | **100.0** | **17,508** | **100.0** | **427,356** | **100.0** |

Notes: (1) Overseas and others include investments in associates and jointly controlled entities.

(2) Total excludes eliminated and undistributed assets.

1 Does not include labor dispatched for services totaling 29,457 persons, of which 49 were dispatched to major domestic subsidiaries.

## Corporate Governance Framework




Note: The above is the corporate governance framework chart as of the end of 2012.

The Bank has made constant efforts to improve the corporate governance framework comprising the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and the Senior Management featuring clearly-defined responsibilities and accountability, coordination and effective checks and balances, and to optimize responsibilities of the authority organ, decision-making organ, supervisory organ and executive organ. As a result, the operation mechanism with scientific decision-making process, effective supervision and steady operation has been in place.

### Responsibilities of the Shareholders' General Meeting

As the authority organ of the Bank, the Shareholders' General Meeting involves all shareholders. The Shareholders' General Meeting is responsible for, among others, deciding on business policies and material investment plans of the Bank; considering and approving the proposals on the annual financial budget, final accounts, profit distribution plans and loss recovery plans, electing and replacing directors, shareholder supervisors and external supervisors; considering and approving the work report of the Board of Directors and the work report of the Board of Supervisors; adopting resolutions on merger, division, dissolution, liquidation, change of corporate form, increase or decrease of registered capital, issuance and listing of corporate bonds or other negotiable securities and repurchase of stocks; and amending the Articles of Association of the Bank.

## Responsibilities of the Board of Directors

As the decision-making organ of the Bank, the Board of Directors of the Bank is accountable to, and shall report to, the Shareholders' General Meeting. The Board of Directors is responsible for, among others, convening the Shareholders' General Meeting; implementing resolutions of the Shareholders' General Meeting; deciding on business plans, investment plans and development strategies of the Bank; formulating annual financial budgets and final accounts of the Bank; formulating profit distribution plans and loss recovery plans; formulating proposals on the increase or decrease of registered capital of the Bank; formulating fundamental management rules on risk management and internal control, and supervising the implementation of these rules, appointing or removing the President and the Board Secretary, and based on the President's nomination, appointing or removing Senior Executive Vice Presidents and other Senior Management members (except the Board Secretary), and deciding on their remuneration, rewards and sanctions; deciding on authorizing the President to set up relevant internal institutions of the Bank, managing information disclosure matters of the Bank; and supervising and overseeing the Senior Management. The Board of Directors has established six special committees, namely, the Strategy Committee, the Audit Committee, the Risk Management Committee, the Nomination Committee, the Compensation Committee and the Related Party Transactions Control Committee.

## Responsibilities of the Board of Supervisors

As the supervisory organ of the Bank, the Board of Supervisors is accountable to, and shall report to, the Shareholders' General Meeting. The Board of Supervisors is responsible for, among others, supervising the performance and due diligence of Directors and Senior Management members; supervising the performance of duties of the Board of Directors and the Senior Management; conducting audits on retiring or resigning Directors and Senior Management members when necessary; examining and supervising the Bank's financial activities; examining financial information such as financial report, business report and profit distribution plan to be submitted to the Shareholders' General Meeting by the Board of Directors; examining and supervising business decisions, risk management and internal control of the Bank, and providing guidance to the internal audit departments of the Bank, formulating performance assessment measures for supervisors, assessing the performance and conduct of supervisors, and reporting to the Shareholders' General Meeting for approval; presenting proposals to the Shareholders' General Meeting; proposing to convene extraordinary general meetings, and convening and presiding over such meetings in case the Board of Directors fails to perform its duty of convening shareholders' general meeting; proposing to convene interim meetings of the Board of Directors, etc. The Board of Supervisors has the Supervision Committee.

## Responsibilities of the Senior Management

As the executive organ of the Bank, the Senior Management is accountable to the Board of Directors. The Senior Management is responsible for, among others, carrying out operational management of the Bank; organizing the implementation of business plan and investment plan approved by the Board of Directors; formulating detailed regulations and rules for operational management; formulating proposals on remuneration distribution and performance assessment for heads of internal departments and branches of the Bank; reporting operating results to the Board of Directors and the Board of Supervisors; preparing the annual financial budget, final accounts, profit distribution plans and loss recovery plans, and proposals on the increase or decrease of registered capital, issuance or listing of bonds, and making recommendations to the Board of Directors.

## Overview of Corporate Governance

Sound corporate governance is the key to stable operation of the banking sector and even the entire financial system, and is also one of the most important determinants of a bank's development. During the reporting period, the Bank strictly complied with laws, regulations and relevant regulatory rules of the locality of its operations and of the locality where shares of the Bank are listed, and adhered to treating the improvement of corporate governance as a key move of strengthening the development. The Bank also constantly improved the framework consisting of the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and the Senior Management, intensified the corporate governance towards subsidiaries, and proactively promoted strategic transition and transformation of operating modes and growth patterns by centering on the vision of "becoming a global leading bank with the best profitability, performance and prestige". Additionally the Bank strengthened risk management and internal control, focused on service quality improvement, enhanced the core competitiveness, and boosted the healthy development of businesses in an all-around manner. In 2012, the Bank received 31 important domestic and overseas corporate governance awards, including the "2012 Hong Kong Corporate Governance Excellence Awards" granted by The Chamber of Hong Kong Listed Companies, the "2012 Best Corporate Governance Disclosure Awards: H-Share Category Platinum Award" by the Hong Kong Institute of Certified Public Accountants, the "2012 Information Disclosure Award for Listed Companies" by the Shanghai Stock Exchange and the "Award for Best Corporate Governance of Listed Companies in China" by the Nankai University.

### Construction of the Organizational Framework of Corporate Governance

In 2012, the Bank appointed and renewed the engagement of directors, supervisors and senior management members to ensure the Board of Directors, the Board of Supervisors and the Senior Management operate in compliance with laws and regulations. The Bank also revised the working regulations for the special committees of the Board of Directors and further clarified their responsibilities. As a result, the special committees became increasingly professional and independent, playing a more effective bridging role between the Board of Directors and the Senior Management. Moreover, the Bank improved the working team of the special committees of the Board of Directors and the working mechanism thereof, facilitating the work of the special committees.

The Bank actively explored the Group's corporate governance, and perfected corporate governance framework, institutional system and working mechanism of subsidiaries. Meanwhile, the Bank continued to expand the coverage of the profit center reform, with the number of profit centers increasing to 8; advanced the legal affairs management system reform and organized its implementation in 14 Tier-one Branches; completed the reform of credit approval concentration management in all Tier-one Branches and Branches Directly Controlled by the Head Office. In addition, the Bank set up 26 private banking centers and the Consumer Protection Office, and established overseas institutions including cash management centers for the Europe and the America, the private banking center (Europe) and the technology service center (Hong Kong).

### Construction of the Corporate Governance Mechanism

The Bank gave play to the strategic decision-making role of the Board of Directors and its special committees. The Board of Directors and its special committees strengthened discussions, studies and scientific decision-making on medium- and long-term major strategic issues of the Bank and facilitated strategic transformation, restructuring and implementation of the internationalized and diversified development strategy. The Bank held the meeting of the Board of Directors to review the three-year development strategic plan and to study strategic issues regarding medium- and long-term development of the Bank. The Bank made prudential judgment on the international economic and financial situation and grasped market opportunities to further promote the global layout. The Bank strengthened enterprise risk management and consolidated statement management pursuant to regulatory requirements of CBRC to facilitate the implementation of the advanced approach for capital management.

The Bank gave play to the supervisory function of the Board of Supervisors. In accordance with the responsibilities endowed by laws, regulations and the Articles of Association and bearing in mind the priorities of the Bank, the Board of Supervisors duly performed its supervisory responsibility and carried out duty performance supervision and evaluation in an in-depth manner. Besides, the Board of Supervisors strengthened supervision over material financial activities, risk management and internal control of the Bank, and actively explored a system for its supervisory work with the Bank's characteristics, with the purpose of promoting compliant operation and sustainable and steady development of the Bank.

With regard to enterprise risk management, the Bank improved the country risk rating system and built up the consolidated statement management system of the Group. Specifically, the Bank amended the Administrative Measures for Country Risk Management, the Administrative Measures for Consolidated Statement Management and the Measures for Evaluation, Limits and Assessment of Risk Management, and formulated the Risk Management Planning for 2012-2014. The governance structure, institutional system, IT system and appraisal mechanism of risk management were improved, and the risk measurement system became mature gradually. In conclusion, risk management of the Bank was enhanced comprehensively.

With regard to the internal audit system, on a risk-oriented basis and with the aim of increasing value, the Bank paid particular attention to major risks and their changes during operation and management. The Bank evaluated the efficiency of risk management, internal control and corporate governance from different perspectives including mechanisms, procedures and systems to promote healthy and steady development of the Bank. The Bank also enhanced audit quality and effectiveness by advancing the application of audit informatization research and development results, improving auditing practices and standards, expediting function transformation and auditing innovation and optimizing working methods and management mechanisms.

With regard to the internal control system, the Bank laid down various basic rules including the Basic Regulations for Internal Control, the Basic Regulations for Compliance Management and the Basic Regulations for System Management, and prepared the Development Plan of the Internal Control System for 2012-2014. The Bank improved the internal control assessment mode of Tier-one Branches and Branches Directly Controlled by the Head Office, and established the all-process management mechanism for the Group's systems. The Bank organized compliance culture construction activities with the theme of education on the code of conduct for employees, making internal control and compliance culture more deeply rooted in the Bank.

With regard to the incentive and disciplinary mechanism, the Bank adhered to caring for people, service collaboration and scientific management, deepened the cadre system reform, encouraged the staff performance, and continuously improved the compensation incentive mechanism. The Bank steadily expanded the application coverage of human resources enhancement project achievements, gradually structured the salary incentive system for global employees, promoted the construction of the Group's salary management system, established and perfected the incentive and disciplinary mechanism for subsidiaries, steadily advanced the staff promotion mechanism and the performance management system, continued to improve the market-oriented compensation incentive system centered around post value, duty performance capability and work achievement.

The Bank continuously increased the level of transparency. The Bank continuously increased the depth and breadth of voluntary information disclosure under the principles of "authenticity, accuracy, completeness, timeliness and fairness" for information disclosure and by making references to the needs of investors. The Bank strictly implemented the Administrative Measures for Insider Information and Insiders to prevent insider transactions and fully protect the interests of shareholders. The Bank comprehensively strengthened communication with investors, strived to create a professional and efficient communication platform and dredged communication channels for investors by means of domestic and overseas road shows, press conferences in relation to periodic results, reverse road shows, daily reception and so forth.

The Bank endeavored to form a view of social responsibilities with own characteristics centering on the vision of building itself as a global leading bank with the best profitability, performance and prestige. The Bank gradually established the social responsibility management and practice system integrating strategic planning, system construction, information disclosure, education and training and international exchange, to effectively enhance the management and performance of social responsibilities of the Bank. The Bank established the corporate culture with "Integrity, Humanity, Prudence, Innovation and Excellence" as the basic value orientation and enhanced cohesion and enthusiasm of employees.

During the reporting period, there is neither material divergence between actual corporate governance of the Bank and applicable regulations and requirements of regulatory authorities including CSRC, nor any problem identified by regulatory authorities but remain unresolved in respect of corporate governance.

### Development of Corporate Governance Regulations

During the reporting period, the Bank amended the Articles of Association according to regulatory requirements. The amended Articles of Association was approved by the Bank's Second Extraordinary General Meeting of 2012 and by CBRC. 10 articles of the Articles of Association were amended including 1 article on cash dividends, which further standardized policies, proportion and decision-making procedures of cash dividends; 4 articles on the changes of the Hong Kong Listing Rules and the Corporate Governance Code, which further defined the requirements on composition of the Board of Directors and its special committees, improved responsibilities of the Board of Directors, the Audit Committee and the Nomination Committee; and 5 articles on changes in share capital and registered capital of the Bank. Number of chapters and articles remained unchanged in the amended Articles of Association.

As of the reporting date, the Bank's prevailing regulations on corporate governance mainly included: the Articles of Association; the Rules of Procedures for the Shareholders' General Meeting; the Rules of Procedures for the Board of Directors; the Rules of Procedures for the Board of Supervisors; the Plan on Authorization of the Shareholders' General Meeting to the Board of Directors; the Plan on Authorization of the Board of Directors to the President; the Rules on the Recommendation and Nomination of Candidates for Directors (Trial); the Working Regulations for the President; the Working Regulations for the Strategy Committee of the Board of Directors; the Working Regulations for the Audit Committee of the Board of Directors; the Working Regulations for the Risk Management Committee of the Board of Directors; the Working Regulations for the Nomination Committee of the Board of Directors; the Working Regulations for the Compensation Committee of the Board of Directors; the Working Regulations for the Related Party Transactions Control Committee of the Board of Directors; the Working Rules for the Independent Directors; the Working Rules for the Board Secretary, the Working Rules of Independent Directors for the Annual Report Work, the Working Rules of the Audit Committee for the Annual Report Work, etc.

## Compliance with the Corporate Governance Code

According to Code Provision A.5.1 of the Corporate Governance Code (the "Code") under Appendix 14 of the Hong Kong Listing Rules, listed issuers shall establish a nomination committee, which shall be chaired by the chairman of the board of directors or an independent non-executive director. On 22 August 2012, Mr. Qian Yingyi, former Independent Non-executive Director and the then Chairman of the Nomination Committee, retired from office upon the expiration of his tenure. According to laws and regulations including the Company Law and provisions of the Bank including the Articles of Association and the Rules of Procedures for the Board of Directors, selection of suitable candidates shall undergo certain procedures and requires a certain amount of time. On 29 August 2012, the Board of Directors of the Bank approved the appointment of Independent Non-executive Director Mr. Wong Kwong Shing, Frank as Chairman of the Nomination Committee, and the Bank has announced the relevant changes in a timely manner.

Save as disclosed above, during the reporting period, the Bank fully complied with the principles and code provisions stipulated in the Code, and has essentially complied with the recommended best practices of the Code.

## Shareholders' Rights

- *Proposing the convening of an extraordinary general meeting*

An extraordinary general meeting should be convened within 2 months from the date when shareholders holding more than 10% of the voting shares of the Bank, either individually or jointly, request to convene in writing.

◆ *Submitting interim proposals for the shareholders' general meeting*

Shareholders who hold more than 3% of shares of the Bank, either individually or jointly, may prepare an interim proposal and submit it in writing to the Board of Directors 10 days before the shareholders' general meeting is convened. The Board of Directors shall issue a supplementary notice for the shareholders' general meeting within 2 days upon receipt of the proposal and submit such proposal to the shareholders' general meeting for approval.

◆ *Putting forward suggestions or inquiries*

Shareholders are entitled to supervise business operation of the Bank and put forward suggestions or inquiries accordingly. Shareholders are entitled to review the information of the Bank such as the Articles of Association, the register of shareholders, share capital documents, minutes of the shareholders' general meeting, etc.

◆ *Other rights*

Shareholders have the right to collect dividends and other forms of benefits distributed on the basis of the number of shares held by them. Shareholders have other rights conferred by laws, administrative regulations, rules and the Articles of Association of the Bank.

## Effective Communication with Shareholders

The Bank has strictly complied with rules and regulations of relevant regulatory authorities and fundamental regulations of corporate governance, and has taken various measures such as improving information disclosure management, strengthening investor relations management and optimizing the operations mechanism of the Shareholders' General Meeting, with a view to ensure the rights of all shareholders, especially minority investors and increasing communication and exchange with shareholders.

Adhering to the principle of "authenticity, accuracy, completeness, timeliness and fairness" and the orientation of meeting investors' needs and increasing transparency, the Bank constantly improved the information disclosure system construction through strengthening the management of information disclosure issues and optimizing the working mechanism. While ensuring legal and regulatory compliance of information disclosure, the Bank moderately enhanced voluntary disclosure and continued to expand the depth and breadth of information disclosure, to fully guarantee shareholders' right of information.

The Bank improved various communication channels for investors through organizing press conferences in relation to periodic results, domestic and overseas road shows and reverse road shows and inviting investors to large investment forums during the reporting period. The Bank gave full play to the communication platforms including investor relations website, investor hotlines and investor email, to understand investors' needs and providing sufficient information feedback in a timely manner.

During the reporting period, convening, notices, announcements, proposals, voting and other procedures of the general meetings of shareholders of the Bank strictly complied with the relevant provisions of the Company Law and the Articles of Association of the Bank, ensuring that shareholders could exercise their right of participation smoothly. Since it has been listed, in order to treat A and H minority shareholders fairly, the Bank has insisted on holding the Annual General Meeting in Beijing and Hong Kong concurrently by satellite, set up registration offices of A and H shareholders both in Beijing and Hong Kong to facilitate the voting of shareholders. In 2011, the number of shareholders who participated in voting at the Annual General Meeting amounted to 1,732, representing an increase of 31% as compared to the previous year.

## Contacts

Shareholders can put forward suggestions and inquiries through participating in activities including the shareholders' general meeting, press conferences on periodic results and road shows of the Bank or by means of platforms including investor relations website, investor hotline and investor email and hotline, fax and email of the shareholders' general meetings as well. For contact details, please refer to the section headed "Corporate Governance Report — Investor Relations".

If a shareholder wishes to enquire about share transfer, changes in name or address, reporting loss of share certificates and dividend notes or any other information relating to his/her shares, please contact the Share Registrars of the Bank. For contact details, please refer to "Corporate Information".

## The Shareholders' General Meeting

During the reporting period, the Bank convened one annual general meeting and two extraordinary general meetings, which considered and approved a total of 14 proposals, and two reports were heard. Each meeting was convened in compliance with relevant legal procedures which assured shareholders' participation and exercise of rights. The Bank engaged lawyers to witness these meetings and issue legal opinions. Details of the meetings are as follows:

| Meeting | Date | Place | Content | Meeting Results |
|---|---|---|---|---|
| First Extraordinary General Meeting of 2012 | 23 Feb 2012 | Beijing | Proposal on Fixed Asset Investment Budget for 2012 | Reviewed and approved |
| | | | Proposal on the Appointment of Mr. Or Ching Fai as an Independent Director of Industrial and Commercial Bank of China Limited | Reviewed and approved |
| 2011 Annual General Meeting | 31 May 2012 | Beijing and Hong Kong concurrently by satellite | Proposal on the 2011 Work Report of the Board of Directors of Industrial and Commercial Bank of China Limited | Reviewed and approved |
| | | | Proposal on the 2011 Work Report of the Board of Supervisors of Industrial and Commercial Bank of China Limited | Reviewed and approved |
| | | | Proposal on the 2011 Audited Accounts | Reviewed and approved |
| | | | Proposal on the 2011 Profit Distribution Plan | Reviewed and approved |
| | | | Proposal on the Engagement of Auditors for 2012 | Reviewed and approved |
| | | | Proposal on the Appointment of Ms. Dong Juan as an External Supervisor of Industrial and Commercial Bank of China Limited | Reviewed and approved |
| | | | Proposal on the Appointment of Mr. Meng Yan as an External Supervisor of Industrial and Commercial Bank of China Limited | Reviewed and approved |
| | | | Proposal on the Appointment of Mr. Hong Yongmiao as an Independent Director of Industrial and Commercial Bank of China Limited | Reviewed and approved |
| | | | Proposal on the Payment of Remuneration to Directors and Supervisors of Industrial and Commercial Bank of China Limited for 2011 | Reviewed and approved |
| | | | 2011 Work Report of Independent Directors of Industrial and Commercial Bank of China Limited | Listened to |
| | | | Report on the Implementation of the Plan on Authorization of the Shareholders' General Meeting to the Board of Directors in 2011 of Industrial and Commercial Bank of China Limited | Listened to |
| Second Extraordinary General Meeting of 2012 | 5 Nov 2012 | Beijing | Proposal on Amendments to the Articles of Association of Industrial and Commercial Bank of China Limited | Reviewed and approved |
| | | | Proposal on 2012-2014 Capital Planning of Industrial and Commercial Bank of China | Reviewed and approved |
| | | | Proposal on the Engagement of Auditors for 2013 | Reviewed and approved |

For details of the above meetings, please refer to the announcements of the Bank on 23 February 2012, 31 May 2012 and 5 November 2012 or the website of the Bank.

## Board of Directors and Special Committees

### Composition of the Board of Directors

The Bank formulated relatively complete procedures for nominating and electing directors. The Directors complemented each other on one hand with regard to their expertise and experience and were independent on the other hand, which ensured scientific decision-making of the Board of Directors. As at the end of the reporting period, the Board of Directors of the Bank consisted of 16 directors, including four Executive Directors: Mr. Jiang Jianqing, Mr. Yang Kaisheng, Ms. Wang Lili and Mr. Li Xiaopeng; six Non-executive Directors: Mr. Huan Huiwu, Ms. Wang Xiaoya, Ms. Ge Rongrong, Mr. Li Jun, Mr. Wang Xiaolan and Mr. Yao Zhongli; and six Independent Non-executive Directors: Mr. Xu Shanda, Mr. Wong Kwong Shing, Frank, Sir Malcolm Christopher McCarthy, Mr. Kenneth Patrick Chung, Mr. Or Ching Fai and Mr. Hong Yongmiao. Mr. Jiang Jianqing was Chairman and Mr. Yang Kaisheng was Vice Chairman of the Board of Directors. All Executive Directors have worked in the areas of banking and management for a long time and possess extensive professional expertise in those areas. Most Non-executive Directors specialize in economic management and have rich management experience. The Independent Non-executive Directors are prestigious experts in the areas of finance, accounting and taxation, respectively, and most of them once worked at international institutions and are familiar with corporate finance and management. The number of Independent Non-executive Directors of the Bank accounted for more than one-third of the total members of the Board of Directors, meeting relevant regulatory requirements.

### Meetings of the Board of Directors

During the reporting period, the Board of Directors of the Bank held 14 meetings, considered 62 proposals and listened to 20 reports. The main proposals and reports are set out below:

- Proposal on the Changes in the Members of the Special Committees of the Board of Directors
- Proposal on Rules for the Market Risk Management of Industrial and Commercial Bank of China
- Proposal on the Amendment of Basic Regulations for Internal Control of Industrial and Commercial Bank of China
- Proposal on Basic Regulations for Compliance Management of Industrial and Commercial Bank of China
- Proposal on Regulations for Operational Risk Management of Industrial and Commercial Bank of China
- Proposal on the Internal Audit Plan for 2012
- Proposal on the Internal Audit Development Plan for 2012–2014
- Proposal on the 2011 Internal Control Assessment Report of Industrial and Commercial Bank of China Limited
- Proposal on the Engagement of Auditors for 2012
- Proposal on the Amendment of the Administrative Measures of Industrial and Commercial Bank of China for Insider Information and Insiders
- Proposal on the Amendment of the Working Regulations for the Audit Committee of the Board of Directors of Industrial and Commercial Bank of China Limited
- Proposal on the Amendment of the Working Regulations for the Nomination Committee of the Board of Directors of Industrial and Commercial Bank of China Limited
- Proposal on the 2012 Liquidity Risk Management Strategy and Liquidity Risk Contingency Plan of Industrial and Commercial Bank of China Limited
- Proposal on the Consolidated Statement Management of the Group in 2011 and Consolidated Statement Management Plan for 2012
- Proposal on the 2011 Audited Accounts
- Proposal on the 2011 Profit Distribution Plan
- Proposal on the 2011 Annual Report and its Abstract
- Proposal on the 2011 Work Report of the Board of Directors of Industrial and Commercial Bank of China Limited
- Proposal on the 2011 Corporate Social Responsibility Report of Industrial and Commercial Bank of China Limited
- Proposal on Convening the 2011 Annual General Meeting
- Proposal on the First Quarterly Report of 2012
- Proposal on the Strategic Development Plan of Industrial and Commercial Bank of China for 2012–2014
- Proposal on the Risk Management Plan of Industrial and Commercial Bank of China for 2012–2014

- Proposal on the Administrative Measures for Consolidated Statement Management of Industrial and Commercial Bank of China
- Proposal on the Nomination of Mr. Hong Yongmiao as A Candidate for the Post of Independent Director of Industrial and Commercial Bank of China Limited
- Proposal on the Management Measures on Business Outsourcing of Industrial and Commercial Bank of China (Trial)
- Proposal on the Management Measures on Business Continuity of Industrial and Commercial Bank of China
- Proposal on the Payment of Remuneration to Senior Management Members for 2011
- Proposal in Respect of the Senior Management Performance Evaluation Plan for 2012
- Proposal on the Payment of Remuneration to Directors and Supervisors for 2011
- Proposal on the Changes in the Chairman and Members of Certain Special Committees of the Board of Directors
- Proposal on the Capital Injection in Industrial and Commercial Bank of China (Asia) Limited
- Proposal on the Overseas Strategic Development Plan of Industrial and Commercial Bank of China for 2012–2014
- Proposal on the Development Plan of the Internal Control System of Industrial and Commercial Bank of China for 2012–2014
- Proposal on the Regulations for Stress Testing of Industrial and Commercial Bank of China
- Proposal on the Stress Testing Plan for Market Risk of Industrial and Commercial Bank of China
- Proposal on the Regulations for Long-term Centralized Default Trends for Non-retail Credit Risk Client Rating
- Proposal on the Regulations for the Verification of Internal Risk Measurement System of Industrial and Commercial Bank of China
- Proposal on the Appointment of Wang Xiquan as Senior Executive Vice President of Industrial and Commercial Bank of China Limited
- Proposal on the 2012 Interim Report and Its Abstract
- Proposal on the Engagement of Auditors for 2013
- Proposal in Respect of the Capital Management Plan of Industrial and Commercial Bank of China for Years 2012 to 2014
- Proposal on the Capital Adequacy Ratio Maintenance Plan of Industrial and Commercial Bank of China
- Proposal on the Compliance and Implementation Plan in Respect of the Three Pillars Requirements of the Capital Management Measures
- Proposal on the Report Disclosure Plan under Pillar 3 of the New Capital Accord
- Proposal on the Country Risk Concentration Limit of Industrial and Commercial Bank of China for 2012
- Proposal on Amendments to the Articles of Association of Industrial and Commercial Bank of China Limited
- Proposal on Renewal of the Liability Insurance for Directors, Supervisors and Senior Management for 2012
- Proposal on the Convening of the Second Extraordinary General Meeting of 2012
- Proposal on Postponing the Convening of the Second Extraordinary General Meeting of 2012
- Proposal on the Third Quarterly Report of 2012
- Proposal on Nominating Sir Malcolm Christopher McCarthy as Candidate for Independent Non-executive Director and Re-engaging Him to Hold Relevant Posts in Special Committees of the Board of Directors
- Proposal on Nominating Mr. Kenneth Patrick Chung as Candidate for Independent Non-executive Director and Re-engaging Him to Hold Relevant Posts in Special Committees of the Board of Directors
- Proposal on Applying to CBRC for Implementing Advanced Capital Management Approaches
- Report on Internal Audit for 2011
- Report on CBRC's Assessment of New Capital Accord Implementation and the Bank's Rectification
- Report on the Risk Management of Industrial and Commercial Bank of China for 2011
- Report on the Implementation of the Plan on Authorization of the Shareholders' General Meeting to the Board of Directors in 2011 of Industrial and Commercial Bank of China Limited
- Report on the Implementation of the Plan on Authorization of the Board of Directors to the President of Industrial and Commercial Bank of China Limited in 2011
- Report on the 2011 Assessment Report on the Performance of Duties of the Directors by the Board of Directors
- Report on the Identification of Related Parties of ICBC in 2011
- Report on the Management Report about the Inside Transactions of Industrial and Commercial Bank of China Limited in 2011
- Report on the IT Risk Management of Industrial and Commercial Bank of China for 2011
- Report on the Interim Internal Audit Report for 2012
- Report on the 2012 Half-year Risk Management of Industrial and Commercial Bank of China Limited
- Report on Structure of the Board of Directors
- Report on the Meeting Plan of the Board of Directors for 2013

The attendance of each of the directors in Shareholders' General Meetings and meetings of the Board of Directors and the special committees of the Board of Directors during the reporting period is set out below:

Attendances in person/Number of meetings during the reporting period

| Directors | Shareholders' General Meeting | Board of Directors | Special Committees of the Board of Directors | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Strategy Committee | Audit Committee | Risk Management Committee | Nomination Committee | Compensation Committee | Related Party Transactions Control Committee |
| **Executive Directors** | | | | | | | | |
| Jiang Jianqing | 3/3 | 13/14 | 6/6 | | | | | |
| Yang Kaisheng | 2/3 | 12/14 | 6/6 | | | 4/5 | 2/2 | |
| Wang Lili | 1/3 | 11/14 | | | 5/7 | | | |
| Li Xiaopeng | 3/3 | 11/14 | | | | | | 7/7 |
| **Non-executive Directors** | | | | | | | | |
| Huan Huiwu | 3/3 | 14/14 | 6/6 | | | | 2/2 | |
| Wang Xiaoya | 3/3 | 14/14 | 6/6 | | | | 2/2 | |
| Ge Rongrong | 3/3 | 14/14 | | | 7/7 | 4/4 | | |
| Li Jun | 3/3 | 14/14 | | 9/9 | 7/7 | | | |
| Wang Xiaolan | 3/3 | 14/14 | | 8/8 | 7/7 | 4/4 | | |
| Yao Zhongli | 3/3 | 14/14 | 6/6 | | 7/7 | | | |
| **Independent Non-executive Directors** | | | | | | | | |
| Xu Shanda | 2/3 | 10/14 | 5/6 | 8/9 | | 3/5 | 1/2 | 6/7 |
| Wong Kwong Shing, Frank | 3/3 | 12/14 | 3/3 | 8/9 | 6/7 | 4/5 | 2/2 | 7/7 |
| Malcolm Christopher McCarthy | 2/3 | 10/14 | 5/6 | | 5/7 | 3/5 | | |
| Kenneth Patrick Chung | 3/3 | 13/14 | | 9/9 | 4/4 | | 2/2 | 7/7 |
| Or Ching Fai | 1/1 | 8/8 | 4/4 | 4/4 | | 2/2 | | |
| Hong Yongmiao | 1/1 | 6/6 | | 3/3 | 3/3 | 1/1 | | 4/4 |
| **Resigned Directors** | | | | | | | | |
| Wei Fusheng | | | | 1/1 | | | | |
| Leung Kam Chung, Antony | 1/2 | 6/6 | 1/2 | 2/5 | 3/3 | 1/2 | 2/2 | 1/1 |
| Qian Yingyi | 0/2 | 7/8 | 2/3 | 3/6 | 2/4 | 3/3 | 2/2 | |

Notes: (1) "Attendances in person" refers to attending meetings in person or on telephone or by video conference.

(2) During the reporting period, directors who did not attend the meetings of the Board of Directors and its special committees in person appointed other directors to attend the meetings and exercise the voting right on their behalf.

(3) For the change of directors, please refer to the section headed "Directors, Supervisors, Senior Management, Employees and Institutions — Appointment and Removal".

## Special Committees of the Board of Directors

The Board of Directors of the Bank has established six special committees, namely, the Strategy Committee, the Audit Committee, the Risk Management Committee, the Nomination Committee, the Compensation Committee and the Related Party Transactions Control Committee. Except the Strategy Committee, chairmen of all the other committees were assumed by independent non-executive directors; except the Strategy Committee and the Risk Management

Committee, more than half of the committee members were independent non-executive directors for the other four special committees. During the reporting period, the performance of duties by the special committees of the Board of Directors of the Bank is set out below:

◆ *Strategy Committee*

The Strategy Committee is mainly responsible for considering the Bank's strategic development plan, business and institutional development plan, major investment and financing plan and other major matters critical to the Bank's development, and making recommendations to the Board. As at the end of the reporting period, the Strategy Committee of the Bank consisted of nine directors, including Executive Directors Mr. Jiang Jianqing and Mr. Yang Kaisheng; Independent Non-executive Directors Sir Malcolm Christopher McCarthy, Mr. Xu Shanda, Mr. Wong Kwong Shing, Frank and Mr. Or Ching Fai; Non-executive Directors Mr. Huan Huiwu, Ms. Wang Xiaoya and Mr. Yao Zhongli. Chairman of the Board of Directors Mr. Jiang Jianqing and Independent Non-executive Director Sir Malcolm Christopher McCarthy were the chairman and vice chairman of the committee, respectively.

During the reporting period, the Strategy Committee of the Board of Directors held six meetings, considered five proposals including the final accounts plan for 2011 and the strategic development plan for 2012-2014 and listened to five reports. The Strategy Committee provided support to the scientific decision-making of the Board of Directors by putting forward constructive suggestions in respect of the formulation and implementation of the three-year strategic development plan, the study of the three-year capital plan and the steady progression of internationalized and diversified operation.

◆ *Audit Committee*

The Audit Committee is mainly responsible for supervising, inspecting and evaluating internal control, financial information and internal audit of the Bank and assessing mechanisms for the Bank's staff to report misconducts in financial statements, internal control, etc. and for the Bank to make independent and fair investigations and take appropriate actions. As at the end of the reporting period, the Audit Committee of the Bank consisted of seven directors, including Independent Non-executive Directors Mr. Xu Shanda, Mr. Wong Kwong Shing, Frank, Mr. Kenneth Patrick Chung, Mr. Or Ching Fai and Mr. Hong Yongmiao; Non-executive Directors Mr. Li Jun and Mr. Wang Xiaolan. Independent Non-executive Director Mr. Xu Shanda was the chairman of the committee.

Summary Report on the Performance of Duties by the Audit Committee

During the reporting period, the Audit Committee held nine meetings, considered 14 proposals including the 2011 Annual Report, the 2011 Internal Control Assessment Report, the Internal Audit Plan for 2012, the Report Disclosure Plan under Pillar 3 of the New Capital Accord and the Proposal on the Engagement of Auditors for 2013, and heard 11 reports including the regular work report of the Internal Audit Bureau.

The Audit Committee reviewed financial statements of the Bank on a regular basis, and had reviewed and submitted to the Board of Directors to approve the annual report, interim report and quarterly reports of the Bank; organized and conducted the internal control assessment for 2011 of the Group and engaged external auditors to audit the assessment report and procedures of the Bank; attached importance to the supervision of external auditors and heard several reports of external auditors concerning annual audit results, management proposal and audit plan.

During the preparation and audit of the 2012 financial statements, the Audit Committee set out related matters such as audit schedule and arrangement through negotiation with external auditors, followed the status of external auditing and conducted supervisions over relevant works at appropriate time by means of listening to reports and holding informal discussion, and reviewed the unaudited and preliminarily audited annual financial statements respectively. The Audit Committee held a meeting on 25 March 2013, and considered that the annual financial statements truly and completely reflected the financial status of the Bank. The Audit Committee also reviewed the summary of audit work performed by Ernst & Young during the year, and made an overall and objective assessment on its performance and quality of practice. During the reporting period, the Audit Committee approved the proposal on the engagement of KPMG Huazhen as the external auditors of the Bank for 2013 and presented this proposal to the Board of Directors for consideration according to relevant provisions.

◆ *Risk Management Committee*

The Risk Management Committee is primarily responsible for reviewing and revising the strategy, policy and procedures of risk management and internal control process of the Bank, and supervising and evaluating the performance of Senior Management members and risk management department in respect of risk management. As at the end of the reporting period, the Risk Management Committee of the Bank consisted of nine directors, including Executive Director Ms. Wang Lili; Independent Non-executive Directors Mr. Wong Kwong Shing, Frank, Sir Malcolm Christopher McCarthy, Mr. Kenneth Patrick Chung and Mr. Hong Yongmiao; Non-executive Directors Ms. Ge Rongrong, Mr. Li Jun, Mr. Wang Xiaolan and Mr. Yao Zhongli. Independent Non-executive Director Mr. Wong Kwong Shing, Frank was the chairman of the committee.

During the reporting period, the Risk Management Committee held seven meetings, discussed and considered eleven proposals including the Bank's risk management plan for 2012–2014 and the compliance and implementation plan in respect of the three pillars requirements of the capital management measures, and heard six reports including the 2011 annual and 2012 interim risk management reports. The Risk Management Committee put forward constructive suggestions in respect of the advancement of the New Capital Accord implementation and the enhancement of enterprise risk management of the Bank.

◆ *Nomination Committee*

The Nomination Committee is mainly responsible for making recommendations to the Board of Directors on candidates for directors and Senior Management members, nominating candidates for chairmen and members of special committees of the Board of Directors, and formulating the standards and procedures for selection and appointment of directors and Senior Management members as well as the training and development plans for Senior Management members and key reserve talents. The Nomination Committee is also responsible for assessing the structure, size and composition of the Board of Directors on a yearly basis and making recommendations to the Board of Directors based on the Bank's development strategy. As at the end of the reporting period, the Nomination Committee of the Bank consisted of eight directors, including Executive Director Mr. Yang Kaisheng; Independent Non-executive Directors Mr. Wong Kwong Shing, Frank, Mr. Xu Shanda, Sir Malcolm Christopher McCarthy, Mr. Or Ching Fai and Mr. Hong Yongmiao; Non-executive Directors Ms. Ge Rongrong and Mr. Wang Xiaolan. Independent Non-executive Director Mr. Wong Kwong Shing, Frank was the chairman of the committee.

The Nomination Committee nominates candidates for directors based on whether the candidate is eligible for directorship, complies with applicable laws, administrative rules, regulations and the Articles of Association of the Bank, performs the obligation of diligence, has a thorough understanding of business operations management of the Bank, and accepts the supervision of the Board of Supervisors on his/her performance of duties. The meeting of the Nomination Committee is held only when over one half of all members are present, and a resolution is adopted only when over one half of all members vote for it.

Summary Report on the Performance of Duties by the Nomination Committee

During the reporting period, the Nomination Committee held five meetings, considered seven proposals in respect of the nomination of Mr. Hong Yongmiao as a candidate for the post of Independent Non-executive Director, the nomination of Sir Malcolm Christopher McCarthy and Mr. Kenneth Patrick Chung as candidates for the post of Independent Non-executive Director and re-engagement of them to hold relevant posts in special committees of the Board of Directors, the appointment of Wang Xiquan as Senior Executive Vice President and the adjustment of chairmen and members of some special committees of the Board of Directors, and heard the report on the structure of the Board of Directors. In accordance with its responsibilities and the Bank's development strategy, during the reporting period, the Nomination Committee assessed the structure of the Board of Directors of the Bank, reported the assessment results to the Board of Directors, and proposed to continue to explore and improve the construction of the talent bank for independent non-executive director candidates. The committee fully offered its support and assistance to the decision-making of the Board of Directors.

◆ *Compensation Committee*

The Compensation Committee is mainly responsible for formulating assessment measures on the performance of duties for directors, organizing the assessment on the performance of duties of Directors, putting forth proposal on remuneration distribution for Directors, putting forth proposal on remuneration distribution for Supervisors based on the performance assessment on Supervisors carried out by the Board of Supervisors, formulating and reviewing the assessment measures and compensation plans for Senior Management members of the Bank and evaluating the performance and behaviors of Senior Management members. As at the end of the reporting period, the Compensation Committee of the Bank consisted of eight directors, including Executive Director Mr. Yang Kaisheng; Independent Non-executive Directors Mr. Or Ching Fai, Mr. Xu Shanda, Mr. Wong Kwong Shing, Frank, Sir Malcolm Christopher McCarthy and Mr. Kenneth Patrick Chung; Non-executive Directors Mr. Huan Huiwu and Ms. Wang Xiaoya. Independent Non-executive Director Mr. Or Ching Fai was the chairman of the committee.

Summary Report on the Performance of Duties by the Compensation Committee

During the reporting period, the Compensation Committee held two meetings. In accordance with applicable regulations of the government as well as the strategic development plan and annual business plan of the Bank, the committee considered and approved three proposals on the payment of remuneration to Directors, Supervisors and Senior Management members for 2011 and performance evaluation plan for 2012, etc., and heard the report on the 2011 assessment report on the performance of duties of the directors by the Board of Directors. The Compensation Committee proposed that the compensation system should be more incentive to attract and retain qualified personnel and guarantee the future development and the implementation of the internationalized development strategy of the Bank.

The Compensation Committee will put forth a proposal on the remuneration of the Executive Directors and the Senior Management members of the Bank based on the performance evaluation for 2012, and presented such proposal to the Board of Directors of the Bank for its consideration. The remuneration of the Executive Directors shall also be submitted to the Shareholders' General Meeting for final decision. The Bank deferred the payment of part of the performance based remuneration to Chairman of the Board of Directors, Chairman of the Board of Supervisors and other Senior Management members. The deferred amount was accrued in the Bank's account, and will be paid in three years having regard to the operating performance and status, and the proportion payable each year will be one-third of the amount. According to applicable regulations including the Measures on the Assessment of Performance of Duties of Directors in Commercial Banks (Trial) issued by CBRC, the Articles of Association and the Rules on the Assessment of Performance of Duties of Directors by the Board of Directors (Trial) of the Bank, the Compensation Committee organized the performance assessment of directors by the Board of Directors for 2011.

◆ *Related Party Transactions Control Committee*

The Related Party Transactions Control Committee is mainly responsible for identifying the Bank's related parties, reviewing major related party transactions, and receiving related party transaction statistics and reporting information of general related party transactions. As at the end of the reporting period, the Related Party Transactions Control

Committee of the Bank consisted of five directors, including Executive Director Mr. Li Xiaopeng; Independent Non-executive Directors Mr. Kenneth Patrick Chung, Mr. Wong Kwong Shing, Frank, Mr. Xu Shanda and Mr. Hong Yongmiao. Independent Non-executive Director Mr. Kenneth Patrick Chung was the chairman of the committee.

During the reporting period, the Related Party Transactions Control Committee held seven meetings, considered seven proposals in respect of, among others, the identification of related parties of the Bank, and heard two reports on the identification of related parties of the Bank in 2011. The Related Party Transactions Control Committee received and reviewed related party transaction statistics and reporting information, promoted the optimization of related party transaction management system and the development of integration between the related party transaction management system and business system concerned, and put forth constructive suggestions on strengthening daily management of related parties and related party transactions.

◆ *Work Groups of Special Committees of the Board of Directors*

To effectively play the role of special committees of the Board of Directors in offering professional support to the Board of Directors, according to the working regulations for special committees, the Bank established a mechanism of work groups of special committees. The Office of the Board of Directors led relevant departments of the Bank and set up working groups of special committees of the Board of Directors as decision-making support center, research supporting institution and regular communication bridge for special committees. Work groups provided service support work for special committees in terms of information gathering, research support, day-to-day contact, etc.

The working groups of special committees of the Board of Directors are mainly responsible for, among others, assisting on the formulation of annual work plans of the Board of Directors and special committees; preparing for regular meetings of special committees of the Board of Directors; assisting special committee members to draft their research plans and carry out related researches; assisting the chairmen and members of special committees to communicate with Senior Management and relevant departments of the Bank; and providing assistance in daily operation of special committees.

During the reporting period, the work groups of the special committees provided various services and supports to the performance of duties by special committees, including researching and discussing many activities to support and complement the work of the special committees, arranging special reports and seminars, coordinating business surveys for directors, providing references to directors, and assisting directors to carry out forward-looking researches.

## Responsibilities of Directors in Respect of Financial Statements

The Directors of the Bank acknowledged that they are responsible for the preparation of the financial statements of the Bank. During the reporting period, in strict compliance with relevant provisions, the Bank published the 2011 annual report, the first quarterly report, the interim report and the third quarterly report of 2012 as scheduled.

## Term of Directors

The Bank has strictly complied with the provisions of the Hong Kong Listing Rules and the Articles of Association of the Bank that Directors are elected by the Shareholders' General Meeting with a term of three years, and the appointment shall take effect from the date of approval by CBRC. Directors may be re-appointed through re-election at the Shareholders' General Meeting after expiry of their term.

## Investigation and Training of Directors

During the reporting period, Directors selected some typical business departments of the Head Office and subsidiaries both domestically and abroad and conducted special investigation and survey in terms of financial regulatory reform, support of commercial banks to the real economy development, enterprise risk management, compensation management, internationalized development strategy, operation and development of overseas institutions, etc., according to the requests of the Board of Directors, economic and financial development trend and focus of the Bank regarding operation management. As a result, Directors were able to understand more about the external economic and financial environment as well as the Bank's operation management and provide a lot of constructive opinions and recommendations, thereby enhancing the pertinence and efficiency of the work of the Board of Directors.

The Bank actively explored the development of a systematic and continuous training plan for Directors and increased training resources, to assist the Directors in continuing to improve their comprehensive quality and ability to perform their duties. During the reporting period, all the Directors participated in relevant trainings as per work needs. Subject matters of the trainings attended by the Directors of the Bank were mainly as follows:

**Pre-appointment trainings for newly-appointed directors of the Bank:**

- Introduction on the reform and development, the preparation and implementation of the development strategy, corporate governance and functioning of the Board of Directors of the Bank in recent years
- Introduction on department functions of the Head Office
- Explanation on laws and regulations concerning duty performance of directors

**Special business trainings of the Bank:**

- Analysis of the trend of global financial regulatory reform
- Interpretation of the Regulations Concerning Capital Management of Commercial Banks (Provisional)
- Analysis of global capital markets
- Analysis of corporate governance of financial groups
- Analysis of financial asset services business and its risk management and control
- Interpretation of the domestic and overseas capital market dynamics and latest policies and regulations
- Analysis of the latest development and the impact of the European debt crisis
- Introduction of risk management dynamics and internationalized development progress of the Bank
- Analysis of the management of related party transactions and internal trading

**Trainings held by the regulatory institutions:**

- Analysis of responsibilities, obligations and rights of directors, supervisors and senior management members of listed companies
- Analysis of refinancing of listed companies
- Judicial interpretations and case studies on insider trading
- Explanation on rules regarding preventing insider trading and changes in shareholding of senior management members of listed companies
- Analysis of corporate bonds issuance
- Experience Sharing on the implementation of the Basic Standard for Enterprise Internal Control by listed companies
- Special seminar on enhancement of influence of entrepreneurs

### Independence and Performance of Duties of Independent Non-executive Directors

The qualifications, number and proportion of the Bank's Independent Non-executive Directors fully comply with regulatory requirements. The Bank's Independent Non-executive Directors do not have any business or financial interests in the Bank or its subsidiaries, and they have not assumed any managerial post in the Bank. The Bank has received the annual confirmation on independence from all Independent Non-executive Directors and considered that they were independent.

During the reporting period, the Bank's Independent Non-executive Directors earnestly attended the meetings of the Board of Directors and special committees, gave independent opinions during consideration of issues, and provided recommendations on areas such as business development and significant decision-making of the Bank. During the adjournment, Independent Non-executive Directors of the Bank conducted on-site investigations and put forward constructive opinions in terms of operation transformation, structure adjustment, internationalized and diversified development, risk management, internal control, compensation and compensation incentive system, etc. Additionally, they also exchanged opinions with the Management during special-topic discussions. The Bank highly valued and organized the implementation of the opinions and suggestions given by independent non-executive directors according to the reality of the Bank.

During the reporting period, Director Malcolm Christopher McCarthy abstained from voting of the Proposal in Respect of the Senior Management Performance Evaluation Plan for 2012. Director Leung Kam Chung, Antony, Director Qian Yingyi and Director Malcolm Christopher McCarthy abstained from voting of the Proposal on the Payment of Remuneration to Senior Management Members for 2011, for they considered that compensation plan should be more market-oriented to attract and retain talents and enhance market competitiveness of the Bank. Director Malcolm Christopher McCarthy abstained from voting of the Proposal on the Report Disclosure Plan under Pillar 3 of the New Capital Accord, believing the plan may lead to over-disclosure.

For information of performance of duties of Independent Non-executive Directors of the Bank during the reporting period, please refer to the Work Report of Independent Non-executive Directors for 2012 issued by the Bank on 27 March 2013.

## Board of Supervisors and Special Committee

### Composition of the Board of Supervisors

As at the end of the reporting period, the Board of Supervisors of the Bank consisted of seven members, including two Shareholder Supervisors, namely Mr. Zhao Lin and Ms. Wang Chixi, two External Supervisors, namely Ms. Dong Juan and Mr. Meng Yan, and three Employee Supervisors, namely Mr. Zhang Wei, Mr. Zhu Lifei and Mr. Li Mingtian.

### Operation of the Board of Supervisors

The Board of Supervisors discusses official matters at the meeting of the Board of Supervisors, which includes regular meeting and special meeting. Regular meetings shall be held at least four times a year and such meetings shall, in principle, be held before the disclosure of periodical reports.

As the day-to-day administrative organ of the Board of Supervisors, the Supervisory Board Office, as entrusted by the Board of Supervisors, is responsible for supervising and scrutinizing matters such as corporate governance, financial activities, risk management, internal control of the Bank, and organizing meetings of the Board of Supervisors and its special committee, preparing meeting documents, and taking minutes of the meetings.

### Supervision Committee

As the special committee of the Board of Supervisors established pursuant to the Articles of Association of the Bank, the Supervision Committee operates in accordance with the authorization of the Board of Supervisors and is accountable to the Board of Supervisors. The Supervision Committee is mainly responsible for formulating plans for the inspection and supervision of financial activities of the Bank; formulating plans for the audits on retiring or resigning Directors, President and other Senior Management members; formulating plans for the audits on business policies, risk management and internal control of the Bank when necessary; providing comments after review of the financial report of the Bank and reporting to the Board of Supervisors; reviewing the investigation report on significant events in the annual operation and financial status of the Bank submitted by the Supervisory Board Office, and reporting to the Board of Supervisors; giving opinions on the performance assessment of directors and Senior Management members, and reporting to the Board of Supervisors; giving opinions on the assessment of the development and implementation of risk management and internal control system, and reporting to the Board of Supervisors; and other functions and duties as may be authorized by the Board of Supervisors. The Supervision Committee consists of four Supervisors, including Ms. Dong Juan, Ms. Wang Chixi, Mr. Meng Yan and Mr. Zhang Wei. Ms. Dong Juan serves as the head member of the Supervision Committee. Daily operations of the Supervision Committee are conducted by the Supervisory Board Office.

For information of meetings of the Board of Supervisors and the Supervision Committee, please refer to the section headed "Report of the Board of Supervisors — Meetings of the Board of Supervisors and its Special Committee".

## Securities Transactions of Directors and Supervisors

The Bank has adopted a set of codes of conduct concerning the securities transactions by directors and supervisors which are no less stringent than the standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Hong Kong Listing Rules. After making enquiries to all Directors and Supervisors of the Bank, each Director and Supervisor confirmed that he/she has complied with the provisions of the aforesaid code of conduct during the year ended 31 December 2012.

## Chairman and President

Pursuant to Code Provision A.2.1 of the Corporate Governance Code (Appendix 14 to the Hong Kong Listing Rules) and the Articles of Association of the Bank, the roles of Chairman and President should be separated, and the Chairman shall not concurrently hold the position of legal representative or chief responsible officer of the controlling shareholder.

Mr. Jiang Jianqing is the Chairman and legal representative of the Bank, who is responsible for leading the Board of Directors in considering and formulating business development strategies, risk management, internal control and other significant matters of the Bank.

Mr. Yang Kaisheng is the President of the Bank, who is responsible for the daily management of the business operations of the Bank. The President is appointed by and accountable to the Board of Directors, and performs his responsibilities as stipulated in the Articles of Association of the Bank and as authorized by the Board of Directors.

## Powers and Functions of the Senior Management

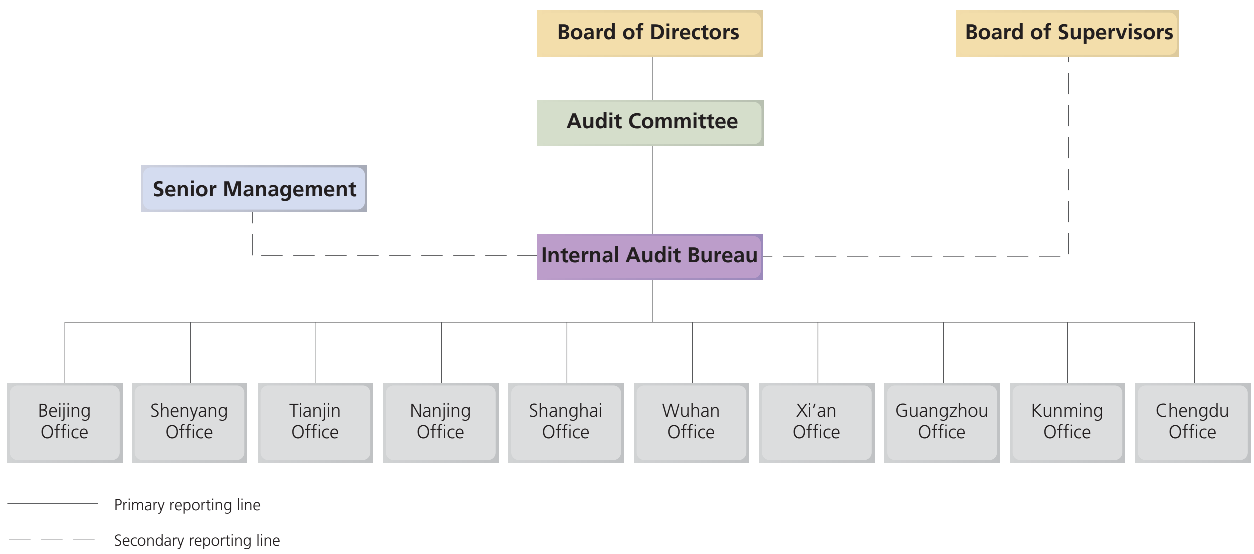
The powers of the Board of Directors and the Senior Management are separated in strict compliance with the Articles of Association and other corporate governance documents of the Bank. During the reporting period, the Bank made an inspection on the implementation of the plan on authorization of the Board of Directors to the President, and no matter was found to be beyond the approval authority of the President.

## Insider Information Management

In 2012, the Bank revised the Administrative Measures of Industrial and Commercial Bank of China for Insider Information and Insiders according to relevant regulations, enhanced the compliance awareness across the Bank, standardized the management of insider information, strengthened insider information confidentiality management, strictly implemented the registration and reporting system in respect of insiders, and controlled the number of insiders. After self examination, none of the insider of the Bank was found to be involved in dealings in shares of the Bank which has taken advantage of insider information in 2012. Please refer to the announcement published by the Bank on 29 March 2012 and the website of the Bank for the measures amended by the Bank.

## Internal Audit

The Bank established a vertical and independent internal audit management system responsible and reporting to the Board of Directors. The chart below illustrates the internal audit management and reporting framework of the Bank:




During the reporting period, the Bank implemented risk-oriented and value adding-targeted audit activities according to the development strategy and central tasks of the Bank, and fully accomplished the annual audit plan. Audits covered major areas of the Bank's operation and management including credit business, financial benefits, wealth management services, financial market business, consignment and agency business, e-banking, information system security, business requirements management, capital management, operation and management of overseas institutions and institutions under consolidated statement, related party transactions of the Group and performance of duties of Senior Management members, with focus being placed on strategic, systematic and mechanism risks in main businesses with strong influence over the Group's operation, fast innovative development and new workflow system mode, cross-discipline, cross-regional and cross-regulatory risks during business collaboration and linkage within the Group as well as efficiency of key rules, processes, systems, operations and related management and control. The internal audits addressed the focuses of the Board of Directors, business transformation needs of the Bank, situation and environment changes and regulatory requirements, and further enhanced farsightedness, timeliness and effectiveness, thereby promoting the sound operation and sustainable development of the Bank.

During the reporting period, internal auditors of the Bank actively adapted to the requirements on duty performance under the complex risk management circumstance, accelerated functional transformation and professional innovation, and optimized working methods and management mechanisms. Quality audit construction was implemented to improve the effects of the operation of audit projects; emphasis was placed on integration and analysis of the various types of risk and control information, to enhance auditing service capabilities in terms of professional problem finding and overall supervision; more information technologies were applied during audits, auditing practice standards were perfected, and expertise of the auditing team was further strengthened, effectively supporting the comprehensive promotion of auditing quality and performance.

## Engagement of Auditors

The 2011 Annual General Meeting adopted the Proposal on the Engagement of Auditors for 2012, and approved the re-appointment of Ernst & Young Hua Ming (LLP) as domestic auditors and Ernst & Young as international auditors of the Bank for 2012, and approved the related audit fees. The Bank has engaged the above two accounting firms to provide audit services for seven consecutive years since its IPO, and there was no change in auditors during the past three years.

During the reporting period, the Group paid Ernst & Young and its member institutions a total fee of RMB175 million for the audit of financial statements (including the audit of financial statements of subsidiaries and overseas branches), of which, RMB155 million (excluding fee for internal control audit) was paid by the Bank. Audit fee of internal controls for 2012 was RMB10.60 million.

During the reporting period, Ernst & Young and its member institutions provided the Group with non-audit services such as tax advisory services, professional service for the asset securitization project and services for applying for the establishment of overseas institutions, and received RMB7 million for such professional non-audit services.

According to relevant provisions of the Measures on Bidding Management of Financial Enterprises for Engagement of Auditors (Trial) issued by the Ministry of Finance, the Bank implemented the engagement of auditors for 2013. In November 2012, the Second Extraordinary General Meeting approved the Proposal on the Engagement of Auditors for 2013. KPMG Huazhen (Special General Partnership) was appointed as domestic auditors of the Bank for 2013 to carry out internal control audits and issue independent audit opinions, and KPMG was appointed as international auditors of the Bank for 2013.

## Investor Relations

### Overview of Investor Relations Activities in 2012

In 2012, the Bank continuously improved investor relations services following the principle of serving investors in a proactive, professional and efficient manner, safeguarding investors' legitimate rights and interests, while promoting continuous improvement of corporate value and generating good return to shareholders.

The Bank comprehensively strengthened its communication with investors through organizing press conferences in relation to periodic results, domestic and overseas non-transactional road shows, press conferences with large institutions, reverse road shows and daily reception. The Bank also continued to optimize the investor communication e-platform including investor relations website, investor hotlines and investor email to maintain close connection with global investors in a timely and convenient fashion. The Bank further improved investor relations information collection and market information feedback transmission mechanism, captured the latest operating results of the Bank, information on operations of domestic and international peers, trends of capital markets, viewpoints of analysts and macroeconomic data in a timely manner by establishing a trans-department and trans-institution internal coordination mechanism, thereby providing full and sound data support for enhancing the quality of communication with investors. In terms of communicating with capital market, the Bank actively understand and solicited the expectations and opinions of the capital market on the Bank, and the recommendations concerning operational development of the Bank with an aim to push forward the continuous enhancement of corporate governance and inherent value of the Bank. The Bank also closely monitored and deeply analyzed changes in shareholding structure of the Bank, strengthened the service awareness and level for the shareholders, properly handled special shareholding matters and dividend distribution preparation work to explore and advance sophisticated and personalized shareholding services.

In 2013, the Bank will further and proactively deepen the communication and exchange with investors to enhance the investors' understanding and acceptance of the Bank, and at the same time expect to arouse more support from, and attention of, the investors.

### Investor Enquiries

If an investor wishes to enquire any questions related to operation performance of the Bank, please contact:

Telephone: 86-10-66108608

Facsimile: 86-10-66107571

E-mail: ir@icbc.com.cn

Address: Corporate Strategy and Investor Relations Department, Industrial and Commercial Bank of China Limited, 55 Fuxingmennei Avenue, Xicheng District, Beijing, PRC

Postal code: 100140

# Internal Control

The Board of Directors is responsible for formulating the basic regulations for internal control and supervising the implementation of such regulations. The Audit Committee, the Risk Management Committee and the Related Party Transactions Control Committee of the Board of Directors perform the responsibilities of internal control management and review the effectiveness of internal control. The Bank has set up the Internal Audit Bureau and the Internal Audit Sub-bureau, which adopt a hierarchical management system and are responsible to and report to the Board of Directors. The Head Office and branches have internal control and compliance departments which are responsible for the bank-wide organization, promotion and coordination of internal control, operational risk management, compliance management, regular audits and operational risk audit.

During the reporting period, the Board of Directors of the Bank continued to improve the development of the internal control system featuring "regulation-based behavior, proper authorization, effective monitoring, inspection and control" in accordance with the Basic Standard for Enterprise Internal Control and its supporting guidelines, the Guidelines for Internal Control of Listed Companies promulgated by SSE, as well as the Guidelines for Internal Control of Commercial Banks promulgated by CBRC.

The internal control environment has been optimized continuously. The Bank continued to refine corporate governance system and timely amended the rules and regulations including the Articles of Association and the working regulations for the special committees of the Board of Directors. The Bank implemented the Development Plan of the Internal Control System for 2012-2014, comprehensively amended the basic rules on internal control and compliance management and proactively streamlined the pertinent rules and carried out the coordinated management on the Group's rules based on the external regulatory requirements and the Bank's reality concerning internal control and management. The Bank also implemented the Strategic Development Plan of Industrial and Commercial Bank of China Limited for 2012-2014, carried forward the profit center reform, deepen reformation of the banking departments of provincial branches, and strengthened management and guidance on domestic and overseas branches and subsidiaries. Furthermore, the Bank carried out the strategy of boosting the Bank by talents, and therefore the staff structure featured mutual advancement and development has formed fundamentally. The Bank promoted the corporate culture building in an all-round manner and directed the branches at the basic level to set up a vibrant ICBC-featured culture brand based on the regional reality. Compilation of the Corporate Culture Manual shall be done earnestly to facilitate the dissemination of the Bank's culture across the overseas institutions.

The enterprise risk management system has been continuously improved. The Risk Management Plan for 2012-2014 was issued to define the work priorities and requirements for risk management in the next three years. The Bank distributed the Administrative Measures for the Implementation of CARPAL Regulatory Indicators, specifying the detailed responsibilities and management requirements for all tiers and institutions at all levels regarding the CARPAL indicator management. The Bank revised the risk management assessment, limit and assessment methods to ensure the adaptability and foresight of the enterprise risk management rules, and further lifted the enterprise risk management capability by country risk management, consolidated risk management and reputational risk management as breakthroughs. The Bank also proactively assisted CBRC in the New Capital Accord compliance assessment, carried forward the development of credit risk internal rating system, expanded the scope and depth of market risk management, accelerated the application of advanced measurement approach for operational risk and motivated the implementation of the Capital Regulation. Moreover, the Bank actively promoted and applied risk quantification results to the entire operational management process including decision-making, capital allocation, product pricing and performance assessment, effectively improving risk management and internal control of the Bank.

Control measures on various business operations have been intensified. The Bank further perfected the rules on business authorization management, reinforced the mechanism on dividing powers of office, deeply propelled the reform of centralized management on credit approval, implemented the global credit line management on an all-rounded basis and enhanced the decision-making and risk prevention capability. The Bank strengthened the fundamental management on finance and accounting, driving the rule-based, mechanism-based standard-based and information-based finance and accounting into a new stage; prepared the comprehensive operating plan and annual financial budget soundly and innovated the resource allocation mechanism to give full play of the leading role of financial budget; further normalized the financial behaviours to enhance the prevention and control of financial risks; ameliorated the appraisal methods for domestic branches' operating performance and business development to properly increase the weights of high-risk compliance indicators; thoroughly executed the transformation and optimization of comprehensive business process, further elevating the business processing efficiency; intensified the business operational risk management and integrated the bank-wide risk monitoring system to set up an unified operational risk management platform adapting to the Bank's requirements for international development; formulated and revised the Measures for Post-loan Management of Corporate Customers and the Administrative Measures for the Implementation of Credit Monitoring to urge the whole bank to conduct credit business compliantly; issued the Notice on Strengthening the Consumer Protection and built a bank-wide management system on consumer protection; improved the anti-money laundering rules and system and carried out the routine anti-money laundering work in order to meet the regulatory requirements and the risk prevention demands of the Group; and further refined the mechanism for related party transaction management, the major risk warning mechanism and the emergency response mechanism, standardized crisis disposition procedures and made continuous improvements in internal controls across the Bank.

The information communication channel has been further smoothed. The Bank reinforced the information disclosure and investor relations management and continuously improved the transparency of the Bank to guarantee shareholders' rights and interests. The Bank improved relevant statistical policies and procedures in accordance with regulators' requirements on statistical rules, and significantly increased the transmission efficiency of financial and regulatory statements. The Bank officially launched the new edition of Vtion system, unified the technical system and management process and achieved information integration, quick navigation, intelligent office, communication and exchange, and uniform authentication and authorization, lifting the Bank's information service capability entirely. The Bank's information systems remained secure and stable, significant results were achieved in infrastructure construction, new progress was made in information security and advantages over competitors were cemented, laying a technological foundation for the Bank to provide more efficient and higher-quality financial services.

Supervision and inspection have been further strengthened. All business lines and internal control and compliance departments launched the self-inspection and supervision and correction activities within their own business scope and effectively fulfilled the responsibilities of the first and second defense lines of internal control. Centering on the bank-wide reform and development strategy, the internal audit departments are oriented to risk, targeted at value adding, and focused on the effects of credit structure adjustment, internationalized development and comprehensive operating results, bank-wide operation transformation and business innovation, security and quality of information technology system performance and management of the Group, implementation and application of the New Capital Accord, and effectiveness of implementing regulatory requirements and the Bank's rules in businesses. On such basis, the Bank basically covered the fields that required high attention and key prevention and control measures and therefore fulfilled the responsibilities of the third defense line of internal control effectively. In accordance with the Basic Standard for Enterprise Internal Control and its supporting guidelines, the Bank carried out internal control assessment in 2012, and conducted a comprehensive evaluation on the establishment and implementation of internal control at the company, procedure and IT levels. The assessment covered all the key control areas including the internal control of financial report and non-financial report.

The Bank engaged Ernst & Young Hua Ming (LLP) to audit and give independent audit opinions on internal controls of the Bank.

## Declaration of the Board of Directors on Internal Control Responsibility

To establish, improve and effectively implement internal control and to evaluate the effectiveness of the internal control are the responsibilities of the Board of Directors of the Bank.

The target for the internal control of the Bank is to reasonably assure its operation and management are in compliance with relevant laws, its assets safety, as well as the timeliness, authenticity and completeness of its business record, financial information and other management information, to enhance operation efficiency and results, and to facilitate the Bank to achieve its development strategy and operating target. Due to inherent limitation of internal control, only reasonable assurance can be provided for the above target.

The Board of Directors of the Bank conducted a self-assessment on the effectiveness of the Bank's internal control during the reporting period in accordance with the Basic Standard for Enterprise Internal Control and its supporting guidelines, the Guidelines for Internal Control of Listed Companies issued by SSE and relevant supervisory requirements of CBRC. No material or significant deficiencies were detected in the Bank's internal control system during the assessment. Risks that may arise from ordinary deficiencies are controllable and corrective actions have been or are being taken, which have no material impact on the quality of operating activities and fulfillment of financial reporting objectives of the Bank. The self-assessment results suggest that the Bank's internal control system was sound and effectively implemented during the reporting period.

## Establishment and Implementation of the Accountability System for Material Errors in Information Disclosure in Annual Report

In 2012, the Bank further increased the quality and transparency of annual report disclosures and enhanced the sense of responsibility in annual report preparation and disclosure entities. During the reporting period, no correction of significant accounting errors, remediation of material omissions or modification of results preview referred in the Accountability System for Material Errors in Information Disclosure in Annual Report took place at the Bank.

## Principal Business

The principal business of the Bank and its subsidiaries is the provision of banking and related financial services.

## Profits and Dividends Distribution

The profit and financial status of the Bank during the reporting period are presented in the auditors' report and financial statements of this Annual Report.

Upon the approval at the Annual General Meeting for the Year 2011 held on 31 May 2012, the Bank has distributed cash dividends of RMB70,912 million, or RMB2.03 per ten shares (pre-tax), for the period from 1 January 2011 to 31 December 2011 to the shareholders whose names appeared on the share register after the close of market on 13 June 2012.

The Board of Directors of the Bank proposed a cash dividend of RMB2.39 per ten shares (pre-tax) for the year ended 31 December 2012. As the conversion period of the A share convertible bonds issued by the Bank commenced from 1 March 2011 and shall end on 31 August 2016, it is yet difficult to determine the total share capital of the Bank as at the A share record date. Accordingly, the total amount of dividends to be distributed cannot be determined at the moment. As estimated based on the Bank's total share capital as at 31 December 2012, the total amount of dividends to be distributed shall be approximately RMB83,559 million, representing an increase of 17.8% compared to 2011. The Bank proposed to distribute dividends on the basis of the total share capital as at the close of market on the record date for dividend distribution. Such proposed dividend distribution is subject to the approval at the forthcoming Annual General Meeting for the Year 2012.

The Bank had no plan for converting capital reserve to share capital in the recent three years. The table below sets out the dividends distribution of the Bank for the recent three years:

| Item | 2012 | 2011 | 2010 |
|---|---|---|---|
| Dividend per ten shares (pre-tax, in RMB yuan) | 2.39 | 2.03 | 1.84 |
| Cash dividends (pre-tax, in RMB millions) | 83,559 | 70,912 | 64,220 |
| Percentage of cash dividends[1] (%) | 35 | 34 | 39 |

Note: (1) Calculated by dividing cash dividends (pre-tax) by net profit attributable to equity holders of the parent company for the period.

## Formulation and Implementation of Cash Dividend Policy

In 2012, according to relevant provisions, the Bank amended the Articles of Association, which was reviewed and approved by the Second Extraordinary General Meeting of 2012 of the Bank and CBRC. The newly amended Articles of Association explicitly stipulates that the Bank's profit distribution policy shall maintain its continuity and stability and meanwhile take account of the long-term interests of the Bank, the overall interests of all shareholders and the sustainable development of the Bank. It emphasizes the priority to adopt cash dividend as the profit distribution method and provides that the Bank's adjustment to the profit distribution policy shall be discussed by the Board of Directors as a special proposal and the grounds for adjustment shall be argued and proved in detail to form a written argumentative report for Independent Non-executive Directors to issue their opinions, and then the report will be submitted to the Shareholders' General Meeting for approval as a special resolution. When reviewing the changes in the profit distribution policy, the Bank will provide internet voting method for shareholders.

The formulation and implementation of the Bank's cash dividend policy, which has been reviewed and approved by the Independent Non-executive Directors, accords with the provisions stipulated in the Articles of Association and the requirements provided in the resolutions of the Shareholders' General Meeting, the dividend distribution standards and proportion are clear and explicit, and the decision-making procedure and mechanism are complete. Minority shareholders can fully express their opinions and appeals by ways of participating in the Shareholders' General Meetings and exercising their voting rights, and proposing suggestions or enquiries on operating activities, to completely safeguard their legal rights.

## Reserves

Changes in the reserves as at the end of 2012 are set out in the "Financial Statements: Consolidated Statement of Changes in Equity".

## Distributable Reserves

Details of the distributable reserves of the Bank as at 31 December 2012 are set out in "Note 41. to the Financial Statements: Reserves" of this Annual Report.

## Financial Summary

The summary of results, assets and liabilities for the five years ended 31 December 2012 is set out in the section headed "Financial Highlights" of this Annual Report.

## Donations

During the reporting period, the Group made external donations of RMB40.98 million.

## Property and Equipment

Changes in property and equipment for the year ended 31 December 2012 are set out in "Note 30. to the Financial Statements: Property and Equipment" in this Annual Report.

## Subsidiaries

Particulars of the Bank's principal subsidiaries as at 31 December 2012 are set out in the sections headed "Discussion and Analysis — Business Overview — Internationalized and Diversified Operation" and "Note 28 to the Financial Statements: Investments in Subsidiaries" in this Annual Report.

## Share Capital and Public Float

Changes in the share capital of the Bank during this financial year are set out in "Note 40. to the Financial Statements: Share Capital".

As at the latest practicable date before the publication of this Annual Report, the Bank has maintained the minimum public float of 23.45%, based on the publicly available information and to the best knowledge of the Board of Directors of the Bank.

## Purchase, Sale and Redemption of Shares

During the reporting period, neither the Bank nor any of its subsidiaries purchased, sold or redeemed any listed shares of the Bank.

## Details of Issue of Shares and Bonds

For details regarding the bonds issue of the Bank, please refer to "Details of Changes in Share Capital and Shareholding of Substantial Shareholders — Details of Securities Issuance and Listing". Save as disclosed above and in this Annual Report, during the reporting period, neither the Bank nor any of its subsidiaries were involved in any issue, repurchase or grant of convertible securities, options, warrants or other similar rights.

## Pre-emptive Rights

The Articles of Association do not have any mandatory provision regarding pre-emptive rights. Pursuant to the Articles of Association, the Bank may increase its registered capital by issuing shares through public or non-public offering, issuing bonus shares to the existing shareholders, converting capital reserve to share capital or using other methods as allowed by applicable laws and administrative regulations or approved by relevant authorities.

## Major Customers

In 2012, the aggregate interest income and other operating income from top five customers of the Bank did not exceed 30% of the interest income and other operating income of the Bank during the year.

## Use of Proceeds from Fundraising Activities

The funds raised from the Bank's fundraising activities were used for the purposes as disclosed in the prospectuses, namely, strengthening the capital base to support the ongoing growth of the Bank.

For future planning disclosed in the public disclosure documents such as previous offering prospectuses and fund raising prospectuses issued by the Bank which has continued during the reporting period, its implementation progress conformed to the planning as described upon verification and analysis.

## Directors' and Supervisors' Interests in Contracts of Significance

During the reporting period, none of the Directors or Supervisors of the Bank had any material interests, whether directly or indirectly, in any contract of significance regarding the Bank's business to which the Bank or any of its subsidiaries was a party. None of the Directors or Supervisors of the Bank has entered into any service contract with the Bank, which is not determinable by the Bank within one year without payment of compensation (other than statutory compensation).

## Directors' Interests in Competing Business

None of the Bank's Directors held any interests in any business competes or competed or is or was likely to compete, either directly or indirectly, with the Group.

## Directors' and Supervisors' Rights to Acquire Shares or Debentures

As at 31 December 2012, the Bank did not grant any rights to acquire shares or debentures to any of its Directors or Supervisors, nor were any such rights exercised by any of the Directors or Supervisors. Neither the Bank nor its subsidiaries entered into any agreement or arrangement enabling the Directors or Supervisors to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

## Interests in Shares, Underlying Shares, and Debentures Held by Directors and Supervisors

As at 31 December 2012, the following Director and Supervisor of the Bank are regarded to possess the interests as defined in Part XV of the Securities and Futures Ordinance of Hong Kong for the shares held by their spouse:

| Name | Capacity | Number of A/H shares held (share) | Nature of interests | Approximate percentage of issued A/H shares of the Bank (%) | Approximate percentage of total issued shares of the Bank (%) |
|---|---|---|---|---|---|
| Or Ching Fai (Director) | Spouse's interest | 1,316,040 (H shares) | Long position | 0.001516 (H shares) | 0.000376 |
| Zhu Lifei (Supervisor) | Spouse's interest | 18,000 (A shares) | Long position | 0.000007 (A shares) | 0.000005 |

Save as disclosed above, as at 31 December 2012, none of the Directors or Supervisors of the Bank had any interests or short positions in the shares, underlying shares or debentures of the Bank or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance of Hong Kong) which have to be notified to the Bank and SEHK under Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance of Hong Kong (including interests or short positions therein that they shall be deemed to have pursuant to such provisions of the Securities and Futures Ordinance of Hong Kong), or any interests or short positions which have to be recorded in the register under Section 352 of the Securities and Futures Ordinance of Hong Kong, or any interests or short positions which have to be notified to the Bank and SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules.

## Connected Transactions

In 2012, pursuant to the domestic and overseas regulatory requirements, the Bank continuously improved the mechanism for connected transaction management, and continued to reinforce the Bank's connected transaction management under the internationalized and integrated structure. The Bank promoted the constant improvement of connected transaction management in diversified aspects and dimensions by means of enhancing management concept, strengthening routine monitoring, launching special audits, improving management system and intensifying business guidance and training and other methods. During the reporting period, the Bank's connected transactions were conducted in compliance with applicable laws and regulations, and no connected transaction that impaired the interest of the Bank and minority shareholders was found.

In 2012, the Bank engaged in a series of connected transactions with connected persons of the Bank as defined according to the Hong Kong Listing Rules in its ordinary course of business. Such transactions satisfied the conditions for exemption under Rule 14A.31 or Rule 14A.33 of the Hong Kong Listing Rules, and they were exempted from all the reporting, annual review, announcement and independent shareholders' approval requirements.

Please refer to "Note 51. to the Financial Statements: Related Party Disclosures" for particulars on the related party transactions defined under the laws, regulations and accounting standards in the PRC.

## Relations among Directors, Supervisors and Senior Management

Directors, Supervisors and Senior Management members of the Bank do not relate to one another with respect to finance, business, family, or other material relations required to be disclosed.

## Remuneration Policy for Directors, Supervisors and Senior Management

The Bank has clearly documented the remuneration policy for Directors, Supervisors and Senior Management members, and has continuously improved performance assessment system and incentive restriction mechanism. From the perspectives of economic benefit, risk cost control and social responsibilities, the Bank adopted a system composed of balanced scorecard-based indicators for management and duties allocation based indicators for individuals. Payment of part of the performance-based annual remuneration of the Bank's Chairman of the Board of Directors, President, Chairman of the Board of Supervisors and other Senior Management members is deferred and shall be paid in three years, and the proportion payable each year will be one-third of the amount. The deferred payment is accrued in the Bank's accounts, and shall be made having regard to the operating performance and status for the said years. The Bank has contributed to statutory retirement programs organized by Chinese governmental organizations at different levels for directors, supervisors and senior management members concurrently as the employees of the Bank. Upon obtaining all applicable approvals, the Bank will implement a long-term incentive program. As at 31 December 2012, the Bank had not granted any share appreciation rights to any Director, Supervisor, Senior Management member, or other core business personnel designated by the Board of Directors.

## Material Environmental Protection Issues or Other Material Social Security Issues

During the reporting period, the Bank had no material environmental protection issues or other material social security issues.

## Auditors

The 2012 Financial Statements of the Bank prepared in accordance with PRC GAAP were audited by Ernst & Young Hua Ming (LLP), and the financial statements prepared in accordance with the IFRSs were audited by Ernst & Young.

## Members of the Board of Directors

Executive Directors: Mr. Jiang Jianqing, Mr. Yang Kaisheng, Ms. Wang Lili and Mr. Li Xiaopeng;

Non-executive Directors: Mr. Huan Huiwu, Ms. Wang Xiaoya, Ms. Ge Rongrong, Mr. Li Jun, Mr. Wang Xiaolan and Mr. Yao Zhongli;

Independent Non-executive Directors: Mr. Xu Shanda, Mr. Wong Kwong Shing, Frank, Sir Malcolm Christopher McCarthy, Mr. Kenneth Patrick Chung, Mr. Or Ching Fai and Mr. Hong Yongmiao.

By order of the Board of Directors

**Jiang Jianqing**

Chairman

## Meetings of the Board of Supervisors and its Special Committee

### Meetings of the Board of Supervisors

During the reporting period, the Board of Supervisors held seven meetings, reviewed and approved 19 proposals and heard 23 reports, of which the major ones are listed as follows:

- Proposal on the 2011 Work Report of the Board of Supervisors of Industrial and Commercial Bank of China Limited
- Proposal on the 2012 Annual Work Plan of the Board of Supervisors of Industrial and Commercial Bank of China Limited
- Proposal on the 2011 Annual Report and its Abstract
- Proposal on the First Quarterly Report of 2012
- Proposal on the 2012 Interim Report and its Abstract
- Proposal on the Third Quarterly Report of 2012
- Proposal on the 2011 Audited Accounts
- Proposal on the 2011 Profit Distribution Plan
- Proposal on the 2011 Internal Control Assessment Report of Industrial and Commercial Bank of China Limited
- Proposal on the 2011 Corporate Social Responsibility Report of Industrial and Commercial Bank of China Limited
- Proposal on the Engagement of Auditors for 2012
- Proposal on the Engagement of Auditors for 2013
- Proposal on the 2011 Supervision Report of the Board of Supervisors of Industrial and Commercial Bank of China Limited
- Proposal on the 2011 Assessment Report on the Performance of Duties of the Supervisors
- Proposal on the 2011 Assessment Report on the Performance of Duties of the Board of Directors, the Senior Management and their Members
- Proposal on the Appointment of Ms. Dong Juan as an External Supervisor of Industrial and Commercial Bank of China Limited
- Proposal on the Appointment of Mr. Meng Yan as an External Supervisor of Industrial and Commercial Bank of China Limited
- Proposal on the 2011 Implementation Plan on the Performance Assessment of Duties of the Supervisors by the Board of Supervisors
- Proposal on the 2011 Implementation Plan on the Performance Assessment of Duties of the Board of Directors, the Senior Management and their Members by the Board of Supervisors
- Report on the Implementation Plan on the Supervision and Inspection of the Board of Supervisors for 2012
- Report on the Supervision for the First Quarter of 2012
- Report on the Supervision for the First Half Year of 2012
- Report on the Supervision for the Third Quarter of 2012
- Report on the Implementation of 2011 Supervision Report of the Board of Supervisors
- Report on the Self-inspection and Self-rectification with respect to Normative Operation of ICBC
- Report on the Operating Position for the First Half Year of 2012
- Report on the 2011 Internal Control Assessment of Industrial and Commercial Bank of China Limited
- Report on the Enterprise Risk Management of ICBC
- Report on the Asset Management and Operating Position of Overseas Institutions of ICBC
- Report on the Information Technology System Development and Risk Management of ICBC for 2011
- Report on the Internal Audit Work
- Report on the Internal Control Inspection
- Report on the Asset and Liability Management of ICBC
- Report on the Financial Market Business of ICBC
- Report on the Consolidated Statement Management Inspection by CBRC and ICBC's Rectifications

### Meetings of the Supervision Committee

During the reporting period, the Supervision Committee held five meetings, reviewed and approved twelve proposals including the 2011 Supervision Report of the Board of Supervisors and the Implementation Plan on Supervision and Inspection of the Board of Supervisors for 2012, and heard four reports.

The table below sets out the attendance of Supervisors in meetings of the Board of Supervisors and the meetings of the Supervision Committee in 2012:

Attendances/Number of meetings requiring attendance

| Supervisor | Board of Supervisors | Supervision Committee |
|---|---|---|
| Zhao Lin | 7/7 | |
| Wang Chixi | 7/7 | 5/5 |
| Dong Juan | 7/7 | 5/5 |
| Meng Yan | 7/7 | 5/5 |
| Zhang Wei | 7/7 | 5/5 |
| Zhu Lifei | 7/7 | |
| Li Mingtian | 3/3 | |

Note: The term of office of Mr. Li Mingtian as Supervisor started from 24 July 2012. Please refer to the section headed "Directors, Supervisors, Senior Management, Employees and Institutions — Appointment and Removal".

## Work of the Board of Supervisors

During the reporting period, the Board of Supervisors focused on the key work of the Bank, supervised the performance of duties, finance, risks, internal control and other aspects in depth, further strengthened the team building and perfected the working mechanism pursuant to relevant laws and regulations of the State, the Articles of Association of the Bank and the regulatory requirements. As a result, it further improved the corporate governance, promoted the operation transformation and strengthened the risk prevention and control, playing an important role in achieving sustainable and sound development of the Bank.

Deepening the supervision on the performance of duties. The Board of Supervisors focused on the compliance of the Board of Directors, the Senior Management and their members with laws and regulations as well as the Articles of Association of the Bank, fulfillment of their management responsibilities and duties of loyalty and diligence, their improvement of corporate governance, strategic management, capital management, risk management, internal control, and connected transaction management, as well as compliance and legality of decision-making procedures of significant operational issues. Additionally, it carried out the annual performance assessment of duties of the Board of Directors, the Senior Management and their members, reviewed the annual personal reports of Directors and members of the Senior Management on the duty performance as well as the performance appraisal reports for Directors by the Board of Directors, accordingly formed supervision appraisal opinions for the Board of Directors and the members of the Senior Management upon the appraisal and discussion of the Board of Supervisors and submitted reports on the performance appraisal to the Shareholders' General Meeting and regulatory authorities. The Board of Supervisors offered feedbacks on the annual supervision and appraisal to the Board of Directors and raised opinions and suggestions in terms of operation of the Board of Directors, group-based management, overseas business expansion, risk and internal control management, standardized operation, customer service and other aspects.

Strengthening the supervision on major financial decisions and their implementation. The Board of Supervisors earnestly reviewed regular reports and looked into the changes in major financial data and pertinent reasons; kept a watchful eye on the completeness and effectiveness of the consolidated financial statement management, intensified supervision on external audit quality, paid attention to the rectifications of the problems identified in the financial inspections within the Bank and carried out special surveys on the preparation of the Group's financial statements to constantly enhance the overall effects of financial supervision.

Reinforcing the supervision on risk management. The Board of Supervisors analyzed new changes of national macroeconomic and financial policies and regulatory requirements and their effects on a regular basis, paid close attention to the new circumstances and new issues emerged in the process of bank-wide development strategy implementation, operation transformation and structure adjustment of the whole bank, successively heard reports on the enterprise risk management, asset and liability management, financial market business, asset management and operation of overseas institutions, information technology system building and risk management, and carried out special surveys and researches on risk limit management. The members of the Board of Supervisors went deep into a large number of domestic and overseas institutions for surveys and researches on operation management and risk management.

Augmenting the supervision on internal control. The Board of Supervisors stressed on the supervision over soundness and effectiveness of the internal control system and mechanism of the Bank, attached importance to the audit performed by external auditors on the Bank's internal control and findings in the internal and external inspections, reviewed the special audit reports on a regular basis, strengthened the supervision on connected transaction management of the Bank, and organized and launched the special surveys and researches on internal control management. Pursuant to the requirements of the securities regulators, the Board of Supervisors led and carried out the self-inspection and self-rectification with respect to normative operation of the Bank, which played an important role in promoting the Bank to assume responsibilities and duties conscientiously to improve corporate governance, continue information disclosure and proactively pay back to shareholders as well as reinforcing the Bank's awareness for self-inspection and self-rectification and lifting the corporate governance level.

Further strengthening the team building. During the reporting period, the Board of Supervisors led and carried out the annual performance appraisal on supervisors, and accomplished the selection and appointment of some employee supervisors and external supervisors. The members of the Board of Supervisors fulfilled their duties with due diligence, actively attended the meetings, earnestly deliberated the proposals, conducted in-depth surveys and studies and regularly participated in trainings to step up communication with peers and enhance performance capability constantly.

## Independent Opinions of the Board of Supervisors on Relevant Issues

### Compliant Operation

During the reporting period, the Bank continued to operate in compliance with applicable laws and regulations and improve its internal control system, and the decision-making procedures complied with applicable laws and regulations and the Articles of Association of the Bank. Members of the Board of Directors and the Senior Management earnestly performed their duties. The Board of Supervisors did not find any violation of laws and regulations, or any act that contravened the interests of the Bank in the performance of duties during the reporting period.

## Authenticity of Financial Statements

The annual financial statements of the Bank reflected the financial position and operating results of the Bank truly and fairly.

## Use of Proceeds from Fundraising Activities

During the reporting period, the use of proceeds from the Bank's fundraising activities was consistent with the purpose stated in the prospectuses.

## Purchase and Sale of Assets

During the reporting period, the Board of Supervisors did not find any insider trading or any act that contravened the shareholders' interests or caused the loss of the Bank's assets in the process of the Bank's purchase or sale of assets.

## Connected Transactions

During the reporting period, the connected transactions of the Bank were conducted on normal commercial terms. The Board of Supervisors did not find any act that infringed upon the interests of the Bank. The approval, voting, disclosure and implementation of connected transactions complied with applicable laws and regulations and the Articles of Association of the Bank.

## Implementation of Resolutions Passed at the Shareholders' General Meeting

During the reporting period, the Board of Supervisors had no objection to the reports or proposals presented by the Board of Directors to the Shareholders' General Meeting for consideration. The Board of Directors earnestly implemented the resolutions passed at the Shareholders' General Meeting.

## Internal Control Assessment Report of the Board of Directors

The Board of Supervisors reviewed the 2012 Internal Control Assessment Report of the Board of Directors and had no objection to the report.

## Implementation of Information Disclosure Management Rules

During the reporting period, the Bank performed its duty of information disclosure in strict compliance with the regulatory polices, implemented the information disclosure management rules in earnest, and disclosed information in a timely and fair manner. Information disclosed during the reporting period was authentic, accurate and complete.

Save as disclosed above, the Board of Supervisors had no objection to other supervision matters during the reporting period.

## Material Legal Proceedings and Arbitration

The Bank was involved in several legal proceedings in the ordinary course of business. Most of these legal proceedings were initiated by the Bank for recovering non-performing loans. In addition, some legal proceedings arose from customer disputes. As at 31 December 2012, the amount of pending proceedings which the Bank and/or its subsidiaries acted as defendant totaled RMB1,559 million. The Bank does not expect any material adverse effect from the abovementioned pending legal proceedings on the Bank's business, financial position or operating results.

## Common Queries from the Media

During the year, the Bank did not have any common query from the media.

## Material Asset Acquisition, Sale and Merger

### Acquisition of Shares in The Bank of East Asia (U.S.A.) National Association

On 21 January 2011, the Bank, BEA and East Asia Holding Company, Inc. (a wholly-owned subsidiary of BEA in the United States, through which BEA held 100% equity interest in The Bank of East Asia (U.S.A.) National Association) entered into a share sale agreement on the acquisition of 80% of the shares of The Bank of East Asia (U.S.A.) National Association. The transaction was approved by CBRC in March 2011 and by the Board of Governors of the Federal Reserve System in May 2012. On 6 July 2012, the transfer of equity interest and funds was completed, and the Bank became a controlling shareholder of The Bank of East Asia (U.S.A.) National Association.

### Acquisition of Shares in Standard Bank Argentina S.A.

On 5 August 2011, the Bank, Standard Bank London Holdings Plc (referred to as "Standard Bank London"), Holding W-S De Inversiones S.A. (together with Standard Bank London referred to as the "sellers") and the sellers' guarantors Standard Bank, Sielecki family members and Werthein family members entered into a memorandum of agreement on the acquisition of 80% of the shares of each of Standard Bank Argentina S.A. ("Standard Bank Argentina"), Standard Investments S.A. Sociedad Gerente de Fondos Comunes de Inversión ("Standard Investments") and Inversora Diagonal Sociedad Anónima (together with Standard Bank Argentina and Standard Investments, the "Target Companies"). The transaction was approved by CBRC in September 2011 and by the Central Bank of Argentina in November 2012. On 30 November 2012, the transfer of shares and funds was completed, and the Bank became a controlling shareholder of the Target Companies.

### Investment in AXA-Minmetals Assurance Co., Ltd.

On 28 October 2010, the Board of Directors of the Bank approved the investment by the Bank in AXA-Minmetals Assurance Co., Ltd. On the same day, the Bank, AXA China (a subsidiary of France-based AXA Group) and China Minmetals Corporation entered into relevant agreement on the sale and purchase of equity interest in AXA-Minmetals Assurance Co., Ltd. The transaction has been approved by the regulatory authorities and completed on 5 July 2012. AXA-Minmetals Assurance Co., Ltd. formally changed its name to ICBC-AXA Assurance Co., Ltd. on 6 July 2012. As at the end of the reporting period, the Bank held 60% of its equity interest.

## Implementation of Share Incentive Plan

The Fourth Extraordinary General Meeting of 2006 of the Bank held on 31 July 2006 approved the share appreciation rights plan. As at the end of the reporting period, the Bank did not grant any share appreciation right. Please refer to "Note 46. to the Financial Statements: Share Appreciation Rights Plan" for details.

## Material Related Party Transactions

During the reporting period, the Bank had not entered into any material related party transactions.

## Material Contracts and Performance of Obligations thereunder

### Material Trust, Sub-contract and Lease

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

### Material Guarantees

The provision of guarantees is in the ordinary course of business of the Bank. During the reporting period, the Bank did not have any material guarantee that needed to be disclosed except for the financial guarantee services within the business scope as approved by PBC and CBRC.

### Independent Non-executive Directors' Special Explanation and Independent Opinions on External Guarantees of the Bank

In accordance with the Circular Concerning Several Issues on Regulating Fund Transfers between Listed Companies and Their Related Parties and External Guarantee of Listed Companies (Zheng Jian Fa [2003] No. 56) issued by CSRC and relevant provisions of SSE, we, in the capacity of Independent Non-executive Directors of the Bank, reviewed external guarantees of the Bank on the principle of fairness, impartiality and objectivity, and hereby give our specific explanation and opinions as follows: upon review, external guarantees provided by the Bank mainly focus on issuance of letters of guarantee, which is part of the ordinary banking services within the business scope of the Bank as approved by PBC and CBRC. As at 31 December 2012, the balance of letters of guarantee offered by the Bank totaled RMB261,022 million.

The Bank has attached great importance to the management of risks arising from such business and formulated strict rules on the credit ratings of the entities to which the guarantee was provided and on the operation process and review procedures of provision of guarantee services. In our opinion, risk control over the business of guarantee provision by the Bank has been effective. The Bank will continue to strengthen risk management on such service to ensure the steady improvement of performance of the Bank.

Independent Non-executive Directors of Industrial and Commercial Bank of China Limited

**Xu Shanda, Wong Kwong Shing, Frank, Malcolm Christopher McCarthy,**

**Kenneth Patrick Chung, Or Ching Fai, Hong Yongmiao**

## Occupation of Fund by Controlling Shareholders and Other Related Parties

During the reporting period, none of the controlling shareholders or related parties of the Bank occupied any fund of the Bank. The auditors have issued the Special Explanation on the Occupation of Fund by Controlling Shareholders and Other Related Parties of Industrial and Commercial Bank of China Limited in 2012.

## Commitments Made by the Bank or Its Shareholders Holding 5% Shares or Above

During the reporting period, the Bank and the shareholders holding 5% shares or above did not make any new commitments. As at 31 December 2012, all of the continuing commitments made by the shareholders were properly fulfilled, and were listed as follows:

| Shareholder | Type | Time and term | From which legal document | Commitment | Fulfillment of commitment |
|---|---|---|---|---|---|
| Huijin | Commitment of non-competition | October 2006/ No specific term | Prospectus of Industrial and Commercial Bank of China Limited on Initial Public Offering (A Shares) | Provided that Huijin continues to hold any shares of the Bank or is deemed as the controlling shareholder of the Bank or the related party of the controlling shareholder of the Bank according to the laws or listing rules of China or the listing place of the Bank, Huijin will not engage in or participate in any competitive commercial banking business including but not limited to granting loans, attracting deposits and providing settlement, fund custody, bank card and money exchange services. However, Huijin can engage in or participate in some competitive business by investing in other commercial banks. In this regard, Huijin has committed that it will (1) fairly treat the investments in commercial banks and will not make any decision or judgment that will have adverse impact on the Bank or be beneficial to other commercial banks by taking advantage of the status of a shareholder of the Bank or information obtained by taking advantage of the status of a shareholder of the Bank; and (2) perform the shareholders' rights for the maximum interests of the Bank. | Properly fulfilled according to the commitment |
| | | November 2010/ No specific term | Prospectus on A Share Rights Issue of Industrial and Commercial Bank of China Limited | | |
| | | August 2010/ No specific term | Prospectus on Issuance of the A Share Convertible Corporate Bonds of Industrial and Commercial Bank of China Limited | | |

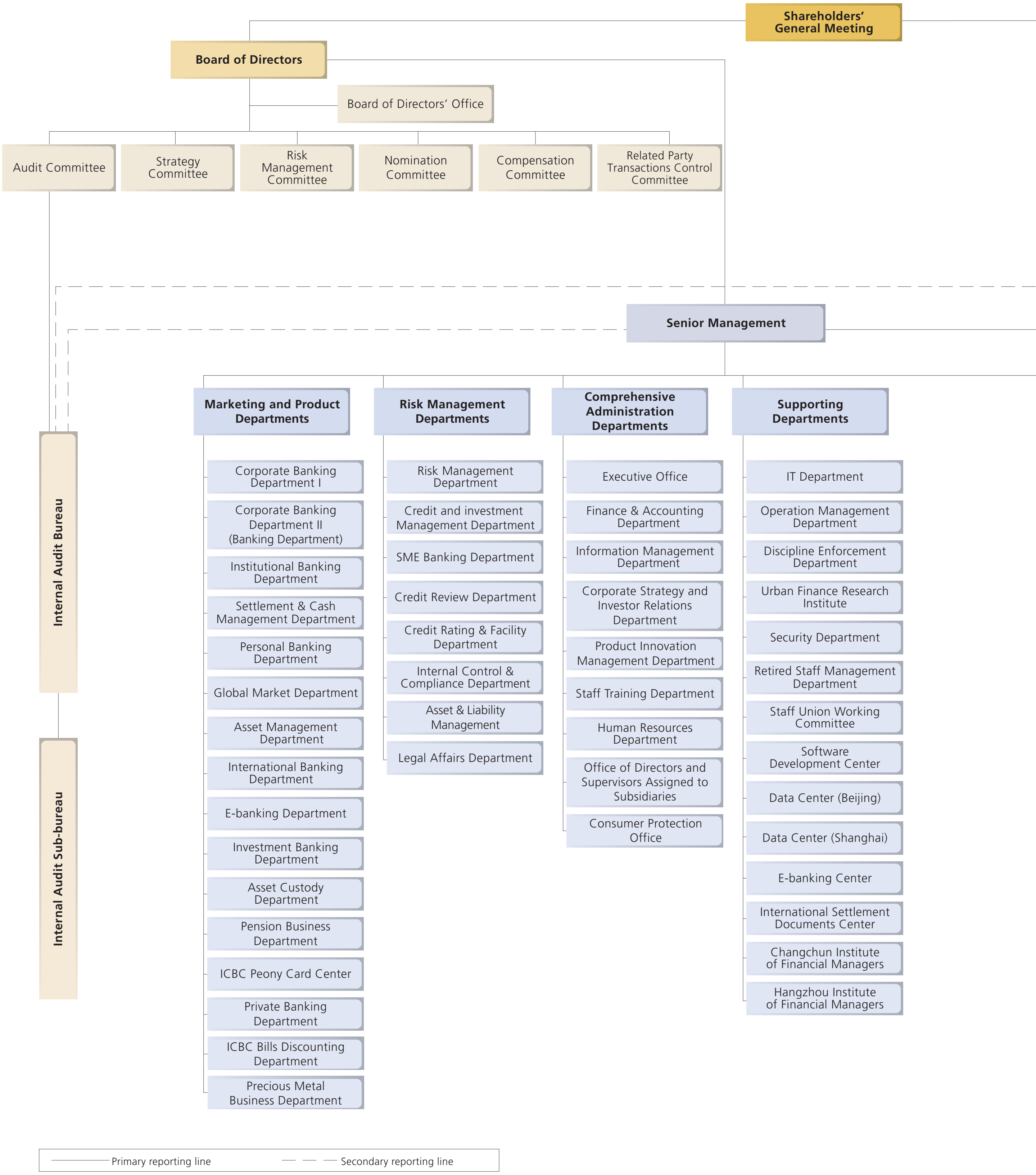
## Additional Commitments on Restrictions on Sale of Shares Made by the Shareholders Holding 5% Shares or Above During the Reporting Period

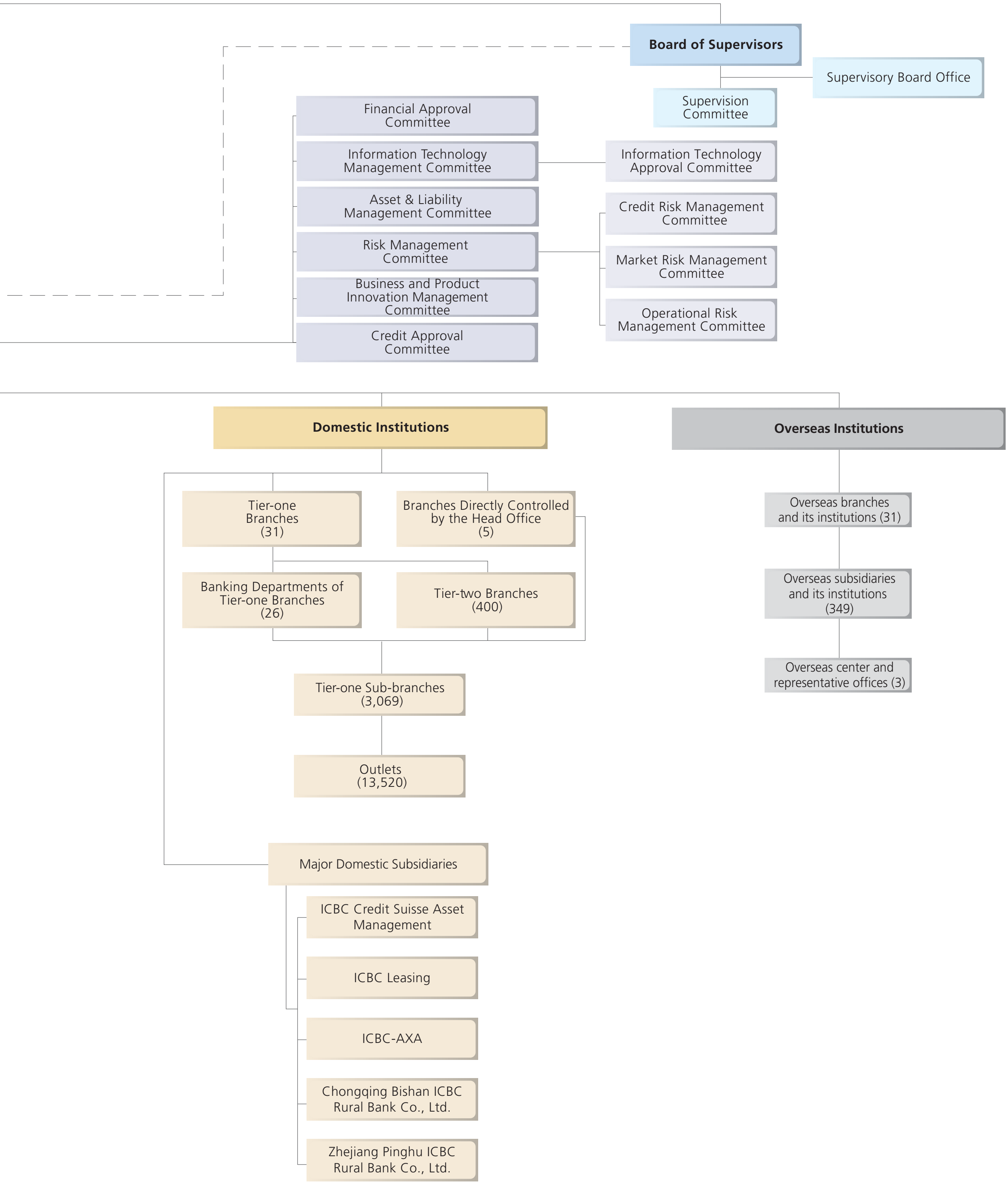
None.

## Investigations, Administrative Penalties, Censures by CSRC; Public Reprimand by Stock Exchanges; and Sanctions Imposed by Other Regulatory and Judicial Authorities During the Reporting Period

During the reporting period, neither the Bank nor any of its Directors, Supervisors, members of the Senior Management and shareholders holding 5% shares or more was subject to any investigation, administrative penalty by CSRC, and public reprimand by the stock exchanges, or punishment by other regulatory authorities that had a material impact on the operation of the Bank.

# Organizational Chart





Board of Supervisors
Supervisory Board Office
Supervision Committee
Financial Approval Committee
Information Technology Management Committee
Information Technology Approval Committee
Asset & Liability Management Committee
Credit Risk Management Committee
Risk Management Committee
Market Risk Management Committee
Business and Product Innovation Management Committee
Operational Risk Management Committee
Credit Approval Committee
Domestic Institutions
Overseas Institutions
Tier-one Branches (31)
Branches Directly Controlled by the Head Office (5)
Overseas branches and its institutions (31)
Banking Departments of Tier-one Branches (26)
Tier-two Branches (400)
Overseas subsidiaries and its institutions (349)
Overseas center and representative offices (3)
Tier-one Sub-branches (3,069)
Outlets (13,520)
Major Domestic Subsidiaries
ICBC Credit Suisse Asset Management
ICBC Leasing
ICBC-AXA
Chongqing Bishan ICBC Rural Bank Co., Ltd.
Zhejiang Pinghu ICBC Rural Bank Co., Ltd.

# Independent Auditors' Report and Financial Statements

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# Independent Auditors' Report

ERNST & YOUNG

22/F, CITIC Tower
1 TIM Mei Avenue, Central
Hong Kong

**To the shareholders of Industrial and Commercial Bank of China Limited**

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

We have audited the consolidated financial statements of Industrial and Commercial Bank of China Limited (the "Bank") and its subsidiaries (together, the "Group") set out on pages 154 to 286, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' responsibility for the consolidated financial statements

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

## Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Certified Public Accountants

Hong Kong

27 March 2013

# Consolidated Income Statement

Year ended 31 December 2012
(In RMB millions, unless otherwise stated)

| | Notes | 2012 | 2011 |
|---|---|---|---|
| Interest income | 6 | 721,439 | 589,580 |
| Interest expense | 6 | (303,611) | (226,816) |
| **NET INTEREST INCOME** | 6 | 417,828 | 362,764 |
| Fee and commission income | 7 | 115,881 | 109,077 |
| Fee and commission expense | 7 | (9,817) | (7,527) |
| **NET FEE AND COMMISSION INCOME** | 7 | 106,064 | 101,550 |
| Net trading income | 8 | 510 | 444 |
| Net loss on financial assets and liabilities designated at fair value through profit or loss | 9 | (5,114) | (271) |
| Net gain on financial investments | 10 | 608 | 219 |
| Other operating income, net | 11 | 9,824 | 5,895 |
| **OPERATING INCOME** | | 529,720 | 470,601 |
| Operating expenses | 12 | (189,940) | (169,613) |
| Impairment losses on: | | | |
| Loans and advances to customers | 26 | (32,572) | (31,832) |
| Others | 15 | (1,173) | 711 |
| **OPERATING PROFIT** | | 306,035 | 269,867 |
| Share of profits of associates and jointly-controlled entities | | 2,652 | 2,444 |
| **PROFIT BEFORE TAX** | | 308,687 | 272,311 |
| Income tax expense | 16 | (69,996) | (63,866) |
| **PROFIT FOR THE YEAR** | | 238,691 | 208,445 |
| Attributable to: | | | |
| Equity holders of the parent company | | 238,532 | 208,265 |
| Non-controlling interests | | 159 | 180 |
| | | 238,691 | 208,445 |
| **EARNINGS PER SHARE** | | | |
| — Basic (RMB yuan) | 19 | 0.68 | 0.60 |
| — Diluted (RMB yuan) | 19 | 0.67 | 0.59 |

Details of the dividends declared and paid or proposed are disclosed in note 18 to the financial statements.

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2012
(In RMB millions, unless otherwise stated)

| | Note | 2012 | 2011 |
|---|---|---|---|
| Profit for the year | | 238,691 | 208,445 |
| Other comprehensive income (after-tax, net): | | | |
| Net gain on available-for-sale financial assets | 42 | 234 | 2,293 |
| Net gain on cash flow hedges | 42 | 139 | 355 |
| Share of other comprehensive income of associates and jointly-controlled entities | 42 | 255 | 774 |
| Foreign currency translation differences | 42 | (1,913) | (11,416) |
| Others | 42 | 107 | 43 |
| Subtotal of other comprehensive income for the year | | (1,178) | (7,951) |
| Total comprehensive income for the year | | 237,513 | 200,494 |
| Total comprehensive income attributable to: | | | |
| Equity holders of the parent company | | 237,245 | 200,368 |
| Non-controlling interests | | 268 | 126 |
| | | 237,513 | 200,494 |

# Consolidated Statement of Financial Position

31 December 2012
(In RMB millions, unless otherwise stated)

| | Notes | 31 December 2012 | 31 December 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with central banks | 20 | 3,174,943 | 2,762,156 |
| Due from banks and other financial institutions | 21 | 636,450 | 478,002 |
| Financial assets held for trading | 22 | 20,463 | 30,822 |
| Financial assets designated at fair value through profit or loss | 23 | 201,208 | 121,386 |
| Derivative financial assets | 24 | 14,756 | 17,460 |
| Reverse repurchase agreements | 25 | 544,579 | 349,437 |
| Loans and advances to customers | 26 | 8,583,289 | 7,594,019 |
| Financial investments | 27 | 3,862,216 | 3,763,694 |
| Investments in associates and jointly-controlled entities | 29 | 33,284 | 32,750 |
| Property and equipment | 30 | 135,889 | 119,028 |
| Deferred income tax assets | 31 | 22,789 | 21,938 |
| Other assets | 32 | 312,351 | 186,176 |
| **TOTAL ASSETS** | | **17,542,217** | **15,476,868** |
| **LIABILITIES** | | | |
| Due to central banks | | 1,133 | 100 |
| Financial liabilities designated at fair value through profit or loss | 33 | 319,742 | 171,973 |
| Derivative financial liabilities | 24 | 13,261 | 12,617 |
| Due to banks and other financial institutions | 34 | 1,486,805 | 1,341,290 |
| Repurchase agreements | 35 | 237,764 | 206,254 |
| Certificates of deposit | 36 | 38,009 | 41,426 |
| Due to customers | 37 | 13,642,910 | 12,261,219 |
| Income tax payable | | 56,922 | 51,535 |
| Deferred income tax liabilities | 31 | 552 | 103 |
| Debt securities issued | 38 | 232,186 | 204,161 |
| Other liabilities | 39 | 384,474 | 228,367 |
| **TOTAL LIABILITIES** | | **16,413,758** | **14,519,045** |
| **EQUITY** | | | |
| Equity attributable to equity holders of the parent company | | | |
| Share capital | 40 | 349,620 | 349,084 |
| Equity component of convertible bonds | 38 | 2,708 | 2,954 |
| Reserves | | 400,128 | 291,370 |
| Retained profits | | 372,541 | 313,334 |
| | | 1,124,997 | 956,742 |
| Non-controlling interests | | 3,462 | 1,081 |
| **TOTAL EQUITY** | | **1,128,459** | **957,823** |
| **TOTAL EQUITY AND LIABILITIES** | | **17,542,217** | **15,476,868** |

**Jiang Jianqing**
Chairman

**Yang Kaisheng**
Vice Chairman and President

**Shen Rujun**
General Manager of Finance and Accounting Department

# Consolidated Statement of Changes in Equity

Year ended 31 December 2012
(In RMB millions, unless otherwise stated)

| | Attributable to equity holders of the parent company | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Reserves | | | | | | | | | | | |
| | Issued share capital | Equity component of convertible bonds | Capital reserve | Surplus reserve | General reserve | Investment revaluation reserve | Foreign currency translation reserve | Cash flow hedge reserve | Other reserves | Subtotal | Retained profits | Total | Non-controlling interests | Total equity |
| Balance as at 1 January 2012 | 349,084 | 2,954 | 132,096 | 74,420 | 104,301 | (3,999) | (10,792) | (3,893) | (763) | 291,370 | 313,334 | 956,742 | 1,081 | 957,823 |
| Profit for the year | — | — | — | — | — | — | — | — | — | — | 238,532 | 238,532 | 159 | 238,691 |
| Other comprehensive income | — | — | 107 | — | — | 242 | (2,030) | 139 | 255 | (1,287) | — | (1,287) | 109 | (1,178) |
| — Change in fair value of available-for-sale investments, net of tax | — | — | — | — | — | 242 | — | — | — | 242 | — | 242 | (8) | 234 |
| — Cash flow hedges, net of tax | — | — | — | — | — | — | — | 139 | — | 139 | — | 139 | — | 139 |
| — Share of other comprehensive income of associates and jointly-controlled entities | — | — | — | — | — | — | — | — | 255 | 255 | — | 255 | — | 255 |
| — Exchange differences on translation of foreign operations | — | — | — | — | — | — | (2,030) | — | — | (2,030) | — | (2,030) | 117 | (1,913) |
| — Others | — | — | 107 | — | — | — | — | — | — | 107 | — | 107 | — | 107 |
| Total comprehensive income | — | — | 107 | — | — | 242 | (2,030) | 139 | 255 | (1,287) | 238,532 | 237,245 | 268 | 237,513 |
| Dividend — 2011 final (note 18) | — | — | — | — | — | — | — | — | — | — | (70,912) | (70,912) | — | (70,912) |
| Appropriation to surplus reserve (i) | — | — | — | 23,643 | — | — | — | — | — | 23,643 | (23,643) | — | — | — |
| Appropriation to general reserve (ii) | — | — | — | — | 84,770 | — | — | — | — | 84,770 | (84,770) | — | — | — |
| Conversion of convertible bonds | 536 | — | 1,632 | — | — | — | — | — | — | 1,632 | — | 2,168 | — | 2,168 |
| Acquisition of subsidiaries | — | — | — | — | — | — | — | — | — | — | — | — | 1,554 | 1,554 |
| Capital injection by non-controlling shareholders | — | — | — | — | — | — | — | — | — | — | — | — | 600 | 600 |
| Dividends to non-controlling shareholders | — | — | — | — | — | — | — | — | — | — | — | — | (41) | (41) |
| Equity component of convertible bonds (note 38) | — | (246) | — | — | — | — | — | — | — | — | — | (246) | — | (246) |
| **Balance as at 31 December 2012** | **349,620** | **2,708** | **133,835** | **98,063** | **189,071** | **(3,757)** | **(12,822)** | **(3,754)** | **(508)** | **400,128** | **372,541** | **1,124,997** | **3,462** | **1,128,459** |

(i) Includes the appropriation made by overseas branches and subsidiaries in the amounts of RMB15 million and RMB310 million, respectively.

(ii) Includes the appropriation made by subsidiaries in the amount of RMB1,314 million.

(In RMB millions, unless otherwise stated)

| | Attributable to equity holders of the parent company | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Reserves | | | | | | | | | | | |
| | Issued share capital | Equity component of convertible bonds | Capital reserve | Surplus reserve | General reserve | Investment revaluation reserve | Foreign currency translation reserve | Cash flow hedge reserve | Other reserves | Subtotal | Retained profits | Total | Non-controlling interests | Total equity |
| Balance as at 1 January 2011 | 349,019 | 2,985 | 131,923 | 53,782 | 93,071 | (6,303) | 581 | (4,248) | (1,537) | 267,269 | 201,157 | 820,430 | 1,227 | 821,657 |
| Profit for the year | — | — | — | — | — | — | — | — | — | — | 208,265 | 208,265 | 180 | 208,445 |
| Other comprehensive income | — | — | 43 | — | — | 2,304 | (11,373) | 355 | 774 | (7,897) | — | (7,897) | (54) | (7,951) |
| — Change in fair value of available-for-sale investments, net of tax | — | — | — | — | — | 2,304 | — | — | — | 2,304 | — | 2,304 | (11) | 2,293 |
| — Cash flow hedges, net of tax | — | — | — | — | — | — | — | 355 | — | 355 | — | 355 | — | 355 |
| — Share of other comprehensive income of associates and jointly-controlled entities | — | — | — | — | — | — | — | — | 774 | 774 | — | 774 | — | 774 |
| — Exchange differences on translation of foreign operations | — | — | — | — | — | — | (11,373) | — | — | (11,373) | — | (11,373) | (43) | (11,416) |
| — Others | — | — | 43 | — | — | — | — | — | — | 43 | — | 43 | — | 43 |
| Total comprehensive income | — | — | 43 | — | — | 2,304 | (11,373) | 355 | 774 | (7,897) | 208,265 | 200,368 | 126 | 200,494 |
| Dividend — 2010 final (note 18) | — | — | — | — | — | — | — | — | — | — | (64,220) | (64,220) | — | (64,220) |
| Appropriation to surplus reserve (i) | — | — | — | 20,638 | — | — | — | — | — | 20,638 | (20,638) | — | — | — |
| Appropriation to general reserve (ii) | — | — | — | — | 11,230 | — | — | — | — | 11,230 | (11,230) | — | — | — |
| Conversion of convertible bonds | 65 | — | 200 | — | — | — | — | — | — | 200 | — | 265 | — | 265 |
| Capital injection by non-controlling shareholders | — | — | — | — | — | — | — | — | — | — | — | — | 31 | 31 |
| Change in shareholdings in subsidiaries | — | — | (70) | — | — | — | — | — | — | (70) | — | (70) | (234) | (304) |
| Dividends to non-controlling shareholders | — | — | — | — | — | — | — | — | — | — | — | — | (69) | (69) |
| Equity component of convertible bonds (note 38) | — | (31) | — | — | — | — | — | — | — | — | — | (31) | — | (31) |
| **Balance as at 31 December 2011** | **349,084** | **2,954** | **132,096** | **74,420** | **104,301** | **(3,999)** | **(10,792)** | **(3,893)** | **(763)** | **291,370** | **313,334** | **956,742** | **1,081** | **957,823** |

(i) Includes the appropriation made by overseas branches and subsidiaries in the amount of RMB41 million and RMB250 million, respectively.

(ii) Includes the appropriation made by subsidiaries in the amount of RMB227 million.

# Consolidated Statement of Cash Flows

Year ended 31 December 2012
(In RMB millions, unless otherwise stated)

| | Notes | 2012 | 2011 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | 308,687 | 272,311 |
| Adjustments for: | | | |
| Share of profits of associates and jointly-controlled entities | | (2,652) | (2,444) |
| Depreciation | 12 | 13,215 | 12,027 |
| Amortisation | 12 | 1,781 | 1,426 |
| Amortisation of financial investments | | (2,857) | (7,562) |
| Impairment losses on loans and advances to customers | 26 | 32,572 | 31,832 |
| Impairment losses on assets other than loans and advances to customers | 15 | 1,173 | (711) |
| Unrealised foreign exchange loss | | 6,853 | 7,497 |
| Interest expense on debt securities issued | | 9,876 | 5,103 |
| Accreted interest on impaired loans | 6 | (944) | (602) |
| Gain on disposal of available-for-sale financial assets, net | 10 | (559) | (178) |
| Net trading gain on equity investments | 8 | (42) | (3) |
| Net loss on financial assets and liabilities designated at fair value through profit or loss | 9 | 5,114 | 271 |
| Net gain on disposal and overage of property and equipment and other assets (other than repossessed assets) | | (961) | (881) |
| Dividend income | 10 | (49) | (41) |
| | | 371,207 | 318,045 |
| Net decrease/(increase) in operating assets: | | | |
| Due from central banks | | (179,741) | (437,857) |
| Due from banks and other financial institutions | | (191,882) | (37,009) |
| Financial assets held for trading | | 10,636 | (20,475) |
| Financial assets designated at fair value through profit or loss | | (80,025) | (118,555) |
| Reverse repurchase agreements | | (35,653) | (1,344) |
| Loans and advances to customers | | (1,010,592) | (1,036,506) |
| Other assets | | (31,126) | (27,188) |
| | | (1,518,383) | (1,678,934) |
| Net increase/(decrease) in operating liabilities: | | | |
| Financial liabilities designated at fair value through profit or loss | | 147,651 | 160,203 |
| Due to central banks | | 1,025 | 49 |
| Due to banks and other financial institutions | | 148,697 | 279,170 |
| Repurchase agreements | | 31,325 | 121,366 |
| Certificates of deposit | | (3,880) | 33,038 |
| Due to customers | | 1,365,818 | 1,135,086 |
| Other liabilities | | 55,401 | 27,912 |
| | | 1,746,037 | 1,756,824 |
| Net cash flows from operating activities before tax | | 598,861 | 395,935 |
| Income tax paid | | (65,353) | (47,812) |
| Net cash flows from operating activities | | 533,508 | 348,123 |

(In RMB millions, unless otherwise stated)

| | Note | 2012 | 2011 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of property and equipment and other assets | | (31,852) | (22,896) |
| Proceeds from disposal of property and equipment and other assets (other than repossessed assets) | | 1,271 | 1,278 |
| Purchases of financial investments | | (1,058,490) | (1,385,697) |
| Proceeds from sale and redemption of financial investments | | 965,229 | 1,349,324 |
| Investments in associates and jointly-controlled entities | | (19) | (10) |
| Acquisition of subsidiaries | | (3,723) | — |
| Dividends received | | 914 | 1,268 |
| Net cash flows from investing activities | | (126,670) | (56,733) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Capital injection by non-controlling shareholders | | 600 | 31 |
| Proceeds from issuance of subordinated bonds | | 20,000 | 89,500 |
| Proceeds from issuance of other debt securities | | 9,640 | 14,303 |
| Interest paid on debt securities | | (8,566) | (3,212) |
| Acquisition of non-controlling interests | | — | (328) |
| Dividends paid on ordinary shares | | (70,912) | (64,220) |
| Dividends paid to non-controlling shareholders | | (41) | (69) |
| Net cash flows from financing activities | | (49,279) | 36,005 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | 357,559 | 327,395 |
| Cash and cash equivalents at beginning of the year | | 848,308 | 528,971 |
| Effect of exchange rate changes on cash and cash equivalents | | (4,220) | (8,058) |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | 44 | 1,201,647 | 848,308 |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:** | | | |
| Interest received | | 704,500 | 565,899 |
| Interest paid | | (243,400) | (204,648) |

# Statement of Financial Position

31 December 2012
(In RMB millions, unless otherwise stated)

| | Notes | 31 December 2012 | 31 December 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with central banks | 20 | 3,146,659 | 2,737,238 |
| Due from banks and other financial institutions | 21 | 658,317 | 474,287 |
| Financial assets held for trading | 22 | 18,064 | 29,849 |
| Financial assets designated at fair value through profit or loss | 23 | 200,786 | 120,811 |
| Derivative financial assets | 24 | 13,406 | 15,476 |
| Reverse repurchase agreements | 25 | 320,133 | 229,769 |
| Loans and advances to customers | 26 | 8,168,369 | 7,246,627 |
| Financial investments | 27 | 3,808,282 | 3,730,354 |
| Investments in subsidiaries | 28 | 69,638 | 53,907 |
| Investments in associates | 29 | 33,883 | 33,369 |
| Property and equipment | 30 | 114,950 | 105,971 |
| Deferred income tax assets | 31 | 22,144 | 21,796 |
| Other assets | 32 | 257,760 | 155,965 |
| **TOTAL ASSETS** | | **16,832,391** | **14,955,419** |
| **LIABILITIES** | | | |
| Due to central banks | | 658 | — |
| Financial liabilities designated at fair value through profit or loss | 33 | 319,742 | 171,945 |
| Derivative financial liabilities | 24 | 12,322 | 10,845 |
| Due to banks and other financial institutions | 34 | 1,424,272 | 1,297,947 |
| Repurchase agreements | 35 | 7,313 | 78,551 |
| Certificates of deposit | 36 | 18,124 | 14,434 |
| Due to customers | 37 | 13,301,472 | 11,963,815 |
| Income tax payable | | 56,075 | 50,818 |
| Debt securities issued | 38 | 214,044 | 192,439 |
| Other liabilities | 39 | 359,668 | 218,216 |
| **TOTAL LIABILITIES** | | **15,713,690** | **13,999,010** |
| **EQUITY** | | | |
| Share capital | 40 | 349,620 | 349,084 |
| Equity component of convertible bonds | 38 | 2,708 | 2,954 |
| Reserves | 41 | 413,395 | 305,573 |
| Retained profits | 41 | 352,978 | 298,798 |
| **TOTAL EQUITY** | | **1,118,701** | **956,409** |
| **TOTAL EQUITY AND LIABILITIES** | | **16,832,391** | **14,955,419** |

**Jiang Jianqing**
Chairman

**Yang Kaisheng**
Vice Chairman and President

**Shen Rujun**
General Manager of Finance and Accounting Department

## 1. CORPORATE INFORMATION

Industrial and Commercial Bank of China Limited (the "Bank"), which was previously known as Industrial and Commercial Bank of China ("ICBC"), used to be a wholly-state-owned commercial bank established on 1 January 1984 based on the authorisation of the State Council and the People's Bank of China (the "PBOC") of the People's Republic of China (the "PRC"). On 28 October 2005, with the approval of the State Council, ICBC was restructured and incorporated as a joint-stock limited company. The joint-stock limited company undertook all the assets and liabilities of ICBC upon the restructuring.

The Bank obtained its finance permit No. B0001H111000001 from the China Banking Regulatory Commission (the "CBRC") of the PRC. The Bank obtained its business license No. 100000000003965 from the State Administration for Industry and Commerce of the PRC. The legal representative is Jiang Jianqing and the registered office is located at No. 55 Fuxingmennei Avenue, Xicheng District, Beijing, the PRC.

The Bank's A Shares and H Shares are listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited and the stock codes are 601398 and 1398, respectively.

The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") comprise corporate and personal banking, treasury operations, investment banking, asset management, trust, financial leasing, insurance and other financial services. Domestic establishments refer to the Head Office of the Bank, branches and subsidiaries established inside Mainland China. Overseas establishments refer to branches and subsidiaries established under local jurisdictions outside Mainland China.

## 2.1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

### Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and interpretations promulgated by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, financial assets and liabilities held for trading, financial assets and liabilities designated at fair value through profit or loss and available-for-sale financial assets (unless the fair value cannot be reliably measured) that have been measured at fair value, as further explained in the respective accounting policies below. The carrying values of recognised assets and liabilities, that are hedged in fair value hedges and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged. These financial statements are presented in RMB and all values are rounded to the nearest million except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

*(i) Subsidiaries*

The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

## 2.1 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

### Basis of consolidation (continued)

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

(a) derecognises the assets (including goodwill) and liabilities of the subsidiary;

(b) derecognises the carrying amount of any non-controlling interest;

(c) derecognises the cumulative translation differences recorded in equity;

(d) recognises the fair value of the consideration received;

(e) recognises the fair value of any investment retained;

(f) recognises any resulting surplus or deficit in profit or loss; and

(g) reclassifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained profits, as appropriate.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the consolidated income statement, and within equity in the consolidated statement of financial position separately from the equity attributable to equity holders of the parent company. An acquisition of non-controlling interests is accounted for as an equity transaction.

*(ii) Special purpose entities*

Special purpose entities ("SPEs") are consolidated if they are in substance controlled by the Bank. When assessing whether the Bank has a control over the SPEs, the Bank evaluates a range of factors, including whether:

(a) the activities of the SPE are being conducted on behalf of the Bank and according to the Bank's specific business needs so that the Bank obtains benefits from the SPE's operations;

(b) the Bank has the decision-making powers to obtain the majority of the benefits of the activities of the SPE;

(c) the Bank has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or

(d) the Bank retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

## 2.2 REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS THAT ARE EFFECTIVE IN 2012 AND RELEVANT TO THE GROUP

The IASB has issued the following revised IFRSs (including International Accounting Standards ("IASs")) that are effective in 2012 and relevant to the Group's operation.

| | |
|---|---|
| IFRS 1 Amendments | *First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* |
| IFRS 7 Amendments | *Financial Instruments: Disclosures — Transfers of Financial Assets* |
| IAS 12 Amendments | *Income Taxes — Deferred Tax: Recovery of Underlying Assets* |

## 2.2 REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS THAT ARE EFFECTIVE IN 2012 AND RELEVANT TO THE GROUP (CONTINUED)

The principal effects of adopting these revised IFRSs are as follows:

### IFRS 1 First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments)

The amendments provide guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendments had no impact on the Group's financial statements.

### IFRS 7 Financial Instruments: Disclosures — Transfers of Financial Assets (Amendments)

The amendments enhance disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. Effective implementation date is for annual periods beginning on or after 1 July 2011. Disclosures for any period prior to the date of initial application are not required. Details of transfers of financial assets are included in note 45 "transferred financial assets".

### IAS 12 Income Taxes — Deferred Tax: Recovery of Underlying Assets (Amendments)

The amendments clarify the determination of deferred tax on investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments introduce the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis of the asset. Effective implementation date is for annual periods beginning on or after 1 January 2012. The amendments had no impact on the Group's financial statements.

The Group has not adopted any other standard, interpretation or amendment that was issued but is not yet effective.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (1) Subsidiaries

A subsidiary is an entity whose financial and operating policies the Bank controls, directly and indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Bank's income statement to the extent of dividends received and receivable. The Bank's investments in subsidiaries are stated at cost less any impairment losses.

### (2) Jointly-controlled entities

A jointly-controlled entity is a joint venture, not being a subsidiary or an associate, that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entities.

The Group's investments in jointly-controlled entities are accounted for under the equity method of accounting. Under the equity method, investments in jointly-controlled entities are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the jointly-controlled entities, less any impairment losses. Goodwill relating to jointly-controlled entities is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investments in the jointly-controlled entities. The consolidated income statement reflects the share of the results of operations of the jointly-controlled entities. Where there has been a change recognised directly in the equity of the jointly-controlled entities, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities.

The results of the jointly-controlled entities are included in the Bank's income statement to the extent of dividends received and receivable. The Bank's investments in jointly-controlled entities are stated at cost less any impairment losses.

The reporting periods of the jointly-controlled entities and the Group are identical and the jointly-controlled entities' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (3) Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are accounted for under the equity method of accounting. Under the equity method, an investment in an associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associate, less any impairment losses. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The consolidated income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the associates are eliminated to the extent of the Group's interests in the associates.

The results of the associates are included in the Bank's income statement to the extent of dividends received and receivable. The Bank's investments in associates are stated at cost less any impairment losses.

The reporting periods of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

### (4) Foreign currency translation

The consolidated financial statements are presented in RMB, being the functional and presentation currency of the Bank's operations in Mainland China. Each entity in the Group determines its own functional currency and the financial statements of each entity are presented using that functional currency.

Foreign currency transactions are initially recorded at the functional currency using the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the applicable exchange rates ruling at the end of the reporting period. Exchange differences arising on the settlement of monetary items or on translating monetary items at period end rates are recognised in the income statement, with the exception that they are taken directly to other comprehensive income when the monetary items are designated as part of the hedge of the Bank's net investment of a foreign entity, and the aggregate exchange differences are not recognised in the income statement until the disposal of such net investment. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates as at the date when the fair value is determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the rates ruling at the end of the reporting period. The exchange differences are recognised in the income statement or in other comprehensive income, depending on the nature of non-monetary items.

As at the end of the reporting period, the assets and liabilities of foreign operations are translated into the presentation currency of the Bank at the exchange rates ruling at the end of the reporting period. All items within equity except for retained profits are translated at the exchange rates ruling at the dates of the initial transactions. Their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the above translation are taken directly to other comprehensive income. On disposal of a foreign operation, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the income statement.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (4) Foreign currency translation (continued)

Cash flows arising from transactions in foreign currencies and cash flows of overseas subsidiaries are translated using the weighted average exchange rates for the year. The effect of exchange rate movements on cash is presented separately in statement of cash flows as a reconciling item.

### (5) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

*Initial recognition of financial instruments*

At initial recognition, financial assets are classified into four categories: financial assets at fair value through profit or loss, held-to-maturity financial investments, loans and receivables and available-for-sale financial assets.

At initial recognition, financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities.

A financial asset or financial liability is measured initially at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

*Measurement of fair value*

The fair value of a financial asset or financial liability traded in active markets is based on its quoted market price.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include making reference to the prices from recent arm's length market transactions between knowledgeable and willing parties, if available, current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

*Financial assets or financial liabilities at fair value through profit or loss*

Financial assets or financial liabilities at fair value through profit or loss include financial assets or financial liabilities held for trading and financial assets or financial liabilities designated at fair value through profit or loss.

*Financial assets or financial liabilities held for trading*

A financial asset or financial liability is classified as held for trading if:

(i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

(ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking; or

(iii) it is a derivative.

Financial assets held for trading mainly include debt securities, equity investments and derivatives that are not designated as effective hedging instruments.

Financial assets or financial liabilities held for trading are measured at fair value after initial recognition. Realised or unrealised income or expenses are recognised in the income statement. Derivatives are separately presented and disclosed in the financial statements, and accounting policies of derivatives are shown in note 3(10).

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (5) Financial instruments (continued)

*Financial assets or financial liabilities designated at fair value through profit or loss*

A financial instrument may be designated as a financial asset or financial liability at fair value through profit or loss upon initial recognition, if it meets any of the criteria set out below.

(i) It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial asset or financial liability or from recognising the gains and losses on them on different bases;

(ii) It applies to a group of financial assets, financial liabilities or both which is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management personnel; or

(iii) The financial instrument contains one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

In the case of an equity investment, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, it cannot be designated as a financial asset at fair value through profit or loss.

Financial assets designated at fair value through profit or loss mainly include debt securities and other debt instruments, financial liabilities designated at fair value through profit or loss mainly include wealth management products, structured deposits, notes payable, certificates of deposit, and financial liabilities related to precious metals. These assets and liabilities are measured at fair value after initial recognition. Realised and unrealised income or expenses are recognised in the income statement.

*Held-to-maturity financial investments*

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity and which the Group has the positive intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Gains and losses are recognised in the income statement when the held-to-maturity financial investments are derecognised or impaired, as well as through the amortisation process. All the held-to-maturity financial investments are bond investments.

The Group shall reclassify any remaining held-to-maturity investments as available for sale and shall not classify any financial assets as held to maturity during the current financial year or during the two preceding financial years, if the Group has sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) except for sale or reclassification that:

(i) is so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;

(ii) occurs after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or

(iii) is attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (5) Financial instruments (continued)

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group has no intention of trading the assets immediately or in the near term. After initial measurement, such assets are subsequently carried at amortised cost using the effective interest rate method, less any allowance for impairment losses. Gains and losses are recognised in the income statement when such assets are derecognised or impaired, as well as through the amortisation process. Loans and receivables mainly include loans and advances to customers, receivables and discounted bills.

Discounted bills are granted by the Group to its customers based on the bank acceptance held which has not matured. Discounted bills are carried at face value less unrealised interest income and the interest income of the discounted bills is recognised using the effective interest rate method.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets which are designated as such or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Premiums and discounts on available-for-sale financial assets are amortised using the effective interest rate method and are taken to the income statement as interest income. Changes in fair value of available-for-sale financial assets are recognised as a separate component of other comprehensive income until the financial asset is derecognised or determined to be impaired at which time the cumulative gains or losses previously recorded in other comprehensive income are transferred to the income statement. Dividend and interest income on available-for-sale financial assets are recorded in the income statement.

In the case of an equity investment classified as available for sale, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, it will be measured at cost less any impairment loss.

*Other financial liabilities*

Other financial liabilities are carried at amortised cost using the effective interest rate method.

### (6) Impairment of financial assets

An assessment on carrying amount of financial assets is made at the end of each reporting period. Impairment is recognised if there is objective evidence of impairment of financial assets, i.e., one or more events that occur after the initial recognition of those assets and have an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, they would probably enter into bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows.

*Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate and shall include the value of any relevant collateral. The original effective interest rate is the rate used to determine the values of financial assets at initial recognition. With respect to floating-rate loans, receivables and held-to-maturity investments, the discount rate could be the current effective interest rate determined under the contract. The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognised in the income statement.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (6) Impairment of financial assets (continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Future cash flows of a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to eliminate the impact of historical conditions that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the assets does not exceed its amortised cost at the reversal date.

When an item of loans and receivables is uncollectible, it is written off against the related allowance for impairment losses. Such loans and receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

*Financial assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on the financial asset, the amount of impairment loss, measured as the difference between the carrying amount of that financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, is recognised in the income statement. In the case of an equity investment, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, the amount of impairment loss is recognised in the income statement. Impairment losses on these assets are not reversed.

*Available-for-sale financial assets*

If there is objective evidence that the financial asset is impaired, the cumulative loss, measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The Group considers the period and consistency of the decline in evaluating whether a decline in fair value is prolonged. The Group considers the time period and continuity of the magnitude of the decline to evaluate whether the decline in fair value is prolonged. More significantly the fair value declines relative to the cost, the less the volatility moves, and the longer the decline lasts or the more obvious the continuity of the magnitude of the decline is, the more likely the equity investment impairs. In general, the Group considers the situation when fair value is less than 40% of the cost as significant decline and that when fair value falls below the cost in a period over 12 months as prolonged decline. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised as other comprehensive income.

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (7) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to individual or collective impairment assessment, calculated using the loan's original effective interest rate.

### (8) Derecognition of financial assets and liabilities

*Financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset; or has retained its rights to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and either the Group has transferred substantially all the risks and rewards of ownership of the financial asset; or the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has retained its rights to receive cash flows from the asset but has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

*Securitisation*

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to SPEs which issue securities to investors. The transferred assets may qualify for derecognition in full or in part. Further details on prerequisites for derecognition of financial assets are set out above. Interests in the securitised financial assets may be partially retained by the Group and are primarily classified as available-for-sale financial assets. The book value of the transferred asset should be recognised between the derecognised portion and the retained portion based on their respective relative fair values, and the difference between the book value of the derecognised portion and the total consideration paid for the derecognised portion shall be recorded in profit or loss.

*Sales of assets on condition of repurchase*

The derecognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (8) Derecognition of financial assets and liabilities (continued)

*Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

### (9) Convertible bonds

Convertible bonds which contain both a liability and an equity component are separated at the issue date. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond. The equity component is assigned the residual amount after deducting from the fair value of the convertible bonds as a whole the amount separately determined for the liability component. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the convertible bonds are first recognised. The liability component is carried as a liability on the amortised cost basis until extinguished on cancellation, conversion or redemption. The equity component is included in shareholders' equity, and not remeasured in subsequent years.

On conversion of the convertible bonds, the Group derecognises the liability component and recognises it as equity.

### (10) Derivatives and hedge accounting

*Derivatives*

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the hybrid instrument is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the income statement.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

For less complex derivative products, the fair values are principally determined by valuation models which are commonly used by market participants. Inputs to valuation models are determined from observable market data wherever possible, including foreign exchange spot and forward rates and interest rate yield curves. For more complex derivative products, the fair values are mainly determined by quoted prices from dealers.

*Hedge accounting*

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they have actually been highly effective throughout the financial reporting periods for which they were designated.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (10) Derivatives and hedge accounting (continued)

Certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under IAS 39 and are therefore treated as derivatives held for trading with fair value gains or losses recognised in the income statement. Hedges which meet the strict criteria for hedge accounting are accounted for in accordance with the Group's accounting policy as set out below.

*Fair value hedges*

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or unrecognised firm commitment, that is attributable to a particular risk and could affect the profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and the gains and losses from both are taken to the income statement.

For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item and the face value is amortised over the remaining term of the original hedge using the effective interest rate method.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the income statement. The changes in the fair value of the hedging instrument are also recognised in the income statement.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. If the hedged items are derecognised, the unamortised fair value is recorded in the income statement.

*Cash flow hedges*

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in other comprehensive income. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the income statement.

When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument recognised directly in other comprehensive income is recycled in the corresponding income or expense line of the income statement. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income until the hedged forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

### (11) Trade date accounting

All regular way purchases and sales of financial assets are recognised at the trade date, which is the date that the Group commits to purchase or sell the assets. A regular way purchase or sale is the purchase or sale of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the marketplace.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (12) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position if, and only if, the Group has a legally enforceable right to offset such amounts with the same counterparty and an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### (13) Repurchase and reverse repurchase transactions (including securities borrowing and lending)

Assets sold under agreements to repurchase at a specified future date ("repos") are not derecognised from the statement of financial position. The corresponding cash received, including accrued interest, is recognised on the statement of financial position as a "repurchase agreement", reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as an interest expense and is accrued over the life of the agreement using the effective interest rate method.

Conversely, assets purchased under agreements to resell at a specified future date ("reverse repos") are not recognised on the statement of financial position. The corresponding cash paid, including accrued interest, is recognised on the statement of financial position as a "reverse repurchase agreement". The difference between the purchase and resale prices is treated as an interest income and is accrued over the life of the agreement using the effective interest rate method.

Securities borrowing and lending transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognised on the statement of financial position, unless they are then sold to third parties, in which case the obligation to return the securities is recorded as a financial liability held for trading and measured at fair value with any gains or losses included in the income statement.

### (14) Precious metals

Precious metals comprise gold, silver and other precious metals. Precious metals that are not related to the Group's precious metals trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes are initially measured at fair value and subsequent changes in fair value are recorded in income statement.

The Group records the precious metals received as an asset. A liability to return the amount of precious metals deposited is also recognised. The precious metals deposited in the Group are measured at fair value both on initial recognition and in subsequent measurement.

### (15) Property and equipment

Property and equipment, other than construction in progress are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price, tax and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement.

(In RMB millions, unless otherwise stated)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (15) Property and equipment (continued)

Construction in progress comprises the direct costs of construction during the period of construction and is not depreciated. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for use.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment, less any estimated residual value, over the estimated useful life. The estimated useful life, estimated residual value and the annual depreciation rate of each item of property and equipment (excluding aircraft and vessels) are as follows:

| | Estimated useful life | Estimated residual value rate | Annual depreciation rate |
|---|---|---|---|
| Properties and buildings | 5–35 years | 3% | 2.77%–19.40% |
| Office equipment and motor vehicles (excluding aircraft and vessels) | 3–6 years | — | 16.67%–33.33% |
| Leasehold improvements | Over the shorter of the economic useful lives and remaining lease terms | | |

Equipment under operating leases where the Group is the lessor are aircraft, aircraft engines and vessels. The estimated useful lives and depreciation methods are determined according to the real conditions of each individual aircraft and vessels. The residual values are assessed by an independent valuer based on historical data. The estimated useful lives range from 15 to 25 years.

For an item of impaired fixed assets, the depreciation is calculated based on the carrying value less the cumulative impairment losses.

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

### (16) Land use rights

Land use rights are recognised at cost, being the fair value at the time of injection from the central government of the PRC (the "Government") or the consideration paid. The rights are amortised using the straight-line basis over the period of the leases. When the prepaid land lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of properties and buildings as finance leases in property and equipment.

### (17) Repossessed assets

Repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (18) Business combination and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition costs incurred are expensed.

For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either: (a) fair value; or (b) the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair values, unless another measurement basis is required by IFRSs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units ("CGU"), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the CGU (group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (group of CGUs) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a CGU (group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

### (19) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (20) Asset impairment

Impairment losses on assets except for deferred tax assets, financial assets and goodwill are determined based on the following:

The Group assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, or when impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined on an individual basis, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the CGU to which the asset belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In assessing value in use of an asset, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of any depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. After such a reversal, the depreciation/amortisation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

### (21) Cash and cash equivalents

Cash and cash equivalents refer to short term highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents comprise cash, unrestricted balances with central banks, amounts due from banks and other financial institutions and reverse repurchase agreements with original maturity of less than three months.

### (22) Employee benefits

Employee benefits refer to all forms of consideration and other related expenditure given by the Group in exchange for services rendered by employees. The benefits payable are recognised as liabilities during the period in which the employees have rendered services to the Group. If the effect of discounting the benefits payable which are payable after one year from the end of the reporting period is significant, the Group will present them at their present value.

*Statutory defined contribution plans*

In accordance with the relevant laws and regulations, domestic employees of the Group participate in various social insurance schemes like basic pension insurance, medical insurance, unemployment insurance and housing fund schemes administered by the local government authorities. The Group calculates and contributes to the local government agencies the above pension and insurance schemes using applicable contribution basis and rates stipulated in the relevant local regulations in the period the employees providing their services to the Group. Contributions to these plans are recognised in the income statement as incurred.

All eligible employees outside Mainland China participate in local defined contribution schemes. The Group contributes to these defined contribution schemes based on the requirements of the local regulatory bodies.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (22) Employee benefits (continued)

*Retirement benefit annuity plan*

In addition, employees in Mainland China also participate in a defined contribution retirement benefit plan established by the Group (the "Annuity Plan"). The Group and its employees are required to contribute a certain percentage of the employees' previous year basic salaries to the Annuity Plan. The contribution is charged to the income statement when it incurs. The Group pays a fixed contribution into the Annuity Plan and has no obligation to pay further contributions if the Annuity Plan does not hold sufficient assets to pay all employee benefits.

*Termination benefits*

Termination benefits are payable whenever an employee's employment is voluntarily terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits in the income statement when it is demonstrably committed to terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal.

*Early retirement benefits*

According to the Bank's policy on early retirement benefits, certain employees are entitled to take leave of absence and in return receive a certain level of staff salaries and related benefits from the Bank. The salaries and benefit payments are made from the date of early retirement to the normal retirement date. The amounts of retirement benefit expense and present value of these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, retirement benefit growth rates and other factors. Gains and losses arising from the changes in assumptions and amendments to pension plans are recognised in the income statement as incurred.

### (23) Fiduciary activities

Where the Group acts in a fiduciary capacity such as custodian or agent, assets arising thereon together with related undertakings to return such assets to customers are excluded from the statement of financial position.

The asset custody services of the Group refer to the business that the Group as trustee approved by regulatory authorities, signs custody agreement with clients and takes the responsibility of trustee in accordance with relevant laws and regulations. The assets under custody are recorded as off-balance sheet items as the Group merely fulfils the responsibility as trustee and charges fees in accordance with these agreements without retaining any risks or rewards of the assets under custody.

The Group grants entrusted loans on behalf of trustors, which are recorded off-balance sheet. The Group, as a trustee, grants such entrusted loans to borrowers under the direction of those trustors who fund these loans. The Group has been contracted by those trustors to manage the administration and collection of these loans on their behalf. Those trustors determine both the underwriting criteria for and the terms of all entrusted loans including their purposes, amounts, interest rates, and repayment schedules. The Group charges a commission related to its activities in connection with entrusted loans which are recognised ratably over the period in which the service is provided. The risk of loss is borne by those trustors.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (24) Insurance contracts

*Insurance contracts classification*

The Group's insurance subsidiary executes the contract with the policyholder. Where the Group undertakes only the insurance risk, the contract is classified as an insurance contract; where the Group undertakes the risks other than the insurance risk, the contract is classified as non-insurance contract; and where the Group undertakes both insurance risk and other risks, forming a contract with mixed risks, the following stipulations shall apply:

(i) Where the insurance risk and other risks can be distinguished from each other and separately measured, the insurance risk shall be separated from other risks. The insurance risk is accounted for according to the insurance contract and other risks are not accounted for as insurance contract.

(ii) Where the insurance risk and other risks cannot be distinguished from each other, or can be distinguished but cannot be separately measured, an umbrella contract applies and significant insurance risk test shall be performed based on it. If the insurance risk is significant, the contract is identified as an insurance contract; otherwise, it is identified as non-insurance contract.

*Insurance income recognition*

Insurance premium income is recognised when:

(i) The insurance contract is issued, and related insurance risk is undertaken by the Group;

(ii) The related economic benefits are likely to flow to the Group; and

(iii) Related income can be reliably measured.

*Insurance contract liabilities*

When measuring insurance contract liabilities, the Group classifies insurance contracts whose insurance risks are of similar nature as a measurement unit. Insurance contract liabilities are measured based on a reasonably estimated amount of payment that the Group is obliged to pay to fulfill relevant obligations under the insurance contract. At the end of each reporting period, liability adequacy tests are performed. If the insurance contract liabilities re-calculated with the insurance actuarial method exceed their carrying amounts on date of the liability adequacy test, an additional provision shall be made for the respective insurance contract liabilities based on the difference. Otherwise, no adjustment is made to the respective insurance contract liabilities.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (25) Recognition of income and expense

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and when the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*Interest income and expense*

For all financial instruments measured at amortised cost and interest-generating financial instruments classified as available-for-sale financial assets, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded in profit or loss.

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

*Fee and commission income*

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(i) Fee income on transactions conducted or from services provided over a period of time

Fee income is recognised on the basis of when the transaction is completed or on an accrual basis when the service is provided over a period of time. These fees mainly include fee income on settlement and clearing business, commission income and fee income on asset management, custody and other management advisory services.

(ii) Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

The fair value of the award credits granted to the bank card holders is deferred and recognised as fee and commission income when the award credits are redeemed or expire.

*Dividend income*

Dividend income is recognised when the Group's right to receive payment is established.

*Net trading income*

Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities that are held for trading. This includes gains and losses from changes in fair value relating to the ineffective portion of the hedging arrangements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (26) Income tax

Income tax comprises current and deferred income tax. Income tax is recognised in the income statement except that it relates to items recognised directly in equity, in which case it is recognised in equity.

*Current tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of each reporting period.

*Deferred income tax*

Deferred income tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

(i) Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and

(ii) In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

(i) Where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and

(ii) In respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period and reflect the corresponding tax effect.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilised. When it is virtually probable that sufficient taxable income will be available, the reduced amount can be reversed accordingly.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (27) Leases

Leases which transfer substantially all the risks and rewards of ownership of the assets to the lessees are classified as finance leases. Leases where substantially all the rewards and risks of the assets remain with the lessor are accounted for as operating leases.

*Finance leases*

When the Group is a lessor under finance leases, an amount representing the minimum lease payment receivables and initial direct costs is included in the statement of financial position as loans and advances to customers. Any unguaranteed residual value is also recognised at the inception of the lease. The difference between the sum of the minimum lease payment receivables, initial direct costs, the unguaranteed residual value and their present value is recognised as unearned finance income. Unearned finance income is recognised over the period of the lease using the effective interest rate method.

*Operating leases*

Rental payments applicable to operating leases are charged to the income statement on the straight-line basis over the lease terms.

When the Group is the lessor under operating leases, the assets subject to operating leases are accounted for as the Group's assets. Rental income is recognised as "other operating income, net" in the income statement on the straight-line basis over the lease term.

### (28) Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person,

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (29) Financial guarantee contracts

The Group issues financial guarantee contracts, including letters of credit, letters of guarantee and acceptance. These financial guarantee contracts provide for specified payments to be made to reimburse the holders for the losses they incur when a guaranteed party defaults under the original or modified terms of a debt instrument, loan or any other obligation.

The Group initially measures all financial contracts at fair value, in other liabilities, being the premium received. This amount is recognised ratably over the period of the contract as fee and commission income. Subsequently, the liabilities are measured at the higher of the initial fair value less cumulative amortisation and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to a financial guarantee is taken to the income statement.

### (30) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably. Contingent liabilities are disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and can be reliably estimated, it will then be recognised as a provision.

### (31) Dividends

Dividends are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders in general meetings and declared. Interim dividends are deducted from equity when they are approved and declared, and no longer at the discretion of the Bank. Dividend for the year that is approved after the end of the reporting period is disclosed as an event after the reporting period.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has used its judgements and made assumptions of the effects of uncertain future events on the financial statements. The most significant use of judgements and key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are described below.

*Designation of held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments when the Group has the positive intention and ability to hold the investments to maturity. Accordingly, in evaluating whether a financial asset shall be classified as a held-to-maturity investment, significant management judgement is required. If the Group fails to correctly assess its intention and ability to hold the investments to maturity and the Group sells or reclassifies more than an insignificant amount of held-to-maturity investments before maturity, the Group shall reclassify the whole held-to-maturity investment portfolio as available for sale.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

*Impairment losses of loans and advances and amounts due from banks and other financial institutions*

The Group determines periodically whether there is any objective evidence that impairment losses have occurred on loans and advances and amounts due from banks and other financial institutions. If any such evidence exists, the Group assesses the amount of impairment losses. The amount of impairment losses is measured as the difference between the carrying amount and the present value of estimated future cash flows. Assessing the amount of impairment losses requires significant judgement on whether the objective evidence for impairment exists and also significant estimates when determining the present value of the expected future cash flows.

*Impairment losses of available-for-sale and held-to-maturity investments*

In determining whether there is any objective evidence that impairment losses have occurred on available-for-sale and held-to-maturity investments, the Group assesses periodically whether there has been a significant or prolonged decline in the fair value below its cost or carrying amount, or whether other objective evidence of impairment exists based on the investee's financial conditions and business prospects, including industry environment, change of technology as well as operating and financing cash flows. This requires a significant level of judgement of management, which would affect the amount of impairment losses.

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis and when circumstances indicate that the carrying value may be impaired. This requires an estimation of the recoverable amount of the CGU or groups of CGUs to which the goodwill is allocated. Estimating the recoverable amount requires the Group to make an estimate of the expected future cash flows from the CGU or groups of CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

*Income tax*

Determining income tax provisions requires the Group to estimate the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant estimation on the tax treatments of certain transactions and also significant assessment on the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered.

*Fair value of financial instruments*

If the market for a financial instrument is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable and willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. To the extent practicable, valuation technique makes maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on such unobservable market inputs.

(In RMB millions, unless otherwise stated)

## 5. IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs and IASs that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| IFRS 1 Amendments | *First-time Adoption of International Financial Reporting Standards — Government Loans* [2] |
| IFRS 7 Amendments | *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities* [2] |
| IFRS 9 | *Financial Instruments* [4] |
| IFRS 10 and IAS 27 (Revised) | *Consolidated Financial Statements* [2] *and Separate Financial Statements* [2] |
| IFRS 11 | *Joint Arrangements* [2] |
| IFRS 12 | *Disclosure of Interests in Other Entities* [2] |
| IFRS 13 | *Fair Value Measurement* [2] |
| IFRS 10, IFRS 11 and IFRS 12 Amendments | *Transition Guidance* [2] |
| IAS 1 Amendments | *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income* [1] |
| IAS 19 Amendments | *Employee Benefits* [2] |
| IAS 28 (Revised) | *Investments in Associates and Joint Ventures* [2] |
| IAS 32 Amendments | *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities* [3] |
| IFRS10, IFRS12 and IAS27 (Revised) Amendments | *Investment Entities* [3] |
| Annual Improvements May 2012 | *Amendments to a number of IFRSs issued in May 2012* [2] |

1 Effective for annual periods beginning on or after 1 July 2012

2 Effective for annual periods beginning on or after 1 January 2013

3 Effective for annual periods beginning on or after 1 January 2014

4 Effective for annual periods beginning on or after 1 January 2015

Further information about those changes that are expected to affect the Group is as follows:

### IFRS 1 First-time Adoption of IFRSs — Government Loans (Amendments)

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendments will have no impact on the Group's financial statements.

## 5. IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

### IFRS 7 Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities (Amendments)

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance.

### IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

### IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements (as revised in 2011)

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12 *Consolidation — Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IAS 27 (Revised) is limited to accounting for subsidiaries, jointly-controlled entities, and associates in separate financial statements. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The Group is currently assessing the impact of this standard on its financial position or performance.

### IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 *Jointly-Controlled Entities — Non-Monetary Contributions by Ventures*. IFRS 11 removes the option to account for jointly-controlled entities using proportionate consolidation. Instead, jointly-controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The Group is currently assessing the impact of the standard on its financial position and performance.

### IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard affects disclosures only and is not expected to impact on the Group's financial position or performance.

### IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRSs when fair value is required or permitted. The standard is not expected to have a material impact on the Group's financial position or performance.

## 5. IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

### IFRS 10, IFRS 11 and IFRS 12 Transition Guidance (Amendments)

These amendments provide further relief from full retrospective application of the standards. The amendments clarify that retrospective adjustments are only required if the control assessment is different between IFRS 10 and IAS 27 at the beginning of the annual reporting period in which IFRS 10 is applied for the first time.

### IAS 1 Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income (Amendments)

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or "recycled") to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendments affect presentation only and are not expected to impact on the Group's financial position or performance.

### IAS 19 Employee Benefits (Amendments)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendments are not expected to impact on the Group's financial statements.

### IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard is not expected to impact on the Group's financial statements.

### IAS 32 Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities (Amendments)

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Group is currently assessing the impact of the amendments on its financial position and performance.

### IFRS 10, IFRS 12 and IAS 27 Investment Entities (Revised) Amendments

Amendments to IFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9. Consequential amendments were made to IFRS 12 and IAS 27 (Revised) for new disclosure requirements related to investment entities.

### Annual Improvements May 2012

These improvements will not have an impact on the Group, but include:

### IFRS 1 First-time Adoption of IFRSs

This improvement clarifies that an entity that stopped applying IFRSs in the past and chooses, or is required, to apply IFRSs, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRSs.

(In RMB millions, unless otherwise stated)

## 5. IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

### IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

### IAS 16 Property, Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventories.

### IAS 32 Financial Instruments: Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

### IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

## 6. NET INTEREST INCOME

| | 2012 | 2011 |
|---|---|---|
| Interest income on: | | |
| Loans and advances to customers (i) | | |
| — Corporate loans and advances | 379,020 | 309,083 |
| — Personal loans | 126,233 | 96,954 |
| — Discounted bills | 14,599 | 10,351 |
| Financial investments (ii) | 138,159 | 121,077 |
| Due from central banks | 41,766 | 38,332 |
| Due from banks and other financial institutions | 21,662 | 13,783 |
| | 721,439 | 589,580 |
| Interest expense on: | | |
| Due to customers | (249,422) | (188,650) |
| Due to banks and other financial institutions | (43,461) | (32,809) |
| Debt securities issued | (10,728) | (5,357) |
| | (303,611) | (226,816) |
| Net interest income | 417,828 | 362,764 |

The above interest income and expense were related to financial instruments which are not at fair value through profit or loss.

(i) Included in interest income on loans and advances to customers for the year is an amount of RMB944 million (2011: RMB602 million) with respect to the accreted interest on impaired loans.

(ii) Included in interest income on financial investments for the year is an amount of RMB10 million (2011: RMB81 million) with respect to interest income on impaired debt securities.

(In RMB millions, unless otherwise stated)

## 7. NET FEE AND COMMISSION INCOME

| | 2012 | 2011 |
|---|---|---|
| Settlement, clearing business and cash management | 27,499 | 25,410 |
| Investment banking business | 26,117 | 22,592 |
| Bank card business | 23,494 | 17,268 |
| Personal wealth management and private banking services (i) | 16,760 | 21,264 |
| Corporate wealth management services (i) | 10,018 | 9,269 |
| Asset custody business (i) | 5,974 | 5,892 |
| Guarantee and commitment business | 2,848 | 5,101 |
| Trust and agency services (i) | 1,623 | 1,376 |
| Others | 1,548 | 905 |
| Fee and commission income | 115,881 | 109,077 |
| Fee and commission expense | (9,817) | (7,527) |
| Net fee and commission income | 106,064 | 101,550 |

(i) Included in personal wealth management and private banking services, corporate wealth management services, asset custody business and trust and agency services above is an amount of RMB12,074 million (2011: RMB10,837 million) with respect to trust and other fiduciary activities.

## 8. NET TRADING INCOME

| | 2012 | 2011 |
|---|---|---|
| Debt securities | 1,043 | 1,236 |
| Equity investments | 42 | 3 |
| Derivatives | (575) | (795) |
| | 510 | 444 |

The above amounts include gains and losses arising from the buying and selling of, interest income and expense on, and changes in the fair value of financial assets and liabilities held for trading.

## 9. NET LOSS ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2012 | 2011 |
|---|---|---|
| Financial assets | 5,135 | 4,442 |
| Financial liabilities | (10,249) | (4,713) |
| | (5,114) | (271) |

The above amounts represent gains and losses arising from the buying and selling of, interest income and expense on, and changes in the fair value of financial assets and liabilities designated at fair value through profit or loss upon initial recognition.

(In RMB millions, unless otherwise stated)

## 10. NET GAIN ON FINANCIAL INVESTMENTS

| | 2012 | 2011 |
|---|---|---|
| Dividend income from unlisted investments | 41 | 33 |
| Dividend income from listed investments | 8 | 8 |
| Dividend income | 49 | 41 |
| Gain on disposal of available-for-sale financial assets, net | 559 | 178 |
| | 608 | 219 |

## 11. OTHER OPERATING INCOME, NET

| | 2012 | 2011 |
|---|---|---|
| Insurance net income | 537 | — |
| Gain from foreign exchange and foreign exchange products, net | 4,095 | 1,400 |
| Leasing income | 2,058 | 1,433 |
| Net gain on disposal of property and equipment, repossessed assets and others | 1,165 | 1,273 |
| Sundry bank charge income | 357 | 368 |
| Others | 1,612 | 1,421 |
| | 9,824 | 5,895 |

## 12. OPERATING EXPENSES

| | 2012 | 2011 |
|---|---|---|
| Staff costs: | | |
| Salaries and bonuses | 63,256 | 57,943 |
| Staff benefits | 22,762 | 21,399 |
| Contributions to defined contribution schemes (i) | 10,222 | 8,539 |
| | 96,240 | 87,881 |
| Premises and equipment expenses: | | |
| Depreciation (note 30) | 13,215 | 12,027 |
| Minimum lease payments under operating leases in respect of land and buildings | 4,910 | 4,116 |
| Repairs and maintenance charges | 2,839 | 2,715 |
| Utility expenses | 2,523 | 2,263 |
| | 23,487 | 21,121 |
| Amortisation | 1,781 | 1,426 |
| Other administrative expenses (ii) | 24,802 | 23,253 |
| Business tax and surcharges | 35,066 | 28,875 |
| Others | 8,564 | 7,057 |
| | 189,940 | 169,613 |

(i) Contributions to defined contribution schemes mainly include contributions to the state pension and the Bank's Annuity Plan. During the year and as at the end of the reporting period, the Group's forfeited contributions available to reduce its contributions to the pension schemes in future years were not material.

(ii) Included in other administrative expenses is auditors' remuneration (including related assurance services for the Group and its subsidiaries and overseas branches) of RMB186 million for the year (2011: RMB176 million).

## 13. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Details of the directors' and supervisors' emoluments before tax, as disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, are as follows:

| | | Year ended 31 December 2012 | | | |
|---|---|---|---|---|---|
| Name | Position | Remuneration paid (before tax) RMB'000 (1) | Contributions to defined contribution schemes RMB'000 (2) | Fees RMB'000 (3) | Total emoluments before tax RMB'000 (4)=(1)+(2)+(3) |
| JIANG Jianqing | Chairman of the Board of Directors, Executive Director | 880 | 256 | — | 1,136 |
| YANG Kaisheng | Vice Chairman of the Board of Directors, Executive Director, President | 812 | 234 | — | 1,046 |
| ZHAO Lin | Chairman of the Board of Supervisors | 790 | 232 | — | 1,022 |
| WANG Lili | Executive Director, Vice President | 754 | 226 | — | 980 |
| LI Xiaopeng | Executive Director, Vice President | 754 | 226 | — | 980 |
| HUAN Huiwu | Non-executive Director | — | — | — | — |
| WANG Xiaoya (i) | Non-executive Director | — | — | — | — |
| GE Rongrong (i) | Non-executive Director | — | — | — | — |
| LI Jun | Non-executive Director | — | — | — | — |
| WANG Xiaolan (i) | Non-executive Director | — | — | — | — |
| YAO Zhongli (i) | Non-executive Director | — | — | — | — |
| GAO Jianhong (iv) | Former Non-executive Director | — | — | — | — |
| LI Chunxiang (iv) | Former Non-executive Director | — | — | — | — |
| LI Xiwen (iv) | Former Non-executive Director | — | — | — | — |
| WEI Fusheng (iv) | Former Non-executive Director | — | — | — | — |
| XU Shanda | Independent Non-executive Director | — | — | — | — |
| WONG Kwong Shing, Frank (i) | Independent Non-executive Director | — | — | 490 | 490 |
| M.C.McCarthy | Independent Non-executive Director | — | — | 410 | 410 |
| Kenneth Patrick CHUNG | Independent Non-executive Director | — | — | 412 | 412 |
| Or Ching Fai (ii) | Independent Non-executive Director | — | — | 242 | 242 |
| HONG Yongmiao (iii) | Independent Non-executive Director | — | — | 140 | 140 |
| LEUNG Kam Chung, Antony (iv) | Former Independent Non-executive Director | — | — | 208 | 208 |
| QIAN Yingyi (iv) | Former Independent Non-executive Director | — | — | 327 | 327 |
| WANG Chixi | Shareholder Representative Supervisor | 724 | 183 | — | 907 |
| DONG Juan (v) | External Supervisor | — | — | 300 | 300 |
| MENG Yan (v) | External Supervisor | — | — | 280 | 280 |
| ZHANG Wei (vi) | Employee Representative Supervisor | — | — | 50 | 50 |
| ZHU Lifei | Employee Representative Supervisor | — | — | 50 | 50 |
| LI Mingtian (vi) | Employee Representative Supervisor | — | — | 21 | 21 |
| | | 4,714 | 1,357 | 2,930 | 9,001 |

Note: The total compensation packages for the Chairman of the Board of Directors, President, Chairman of the Board of Supervisors, Executive Directors, and Supervisors of the Bank have not been finalised in accordance with the regulations of the PRC relevant authorities. The remuneration not yet accrued is not expected to have a significant impact on the Group's and the Bank's 2012 financial statements. The total compensation packages will be further disclosed when determined by the relevant authorities.

(i) At the First Extraordinary General Meeting of 2011 held on 29 November 2011, Ms. Wang Xiaoya, Ms. Ge Rongrong, Mr. Wang Xiaolan and Mr. Yao Zhongli were elected as Non-executive Directors of the Bank, whose appointment was approved by CBRC in January 2012; Mr. Wong Kwong Shing, Frank was re-appointed as Independent Non-executive Director of the Bank, and his new term of office took effect from January 2012.

(ii) At the First Extraordinary General Meeting of 2012 held on 23 February 2012, Mr. Or Ching Fai was elected as Independent Non-executive Director of the Bank, and his appointment was approved by CBRC in May 2012.

(iii) At the Annual General Meeting for the Year 2011 held on 31 May 2012, Mr. Hong Yongmiao was elected as Independent Non-executive Director of the Bank, whose appointment was approved by CBRC in August 2012.

(iv) Mr. Gao Jianhong, Ms. Li Chunxiang, Mr. Li Xiwen and Mr. Wei Fusheng ceased to act as Non-executive Directors of the Bank with effect from January 2012. Mr. Leung Kam Chung, Antony ceased to act as Independent Non-executive Director of the Bank with effect from May 2012. Mr. Qian Yingyi ceased to act as Independent Non-executive Director of the Bank with effect from August 2012.

(v) After the review and approval by the Annual General Meeting for the Year 2011 held on 31 May 2012, Ms. Dong Juan and Mr. Meng Yan were re-appointed as External Supervisors, and the appointment took effect from the date of review and approval by the General Meeting.

(vi) At the enlarged meeting of the Trade Union Working Committee of the Bank held on 24 July 2012, Mr. Zhang Wei was re-elected as Employee Supervisor of the Bank, and the appointment took effect from 4 August 2012; Mr. Li Mingtian was elected as Employee Supervisor of the Bank, and the appointment took effect from the date of election at the enlarged meeting of the Trade Union Working Committee.

## 13. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

| | | Year ended 31 December 2011 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Name | Position | Fees RMB'000 (1) | Remuneration paid RMB'000 (2) | Discretionary bonuses RMB'000 (3) | Contributions to defined contribution schemes RMB'000 (4) | Total emoluments before tax RMB'000 (5)=(1)+(2)+(3)+(4) | Of which: deferred payment RMB'000 (6) | Actual amount of remuneration paid (pre-tax) RMB'000 (7)=(5)-(6) |
| JIANG Jianqing | Chairman of the Board of Directors, Executive Director | — | 465 | 1,177 | 319 | 1,961 | 590 | 1,371 |
| YANG Kaisheng | Vice Chairman of the Board of Directors, Executive Director, President | — | 419 | 1,059 | 416 | 1,894 | 531 | 1,363 |
| ZHAO Lin | Chairman of the Board of Supervisors | — | 409 | 1,035 | 321 | 1,765 | 519 | 1,246 |
| WANG Lili | Executive Director, Vice President | — | 395 | 997 | 287 | 1,679 | 499 | 1,180 |
| LI Xiaopeng | Executive Director, Vice President | — | 395 | 997 | 287 | 1,679 | 499 | 1,180 |
| HUAN Huiwu | Non-executive Director | — | — | — | — | — | — | — |
| GAO Jianhong | Non-executive Director | — | — | — | — | — | — | — |
| LI Chunxiang | Non-executive Director | — | — | — | — | — | — | — |
| LI Jun | Non-executive Director | — | — | — | — | — | — | — |
| LI Xiwen | Non-executive Director | — | — | — | — | — | — | — |
| WEI Fusheng | Non-executive Director | — | — | — | — | — | — | — |
| LEUNG Kam Chung, Antony | Independent Non-executive Director | 500 | — | — | — | 500 | — | 500 |
| QIAN Yingyi | Independent Non-executive Director | 490 | — | — | — | 490 | — | 490 |
| XU Shanda | Independent Non-executive Director | — | — | — | — | — | — | — |
| WONG Kwong Shing, Frank | Independent Non-executive Director | 470 | — | — | — | 470 | — | 470 |
| M.C. McCarthy | Independent Non-executive Director | 400 | — | — | — | 400 | — | 400 |
| Kenneth Patrick CHUNG | Independent Non-executive Director | 390 | — | — | — | 390 | — | 390 |
| WANG Chixi | Shareholder Representative Supervisor | — | 288 | 796 | 263 | 1,347 | — | 1,347 |
| DONG Juan | External Supervisor | 300 | — | — | — | 300 | — | 300 |
| MENG Yan | External Supervisor | 280 | — | — | — | 280 | — | 280 |
| ZHANG Wei | Employee Representative Supervisor | 50 | — | — | — | 50 | — | 50 |
| ZHU Lifei | Employee Representative Supervisor | 50 | — | — | — | 50 | — | 50 |
| | | 2,930 | 2,371 | 6,061 | 1,893 | 13,255 | 2,638 | 10,617 |

Note 1: The above directors' and supervisors' emoluments for the year ended 31 December 2011 were restated in accordance with the supplemental announcement for the 2011 annual report released by the Bank on 31 May 2012. The remuneration before tax payable to the Chairman of the Board of Directors, the President, the Chairman of the Board of Supervisors and other senior management members for 2011 set out in the table above represents the total amount of annual remuneration for each of these individuals, which includes the amount of "remuneration paid" as disclosed in the 2011 Annual Report.

Note 2: Pursuant to the PRC relevant regulations, a portion of the discretionary bonus payments for the Chairman of the Board of Directors, the President, the Chairman of the Board of Supervisors, Executive Directors and other senior management members are deferred based on the future performance.

## 13. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

The non-executive directors of the Bank received emoluments from the Bank's shareholders or its affiliates in respect of their services during the year.

During the year ended 31 December 2012, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration (2011: Nil).

During the year, no emoluments were paid by the Group to any of the persons who are directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office (2011: Nil).

## 14. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group are employees of the Bank's subsidiaries. Their emoluments were determined based on the prevailing market rates in the respective countries/regions where the subsidiaries are operating. None of them are directors, supervisors or key management personnel of the Bank whose emoluments are disclosed in notes 13 and 51(e) to the financial statements. Details of the emoluments in respect of the five highest paid individuals are as follows:

| | Group | |
|---|---|---|
| | 2012<br>RMB'000 | 2011<br>RMB'000 |
| Salaries and allowances | 14,273 | 13,558 |
| Discretionary bonuses | 23,757 | 21,752 |
| Contributions to defined contribution schemes | 799 | 701 |
| | 38,829 | 36,011 |

The number of these individuals whose emoluments fell within the following bands is set out below.

| | Number of employees | |
|---|---|---|
| | 2012 | 2011 |
| RMB6,500,001 to RMB7,000,000 | — | 1 |
| RMB7,000,001 to RMB7,500,000 | 3 | 2 |
| RMB7,500,001 to RMB8,000,000 | — | 1 |
| RMB8,000,001 to RMB8,500,000 | 1 | — |
| RMB8,500,001 to RMB9,000,000 | 1 | — |
| RMB10,500,001 to RMB11,000,000 | — | 1 |
| | 5 | 5 |

During the year, no emoluments were paid by the Group to any of these non-director and non-supervisor individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2011: Nil).

(In RMB millions, unless otherwise stated)

## 15. IMPAIRMENT LOSSES ON ASSETS OTHER THAN LOANS AND ADVANCES TO CUSTOMERS

| | Notes | 2012 | 2011 |
|---|---|---|---|
| Charge/(reversal) of impairment losses on: | | | |
| Due from banks and other financial institutions | 21 | 97 | 38 |
| Financial investments: | | | |
| Held-to-maturity investments | 27(d) | (30) | (417) |
| Available-for-sale financial assets | 27(c)(i),(d) | 607 | (469) |
| Investments in associates and jointly-controlled entities | | — | 348 |
| Other assets | | 499 | (211) |
| | | 1,173 | (711) |

## 16. INCOME TAX EXPENSE

### (a) Income tax

| | 2012 | 2011 |
|---|---|---|
| Current income tax expense: | | |
| Mainland China | 68,844 | 66,829 |
| Hong Kong and Macau | 1,019 | 891 |
| Overseas | 850 | 534 |
| | 70,713 | 68,254 |
| Adjustments in respect of current income tax of prior years | (433) | (2,666) |
| Deferred income tax expense | (284) | (1,722) |
| | 69,996 | 63,866 |

### (b) Reconciliation between income tax and accounting profit

The PRC income tax has been provided at the statutory rate of 25% in accordance with the relevant tax laws in Mainland China during the year. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries/regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. A reconciliation of the income tax expense applicable to profit before tax at the PRC statutory income tax rate to income tax expense at the Group's effective income tax rate is as follows:

| | 2012 | 2011 |
|---|---|---|
| Profit before tax | 308,687 | 272,311 |
| Tax at the PRC statutory income tax rate | 77,172 | 68,078 |
| Effects of different applicable rates of tax prevailing in other countries/regions | (42) | (10) |
| Non-deductible expenses (i) | 996 | 2,587 |
| Non-taxable income (ii) | (7,589) | (7,024) |
| Profits and losses attributable to associates and jointly-controlled entities | (663) | (596) |
| Adjustment in respect of current and deferred income tax of prior years | (239) | 670 |
| Others | 361 | 161 |
| Tax expense at the Group's effective income tax rate | 69,996 | 63,866 |

(i) The non-deductible expenses mainly represent non-deductible impairment provision and write-offs.

(ii) The non-taxable income mainly represents interest income arising from the PRC government bonds, which is exempted from income tax.

## 17. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

The consolidated profit attributable to equity holders of the parent company for the year ended 31 December 2012 includes a profit of RMB231,881 million (2011: RMB202,295 million) which has been dealt with in the financial statements of the Bank (note 41).

## 18. DIVIDENDS

| | 2012 | 2011 |
|---|---|---|
| Dividends on ordinary shares declared and paid: | | |
| Final dividend for 2011: RMB0.203 per share (2010: RMB0.184 per share) | 70,912 | 64,220 |

| | 2012 | 2011 |
|---|---|---|
| Dividends on ordinary shares proposed for approval (not recognised as at 31 December): | | |
| Final dividend for 2012: RMB0.239 per share (2011: RMB0.203 per share) | 83,559 | 70,864 |

## 19. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following:

| | 2012 | 2011 |
|---|---|---|
| Earnings: | | |
| Profit for the year attributable to ordinary equity holders of the parent company | 238,532 | 208,265 |
| Shares: | | |
| Weighted average number of ordinary shares in issue (in million shares) | 349,312 | 349,024 |
| Basic earnings per share (RMB yuan) | 0.68 | 0.60 |

Basic earnings per share was calculated as the profit for the year attributable to ordinary equity holders of the Bank divided by the weighted average number of ordinary shares in issue.

The calculation of diluted earnings per share is based on the following:

| | 2012 | 2011 |
|---|---|---|
| Earnings: | | |
| Profit for the year attributable to ordinary equity holders of the parent company | 238,532 | 208,265 |
| Add: Interest expense on convertible bonds (net of tax) | 631 | 644 |
| Profit used to determine diluted earnings per share | 239,163 | 208,909 |
| Shares: | | |
| Weighted average number of ordinary shares outstanding (in million shares) | 349,312 | 349,024 |
| Add: Weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares) | 6,015 | 6,233 |
| Weighted average number of ordinary shares for diluted earnings per share (in million shares) | 355,327 | 355,257 |
| Diluted earnings per share (RMB yuan) | 0.67 | 0.59 |

Diluted earnings per share was computed from dividing the profit attributable to ordinary equity holders of the parent company (after adjusting for interest expense on the convertible bonds) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

(In RMB millions, unless otherwise stated)

## 20. CASH AND BALANCES WITH CENTRAL BANKS

| | Group | | Bank | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Cash and unrestricted balances with central banks: | | | | |
| Cash on hand | 76,060 | 60,145 | 72,807 | 58,694 |
| Surplus reserves with central bank (i) | 276,483 | 86,529 | 275,765 | 83,417 |
| Unrestricted balances with central banks of overseas countries or regions | 42,165 | 19,595 | 29,472 | 4,464 |
| | 394,708 | 166,269 | 378,044 | 146,575 |
| Restricted balances with central banks: | | | | |
| Mandatory reserves with central banks (ii) | 2,571,357 | 2,403,325 | 2,566,105 | 2,399,041 |
| Fiscal deposits with the PBOC | 201,319 | 190,781 | 201,319 | 190,781 |
| Mandatory reserves with central banks of overseas countries or regions (ii) | 7,374 | 1,677 | 1,006 | 737 |
| Other restricted balances with the PBOC (ii) | 185 | 104 | 185 | 104 |
| | 2,780,235 | 2,595,887 | 2,768,615 | 2,590,663 |
| | 3,174,943 | 2,762,156 | 3,146,659 | 2,737,238 |

(i) Surplus reserves with the PBOC include funds for the purpose of cash settlement and other kinds of unrestricted deposits.

(ii) The Group is required to place mandatory reserve deposits and other restricted deposits with the PBOC and certain central banks of overseas countries or regions where it has operations. Mandatory reserve deposits with central banks and other restricted deposits are not available for use in the Group's daily operations. Mandatory reserve deposits mainly consist of deposits placed with the PBOC. As at 31 December 2012, the mandatory deposit reserve ratios of the domestic branches of the Bank in respect of customer deposits denominated in RMB and foreign currencies were consistent with the requirement of the PBOC. The amounts of mandatory reserve deposits placed with the central banks of those countries or regions outside Mainland China are determined by local jurisdictions.

## 21. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

| | Group | | Bank | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Nostro accounts: | | | | |
| Banks operating in Mainland China | 335,545 | 206,342 | 327,882 | 201,572 |
| Other financial institutions operating in Mainland China | 1,479 | 1,082 | 1,463 | 1,082 |
| Banks and other financial institutions operating outside Mainland China | 74,961 | 110,096 | 79,684 | 94,683 |
| | 411,985 | 317,520 | 409,029 | 297,337 |
| Less: Allowance for impairment losses | (48) | (34) | (48) | (33) |
| | 411,937 | 317,486 | 408,981 | 297,304 |
| Placements with banks and other financial institutions: | | | | |
| Banks operating in Mainland China | 61,224 | 46,798 | 45,324 | 44,454 |
| Other financial institutions operating in Mainland China | 60,974 | 55,027 | 71,763 | 49,771 |
| Banks and other financial institutions operating outside Mainland China | 102,458 | 58,752 | 132,381 | 82,812 |
| | 224,656 | 160,577 | 249,468 | 177,037 |
| Less: Allowance for impairment losses | (143) | (61) | (132) | (54) |
| | 224,513 | 160,516 | 249,336 | 176,983 |
| | 636,450 | 478,002 | 658,317 | 474,287 |

(In RMB millions, unless otherwise stated)

## 21. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (CONTINUED)

Movements of the allowance for impairment losses during the year are as follows:

| Group | Nostro accounts | Placements with banks and other financial institutions | Total |
|---|---|---|---|
| At 1 January 2011 | 34 | 31 | 65 |
| Charge for the year | — | 38 | 38 |
| Write off for the year | — | (8) | (8) |
| At 31 December 2011 and 1 January 2012 | 34 | 61 | 95 |
| Charge for the year | 15 | 82 | 97 |
| Write off for the year | (1) | — | (1) |
| At 31 December 2012 | 48 | 143 | 191 |

| Bank | Nostro accounts | Placements with banks and other financial institutions | Total |
|---|---|---|---|
| At 1 January 2011 | 33 | 27 | 60 |
| Charge for the year | — | 34 | 34 |
| Write off for the year | — | (7) | (7) |
| At 31 December 2011 and 1 January 2012 | 33 | 54 | 87 |
| Charge for the year | 15 | 78 | 93 |
| At 31 December 2012 | 48 | 132 | 180 |

## 22. FINANCIAL ASSETS HELD FOR TRADING

| | Group | | Bank | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Debt securities | 20,317 | 30,675 | 18,064 | 29,849 |
| Equity investments | 146 | 147 | — | — |
| | 20,463 | 30,822 | 18,064 | 29,849 |
| Debt securities analysed into: | | | | |
| Listed in Hong Kong | 98 | 96 | 69 | 68 |
| Listed outside Hong Kong | 1,495 | 928 | 355 | 627 |
| Unlisted | 18,724 | 29,651 | 17,640 | 29,154 |
| | 20,317 | 30,675 | 18,064 | 29,849 |

(In RMB millions, unless otherwise stated)

## 23. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group | | Bank | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Debt securities | 103,460 | 10,544 | 103,038 | 9,969 |
| Other debt instruments: | | | | |
| Banks and other financial institutions | 85,010 | 59,620 | 85,010 | 59,620 |
| Corporate entities | — | 51,222 | — | 51,222 |
| Others | 12,738 | — | 12,738 | — |
| | 201,208 | 121,386 | 200,786 | 120,811 |
| Analysed into: | | | | |
| Listed in Hong Kong | 66 | 65 | — | — |
| Listed outside Hong Kong | 2,029 | 359 | 1,819 | — |
| Unlisted | 199,113 | 120,962 | 198,967 | 120,811 |
| | 201,208 | 121,386 | 200,786 | 120,811 |

## 24. DERIVATIVE FINANCIAL INSTRUMENTS

A derivative is a financial instrument, the value of which changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other similar variables. The Group uses derivative financial instruments including forwards, swaps and options.

The notional amount of a derivative represents the amount of an underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Group but does not reflect the risk.

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

(In RMB millions, unless otherwise stated)

## 24. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

At the end of the reporting period, the Group and the Bank had derivative financial instruments as follows:

**Group**

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Notional amounts with remaining life of | | | | | Fair values | |
| | Within three months | Over three months but within one year | Over one year but within five years | Over five years | Total | Assets | Liabilities |
| Exchange rate contracts: | | | | | | | |
| Forward and swap contracts | 672,192 | 511,474 | 73,218 | 2,689 | 1,259,573 | 10,781 | (8,153) |
| Option contracts purchased | 5,117 | 14,689 | 593 | — | 20,399 | 71 | — |
| Option contracts written | 2,798 | 2,969 | 593 | — | 6,360 | — | (44) |
| | 680,107 | 529,132 | 74,404 | 2,689 | 1,286,332 | 10,852 | (8,197) |
| Interest rate contracts: | | | | | | | |
| Swap contracts | 65,507 | 118,368 | 176,537 | 24,472 | 384,884 | 3,280 | (3,640) |
| Forward contracts | 1,610 | 2,619 | 1,745 | — | 5,974 | 38 | (38) |
| Option contracts purchased | — | — | 62 | — | 62 | — | — |
| | 67,117 | 120,987 | 178,344 | 24,472 | 390,920 | 3,318 | (3,678) |
| Commodity derivatives and others | 81,249 | 17,604 | 2,637 | 139 | 101,629 | 586 | (1,386) |
| | 828,473 | 667,723 | 255,385 | 27,300 | 1,778,881 | 14,756 | (13,261) |

| | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Notional amounts with remaining life of | | | | | Fair values | |
| | Within three months | Over three months but within one year | Over one year but within five years | Over five years | Total | Assets | Liabilities |
| Exchange rate contracts: | | | | | | | |
| Forward and swap contracts | 524,925 | 363,218 | 27,207 | 5,768 | 921,118 | 11,968 | (6,728) |
| Option contracts purchased | 1,673 | 18,135 | 1,182 | — | 20,990 | 175 | — |
| Option contracts written | 1,787 | 1,753 | 1,182 | — | 4,722 | — | (30) |
| | 528,385 | 383,106 | 29,571 | 5,768 | 946,830 | 12,143 | (6,758) |
| Interest rate contracts: | | | | | | | |
| Swap contracts | 79,186 | 153,760 | 226,366 | 32,654 | 491,966 | 4,635 | (5,726) |
| Forward contracts | 2,823 | 1,714 | 5,129 | — | 9,666 | 131 | (131) |
| | 82,009 | 155,474 | 231,495 | 32,654 | 501,632 | 4,766 | (5,857) |
| Commodity derivatives and others | 26,800 | 879 | — | — | 27,679 | 551 | (2) |
| | 637,194 | 539,459 | 261,066 | 38,422 | 1,476,141 | 17,460 | (12,617) |

(In RMB millions, unless otherwise stated)

## 24. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

**Bank**

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Notional amounts with remaining life of | | | | | Fair values | |
| | Within three months | Over three months but within one year | Over one year but within five years | Over five years | Total | Assets | Liabilities |
| Exchange rate contracts: | | | | | | | |
| Forward and swap contracts | 581,000 | 471,262 | 66,809 | 2,689 | 1,121,760 | 10,505 | (7,992) |
| Option contracts purchased | 2,236 | 12,583 | — | — | 14,819 | 33 | — |
| Option contracts written | 83 | 867 | — | — | 950 | — | (8) |
| | 583,319 | 484,712 | 66,809 | 2,689 | 1,137,529 | 10,538 | (8,000) |
| Interest rate contracts: | | | | | | | |
| Swap contracts | 59,684 | 108,512 | 154,563 | 12,979 | 335,738 | 2,482 | (2,903) |
| Forward contracts | 1,496 | 2,617 | 1,745 | — | 5,858 | 38 | (38) |
| | 61,180 | 111,129 | 156,308 | 12,979 | 341,596 | 2,520 | (2,941) |
| Commodity derivatives and others | 79,516 | 12,355 | 1,970 | — | 93,841 | 348 | (1,381) |
| | 724,015 | 608,196 | 225,087 | 15,668 | 1,572,966 | 13,406 | (12,322) |

| | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Notional amounts with remaining life of | | | | | Fair values | |
| | Within three months | Over three months but within one year | Over one year but within five years | Over five years | Total | Assets | Liabilities |
| Exchange rate contracts: | | | | | | | |
| Forward and swap contracts | 411,760 | 292,968 | 21,567 | 5,768 | 732,063 | 11,158 | (5,799) |
| Option contracts purchased | — | 16,382 | — | — | 16,382 | 143 | — |
| Option contracts written | 132 | — | — | — | 132 | — | (4) |
| | 411,892 | 309,350 | 21,567 | 5,768 | 748,577 | 11,301 | (5,803) |
| Interest rate contracts: | | | | | | | |
| Swap contracts | 74,794 | 142,177 | 200,889 | 20,642 | 438,502 | 4,043 | (4,909) |
| Forward contracts | 2,823 | 1,714 | 5,129 | — | 9,666 | 131 | (131) |
| | 77,617 | 143,891 | 206,018 | 20,642 | 448,168 | 4,174 | (5,040) |
| Commodity derivatives and others | 26,297 | — | — | — | 26,297 | 1 | (2) |
| | 515,806 | 453,241 | 227,585 | 26,410 | 1,223,042 | 15,476 | (10,845) |

### Cash flow hedges

The Group's cash flow hedges consist of currency swap contracts, interest rate swap contracts and interest forward contracts that are used to protect against exposures to variability of future cash flows arising from foreign currency assets and foreign currency liabilities during the year.

(In RMB millions, unless otherwise stated)

## 24. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

### Cash flow hedges (continued)

Among the above derivative financial instruments, those designated as hedging instruments in cash flow hedges are set out below.

**Group**

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Notional amounts with remaining life of | | | | | Fair values | |
| | Within three months | Over three months but within one year | Over one year but within five years | Over five years | Total | Assets | Liabilities |
| Interest rate swap contracts | 1,427 | 312 | 1,976 | 3,613 | 7,328 | 400 | (64) |
| Interest forward contracts | 25 | — | — | — | 25 | — | — |
| | 1,452 | 312 | 1,976 | 3,613 | 7,353 | 400 | (64) |

| | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Notional amounts with remaining life of | | | | | Fair values | |
| | Within three months | Over three months but within one year | Over one year but within five years | Over five years | Total | Assets | Liabilities |
| Currency swap contracts | 328 | — | — | — | 328 | — | — |
| Interest rate swap contracts | 734 | 93 | 3,716 | 3,339 | 7,882 | 286 | (126) |
| | 1,062 | 93 | 3,716 | 3,339 | 8,210 | 286 | (126) |

**Bank**

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Notional amounts with remaining life of | | | | | Fair values | |
| | Within three months | Over three months but within one year | Over one year but within five years | Over five years | Total | Assets | Liabilities |
| Interest rate swap contracts | — | — | — | 309 | 309 | — | — |

Bank (31 December 2011: Nil)

There is no ineffectiveness recognised in the income statement that arises from the cash flow hedge for the current year (2011: Nil).

### Fair value hedges

Fair value hedges are used by the Group to protect against changes in the fair value of financial assets and financial liabilities due to movements in market exchange rates and interest rates. Currency swaps and interest rate swaps are used as hedging instruments to hedge the currency risk and interest risk of financial assets and financial liabilities, respectively.

The effectiveness of hedges based on changes in fair value of the derivatives and the hedged items attributable to the hedged risk recognised in the income statement during the period is presented as follows:

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| Gain/(loss) arising from fair value hedges, net: | | |
| — Hedging instruments | 119 | (86) |
| — Hedged items attributable to the hedged risk | (119) | 89 |
| | — | 3 |

(In RMB millions, unless otherwise stated)

## 24. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

### Fair value hedges (continued)

Among the above derivative financial instruments, those designated as hedging instruments in fair value hedges are set out below:

**Group**

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Notional amounts with remaining life of | | | | | Fair values | |
| | Within three months | Over three months but within one year | Over one year but within five years | Over five years | Total | Assets | Liabilities |
| Currency swap contracts | — | — | 438 | — | 438 | 2 | (24) |
| Interest rate swap contracts | 727 | 1,359 | 9,295 | 4,005 | 15,386 | 40 | (743) |
| | 727 | 1,359 | 9,733 | 4,005 | 15,824 | 42 | (767) |

| | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Notional amounts with remaining life of | | | | | Fair values | |
| | Within three months | Over three months but within one year | Over one year but within five years | Over five years | Total | Assets | Liabilities |
| Currency swap contracts | — | 181 | 596 | — | 777 | 4 | (61) |
| Interest rate swap contracts | 508 | 1,700 | 8,520 | 4,311 | 15,039 | — | (882) |
| | 508 | 1,881 | 9,116 | 4,311 | 15,816 | 4 | (943) |

**Bank**

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Notional amounts with remaining life of | | | | | Fair values | |
| | Within three months | Over three months but within one year | Over one year but within five years | Over five years | Total | Assets | Liabilities |
| Interest rate swap contracts | 665 | 940 | 5,552 | 2,883 | 10,040 | 40 | (430) |

| | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Notional amounts with remaining life of | | | | | Fair values | |
| | Within three months | Over three months but within one year | Over one year but within five years | Over five years | Total | Assets | Liabilities |
| Interest rate swap contracts | 363 | 1,071 | 3,857 | 3,082 | 8,373 | — | (475) |

The credit risk weighted amounts in respect of the above derivatives of the Group and of the Bank as at the end of the reporting period are as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Currency derivatives | 10,080 | 7,717 | 9,369 | 5,681 |
| Interest rate derivatives | 2,568 | 3,406 | 1,823 | 2,793 |
| Commodity derivatives and others | 1,093 | 938 | 787 | 316 |
| | 13,741 | 12,061 | 11,979 | 8,790 |

(In RMB millions, unless otherwise stated)

## 24. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

### Fair value hedges (continued)

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. The amounts calculated are dependent on, among other factors, the creditworthiness of the customers and the maturity characteristics of each type of contracts. The credit risk weighted amounts differ from the carrying amount or the maximum exposure to credit risk.

## 25. REVERSE REPURCHASE AGREEMENTS

Reverse repurchase agreements comprise reverse repurchase of securities, bills, loans, and cash advanced as collateral on securities borrowing.

| | Group | | Bank | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Reverse repurchase | 526,054 | 335,285 | 320,133 | 229,769 |
| Cash advanced as collateral on securities borrowing | 18,525 | 14,152 | — | — |
| | 544,579 | 349,437 | 320,133 | 229,769 |
| Reverse repurchase analysed by counterparty: | | | | |
| Banks | 153,324 | 49,836 | 153,207 | 46,318 |
| Other financial institutions | 372,730 | 285,449 | 166,926 | 183,451 |
| | 526,054 | 335,285 | 320,133 | 229,769 |
| Reverse repurchase analysed by collateral: | | | | |
| Securities | 448,409 | 317,686 | 243,012 | 213,670 |
| Bills | 73,358 | 15,759 | 73,556 | 15,759 |
| Loans | 4,287 | 1,840 | 3,565 | 340 |
| | 526,054 | 335,285 | 320,133 | 229,769 |

As part of the reverse repurchase agreements, the Group has received securities that it is allowed to sell or repledge in the absence of default by their owners. At 31 December 2012, the Group had received securities with a fair value of approximately RMB353,994 million on such terms (31 December 2011: RMB230,633 million). Of these, securities with a fair value of approximately RMB353,994 million have been repledged under repurchase agreements (31 December 2011: RMB229,470 million). The Group has an obligation to return the securities to its counterparties. If the collateral received declines in value, the Group may, in certain circumstances, require additional collateral.

## 26. LOANS AND ADVANCES TO CUSTOMERS

| | Group | | Bank | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Corporate loans and advances | 6,332,578 | 5,666,511 | 5,952,302 | 5,341,017 |
| Personal loans | 2,287,103 | 2,014,926 | 2,250,414 | 1,991,272 |
| Discounted bills | 184,011 | 107,460 | 182,113 | 106,560 |
| | 8,803,692 | 7,788,897 | 8,384,829 | 7,438,849 |
| Less: Allowance for impairment losses | (220,403) | (194,878) | (216,460) | (192,222) |
| | 8,583,289 | 7,594,019 | 8,168,369 | 7,246,627 |

(In RMB millions, unless otherwise stated)

## 26. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Movements of allowance for impairment losses during the year are as follows:

**Group**

| | Individually assessed | Collectively assessed | Total |
|---|---|---|---|
| At 1 January 2011 | 41,300 | 125,834 | 167,134 |
| Impairment loss: | (2,174) | 34,006 | 31,832 |
| — impairment allowances charged | 9,310 | 85,970 | 95,280 |
| — impairment allowances transferred | 375 | (375) | — |
| — reversal of impairment allowances | (11,859) | (51,589) | (63,448) |
| Accreted interest on impaired loans (note 6) | (602) | — | (602) |
| Write-offs | (4,057) | (489) | (4,546) |
| Recoveries of loans and advances previously written off | 942 | 118 | 1,060 |
| At 31 December 2011 and 1 January 2012 | 35,409 | 159,469 | 194,878 |
| Impairment loss: | 2,286 | 30,286 | 32,572 |
| — impairment allowances charged | 13,933 | 103,257 | 117,190 |
| — impairment allowances transferred | 84 | (84) | — |
| — reversal of impairment allowances | (11,731) | (72,887) | (84,618) |
| Accreted interest on impaired loans (note 6) | (944) | — | (944) |
| Write-offs | (6,279) | (1,249) | (7,528) |
| Recoveries of loans and advances previously written off | 701 | 191 | 892 |
| Others | 232 | 301 | 533 |
| At 31 December 2012 | 31,405 | 188,998 | 220,403 |

**Bank**

| | Individually assessed | Collectively assessed | Total |
|---|---|---|---|
| At 1 January 2011 | 40,716 | 124,467 | 165,183 |
| Impairment loss: | (2,757) | 33,706 | 30,949 |
| — impairment allowances charged | 8,661 | 85,164 | 93,825 |
| — impairment allowances transferred | 370 | (370) | — |
| — reversal of impairment allowances | (11,788) | (51,088) | (62,876) |
| Accreted interest on impaired loans | (564) | — | (564) |
| Write-offs | (3,829) | (480) | (4,309) |
| Recoveries of loans and advances previously written off | 845 | 118 | 963 |
| At 31 December 2011 and 1 January 2012 | 34,411 | 157,811 | 192,222 |
| Impairment loss: | 1,906 | 29,517 | 31,423 |
| — impairment allowances charged | 13,083 | 101,549 | 114,632 |
| — impairment allowances transferred | 80 | (80) | — |
| — reversal of impairment allowances | (11,257) | (71,952) | (83,209) |
| Accreted interest on impaired loans | (924) | — | (924) |
| Write-offs | (5,879) | (1,236) | (7,115) |
| Recoveries of loans and advances previously written off | 694 | 160 | 854 |
| At 31 December 2012 | 30,208 | 186,252 | 216,460 |

(In RMB millions, unless otherwise stated)

## 26. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Movements of allowance for impairment losses during the year analysed into those attributable to corporate loans and advances and discounted bills and personal loans are as follows:

**Group**

| | Corporate loans and advances and discounted bills | Personal loans | Total |
|---|---|---|---|
| At 1 January 2011 | 132,565 | 34,569 | 167,134 |
| Impairment loss: | 18,489 | 13,343 | 31,832 |
| — impairment allowances charged | 72,015 | 23,265 | 95,280 |
| — reversal of impairment allowances | (53,526) | (9,922) | (63,448) |
| Accreted interest on impaired loans (note 6) | (602) | — | (602) |
| Write-offs | (4,057) | (489) | (4,546) |
| Recoveries of loans and advances previously written off | 942 | 118 | 1,060 |
| At 31 December 2011 and 1 January 2012 | 147,337 | 47,541 | 194,878 |
| Impairment loss: | 19,051 | 13,521 | 32,572 |
| — impairment allowances charged | 88,269 | 28,921 | 117,190 |
| — reversal of impairment allowances | (69,218) | (15,400) | (84,618) |
| Accreted interest on impaired loans (note 6) | (944) | — | (944) |
| Write-offs | (6,279) | (1,249) | (7,528) |
| Recoveries of loans and advances previously written off | 701 | 191 | 892 |
| Others | 188 | 345 | 533 |
| At 31 December 2012 | 160,054 | 60,349 | 220,403 |

**Bank**

| | Corporate loans and advances and discounted bills | Personal loans | Total |
|---|---|---|---|
| At 1 January 2011 | 130,694 | 34,489 | 165,183 |
| Impairment loss: | 17,612 | 13,337 | 30,949 |
| — impairment allowances charged | 70,711 | 23,114 | 93,825 |
| — reversal of impairment allowances | (53,099) | (9,777) | (62,876) |
| Accreted interest on impaired loans | (564) | — | (564) |
| Write-offs | (3,829) | (480) | (4,309) |
| Recoveries of loans and advances previously written off | 845 | 118 | 963 |
| At 31 December 2011 and 1 January 2012 | 144,758 | 47,464 | 192,222 |
| Impairment loss: | 17,921 | 13,502 | 31,423 |
| — impairment allowances charged | 85,931 | 28,701 | 114,632 |
| — reversal of impairment allowances | (68,010) | (15,199) | (83,209) |
| Accreted interest on impaired loans | (924) | — | (924) |
| Write-offs | (5,879) | (1,236) | (7,115) |
| Recoveries of loans and advances previously written off | 694 | 160 | 854 |
| At 31 December 2012 | 156,570 | 59,890 | 216,460 |

(In RMB millions, unless otherwise stated)

## 26. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

| | Group | | Bank | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Loans and advances for which allowance for impairment losses are: | | | | |
| Individually assessed | 60,977 | 62,263 | 58,419 | 59,995 |
| Collectively assessed | 8,742,715 | 7,726,634 | 8,326,410 | 7,378,854 |
| | 8,803,692 | 7,788,897 | 8,384,829 | 7,438,849 |
| Less: Allowance for impairment losses: | | | | |
| Individually assessed | 31,405 | 35,409 | 30,208 | 34,411 |
| Collectively assessed | 188,998 | 159,469 | 186,252 | 157,811 |
| | 220,403 | 194,878 | 216,460 | 192,222 |
| Net loans and advances for which allowance for impairment losses are: | | | | |
| Individually assessed | 29,572 | 26,854 | 28,211 | 25,584 |
| Collectively assessed | 8,553,717 | 7,567,165 | 8,140,158 | 7,221,043 |
| | 8,583,289 | 7,594,019 | 8,168,369 | 7,246,627 |
| Identified impaired loans and advances | 74,575 | 73,011 | 71,761 | 70,681 |
| Percentage of impaired loans and advances | 0.85% | 0.94% | 0.86% | 0.95% |

## 27. FINANCIAL INVESTMENTS

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Notes | 2012 | 2011 | 2012 | 2011 |
| Receivables | (a) | 364,715 | 498,804 | 364,232 | 498,804 |
| Held-to-maturity investments | (b) | 2,576,562 | 2,424,785 | 2,582,790 | 2,434,135 |
| Available-for-sale financial assets | (c) | 920,939 | 840,105 | 861,260 | 797,415 |
| | | 3,862,216 | 3,763,694 | 3,808,282 | 3,730,354 |

### (a) Receivables

The receivables are unlisted and stated at amortised cost and comprise the following:

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Notes | 2012 | 2011 | 2012 | 2011 |
| Huarong bonds | (i) | 175,096 | 312,996 | 175,096 | 312,996 |
| Special government bond | (ii) | 85,000 | 85,000 | 85,000 | 85,000 |
| Others | (iii) | 104,619 | 100,808 | 104,136 | 100,808 |
| | | 364,715 | 498,804 | 364,232 | 498,804 |

(i) The Huarong bonds are a series of long term bonds issued by China Huarong Asset Management Co., Ltd ("Huarong") in 2000 to 2001 to the Bank, with an aggregate amount of RMB312,996 million. The proceeds from the issuance of the bonds were used to purchase non-performing loans of the Bank. The bonds are non-negotiable, with a tenure of 10 years and bear interest at a fixed rate of 2.25% per annum. In 2010, the Bank received a notice from the Ministry of Finance of the People's Republic of China (the "MOF") that the maturity dates of the Huarong bonds are extended for another ten years and the interest rate remains unchanged. Besides, the MOF will continue providing funding in support of the repayment of the principal and interest of the bonds. In 2012, the Bank received early repayment amounting to RMB137,900 million.

(ii) The special government bond represents a non-negotiable bond with a nominal value of RMB85,000 million issued by the MOF to the Bank in 1998. The bond will mature in 2028 and bears interest at a fixed rate of 2.25% per annum.

(iii) Others include government, financial and corporate bonds and debt investment plans with fixed or determinable payments that are not quoted in an active market. They will mature from March 2013 to July 2027 and bear interest rates ranging from 3.26% to 7.50% per annum.

(In RMB millions, unless otherwise stated)

## 27. FINANCIAL INVESTMENTS (CONTINUED)

### (b) Held-to-maturity investments

Held-to-maturity investments are stated at amortised cost and comprise the following:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Debt securities | 2,577,022 | 2,425,279 | 2,583,151 | 2,434,522 |
| Less: Allowance for impairment losses | (460) | (494) | (361) | (387) |
| | 2,576,562 | 2,424,785 | 2,582,790 | 2,434,135 |

| | Group | | Bank | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Analysed into: | | | | |
| Listed in Hong Kong | 107 | 415 | — | 91 |
| Listed outside Hong Kong | 744,456 | 679,890 | 742,122 | 677,968 |
| Unlisted | 1,831,999 | 1,744,480 | 1,840,668 | 1,756,076 |
| | 2,576,562 | 2,424,785 | 2,582,790 | 2,434,135 |
| Market value of listed debt securities | 746,087 | 687,521 | 743,624 | 685,285 |

### (c) Available-for-sale financial assets

Available-for-sale financial assets comprise the following:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Debt securities, at fair value (i) | 914,344 | 835,983 | 860,011 | 795,380 |
| Other debt instruments, at fair value | 2,799 | 400 | — | — |
| Equity investments: | | | | |
| At fair value (i) | 2,655 | 2,559 | 148 | 910 |
| At cost (ii) | | | | |
| Debt for equity swaps | 1,619 | 1,619 | 1,619 | 1,619 |
| Others | 325 | 502 | 283 | 319 |
| Less: Allowance for impairment losses of equity investments | (803) | (958) | (801) | (813) |
| | 1,141 | 1,163 | 1,101 | 1,125 |
| Subtotal of Equity investments | 3,796 | 3,722 | 1,249 | 2,035 |
| | 920,939 | 840,105 | 861,260 | 797,415 |
| Debt securities analysed into: | | | | |
| Listed in Hong Kong | 7,633 | 6,520 | 1,783 | 2,483 |
| Listed outside Hong Kong | 134,210 | 119,903 | 106,819 | 96,408 |
| Unlisted | 772,501 | 709,560 | 751,409 | 696,489 |
| | 914,344 | 835,983 | 860,011 | 795,380 |
| Equity investments analysed into: | | | | |
| Listed in Hong Kong | 502 | 594 | — | — |
| Listed outside Hong Kong | 320 | 307 | 146 | 139 |
| Unlisted | 2,974 | 2,821 | 1,103 | 1,896 |
| | 3,796 | 3,722 | 1,249 | 2,035 |
| Market value of listed securities: | | | | |
| Debt securities | 141,843 | 126,423 | 108,602 | 98,891 |
| Equity investments | 822 | 901 | 146 | 139 |
| | 142,665 | 127,324 | 108,748 | 99,030 |

(In RMB millions, unless otherwise stated)

## 27. FINANCIAL INVESTMENTS (CONTINUED)

### (c) Available-for-sale financial assets (continued)

(i) When impairment of an available-for-sale investment measured at fair value occurs, any impairment loss recognised is recorded in the carrying amount directly. As at 31 December 2012, the available-for-sale financial assets measured at fair value include impaired debt securities whose carrying amount is RMB106 million (31 December 2011: RMB52 million), and impaired equity investments whose carrying amount is RMB483 million (31 December 2011: Nil), with the accrual of impairment loss recognised in the income statement for the year of RMB41 million (2011: the reversal of impairment loss of RMB469 million) on available-for-sale bonds; and the accrual of impairment loss recognised in the income statement for the year of RMB547 million (2011: Nil) on available-for-sale equity investments.

(ii) Certain available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any impairment losses. There is no active market for these investments and it is the Group's intention to dispose of them as opportunities arise. During the year, the carrying amount of these equity investments decreased by RMB3 million (2011: RMB907 million). The gain on disposal of available-for-sale equity investments is RMB37 million during the year (2011: Nil).

### (d) Movements of allowance for impairment losses of held-to-maturity investments and available-for-sale equity investments measured at cost during the year are as follows:

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | Held-to-maturity investments | Available-for-sale equity investments | Total | Held-to-maturity investments | Available-for-sale equity investments | Total |
| At 1 January 2011 | 1,474 | 1,036 | 2,510 | 1,313 | 813 | 2,126 |
| Charge for the year | 44 | — | 44 | 44 | — | 44 |
| Reversal | (461) | — | (461) | (461) | — | (461) |
| Disposals | (563) | (78) | (641) | (509) | — | (509) |
| At 31 December 2011 and 1 January 2012 | 494 | 958 | 1,452 | 387 | 813 | 1,200 |
| Charge for the year | 1 | 19 | 20 | 1 | 19 | 20 |
| Reversal | (31) | — | (31) | (24) | — | (24) |
| Disposals | (4) | (174) | (178) | (3) | (31) | (34) |
| At 31 December 2012 | 460 | 803 | 1,263 | 361 | 801 | 1,162 |

## 28. INVESTMENTS IN SUBSIDIARIES

| | Bank | |
|---|---|---|
| | 2012 | 2011 |
| Unlisted investments, at cost | 69,638 | 53,907 |

(In RMB millions, unless otherwise stated)

## 28. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the Bank's principal subsidiaries as at the end of the reporting period are as follows:

| Name | Percentage of equity interest 2012 % | Percentage of equity interest 2011 % | Voting rights 2012 % | Nominal value of issued share/ paid-up capital 2012 | Amount invested by the Bank | Place of incorporation/ registration and operations | Principal activities |
|---|---|---|---|---|---|---|---|
| Industrial and Commercial Bank of China (Asia) Limited ("ICBC Asia") (i) | 100 | 100 | 100 | HK$4,129 million | HK$34,142 million | Hong Kong, the PRC | Commercial banking |
| ICBC International Holdings Limited ("ICBC International") | 100 | 100 | 100 | HK$4,839 million | HK$4,882 million | Hong Kong, the PRC | Investment banking |
| Industrial and Commercial Bank of China (Almaty) Joint Stock Company | 100 | 100 | 100 | KZT8,933 million | KZT8,933 million | Almaty, Kazakhstan | Commercial banking |
| ICBC (London) PLC ("ICBC London") | 100 | 100 | 100 | USD200 million | USD200 million | London, United Kingdom | Commercial banking |
| ICBC Credit Suisse Asset Management Co., Ltd. * | 80 | 80 | 80 | RMB200 million | RMB433 million | Beijing, the PRC | Fund management |
| Industrial and Commercial Bank of China (Europe) S.A. | 100 | 100 | 100 | EUR115 million | EUR115 million | Luxembourg | Commercial banking |
| PT. Bank ICBC Indonesia | 97.50 | 97.50 | 97.50 | IDR1,500 billion | USD176 million | Jakarta, Indonesia | Commercial banking |
| ZAO Industrial and Commercial Bank of China (Moscow) ("ICBC Moscow") (ii) | 100 | 100 | 100 | RUB2,310 million | RUB2,310 million | Moscow, Russia | Commercial banking |
| ICBC Financial Leasing Co., Ltd. *(iii) | 100 | 100 | 100 | RMB8,000 million | RMB8,000 million | Tianjin, the PRC | Leasing |
| Industrial and Commercial Bank of China (Macau) Limited ("ICBC Macau") | 89.33 | 89.33 | 89.33 | MOP461 million | MOP9,188 million | Macau, the PRC | Commercial banking |
| Industrial and Commercial Bank of China (Middle East) Limited | 100 | 100 | 100 | USD50 million | USD50 million | Dubai, United Arab Emirates | Commercial and investment banking |
| Zhejiang Pinghu ICBC Rural Bank Co., Ltd. * | 60 | 60 | 60 | RMB200 million | RMB120 million | Zhejiang, the PRC | Commercial banking |
| Chongqing Bishan ICBC Rural Bank Co., Ltd. * | 100 | 100 | 100 | RMB100 million | RMB100 million | Chongqing, the PRC | Commercial banking |
| Industrial and Commercial Bank of China (Canada) ("ICBC Canada") | 80 | 80 | 80 | CA$83 million | CA$118.66 million | Toronto, Canada | Commercial banking |
| Industrial and Commercial Bank of China (Malaysia) Berhad | 100 | 100 | 100 | MYR331 million | MYR331 million | Kuala Lumpur, Malaysia | Commercial banking |
| Industrial and Commercial Bank of China (Thai) Public Company Limited ("ICBC Thai") | 97.70 | 97.70 | 97.70 | THB14,187 million | THB17,871 million | Bangkok, Thailand | Commercial banking |
| Industrial and Commercial Bank of China Financial Services LLC | 100 | 100 | 100 | USD50 million | USD50.25 million | Delaware and New York United States, | Broker dealer |
| ICBC-AXA Assurance Co., Ltd ("ICBC-AXA") *(iv) | 60 | — | 60 | RMB3,705 million | RMB2,700 million | Shanghai, China | Insurance |
| Industrial and Commercial Bank of China (USA) NA(v) | 80 | — | 80 | USD169 million | USD146 million | Chicago, United States | Commercial banking |
| Standard Bank Argentina S.A. (vi) | 80 | — | 80 | ARS847 million | ARS3,107 million | Buenos Aires, Argentina | Commercial banking |
| Industrial and Commercial Bank of China (Peru) Limited ("ICBC Peru") (vii) | 100 | — | 100 | USD50 million | USD50 million | Lima, Peru | Commercial banking |

* These subsidiaries incorporated in Mainland China are all limited liability companies.

The above table lists the principal subsidiaries of the Bank. To give details of other subsidiaries would, in the opinion of the management, result in particulars of excessive length.

(In RMB millions, unless otherwise stated)

## 28. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(i) On 5 November 2012, the Bank made an additional capital injection of HK$5.6 billion into ICBC Asia and its total registered and paid-in capital increased to HK$4,129 million.

(ii) On 27 November 2012, the Bank made an additional capital injection of RUB1,310 million into ICBC Moscow and its total registered and paid-in capital increased to RUB2,310 million.

(iii) On 4 June 2012, the Bank made an additional capital injection of RMB3 billion into ICBC Financial Leasing Co., Ltd. and its total registered and paid-in capital increased to RMB8 billion.

(iv) On 5 July 2012, the Bank acquired 60% of equity interest of AXA-Minmetals Assurance Co., Ltd. ("AXA-Minmetals Assurance") from AXA CHINA and China Minmetals Corporation, at a consideration of RMB1,800 million, and became its controlling shareholder. On 6 July 2012, AXA-Minmetals Assurance officially changed its name to ICBC-AXA Assurance Co., Ltd. ("ICBC-AXA"). After the transfer of equity interest, the Bank and non-controlling shareholders made an additional capital injection of RMB900 million and RMB600 million to ICBC-AXA respectively at the same equity-holding proportion. ICBC-AXA's total registered and paid-in capital increased to RMB3,705 million.

(v) On 6 July 2012, the Bank completed the acquisition of 80% equity interest of Bank of East Asia (U.S.A.) National Association ("BEA USA") held by East Asia Holding Company, Inc., for a consideration of RMB924 million. BEA USA officially changed its name to Industrial and Commercial Bank of China (USA) NA subsequently.

(vi) On 30 November 2012, the Bank completed the acquisition of 80% shares of Standard Bank Argentina S.A. for a consideration of RMB4,005 million.

(vii) On 30 October 2012, the Bank a capital injection into ICBC Peru and its registered and paid-in capital was USD50 million.

Apart from the above, the Bank has consolidated SPEs which are controlled by the Bank.

## 29. INVESTMENTS IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| Share of net assets | 18,163 | 16,996 |
| Goodwill | 15,469 | 16,102 |
| | 33,632 | 33,098 |
| Less: Allowance for impairment losses | (348) | (348) |
| | 33,284 | 32,750 |

| | Bank | |
|---|---|---|
| | 2012 | 2011 |
| Shares listed outside Hong Kong, at cost | 33,883 | 33,369 |

The following tables illustrate the summarised financial information of the Group's associates and jointly-controlled entities:

| | 2012 | 2011 |
|---|---|---|
| Assets | 1,138,509 | 1,154,338 |
| Liabilities | (1,040,166) | (1,061,245) |
| Net assets | 98,343 | 93,093 |

| | 2012 | 2011 |
|---|---|---|
| Revenue | 106,845 | 92,188 |
| Profit for the year | 14,725 | 13,732 |

The financial information above was extracted from the financial statements of the associates and jointly-controlled entities.

(In RMB millions, unless otherwise stated)

## 29. INVESTMENTS IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES (CONTINUED)

The following table illustrates the market value of the Group's listed investments in associates and jointly-controlled entities:

| | 2012 | 2011 |
|---|---|---|
| Market value of listed investments | 28,049 | 23,981 |

Particulars of the Group's principal associates and jointly-controlled entities are as follows:

| Name | Percentage of equity interest 2012 % | Percentage of equity interest 2011 % | Voting rights 2012 % | Place of incorporation/ registration | Principal activities |
|---|---|---|---|---|---|
| Associates: | | | | | |
| Listed investment directly held: | | | | | |
| Standard Bank Group Limited ("Standard Bank") (i) | 20.05 | 20.05 | 20.05 | Johannesburg, Republic of South Africa | Commercial banking |
| Listed investment indirectly held: | | | | | |
| Finansia Syrus Securities Public Company Limited (ii) | 23.52 | 23.83 | 24.07 | Bangkok, Thailand | Securities |
| Unlisted investments indirectly held: | | | | | |
| IEC Investments Limited (iii) | 40.00 | 40.00 | 40.00 | Hong Kong, the PRC | Investment |
| All Winwin Holdings Limited (iv) | 20.00 | 20.00 | 20.00 | British Virgin Islands | Investment |
| Jointly-controlled entities: | | | | | |
| Unlisted investments indirectly held: | | | | | |
| Jiangxi Poyanghu Industry Investment Management Company Limited (v) | 50.00 | 50.00 | 50.00 | Jiangxi, the PRC | Investment management |
| COLI ICBCI China Investment Management (Cayman Islands) Limited (vi) | 47.00 | 45.00 | Note 1 | Cayman Islands | Investment management |
| Harmony China Real Estate Fund L.P. (vii) | 28.61 | 27.91 | Note 2 | Cayman Islands | Fund |
| ICBC HNA (Tianjin) Equity Investment Fund Management Limited ("ICBC HNA") (viii) | 50.00 | 50.00 | 50.00 | Tianjin, the PRC | Fund management |
| Tianjin ICBC International Advisory LLP (ix) | 50.00 | 50.00 | Note 3 | Tianjin, the PRC | Investment advisor |
| Tianjin ICBC International capital management LLP (x) | 50.00 | 50.00 | Note 3 | Tianjin, the PRC | Assets Management |

Note 1: According to the articles of association, the Group and other shareholders jointly control the entity.

Note 2: The fund is a limited partnership; under the partnership agreement, the Group and other partners jointly control the fund.

Note 3: The enterprises are limited partnerships; under the partnership agreements, the Group and other partners jointly control the enterprises.

## 29. INVESTMENTS IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES (CONTINUED)

(i) According to the scrip dividend scheme of Standard Bank, the Bank adopted a total of 5,981,674 ordinary shares of Standard Bank on 17 September 2012.

(ii) The shareholding of a 24.07% equity interest in this associate is held by a non-wholly-owned subsidiary, ICBC Thai. The percentage of equity interest disclosed represents the effective percentage of equity held by the Group.

(iii) The shareholding of a 40% equity interest in this associate is held by a wholly-owned subsidiary, ICBC Asia. The percentage of equity interest disclosed represents the effective percentage of equity held by the Group.

(iv) The shareholding of a 20% equity interest in this associate is held by a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage of equity held by the Group.

(v) Jiangxi Poyanghu Industry Investment Management Company Limited is a jointly-controlled entity of a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage held by the Group.

(vi) COLI ICBCI China Investment Management (Cayman Islands) Limited is a jointly-controlled entity of a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage held by the Group.

(vii) Harmony China Real Estate Fund L.P. is a jointly-controlled limited partnership of a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage held by the Group.

(viii) ICBC HNA is a jointly-controlled entity of a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage held by the Group.

(ix) Tianjin ICBC International Advisory LLP is a jointly-controlled enterprise of a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage held by the Group.

(x) Tianjin ICBC International capital management LLP is a jointly-controlled enterprise of a wholly-owned subsidiary, ICBC International. The percentage of equity interest disclosed represents the effective percentage held by the Group.

(In RMB millions, unless otherwise stated)

## 30. PROPERTY AND EQUIPMENT

**Group**

| | Properties and buildings | Construction in progress | Leasehold improve-ments | Office equipment and motor vehicles | Aircraft and vessels | Total |
|---|---|---|---|---|---|---|
| Cost: | | | | | | |
| At 1 January 2011 | 91,483 | 10,324 | 4,846 | 39,732 | 3,861 | 150,246 |
| Additions | 2,054 | 11,712 | 984 | 6,840 | 6,449 | 28,039 |
| CIP transfer in/(out) | 4,687 | (5,703) | — | 1,016 | — | — |
| Disposals | (193) | (221) | (302) | (1,676) | — | (2,392) |
| At 31 December 2011 and 1 January 2012 | 98,031 | 16,112 | 5,528 | 45,912 | 10,310 | 175,893 |
| Additions | 2,684 | 13,308 | 1,095 | 7,291 | 6,159 | 30,537 |
| CIP transfer in/(out) | 6,067 | (6,688) | — | 505 | 116 | — |
| Acquisition of subsidiaries | 282 | — | 143 | 270 | — | 695 |
| Disposals | (438) | (70) | (106) | (2,200) | (791) | (3,605) |
| At 31 December 2012 | 106,626 | 22,662 | 6,660 | 51,778 | 15,794 | 203,520 |
| Accumulated depreciation and impairment: | | | | | | |
| At 1 January 2011 | 20,386 | 54 | 2,273 | 23,948 | 173 | 46,834 |
| Depreciation charge for the year (note 12) | 4,862 | — | 809 | 6,082 | 274 | 12,027 |
| Impairment allowance charge for the year | — | 4 | — | — | 27 | 31 |
| Disposals | (148) | — | (282) | (1,597) | — | (2,027) |
| At 31 December 2011 and 1 January 2012 | 25,100 | 58 | 2,800 | 28,433 | 474 | 56,865 |
| Depreciation charge for the year (note 12) | 5,071 | — | 927 | 6,658 | 559 | 13,215 |
| Disposals | (232) | — | (77) | (2,102) | (38) | (2,449) |
| At 31 December 2012 | 29,939 | 58 | 3,650 | 32,989 | 995 | 67,631 |
| Net carrying amount: | | | | | | |
| At 31 December 2011 | 72,931 | 16,054 | 2,728 | 17,479 | 9,836 | 119,028 |
| At 31 December 2012 | 76,687 | 22,604 | 3,010 | 18,789 | 14,799 | 135,889 |

(In RMB millions, unless otherwise stated)

## 30. PROPERTY AND EQUIPMENT (CONTINUED)

**Bank**

| | Properties and buildings | Construction in progress | Leasehold improve-ments | Office equipment and motor vehicles | Total |
|---|---|---|---|---|---|
| Cost: | | | | | |
| At 1 January 2011 | 90,555 | 10,324 | 4,517 | 39,366 | 144,762 |
| Additions | 2,007 | 9,793 | 898 | 6,669 | 19,367 |
| CIP transfer in/(out) | 4,687 | (5,703) | — | 1,016 | — |
| Disposals | (192) | (221) | (275) | (1,598) | (2,286) |
| At 31 December 2011 and 1 January 2012 | 97,057 | 14,193 | 5,140 | 45,453 | 161,843 |
| Additions | 2,494 | 11,008 | 1,013 | 7,227 | 21,742 |
| CIP transfer in/(out) | 5,946 | (6,451) | — | 505 | — |
| Disposals | (412) | (69) | (85) | (2,117) | (2,683) |
| At 31 December 2012 | 105,085 | 18,681 | 6,068 | 51,068 | 180,902 |
| Accumulated depreciation and impairment: | | | | | |
| At 1 January 2011 | 20,331 | 54 | 2,105 | 23,854 | 46,344 |
| Depreciation charge for the year | 4,816 | 4 | 773 | 5,903 | 11,496 |
| Disposals | (144) | — | (266) | (1,558) | (1,968) |
| At 31 December 2011 and 1 January 2012 | 25,003 | 58 | 2,612 | 28,199 | 55,872 |
| Depreciation charge for the year | 5,031 | — | 887 | 6,570 | 12,488 |
| Disposals | (232) | — | (75) | (2,101) | (2,408) |
| At 31 December 2012 | 29,802 | 58 | 3,424 | 32,668 | 65,952 |
| Net carrying amount: | | | | | |
| At 31 December 2011 | 72,054 | 14,135 | 2,528 | 17,254 | 105,971 |
| At 31 December 2012 | 75,283 | 18,623 | 2,644 | 18,400 | 114,950 |

(In RMB millions, unless otherwise stated)

## 30. PROPERTY AND EQUIPMENT (CONTINUED)

The carrying value of the Group's and the Bank's properties and buildings is analysed based on the remaining terms of the land leases as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Long term leases (over 50 years): | | | | |
| Held in the PRC (other than Hong Kong) | 9,641 | 8,650 | 9,641 | 8,650 |
| Held in Hong Kong | 419 | 330 | 144 | 152 |
| Held overseas | 420 | 78 | 52 | 53 |
| | 10,480 | 9,058 | 9,837 | 8,855 |
| Medium term leases (10 to 50 years): | | | | |
| Held in the PRC (other than Hong Kong) | 62,834 | 60,543 | 62,758 | 60,461 |
| Held in Hong Kong | 155 | 160 | 37 | 39 |
| Held overseas | 567 | 314 | 5 | — |
| | 63,556 | 61,017 | 62,800 | 60,500 |
| Short term leases (less than 10 years): | | | | |
| Held in the PRC (other than Hong Kong) | 2,648 | 2,699 | 2,646 | 2,699 |
| Held in Hong Kong | — | 24 | — | — |
| Held overseas | 3 | 133 | — | — |
| | 2,651 | 2,856 | 2,646 | 2,699 |
| | 76,687 | 72,931 | 75,283 | 72,054 |

As at 31 December 2012, the process of obtaining the titleship for the Group's properties and buildings with an aggregate net carrying value of RMB10,126 million (31 December 2011: RMB8,125 million) was still in progress. Management is of the view that the aforesaid matter would not affect the rights of the Group to these assets nor have any significant impact on the business operation of the Group.

As at 31 December 2012, the net carrying value of aircraft and vessels leased out by the Group under operating leases was RMB14,799 million (31 December 2011: RMB9,836 million).

As at 31 December 2012, the net carrying value of aircraft and vessels owned by the Group that have been pledged for due to banks and financial institutions was RMB3,286 million (31 December 2011: RMB3,357 million).

## 31. DEFERRED INCOME TAX ASSETS AND LIABILITIES

### (a) Analysed by nature

**Group**

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Deductible/ (taxable) temporary differences | Deferred income tax assets/ (liabilities) | Deductible/ (taxable) temporary differences | Deferred income tax assets/ (liabilities) |
| Deferred income tax assets: | | | | |
| Allowance for impairment losses | 78,301 | 19,561 | 77,573 | 19,378 |
| Change in fair value of available-for-sale financial assets | 6,545 | 1,670 | 5,690 | 1,446 |
| Change in fair value of financial instruments at fair value through profit or loss | (1,569) | (387) | (4,980) | (1,247) |
| Accrued staff costs | 23,726 | 5,932 | 23,057 | 5,764 |
| Others | (16,241) | (3,987) | (13,577) | (3,403) |
| | 90,762 | 22,789 | 87,763 | 21,938 |

(In RMB millions, unless otherwise stated)

## 31. DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Taxable/ (deductible) temporary differences | Deferred income tax liabilities/ (assets) | Taxable/ (deductible) temporary differences | Deferred income tax liabilities/ (assets) |
| Deferred income tax liabilities: | | | | |
| Allowance for impairment losses | (235) | (45) | (308) | (51) |
| Change in fair value of available-for-sale financial assets | 908 | 151 | 469 | 78 |
| Others | 1,944 | 446 | 327 | 76 |
| | 2,617 | 552 | 488 | 103 |

**Bank**

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Deductible/ (taxable) temporary differences | Deferred income tax assets/ (liabilities) | Deductible/ (taxable) temporary differences | Deferred income tax assets/ (liabilities) |
| Deferred income tax assets: | | | | |
| Allowance for impairment losses | 76,958 | 19,235 | 77,175 | 19,294 |
| Change in fair value of available-for-sale financial assets | 6,678 | 1,692 | 5,685 | 1,445 |
| Change in fair value of financial instruments at fair value through profit or loss | (1,622) | (406) | (4,980) | (1,247) |
| Accrued staff costs | 23,726 | 5,932 | 23,057 | 5,764 |
| Others | (17,220) | (4,309) | (13,812) | (3,460) |
| | 88,520 | 22,144 | 87,125 | 21,796 |

### (b) Movements of deferred income tax

**Group**

| | At 1 January 2012 | Total gains/ (losses) recorded in profit or loss | Total gains/ (losses) recorded in other comprehensive income | Acquisition of subsidiaries | At 31 December 2012 |
|---|---|---|---|---|---|
| Deferred income tax assets: | | | | | |
| Allowance for impairment losses | 19,378 | 112 | — | 71 | 19,561 |
| Change in fair value of available-for-sale financial assets | 1,446 | — | 222 | 2 | 1,670 |
| Change in fair value of financial instruments at fair value through profit or loss | (1,247) | 837 | — | 23 | (387) |
| Accrued staff costs | 5,764 | 168 | — | — | 5,932 |
| Others | (3,403) | (807) | (15) | 238 | (3,987) |
| | 21,938 | 310 | 207 | 334 | 22,789 |

(In RMB millions, unless otherwise stated)

## 31. DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

| | At 1 January 2011 | Total gains/(losses) recorded in profit or loss | Total gains/(losses) recorded in other comprehensive income | At 31 December 2011 |
|---|---|---|---|---|
| Deferred income tax assets: | | | | |
| Allowance for impairment losses | 14,297 | 5,081 | — | 19,378 |
| Change in fair value of available-for-sale financial assets | 2,885 | — | (1,439) | 1,446 |
| Change in fair value of financial instruments at fair value through profit or loss | (745) | (502) | — | (1,247) |
| Accrued staff costs | 4,927 | 837 | — | 5,764 |
| Others | 348 | (3,754) | 3 | (3,403) |
| | 21,712 | 1,662 | (1,436) | 21,938 |

| | At 1 January 2012 | Total losses recorded in profit or loss | Total losses recorded in other comprehensive income | Acquisition of subsidiaries | At 31 December 2012 |
|---|---|---|---|---|---|
| Deferred income tax liabilities: | | | | | |
| Allowance for impairment losses | (51) | 6 | — | — | (45) |
| Change in fair value of available-for-sale financial assets | 78 | — | 73 | — | 151 |
| Others | 76 | 20 | 35 | 315 | 446 |
| | 103 | 26 | 108 | 315 | 552 |

| | At 1 January 2011 | Total (gains)/losses recorded in profit or loss | Total (gains)/losses recorded in other comprehensive income | At 31 December 2011 |
|---|---|---|---|---|
| Deferred income tax liabilities: | | | | |
| Allowance for impairment losses | (56) | 5 | — | (51) |
| Change in fair value of available-for-sale financial assets | 309 | — | (231) | 78 |
| Change in fair value of financial instruments at fair value through profit or loss | 37 | (37) | — | — |
| Others | 28 | (28) | 76 | 76 |
| | 318 | (60) | (155) | 103 |

(In RMB millions, unless otherwise stated)

## 31. DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

**Bank**

| | At 1 January 2012 | Total gains/(losses) recorded in profit or loss | Total gains recorded in other comprehensive income | At 31 December 2012 |
|---|---|---|---|---|
| Deferred income tax assets: | | | | |
| Allowance for impairment losses | 19,294 | (59) | — | 19,235 |
| Change in fair value of available-for-sale financial assets | 1,445 | — | 247 | 1,692 |
| Change in fair value of financial instruments at fair value through profit or loss | (1,247) | 841 | — | (406) |
| Accrued staff costs | 5,764 | 168 | — | 5,932 |
| Others | (3,460) | (850) | 1 | (4,309) |
| | 21,796 | 100 | 248 | 22,144 |

| | At 1 January 2011 | Total gains/(losses) recorded in profit or loss | Total losses recorded in other comprehensive income | At 31 December 2011 |
|---|---|---|---|---|
| Deferred income tax assets: | | | | |
| Allowance for impairment losses | 14,212 | 5,082 | — | 19,294 |
| Change in fair value of available-for-sale financial assets | 2,882 | — | (1,437) | 1,445 |
| Change in fair value of financial instruments at fair value through profit or loss | (745) | (502) | — | (1,247) |
| Accrued staff costs | 4,927 | 837 | — | 5,764 |
| Others | 292 | (3,751) | (1) | (3,460) |
| | 21,568 | 1,666 | (1,438) | 21,796 |

The Group and the Bank did not have significant unrecognised deferred income tax assets and liabilities at the end of the reporting period.

## 32. OTHER ASSETS

| | Group | | Bank | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Interest receivable | 87,496 | 74,097 | 84,835 | 71,929 |
| Precious metals | 55,358 | 38,971 | 55,297 | 38,951 |
| Land use rights | 20,921 | 21,407 | 20,669 | 21,407 |
| Advance payments | 32,639 | 18,074 | 1,558 | 2,105 |
| Settlement accounts | 89,561 | 14,501 | 80,627 | 10,385 |
| Goodwill (i) | 8,821 | 6,121 | — | — |
| Repossessed assets | 1,849 | 1,646 | 1,623 | 1,391 |
| Others | 15,706 | 11,359 | 13,151 | 9,797 |
| | 312,351 | 186,176 | 257,760 | 155,965 |

(In RMB millions, unless otherwise stated)

## 32. OTHER ASSETS (CONTINUED)

(i) Goodwill arising from business combinations has been allocated to the Group's CGU, which is not larger than the reportable segment of the Group, for impairment testing.

The recoverable amount of the CGU is determined based on the discounted future cash flows of the CGU. The cash flow projections based on financial forecasts approved by management of the subsidiaries. The average growth rates are extrapolated using the estimated rates which do not exceed the long term average growth rate for the business in which the CGU operates. The discount rate is the pre-tax rate and reflects the specific risk associated with the CGU.

As indicated by the impairment tests, goodwill arising from business combinations is not impaired and thus, no impairment loss is recognised.

## 33. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Notes | 2012 | 2011 | 2012 | 2011 |
| Wealth management products | (1) | 205,064 | 121,191 | 205,064 | 121,191 |
| Structured deposits | (2)(a) | 60,425 | 44,376 | 60,425 | 44,411 |
| Financial liabilities related to precious metals | (2)(b) | 52,346 | 6,343 | 52,346 | 6,343 |
| Debt securities | (2)(c) | 1,907 | — | 1,907 | — |
| Certificates of deposit | | — | 63 | — | — |
| | | 319,742 | 171,973 | 319,742 | 171,945 |

(1) The principal guaranteed wealth management products issued by the Group and the financial assets invested by the aforesaid product form part of a group of financial instruments that are together managed on a fair value basis, and are classified as financial liabilities and financial assets designated at fair value through profit or loss, respectively. The fair value of the wealth management products was RMB90 million higher than the amount that the Group would be contractually required to pay to the holders of the wealth management products upon maturity as at 31 December 2012 (31 December 2011: RMB130 million above).

(2) Structured deposits, certain financial liabilities related to precious metals, debt securities and certificates of deposit have been matched with derivatives or precious metals as part of a documented risk management strategy to mitigate market risk, such as interest rate risk. An accounting mismatch would arise if these financial liabilities were accounted for at amortised cost, whereas the related derivatives or precious metals were measured at fair value with movements in the fair value taken through the income statement. By designating these financial liabilities at fair value through profit or loss, the movement in their fair values is recorded in the income statement.

(a) As at 31 December 2012, the fair value of structured deposits was higher than the amount that the Group would be contractually required to pay to the holders of these structured deposits upon maturity by RMB81.73 million (31 December 2011: RMB23.99 million lower).

(b) As at 31 December 2012, the fair value of the financial liabilities related to precious metals was approximately the same as the amount that the Group would be contractually required to pay to the holders (31 December 2011: approximately the same).

(c) The debt securities were all issued by the Singapore Branch at fixed rates and were classified as financial liabilities designated at fair value through profit or loss. The fair value of the debt securities is higher than the amount that the Group would be contractually required to pay to the holders of these debt securities upon maturity as at 31 December 2012 by RMB83.25 million.

There were no significant changes in the credit spread of the Bank and therefore the amounts of changes in fair value of the financial liabilities that were attributable to changes in credit risk were considered not significant during the years presented and cumulatively as at 31 December 2012 and 31 December 2011. The changes in fair value of the financial liabilities were mainly attributable to changes in other market factors.

(In RMB millions, unless otherwise stated)

## 34. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

| | Group | | Bank | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Deposits: | | | | |
| Banks and other financial institutions operating in Mainland China | 1,218,829 | 1,075,301 | 1,218,120 | 1,079,767 |
| Banks and other financial institutions operating outside Mainland China | 13,794 | 16,193 | 15,860 | 18,424 |
| | 1,232,623 | 1,091,494 | 1,233,980 | 1,098,191 |
| Money market takings: | | | | |
| Banks and other financial institutions operating in Mainland China | 104,304 | 110,861 | 27,198 | 51,026 |
| Banks and other financial institutions operating outside Mainland China | 149,878 | 138,935 | 163,094 | 148,730 |
| | 254,182 | 249,796 | 190,292 | 199,756 |
| | 1,486,805 | 1,341,290 | 1,424,272 | 1,297,947 |

## 35. REPURCHASE AGREEMENTS

Repurchase agreements comprise repurchase of securities, bills, loans, and cash received as collateral on securities lending.

| | Group | | Bank | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Repurchase | 226,098 | 196,986 | 7,313 | 78,551 |
| Cash received as collateral on securities lending | 11,666 | 9,268 | — | — |
| | 237,764 | 206,254 | 7,313 | 78,551 |
| Repurchase analysed by counterparty: | | | | |
| Banks | 16,517 | 85,753 | 5,951 | 75,233 |
| Other financial institutions | 209,581 | 111,233 | 1,362 | 3,318 |
| | 226,098 | 196,986 | 7,313 | 78,551 |
| Repurchase analysed by collateral: | | | | |
| Securities | 216,449 | 186,546 | 1,399 | 77,233 |
| Bills | 5,927 | 1,318 | 5,914 | 1,318 |
| Loans | 3,722 | 9,122 | — | — |
| | 226,098 | 196,986 | 7,313 | 78,551 |

## 36. CERTIFICATES OF DEPOSIT

Certificates of deposit were mainly issued by the Hong Kong Branch, the Tokyo Branch, the Luxembourg Branch, the New York Branch, the Sydney Branch, ICBC Asia, ICBC Macau, ICBC London and Standard Bank Argentina S.A., and were recognised at amortised cost.

(In RMB millions, unless otherwise stated)

## 37. DUE TO CUSTOMERS

| | Group | | Bank | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Demand deposits: | | | | |
| Corporate customers | 3,993,173 | 3,817,387 | 3,933,635 | 3,762,461 |
| Personal customers | 2,800,169 | 2,565,696 | 2,771,529 | 2,547,789 |
| Time deposits: | | | | |
| Corporate customers | 2,915,072 | 2,364,558 | 2,704,893 | 2,179,310 |
| Personal customers | 3,754,118 | 3,335,741 | 3,711,060 | 3,296,519 |
| Others | 180,378 | 177,837 | 180,355 | 177,736 |
| | 13,642,910 | 12,261,219 | 13,301,472 | 11,963,815 |

## 38. DEBT SECURITIES ISSUED

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | Notes | 2012 | 2011 | 2012 | 2011 |
| Subordinated bonds issued by: | | | | | |
| The Bank | (1)(a) | 183,000 | 163,000 | 183,000 | 163,000 |
| A subsidiary | (1)(b) | 4,589 | 4,619 | — | — |
| | | 187,589 | 167,619 | 183,000 | 163,000 |
| Convertible bonds | (2) | 21,353 | 22,608 | 21,353 | 22,608 |
| Other debt securities issued by: | (3) | | | | |
| The Bank | | 9,691 | 6,831 | 9,691 | 6,831 |
| Subsidiaries | | 13,553 | 7,103 | — | — |
| | | 23,244 | 13,934 | 9,691 | 6,831 |
| | | 232,186 | 204,161 | 214,044 | 192,439 |

### (1) Subordinated bonds

(a) As approved by the PBOC and the CBRC, the Bank issued callable subordinated bonds through open market bidding in 2005, 2009, 2010, 2011 and 2012. These subordinated bonds were traded in the bond market among banks. The Bank has not had any defaults of principal or interest or other breaches with respect to the subordinated bonds during the year (2011: Nil). The relevant information on these subordinated bonds is set out below:

| Name | Issue date | Issue price (RMB) | Coupon rate | Value date | Maturity date | Circulation date | Issue amount (RMB) | Notes |
|---|---|---|---|---|---|---|---|---|
| 05 ICBC 02 Bond | 2005-8-19 | 100 | 3.77% | 2005-9-6 | 2020-9-6 | 2005-10-11 | 13,000 million | (i) |
| 09 ICBC 01 Bond | 2009-7-16 | 100 | 3.28% | 2009-7-20 | 2019-7-20 | 2009-8-20 | 10,500 million | (ii) |
| 09 ICBC 02 Bond | 2009-7-16 | 100 | 4.00% | 2009-7-20 | 2024-7-20 | 2009-8-20 | 24,000 million | (iii) |
| 09 ICBC 03 Bond | 2009-7-16 | 100 | Base rate +0.58% | 2009-7-20 | 2019-7-20 | 2009-8-20 | 5,500 million | (iv) |
| 10 ICBC 01 Bond | 2010-9-10 | 100 | 3.90% | 2010-9-14 | 2020-9-14 | 2010-11-3 | 5,800 million | (v) |
| 10 ICBC 02 Bond | 2010-9-10 | 100 | 4.10% | 2010-9-14 | 2025-9-14 | 2010-11-3 | 16,200 million | (vi) |
| 11 ICBC 01 Bond | 2011-6-29 | 100 | 5.56% | 2011-6-30 | 2031-6-30 | 2011-8-30 | 38,000 million | (vii) |
| 11 ICBC 02 Bond | 2011-12-29 | 100 | 5.50% | 2011-12-30 | 2026-12-30 | 2012-1-17 | 50,000 million | (viii) |
| 12 ICBC 01 Bond | 2012-6-11 | 100 | 4.99% | 2012-6-13 | 2027-6-13 | 2012-7-13 | 20,000 million | (ix) |

(i) The Bank has the option to redeem all or part of the bonds at face value on 6 September 2015. If the Bank does not exercise this option, the annual coupon rate will increase by 300 basis points ("bps") thereafter.

(ii) The Bank has the option to redeem all or part of the bonds at face value on 20 July 2014. If the Bank does not exercise this option, the annual coupon rate will increase by 300 bps thereafter.

(iii) The Bank has the option to redeem all or part of the bonds at face value on 20 July 2019. If the Bank does not exercise this option, the annual coupon rate will increase by 300 bps thereafter.

(In RMB millions, unless otherwise stated)

## 38. DEBT SECURITIES ISSUED (CONTINUED)

### (1) Subordinated bonds (continued)

(iv) The base rate for the bonds is the one-year lump-sum deposit and withdrawal time deposit rate published by the PBOC which is applicable on the date of issue or the first value date in each interest-bearing year. The spread in the first five interest-bearing years (i.e., initial spread) is 0.58%. The Bank has the option to redeem all or part of the bonds at face value on 20 July 2014. If the Bank does not exercise this option, the interest margin will increase by 300 bps thereafter.

(v) The Bank has the option to redeem all of the bonds on 14 September 2015 upon the approval of the relevant regulatory authorities.

(vi) The Bank has the option to redeem all of the bonds on 14 September 2020 upon the approval of the relevant regulatory authorities.

(vii) The Bank has the option to redeem all of the bonds on 30 June 2026 upon the approval of the relevant regulatory authorities.

(viii) The Bank has the option to redeem all of the bonds on 30 December 2021 upon the approval of the relevant regulatory authorities.

(ix) The Bank has the option to redeem all of the bonds on 13 June 2022 upon the approval of the relevant regulatory authorities.

(b) On 30 November 2010, ICBC Asia issued a subordinated bond with an aggregate nominal amount of USD500 million, bearing a fixed interest rate of 5.125% per annum. The bond was issued at the price fixed at 99.737% of the nominal amount with maturity due on 30 November 2020. On 4 November 2011, ICBC Asia issued subordinated notes in an aggregate nominal amount of RMB1,500 million, with a fixed interest rate of 6% per annum. The subordinated notes were issued at the price fixed at 100% of the nominal amount maturing on 4 November 2021. The above subordinated bonds and notes are both listed on the Singapore Exchange Securities Trading Limited. ICBC Asia has not had any defaults of principal or interest or other breaches with respect to the subordinated bonds and notes during the year (2011: Nil).

### (2) Convertible bonds

As approved by the CBRC and the China Securities Regulatory Commission, the Bank issued RMB25 billion A share convertible bonds on 31 August 2010.

| Name | Issue date | Issue price | Coupon rate | Value date | Maturity date | Circulation date | Issue amount |
|---|---|---|---|---|---|---|---|
| ICBC convertible bonds | 31 August 2010 | RMB100 | Step-up interest rate | 31 August 2010 | 31 August 2016 | 10 September 2010 | RMB25 billion |

The convertible bonds have a term of six years. From the first year to the sixth year, the bonds are paying annual coupon at the rates of 0.5%, 0.7%, 0.9%, 1.1%, 1.4% and 1.8%, respectively. The conversion period of the bonds commenced on 1 March 2011, which was the first trading day immediately following the expiry of the six-month period after the date of issuance of the convertible bonds, and ends on 31 August 2016, which is the maturity date of the bonds. Within five trading days after the maturity of the bonds, the Bank shall redeem all the outstanding convertible bonds which have not been converted into shares by then at 105% of the nominal value of these convertible bonds (including the interest last accrued). RMB2,323 million convertible bonds have been converted into shares from 1 March 2011 to 31 December 2012 (1 March 2011 to 31 December 2011: RMB257 million).

During the conversion period of the convertible bonds, if the closing prices of the A Shares of the Bank in at least 15 trading days out of 30 consecutive trading days are equal to or higher than 130% of the prevailing conversion price, the Bank shall have the right to redeem all or any part of the outstanding convertible bonds which have not been converted into the shares, at a price equal to the nominal value of the convertible bonds plus the interest accrued. When the nominal value of the balance of the outstanding convertible bonds is less than RMB30 million, the board of the Bank shall have the right to decide whether to redeem all the outstanding convertible bonds at a price equal to the nominal value plus the interest accrued.

(In RMB millions, unless otherwise stated)

## 38. DEBT SECURITIES ISSUED (CONTINUED)

### (2) Convertible bonds (continued)

If, during the term of the convertible bonds, the closing prices of the A Shares of the Bank in any 15 trading days out of any 30 consecutive trading days are lower than 80% of the prevailing conversion price, the board of the Bank may propose a downward adjustment to the conversion price to the shareholders for their consideration and approval at a shareholders' general meeting.

The initial conversion price was RMB4.20 per share. The conversion price is subject to adjustment, upon the occurrence of certain events which affect the share capital of the Bank, such as distribution of share dividend, capitalisation, issuance of new shares, rights issue or distribution of cash dividend. During the period from the date of issuance to 31 December 2012, the conversion price was adjusted from RMB4.20 per share to RMB3.77 per share, as a result of the cash dividend distribution and rights issue of A shares and H shares.

The convertible bonds issued have been split into the liability and equity components as follows:

| | Liability component | Equity component | Total |
|---|---|---|---|
| Nominal value of convertible bonds | 21,998 | 3,002 | 25,000 |
| Direct transaction costs | (113) | (17) | (130) |
| Balance as at the issuance date | 21,885 | 2,985 | 24,870 |
| Accretion of interest | 239 | — | 239 |
| Balance as at 31 December 2010 | 22,124 | 2,985 | 25,109 |
| Conversion | (234) | (31) | (265) |
| Accretion of interest | 718 | — | 718 |
| Balance as at 31 December 2011 | 22,608 | 2,954 | 25,562 |
| Conversion | (1,916) | (246) | (2,162) |
| Accretion of interest | 661 | — | 661 |
| Balance as at 31 December 2012 | 21,353 | 2,708 | 24,061 |

### (3) Other debt securities issued

As at 31 December 2012, the Group's other debt securities issued mainly include:

The Bank:

(i) The Sydney Branch issued debt securities amounting to RMB4,799 million denominated in USD and AUD. These securities were issued at par value with maturities between 2013 and 2017 at fixed or floating interest rates;

(ii) The Tokyo Branch issued zero-coupon commercial papers amounting to RMB2,178 million denominated in RMB and USD. These commercial papers were issued at a discount with maturity in 2013;

(iii) The Singapore Branch issued Euro medium term notes amounting to RMB1,714 million denominated in USD. These notes were issued at par value with maturities in 2014 at floating interest rates;

(iv) The Head Office issued fixed interest rate RMB bond in Hong Kong amounting to RMB1,000 million. The bond was issued at par value with maturity in 2015.

## 38. DEBT SECURITIES ISSUED (CONTINUED)

### (3) Other debt securities issued (continued)

Subsidiaries:

(i) ICBC Asia issued interest-free Equity Linked Notes at 99.972% to 100.500% of the nominal amount denominated in HKD, and Senior Notes at 99.802% to 100.000% of the nominal amount denominated in USD, HKD and RMB at fixed interest rates. These notes amounted to RMB7,556 million with maturity between 2013 and 2016;

(ii) Skysea International Capital Management Limited, which is an SPE of the Group, issued guaranteed notes of USD750 million with a fixed interest rate of 4.875%. The notes were guaranteed by the Hong Kong Branch and were issued at the price fixed at 97.708% of the nominal amount with maturity due on 7 December 2021 amounting to RMB4,609 million. By satisfying certain conditions, the SPE has the option to redeem all of the notes at any time. The notes were listed on the Stock Exchange of Hong Kong Limited;

(iii) ICBC Thai issued debt securities amounting to RMB1,388 million denominated in THB. These securities were issued at par value with maturity between 2013 and 2015 at fixed interest rates.

## 39. OTHER LIABILITIES

| | Group | | Bank | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Interest payable | 164,451 | 113,346 | 162,040 | 111,283 |
| Settlement accounts | 138,141 | 50,286 | 134,831 | 48,503 |
| Salaries, bonuses, allowances and subsidies payables (i) | 16,394 | 13,949 | 15,188 | 13,293 |
| Early retirement benefits | 7,761 | 9,647 | 7,761 | 9,647 |
| Sundry tax payables | 11,240 | 9,511 | 10,722 | 9,410 |
| Bank drafts | 3,030 | 3,225 | 2,426 | 3,090 |
| Others | 43,457 | 28,403 | 26,700 | 22,990 |
| | 384,474 | 228,367 | 359,668 | 218,216 |

(i) Except for the deferred discretionary bonuses for those employees under the deferred performance-based salary scheme pursuant to regulations of the PRC relevant authorities, the salaries, bonuses, allowances and subsidies payables were scheduled to be paid before 30 June 2013. There was no overdue payment for staff salaries, bonuses, allowances, subsidies payables as at 31 December 2012 (31 December 2011: Nil).

## 40. SHARE CAPITAL

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Number of shares (millions) | Nominal value | Number of shares (millions) | Nominal value |
| Issued and fully paid: | | | | |
| H shares of RMB1 each | 86,795 | 86,795 | 86,795 | 86,795 |
| A shares of RMB1 each (i) | 262,825 | 262,825 | 262,289 | 262,289 |
| | 349,620 | 349,620 | 349,084 | 349,084 |

Except for the dividends for H shares which are payable in Hong Kong dollars, all of the H shares and A shares rank pari passu with each other in respect of dividends.

## 40. SHARE CAPITAL (CONTINUED)

(i) According to the "Announcement in relation to the Conversion of ICBC Convertible Bonds", the 250 million convertible bonds (with a nominal value of RMB100 each and an aggregate amount of RMB25 billion) issued by the Bank on 31 August 2010, can be converted into the Bank's A Shares from 1 March 2011. As of 31 December 2012, a total of 23,234,740 convertible bonds were converted into A Shares of the Bank, resulting in an increase of 600,211,699 A Shares. In 2012, a total of 20,664,360 convertible bonds were converted into A shares of the Bank, resulting in an increase of 535,504,735 A Shares. The number of the Bank's A Shares amounted to 262,824,712,976 at the end of the year.

## 41. RESERVES

### (a) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of par value.

### (b) Surplus reserves

*(i) Statutory surplus reserve*

The Bank is required to appropriate 10% of its profit for the year pursuant to the Company Law of the People's Republic of China and the Articles to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses of the Bank, if any, and may also be converted into capital of the Bank, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before capitalisation.

Pursuant to the resolution of the board of directors' meeting held on 27 March 2013, an appropriation of 10% of the profit for the year determined under the generally accepted accounting principles of PRC ("PRC GAAP") to the statutory surplus reserve, in the amount of RMB23,318 million (2011: RMB20,347 million) was approved.

*(ii) Discretionary surplus reserve*

After making the appropriation to the statutory surplus reserve, the Bank may also appropriate its profit for the year determined under PRC GAAP to the discretionary surplus reserve upon approval by the shareholders in general meetings. Subject to the approval by the shareholders, the discretionary surplus reserve may be used to offset accumulated losses of the Bank, if any, and may be converted into capital.

*(iii) Other surplus reserve*

The Bank's overseas entities appropriate their profits to the surplus reserves in accordance with the relevant regulations promulgated by the local regulatory bodies.

### (c) General reserve

From 1 July 2012, the Bank is required by the MOF to maintain a general reserve within equity, through the appropriation of profit, which should not be less than 1.5% of the year end balance of its risk assets (2011: No less than 1%).

The Bank's subsidiaries appropriate their profits to the general reserve according to the applicable local regulations.

Pursuant to the resolution of the board of directors' meeting held on 27 March 2013, an appropriation to the general reserve amounting to RMB83,456 million (2011: RMB11,003 million) was approved. The general reserve balance of the Bank as at 31 December 2012 amounted to RMB187,187 million, which has reached 1.5% of the year end balance of the Bank's risk assets.

(In RMB millions, unless otherwise stated)

## 41. RESERVES (CONTINUED)

### (d) Investment revaluation reserve

The investment revaluation reserve records the fair value changes of available-for-sale financial assets.

### (e) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the subsidiaries and branches incorporated outside Mainland China.

### (f) Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the gain or loss on the hedging instrument.

### (g) Other reserves

Other reserves represent reserves of subsidiaries and share of reserves of associates and jointly-controlled entities other than the items listed above.

### (h) Distributable profits

The Bank's distributable profits are based on the retained profits of the Bank as determined under PRC GAAP and IFRSs, whichever is lower. The amount that the Bank's subsidiaries can legally distribute is determined by reference to their profits as reflected in their financial statements prepared in accordance with the accounting regulations and principles promulgated by the local regulatory bodies of the respective countries/regions. These profits may differ from those dealt with in these financial statements, which are prepared in accordance with IFRSs.

The movements in reserves and retained profits of the Bank during the year are set out below.

| | Reserves | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Capital reserve | Surplus reserves | General reserve | Investment revaluation reserve | Foreign currency translation reserve | Cash flow hedge reserve | Total | Retained profits |
| Balance at 1 January 2011 | 136,019 | 53,563 | 92,728 | (8,189) | (266) | (4,082) | 269,773 | 192,114 |
| Profit for the year | — | — | — | — | — | — | — | 202,295 |
| Convertible bonds | 200 | — | — | — | — | — | 200 | — |
| Change in fair value of available-for-sale investments | — | — | — | 4,321 | — | — | 4,321 | — |
| Cash flow hedges, net of tax | — | — | — | — | — | 2 | 2 | — |
| Foreign currency translation | — | — | — | — | (114) | — | (114) | — |
| Dividend – 2010 final (note 18) | — | — | — | — | — | — | — | (64,220) |
| Appropriation to surplus reserves (i) | — | 20,388 | — | — | — | — | 20,388 | (20,388) |
| Appropriation to general reserve | — | — | 11,003 | — | — | — | 11,003 | (11,003) |
| **Balance as at 31 December 2011 and 1 January 2012** | **136,219** | **73,951** | **103,731** | **(3,868)** | **(380)** | **(4,080)** | **305,573** | **298,798** |
| Profit for the year | — | — | — | — | — | — | — | 231,881 |
| Convertible bonds | 1,632 | — | — | — | — | — | 1,632 | — |
| Change in fair value of available-for-sale investments | — | — | — | (641) | — | — | (641) | — |
| Foreign currency translation | — | — | — | — | 42 | — | 42 | — |
| Dividend — 2011 final (note 18) | — | — | — | — | — | — | — | (70,912) |
| Appropriation to surplus reserves (i) | — | 23,333 | — | — | — | — | 23,333 | (23,333) |
| Appropriation to general reserve | — | — | 83,456 | — | — | — | 83,456 | (83,456) |
| **Balance as at 31 December 2012** | **137,851** | **97,284** | **187,187** | **(4,509)** | **(338)** | **(4,080)** | **413,395** | **352,978** |

(i) Includes the appropriation made by overseas branches in the amount of RMB15 million (2011: RMB41 million).

(In RMB millions, unless otherwise stated)

## 42. COMPONENTS OF OTHER COMPREHENSIVE INCOME

| | 2012 | 2011 |
|---|---|---|
| Available-for-sale financial assets: | | |
| Changes in fair value recorded in other comprehensive income/(loss) | (321) | 2,919 |
| Less: Transfer to the income statement arising from disposal/impairment | 406 | 582 |
| Income tax effect | 149 | (1,208) |
| | 234 | 2,293 |
| Cash flow hedges: | | |
| Gain during the year | 176 | 418 |
| Less: Income tax effect | (37) | (63) |
| | 139 | 355 |
| Share of other comprehensive income of associates and jointly-controlled entities | 255 | 774 |
| Foreign currency translation differences | (1,913) | (11,416) |
| Others | 120 | 53 |
| Less: Income tax effect | (13) | (10) |
| | 107 | 43 |
| | (1,178) | (7,951) |

## 43. BUSINESS COMBINATION

### (1) AXA-Minmetals Assurance Co., Ltd

"AXA-Minmetals Assurance" is a domestic insurance company which principally engaged in the life insurance business. To further deepen the comprehensive management strategy, and strengthen the cooperation depth of banking and insurance, the Bank acquired 60% equity interest in AXA-Minmetals Assurance. The acquisition was completed on 5 July 2012 at a consideration of RMB1.8 billion in aggregate. On 6 July 2012, AXA-Minmetals Assurance officially changed its name to ICBC-AXA Assurance Co., Ltd.

(In RMB millions, unless otherwise stated)

## 43. BUSINESS COMBINATION (CONTINUED)

### (1) AXA-Minmetals Assurance Co., Ltd (continued)

The details of the identifiable assets and liabilities acquired are as follows:

| | 5 July 2012 | |
|---|---|---|
| | Carrying amount | Fair value |
| Due from banks and other financial institutions | 1,274 | 1,274 |
| Financial assets designated at fair value through profit or loss | 63 | 63 |
| Reverse repurchase agreements | 37 | 37 |
| Available-for-sale financial assets | 1,416 | 1,416 |
| Intangible assets | 2 | 1,263 |
| Other assets | 2,287 | 2,287 |
| Financial liabilities designated at fair value through profit or loss | (59) | (59) |
| Salaries, bonuses, allowances and subsidies payables | (60) | (60) |
| Income tax payable | (7) | (7) |
| Deferred income tax liabilities | — | (315) |
| Other liabilities | (3,696) | (3,696) |
| Non-controlling interests | | (881) |
| Identifiable net assets | | 1,322 |
| Goodwill on acquisition | | 478 |
| Total consideration | | 1,800 |

The financial performance and cash flows of AXA-Minmetals Assurance from the date of acquisition until 31 December 2012 are as follows:

| | Period from 5 July 2012 to 31 December 2012 |
|---|---|
| Operating income | 2,749 |
| Profit for the period | (33) |
| Net cash flows for the period | 1,032 |

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of AXA-Minmetals Assurance is as follows:

| | 5 July 2012 |
|---|---|
| Cash and cash equivalents held by AXA-Minmetals Assurance | 303 |
| Cash consideration paid on acquisition of AXA-Minmetals Assurance | (1,800) |
| Net cash outflow on acquisition of AXA-Minmetals Assurance | (1,497) |

(In RMB millions, unless otherwise stated)

## 43. BUSINESS COMBINATION (CONTINUED)

### (2) The Bank of East Asia (U.S.A.) National Association

The Bank of East Asia (U.S.A.) National Association ("BEA USA") is a commercial bank operated in America. To expand the overseas business, the Bank acquired 80% equity interest in BEA USA. The acquisition was completed on 6 July 2012 at a consideration equivalent to RMB924 million in aggregate. After this, BEA USA officially changed its name to Industrial and Commercial Bank of China (USA) NA.

The details of the identifiable assets and liabilities acquired are as follows:

| | 6 July 2012 | |
|---|---|---|
| | Carrying amount | Fair value |
| Cash and balances with central banks | 589 | 589 |
| Derivative financial assets | 87 | 87 |
| Loans and advances to customers | 3,447 | 3,439 |
| Held-to-maturity investments | 36 | 37 |
| Long term equity investments | 26 | 26 |
| Deferred income tax assets | 161 | 153 |
| Other assets | 69 | 102 |
| Derivative financial liabilities | (94) | (94) |
| Due to customers | (3,566) | (3,572) |
| Other liabilities | (40) | (41) |
| Non-controlling interests | | (145) |
| Identifiable net assets | | 581 |
| Goodwill on acquisition | | 343 |
| Total consideration | | 924 |

The financial performance and cash flows of BEA USA from the date of acquisition until 31 December 2012 are as follows:

| | Period from 6 July 2012 to 31 December 2012 |
|---|---|
| Operating income | 106 |
| Profit for the period | 4 |
| Net cash flows for the period | (151) |

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of BEA USA is as follows:

| | 6 July 2012 |
|---|---|
| Cash and cash equivalents held by BEA USA | 547 |
| Cash consideration paid on acquisition of BEA USA | (886) |
| Net cash outflow on acquisition of BEA USA | (339) |

(In RMB millions, unless otherwise stated)

## 43. BUSINESS COMBINATION (CONTINUED)

### (3) Standard Bank Argentina S.A.

Standard Bank Argentina S.A. is a commercial bank operated in Argentina. To expand the overseas business, the Bank acquired 80% equity interest in Standard Bank Argentina S.A. The acquisition was completed on 30 November 2012 at a consideration equivalent to RMB4,005 million in aggregate.

In the opinion of the Bank, there was no material difference between the fair value of the identifiable assets and liabilities of Standard Bank Argentina S.A. and their carrying amounts as at the acquisition date. The details of the identifiable assets and liabilities acquired are as follows:

| | 30 November 2012 |
|---|---|
| Cash and balances with central banks | 5,236 |
| Due from banks and other financial institutions | 818 |
| Financial assets designated at fair value through profit or loss | 320 |
| Reverse repurchase agreements | 378 |
| Loans and advances to customers | 15,102 |
| Available-for-sale financial assets | 1,959 |
| Other assets | 2,248 |
| Due to customers | (18,244) |
| Due to banks and other financial institutions | (304) |
| Other liabilities | (4,872) |
| Non-controlling interests | (528) |
| Identifiable net assets | 2,113 |
| Goodwill on acquisition | 1,892 |
| Total consideration | 4,005 |

The financial performance and cash flows of Standard Bank Argentina S.A. from the date of acquisition until 31 December 2012 are as follows:

| | Period from 30 November 2012 to 31 December 2012 |
|---|---|
| Operating income | 344 |
| Profit for the period | 2 |
| Net cash flows for the period | (545) |

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of Standard Bank Argentina S.A. is as follows:

| | 30 November 2012 |
|---|---|
| Cash and cash equivalents held by Standard Bank Argentina S.A. | 2,037 |
| Cash consideration paid on acquisition of Standard Bank Argentina S.A. | (3,924) |
| Net cash outflow on acquisition of Standard Bank Argentina S.A. | (1,887) |

Had the above three combinations taken place at the beginning of the year, the operating income and the net profit of the Group for the year would have been RMB545,277 million (under PRC GAAP) and RMB239,218 million, respectively.

The goodwill on the aforementioned acquisitions mainly arise from the operating channels of AXA-Minmetals Assurance, BEA USA and Standard Bank Argentina S.A. in the local markets, their future operating income and other factors. None of the goodwill recognised is expected to be deductible for income tax purposes.

(In RMB millions, unless otherwise stated)

## 44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### Analysis of balances of cash and cash equivalents

| | Note | 2012 | 2011 |
|---|---|---|---|
| Cash on hand | 20 | 76,060 | 60,145 |
| Balances with central banks other than restricted deposits | 20 | 318,648 | 106,124 |
| Nostro accounts with banks and other financial institutions with original maturity of three months or less | | 279,311 | 236,694 |
| Placements with banks and other financial institutions with original maturity of three months or less | | 37,916 | 115,085 |
| Reverse repurchase agreements with original maturity of three months or less | | 489,712 | 330,260 |
| | | 1,201,647 | 848,308 |

## 45. TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to SPEs. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

### Repurchase transactions and securities lending transactions

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase agreements and debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities sold under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require or be required to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

The following table analyses the carrying amount of the abovementioned financial assets transferred to third parties that did not qualify for derecognition and their associated financial liabilities:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Carrying amount of transferred assets | Carrying amount of associated liabilities | Carrying amount of transferred assets | Carrying amount of associated liabilities |
| Repurchase agreements | 590 | 539 | 231 | 219 |
| Securities lending agreements | 15,906 | — | — | — |
| | 16,496 | 539 | 231 | 219 |

(In RMB millions, unless otherwise stated)

## 45. TRANSFERRED FINANCIAL ASSETS (CONTINUED)

### Securitisation transactions

Transferred financial assets that achieved partial de-recognition mainly include financial assets transferred under securitisation transactions. The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to SPEs which issue asset-backed securities to investors. The Group may retain interests in the form of subordinated tranches which would give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets.

As at 31 December 2012, the Group retained interests in the form of subordinated tranches which gave rise to the Group's continuing involvement in the securitised loan with an original carrying amount of RMB8,011 million (31 December 2011: RMB8,011 million). As at 31 December 2012, the principal of the abovementioned subordinated tranches has been fully repaid.

## 46. SHARE APPRECIATION RIGHTS PLAN

The Bank's share appreciation rights plan was approved in 2006, which allows share appreciation rights to be granted to eligible participants including directors, supervisors, senior management and other key personnel designated by the board of directors. The share appreciation rights will be granted and exercised based on the price of the Bank's H shares and will be valid for 10 years. As at the approval date of these financial statements, no share appreciation rights have been granted.

## 47. COMMITMENTS AND CONTINGENT LIABILITIES

### (a) Capital commitments

At the end of the reporting period, the Group and the Bank had capital commitments as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Authorised, but not contracted for | 952 | 2,297 | 952 | 2,297 |
| Contracted, but not provided for | 11,992 | 13,696 | 7,707 | 8,003 |
| | 12,944 | 15,993 | 8,659 | 10,300 |

### (b) Operating lease commitments

*Operating lease commitments — Lessee*

At the end of the reporting period, the Group and the Bank lease certain of its office properties under operating lease arrangements, and the total future minimum lease payments in respect of non-cancellable operating leases are as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Within one year | 4,166 | 3,617 | 3,995 | 3,238 |
| After one year but not more than five years | 10,330 | 8,457 | 9,659 | 7,826 |
| After five years | 1,516 | 1,528 | 1,444 | 1,469 |
| | 16,012 | 13,602 | 15,098 | 12,533 |

(In RMB millions, unless otherwise stated)

## 47. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

### (b) Operating lease commitments (continued)

*Operating lease commitments — Lessor*

At the end of the reporting period, the Group leases certain aircraft and vessels to third parties under operating lease arrangements, and the total future minimum lease receivables in respect of non-cancellable operating leases with its tenants are as follows:

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| Within one year | 1,539 | 686 |
| In the second to fifth years, inclusive | 5,293 | 2,691 |
| After five years | 4,794 | 2,873 |
| | 11,626 | 6,250 |

### (c) Credit commitments

At any given time, the Group has outstanding commitments to extend credit. These commitments are in the form of approved loans and undrawn credit card limits.

The Group provides letters of credit and financial guarantees to guarantee the performance of customers to third parties.

Bank acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of credit commitments by category are set out below. The amounts disclosed in respect of loan commitments and undrawn credit card limit are under the assumption that the amounts will be fully advanced. The amounts for bank acceptances, letters of credit and guarantees represent the maximum potential losses that would be recognised at the end of the reporting period had the counterparties failed to perform as contracted.

| | Group | | Bank | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Bank acceptances | 341,033 | 300,437 | 338,157 | 297,983 |
| Guarantees issued: | | | | |
| Financing letters of guarantees | 47,148 | 46,299 | 98,952 | 86,196 |
| Non-financing letters of guarantees | 213,874 | 179,439 | 257,092 | 209,666 |
| Sight letters of credit | 52,190 | 70,258 | 50,276 | 67,201 |
| Usance letters of credit and other commitments | 347,271 | 326,626 | 337,524 | 349,917 |
| Loan commitments: | | | | |
| With an original maturity of under one year | 214,370 | 150,685 | 88,967 | 76,813 |
| With an original maturity of one year or over | 453,520 | 519,112 | 421,671 | 494,615 |
| Undrawn credit card limit | 406,800 | 383,736 | 405,014 | 382,635 |
| | 2,076,206 | 1,976,592 | 1,997,653 | 1,965,026 |

| | Group | | Bank | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Credit risk weighted amount of credit commitments | 817,008 | 801,639 | 786,472 | 776,565 |

(In RMB millions, unless otherwise stated)

## 47. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

### (c) Credit commitments (continued)

The credit risk weighted amount refers to the amount computed in accordance with the rules promulgated by the CBRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 100% for credit commitments.

### (d) Legal proceedings

As at 31 December 2012, there were a number of legal proceedings outstanding against the Bank and/or its subsidiaries with a claimed amount of RMB1,559 million (31 December 2011: RMB1,978 million).

In the opinion of management, the Group and the Bank have made adequate allowance for any probable losses based on the current facts and circumstances, and the ultimate outcome of these lawsuits will not have a material impact on the financial position or operations of the Group and the Bank.

### (e) Redemption commitments of government bonds

As an underwriting agent of the Government, the Bank underwrites certain PRC government bonds and sells the bonds to the general public, in which the Bank is obliged to redeem these bonds at the discretion of the holders at any time prior to maturity. The redemption price for the bonds is based on the nominal value of the bonds plus any interest accrued up to the redemption date. As at 31 December 2012, the Bank had underwritten and sold bonds with an accumulated amount of RMB99,861 million (31 December 2011: RMB156,366 million) to the general public, and these government bonds have not yet matured nor been redeemed. Management expects that the amount of redemption of these government bonds through the Bank prior to maturity will not be material.

The MOF will not provide funding for the early redemption of these government bonds on a back-to-back basis but is obliged to repay the principal and the respective interest upon maturity.

### (f) Underwriting obligations

As at 31 December 2012, the Group and the Bank had no unexpired securities underwriting obligations (31 December 2011: Nil).

## 48. DESIGNATED FUNDS AND LOANS

| | Group | |
|---|---|---|
| | 2012 | 2011 |
| Designated funds | 730,140 | 641,319 |
| Designated loans | 729,451 | 640,650 |

The designated loans represent the loans granted to specific borrowers designated by the trustors on their behalf according to the entrusted agreements signed by the Group and the trustors. The Group does not bear any risk.

The designated funds represent the funding that the trustors have instructed the Group to use to make loans to third parties as designated by them. The credit risk remains with the trustors.

## 49. ASSETS PLEDGED AS SECURITY

Financial assets of the Group including securities, bills and loans have been pledged as security for liabilities or contingent liabilities, mainly the repurchase agreements and derivative contracts. As at 31 December 2012, the carrying value of the financial assets of the Group pledged as security amounted to approximately RMB13,341 million (31 December 2011: RMB87,996 million).

(In RMB millions, unless otherwise stated)

## 50. FIDUCIARY ACTIVITIES

The Group provides custody, trust and asset management services to third parties. Revenue from such activities is included in "net fee and commission income" set out in note 7 above. Those assets held in a fiduciary capacity are not included in the Group's consolidated statement of financial position.

## 51. RELATED PARTY DISCLOSURES

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

### (a) Shareholders with significant influence

*(i) The MOF*

The MOF is a ministry under the State Council, primarily responsible for, among others, state fiscal revenues, expenses and taxation policies. As at 31 December 2012, the MOF directly owned approximately 35.27% (31 December 2011: approximately 35.33%) of the issued share capital of the Bank. The Group enters into banking transactions with the MOF in its normal course of business, including the subscription and redemption of government bonds issued by the MOF. Details of the material transactions are as follows:

| | 2012 | 2011 |
|---|---|---|
| Balances at end of the year: | | |
| The PRC government bonds and the special government bond | 831,417 | 867,847 |

| | 2012 | 2011 |
|---|---|---|
| Transactions during the year: | | |
| Subscription of the PRC government bonds | 84,587 | 175,520 |
| Redemption of the PRC government bonds | 90,895 | 90,217 |
| Interest income on the PRC government bonds | 29,918 | 28,020 |
| Interest rate ranges during the year are as follows: | % | % |
| Bond investments | 0.41 to 6.34 | 1.0 to 6.43 |

As of 31 December 2012, the Group holds a series of long term bonds issued by Huarong, which is under the control of the MOF, with an aggregate amount of RMB175,096 million (31 December 2011: RMB312,996 million). The details of the Huarong bonds are included in note 27.

Other related party transactions between the Group and enterprises under the control or joint control of the MOF are disclosed in note 51(g) "transactions with state-owned entities in the PRC".

(In RMB millions, unless otherwise stated)

## 51. RELATED PARTY DISCLOSURES (CONTINUED)

### (a) Shareholders with significant influence (continued)

*(ii) Huijin*

As at 31 December 2012, Central Huijin Investment Ltd ("Huijin") directly owned approximately 35.46% (31 December 2011: approximately 35.43%) of the issued share capital of the Bank. Huijin is a state-owned investment company established on 16 December 2003 under the Company Law of the PRC. Huijin has total registered and paid-in capital of RMB828,209 million, and its legal representative is Mr. Lou Jiwei. Huijin is a wholly-owned subsidiary of China Investment Corporation, and in accordance with the authorisation by the State, Huijin makes equity investments in the key state-owned financial institutions, and shall, to the extent of its capital contribution, exercise the rights and perform the obligations as an investor on behalf of the State in accordance with applicable laws, to achieve the goal of preserving and enhancing the value of state-owned financial assets. Huijin does not engage in other business activities, and does not intervene in the day-to-day business operations of the key state-owned financial institutions it controls.

As at 31 December 2012, the Huijin Bonds held by the Bank are of an aggregate face value of RMB18.13 billion (31 December 2011: RMB21.63 billion), with terms ranging from 5 to 30 years and coupon rates ranging from 3.14% to 4.20% per annum. The Huijin Bonds are government-backed and the Bank's subscription of the Huijin Bonds was conducted in the ordinary course of business, in compliance with relevant regulatory requirements and the corporate governance of the Bank.

The Group entered into banking transactions with Huijin in the ordinary course of business under normal commercial terms and at the market rates. Details of the material transactions are as follows:

| | 2012 | 2011 |
|---|---|---|
| Balances at end of the year: | | |
| Debt securities purchased | 17,288 | 20,926 |
| Interest receivable | 190 | 239 |
| Deposits | 10,236 | 1 |
| Interest payable | 16 | — |

| | 2012 | 2011 |
|---|---|---|
| Transactions during the year: | | |
| Interest income on debt securities purchased | 760 | 765 |
| Interest expense on deposits | 77 | 20 |
| Interest rate ranges during the year are as follows: | % | % |
| Debt securities purchased | 3.14 to 4.20 | 3.14 to 4.20 |
| Deposits | 0.01 to 2.86 | 0.02 to 1.49 |

(In RMB millions, unless otherwise stated)

## 51. RELATED PARTY DISCLOSURES (CONTINUED)

### (a) Shareholders with significant influence (continued)

Huijin has equity interests in certain other banks and financial institutions under the direction of the Government. The Group enters into transactions with these banks and financial institutions in the ordinary course of business under normal commercial terms. Management considers that these banks and financial institutions are competitors of the Group. Significant transactions during the year conducted with these banks and financial institutions, and the corresponding balances as at 31 December 2012 are as follows:

| | 2012 | 2011 |
|---|---|---|
| Balances at end of the year: | | |
| Debt securities purchased | 979,291 | 828,155 |
| Due from these banks and financial institutions | 142,413 | 48,149 |
| Derivative financial assets | 809 | 1,144 |
| Due to these banks and financial institutions | 115,434 | 91,868 |
| Derivative financial liabilities | 1,754 | 953 |

| | 2012 | 2011 |
|---|---|---|
| Transactions during the year: | | |
| Interest income on debt securities purchased | 36,495 | 25,974 |
| Interest income on amounts due from these banks and financial institutions | 2,004 | 359 |
| Interest expense on amounts due to these banks and financial institutions | 1,067 | 984 |
| Interest rate ranges during the year are as follows: | % | % |
| Debt securities purchased | 0 to 8.25 | 0 to 8.25 |
| Due from these banks and financial institutions | 0 to 9.0 | 0.0001 to 7.6 |
| Due to these banks and financial institutions | 0.0001 to 7.4 | 0.0001 to 8.0 |

The interest rates disclosed above vary across product groups and transactions depending on the maturity date, credit risk of counterparty and currency. In particular, given local market conditions, the spread of certain significant or long dated transactions can vary across the market.

### (b) Subsidiaries

| | 2012 | 2011 |
|---|---|---|
| Balances at end of the year: | | |
| Debt securities purchased | 14,029 | 14,621 |
| Due from banks and other financial institutions | 105,779 | 60,630 |
| Loans and advances to customers | 5,784 | 5,833 |
| Derivative financial assets | 887 | 209 |
| Due to banks and other financial institutions | 41,466 | 33,276 |
| Derivative financial liabilities | 764 | 239 |
| Commitments | 116,423 | 120,246 |

| | 2012 | 2011 |
|---|---|---|
| Transactions during the year: | | |
| Interest income on debt securities purchased | 133 | 124 |
| Interest income on amounts due from banks and other financial institutions | 1,112 | 659 |
| Interest income on loans and advances to customers | 240 | 185 |
| Interest expense on amounts due to banks and other financial institutions | 619 | 280 |
| Net trading expense | 72 | 33 |
| Net fee and commission income | 315 | 209 |
| Interest rate ranges during the year are as follows: | % | % |
| Debt securities purchased | 0 to 1.55 | 0.35 to 1.56 |
| Due from banks and other financial institutions | 0 to 7.66 | 0 to 8.72 |
| Loans and advances to customers | 1.75 to 6.9 | 1.15 to 6.56 |
| Due to banks and other financial institutions | 0 to 6.0 | 0 to 8.74 |

The material balances and transactions with subsidiaries have been eliminated in full in the consolidated financial statements.

(In RMB millions, unless otherwise stated)

## 51. RELATED PARTY DISCLOSURES (CONTINUED)

### (c) Associates and affiliates

| | 2012 | 2011 |
|---|---|---|
| Balances at end of the year: | | |
| Due from banks | 334 | 984 |
| Loans to associates | 3,100 | 1,693 |
| Other receivables | 209 | 464 |
| Due to banks | 3,341 | 2,855 |
| Deposits | 125 | 28 |

| | 2012 | 2011 |
|---|---|---|
| Transactions during the year: | | |
| Interest income on amounts due from banks | 4 | 3 |
| Interest income on loans to associates | 62 | 41 |
| Interest expense on amounts due to banks | 46 | 15 |
| Interest rates ranges during the year are as follows: | % | % |
| Due from banks | 0.72 to 5.4 | 5.55 to 9.5 |
| Loans to associates | 1.47 to 2.84 | 2.25 to 7.0 |
| Due to banks | 0.5 to 1.65 | 0.72 to 1.72 |
| Deposits | 0 to 2.8 | 0 to 3.05 |

The major transactions between the Group and the associates and their affiliates mainly comprised taking and placing interbank balances, lending and deposit taking and the corresponding interest income and interest expense. In the opinion of management, the transactions between the Group and the associates and their affiliates were conducted under normal commercial terms and conditions.

### (d) Jointly-controlled entities and affiliates

| | 2012 | 2011 |
|---|---|---|
| Balances at end of the year: | | |
| Deposits | 264 | 336 |

| | 2012 | 2011 |
|---|---|---|
| Transactions during the year: | | |
| Interest expense on deposits | 4 | 1 |
| Interest rates during the year are as follows: | % | % |
| Deposits | 0.35 to1.05 | 0 to 0.8 |

In the opinion of management, the transactions between the Group and the aforementioned parties were conducted in the ordinary course of business under normal terms and conditions and at market rates.

## 51. RELATED PARTY DISCLOSURES (CONTINUED)

### (e) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, including members of the board of directors, the supervisory board and executive officers.

The aggregate compensation for the year, other than those for the personnel disclosed in note 13 above, is as follows:

| | 2012<br>RMB'000 | 2011<br>RMB'000 |
|---|---|---|
| Short term employment benefits | 7,415 | 12,295 |
| Post-employment benefits | 230 | 865 |
| | 7,645 | 13,160 |

Note: The above compensation for the year ended 31 December 2011 was restated in accordance with the supplemental announcement for the 2011 annual report released by the Bank on 31 May 2012.

The total compensation packages for senior management of the Bank for the year ended 31 December 2012 have not been finalised in accordance with the regulations of the PRC relevant authorities. The remuneration not yet accrued is not expected to have a significant impact on the Group's and the Bank's 2012 financial statements. The total compensation packages will be further disclosed when determined by the relevant authorities.

Companies or corporations, in which the key management of the Group or their close relatives are shareholders or key management personnel who are able to exercise control directly or indirectly are also considered as related parties of the Group.

The transactions between the Group and the aforementioned parties for the year are as follows:

| | 2012 | 2011 |
|---|---|---|
| Loans | 687 | 254 |

In the opinion of management, the transactions between the Group and the aforementioned parties were conducted in the ordinary course of business under normal terms and conditions and at market rates.

### (f) Annuity Fund

Apart from the obligations for defined contributions to the Annuity Fund, no transactions were outstanding between the Group and the Annuity Fund during the year end (2011: Nil).

### (g) Transactions with state-owned entities in the PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the Government through its authorities, affiliates or other organisations (collectively the "state-owned entities"). During the year, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, lending and deposit taking, taking and placing of interbank balances, entrusted lending and the provision of intermediary services, the sale, purchase, underwriting and redemption of bonds issued by other state-owned entities, and the sale, purchase, and leasing of properties and other assets.

## 51. RELATED PARTY DISCLOSURES (CONTINUED)

### (g) Transactions with state-owned entities in the PRC (continued)

Management considers that transactions with state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those state-owned entities are ultimately controlled or owned by the Government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities.

## 52. SEGMENT INFORMATION

### (a) Operating segments

For management purposes, the Group is organised into different operating segments, namely corporate banking, personal banking and treasury operations, based on internal organisational structure, management requirement and internal reporting system.

*Corporate banking*

The corporate banking segment covers the provision of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit-taking activities, corporate wealth management services, custody activities and various types of corporate intermediary services.

*Personal banking*

The personal banking segment covers the provision of financial products and services to individual customers. The products and services include personal loans, deposit-taking activities, card business, personal wealth management services and various types of personal intermediary services.

*Treasury operations*

The treasury operations segment covers the Group's treasury operations which include money market transactions, investment securities, foreign exchange transactions and the holding of derivative positions, for its own accounts or on behalf of customers.

*Others*

This represents the assets, liabilities, income and expenses that are not directly attributable or cannot be allocated to a segment on a reasonable basis.

Management monitors the operating results of the Group's business units separately for the purpose of making decisions about resources allocation and performance assessment. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

Transactions between segments mainly represent the provision of funding to and from individual segments. These transactions are conducted on terms determined with reference to the average cost of funding and have been reflected in the performance of each segment. Net interest income and expense arising on internal fund transfer are referred to as "internal net interest income/expense". Net interest income and expense relating to third parties are referred to as "external net interest income/expense".

(In RMB millions, unless otherwise stated)

## 52. SEGMENT INFORMATION (CONTINUED)

### (a) Operating segments (continued)

Segment revenues, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The basis for allocation is mainly based on occupation of or contribution to resources. Income taxes are managed on a group basis and are not allocated to operating segments.

| | Corporate banking | Personal banking | Treasury operations | Others (iii) | Total |
|---|---|---|---|---|---|
| **Year ended 31 December 2012** | | | | | |
| External net interest income/(expense) | 276,656 | (8,985) | 150,087 | 70 | 417,828 |
| Internal net interest income/(expense) | (58,023) | 123,232 | (65,209) | — | — |
| Net fee and commission income | 66,158 | 39,788 | 395 | (277) | 106,064 |
| Other income, net (i) | 974 | 21 | 720 | 4,113 | 5,828 |
| Operating income | 285,765 | 154,056 | 85,993 | 3,906 | 529,720 |
| Operating expenses | (89,871) | (77,140) | (17,094) | (5,835) | (189,940) |
| Impairment losses on: | | | | | |
| Loans and advances to customers | (19,051) | (13,521) | — | — | (32,572) |
| Others | (338) | (7) | (790) | (38) | (1,173) |
| Operating profit/(loss) | 176,505 | 63,388 | 68,109 | (1,967) | 306,035 |
| Share of profits and losses of associates and jointly-controlled entities | — | — | — | 2,652 | 2,652 |
| Profit before tax | 176,505 | 63,388 | 68,109 | 685 | 308,687 |
| Income tax expense | | | | | (69,996) |
| Profit for the year | | | | | 238,691 |
| Other segment information: | | | | | |
| Depreciation | 5,804 | 4,670 | 2,526 | 215 | 13,215 |
| Amortisation | 850 | 553 | 356 | 22 | 1,781 |
| Capital expenditure | 14,319 | 11,406 | 6,190 | 516 | 32,431 |
| **As at 31 December 2012** | | | | | |
| Segment assets | 6,495,908 | 2,320,534 | 8,591,801 | 133,974 | 17,542,217 |
| Including: Investments in associates and jointly-controlled entities | — | — | — | 33,284 | 33,284 |
| Property and equipment | 49,902 | 40,056 | 21,514 | 24,417 | 135,889 |
| Other non-current assets (ii) | 13,911 | 7,611 | 4,958 | 9,439 | 35,919 |
| Segment liabilities | 7,275,642 | 6,704,125 | 2,376,936 | 57,055 | 16,413,758 |
| Other segment information: | | | | | |
| Credit commitments | 1,669,406 | 406,800 | — | — | 2,076,206 |

(i) Including net trading income, net loss on financial assets and liabilities designated at fair value through profit or loss, net gain on financial investments and other operating income (net).

(ii) Including long term receivables, intangible assets, goodwill, long term deferred expenses and other non-current assets.

(iii) Including ICBC-AXA's operating figures.

(In RMB millions, unless otherwise stated)

## 52. SEGMENT INFORMATION (CONTINUED)

### (a) Operating segments (continued)

| | Corporate banking | Personal banking | Treasury operations | Others | Total |
|---|---|---|---|---|---|
| **Year ended 31 December 2011** | | | | | |
| External net interest income/(expense) | 230,891 | (4,349) | 136,222 | — | 362,764 |
| Internal net interest income/(expense) | (44,679) | 109,303 | (64,624) | — | — |
| Net fee and commission income | 62,330 | 38,821 | 399 | — | 101,550 |
| Other income, net (i) | 1,142 | 19 | 284 | 4,842 | 6,287 |
| Operating income | 249,684 | 143,794 | 72,281 | 4,842 | 470,601 |
| Operating expenses | (78,221) | (70,761) | (15,603) | (5,028) | (169,613) |
| Impairment losses on: | | | | | |
| Loans and advances to customers | (18,489) | (13,343) | — | — | (31,832) |
| Others | (73) | 9 | 840 | (65) | 711 |
| Operating profit/(loss) | 152,901 | 59,699 | 57,518 | (251) | 269,867 |
| Share of profits and losses of associates and jointly-controlled entities | — | — | — | 2,444 | 2,444 |
| Profit before tax | 152,901 | 59,699 | 57,518 | 2,193 | 272,311 |
| Income tax expense | | | | | (63,866) |
| Profit for the year | | | | | 208,445 |
| Other segment information: | | | | | |
| Depreciation | 5,165 | 4,251 | 2,377 | 234 | 12,027 |
| Amortisation | 664 | 472 | 264 | 26 | 1,426 |
| Capital expenditure | 12,545 | 10,288 | 5,723 | 561 | 29,117 |
| **As at 31 December 2011** | | | | | |
| Segment assets | 5,742,727 | 2,046,297 | 7,581,726 | 106,118 | 15,476,868 |
| Including: Investments in associates and jointly-controlled entities | — | — | — | 32,750 | 32,750 |
| Property and equipment | 44,316 | 36,486 | 20,200 | 18,026 | 119,028 |
| Other non-current assets (ii) | 12,746 | 7,829 | 4,276 | 6,749 | 31,600 |
| Segment liabilities | 6,519,080 | 6,013,448 | 1,953,920 | 32,597 | 14,519,045 |
| Other segment information: | | | | | |
| Credit commitments | 1,592,856 | 383,736 | — | — | 1,976,592 |

(i) Including net trading expense, net loss on financial assets and liabilities designated at fair value through profit or loss, net gain on financial investments and other operating income (net).

(ii) Including long term receivables, intangible assets, goodwill, long term deferred expenses and other non-current assets.

(In RMB millions, unless otherwise stated)

## 52. SEGMENT INFORMATION (CONTINUED)

### (b) Geographical information

The Group operates principally in Mainland China, and also has branches and subsidiaries operating outside Mainland China (including: Hong Kong, Macau, Singapore, Frankfurt, Luxembourg, Seoul, Busan, Tokyo, London, Almaty, Jakarta, Moscow, Doha, Dubai, Abu Dhabi, Sydney, Toronto, Kuala Lumpur, Hanoi, Bangkok, New York, Karachi, Mumbai, Phnom Penh, Vientiane, Islamabad, Chicago, Buenos Aires and Lima).

The distribution of the geographical areas is as follows:

Mainland China (Head Office and domestic branches):

Head Office ("HO"): the HO business division (including institutions directly controlled by the HO and their offices);

Yangtze River Delta: including Shanghai, Jiangsu, Zhejiang, Ningbo and Suzhou;

Pearl River Delta: including Guangdong, Shenzhen, Fujian and Xiamen;

Bohai Rim: including Beijing, Tianjin, Hebei, Shandong and Qingdao;

Central China: including Shanxi, Henan, Hubei, Hunan, Anhui, Jiangxi and Hainan;

Western China: including Chongqing, Sichuan, Guizhou, Yunnan, Guangxi, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang, Inner Mongolia and Tibet; and

Northeastern China: including Liaoning, Heilongjiang, Jilin and Dalian.

Overseas and others: branches located outside Mainland China, domestic and overseas subsidiaries, and investments in associates and jointly-controlled entities.

| | Mainland China (HO and domestic branches) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Head Office | Yangtze River Delta | Pearl River Delta | Bohai Rim | Central China | Western China | Northeastern China | Overseas and others | Eliminations | Total |
| **Year ended 31 December 2012** | | | | | | | | | | |
| External net interest income | 160,996 | 62,237 | 39,987 | 31,681 | 39,119 | 56,278 | 16,401 | 11,129 | — | 417,828 |
| Internal net interest income/(expense) | (120,391) | 19,187 | 11,327 | 54,029 | 14,701 | 11,616 | 9,071 | 460 | — | — |
| Net fee and commission income | 1,651 | 26,284 | 17,957 | 19,050 | 16,699 | 15,372 | 4,824 | 4,281 | (54) | 106,064 |
| Other income/(expense), net (i) | 5,363 | (680) | 45 | (730) | (77) | (272) | (475) | 2,654 | — | 5,828 |
| Operating income | 47,619 | 107,028 | 69,316 | 104,030 | 70,442 | 82,994 | 29,821 | 18,524 | (54) | 529,720 |
| Operating expenses | (14,551) | (33,238) | (23,581) | (32,799) | (30,614) | (34,309) | (13,832) | (7,070) | 54 | (189,940) |
| Impairment losses on: | | | | | | | | | | |
| Loans and advances to customers | (3,347) | (7,768) | (4,293) | (5,166) | (4,197) | (4,696) | (1,776) | (1,329) | — | (32,572) |
| Others | (166) | (21) | (6) | (155) | 15 | (82) | (12) | (746) | — | (1,173) |
| Operating profit | 29,555 | 66,001 | 41,436 | 65,910 | 35,646 | 43,907 | 14,201 | 9,379 | — | 306,035 |
| Share of profits and losses of associates and jointly-controlled entities | — | — | — | — | — | — | — | 2,652 | — | 2,652 |
| Profit before tax | 29,555 | 66,001 | 41,436 | 65,910 | 35,646 | 43,907 | 14,201 | 12,031 | — | 308,687 |
| Income tax expense | | | | | | | | | | (69,996) |
| Profit for the year | | | | | | | | | | 238,691 |
| Other segment information: | | | | | | | | | | |
| Depreciation | 1,520 | 2,099 | 1,425 | 1,856 | 2,163 | 2,396 | 1,009 | 747 | — | 13,215 |
| Amortisation | 715 | 220 | 116 | 118 | 223 | 223 | 60 | 106 | — | 1,781 |
| Capital expenditure | 3,743 | 3,399 | 2,167 | 2,933 | 3,760 | 5,046 | 1,827 | 9,556 | — | 32,431 |

(i) Including net trading income/(expense), net loss on financial assets and liabilities designated at fair value through profit or loss, net gain on financial investments and other operating income (net).

(In RMB millions, unless otherwise stated)

## 52. SEGMENT INFORMATION (CONTINUED)

### (b) Geographical information (continued)

| | Mainland China (HO and domestic branches) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Head Office | Yangtze River Delta | Pearl River Delta | Bohai Rim | Central China | Western China | Northeastern China | Overseas and others | Eliminations | Total |
| As at 31 December 2012 | | | | | | | | | | |
| Assets by geographical areas | 8,224,142 | 3,294,148 | 2,296,600 | 3,902,655 | 2,095,440 | 2,466,885 | 923,766 | 1,234,420 | (6,918,628) | 17,519,428 |
| Including: Investments in associates and jointly-controlled entities | — | — | — | — | — | — | — | 33,284 | — | 33,284 |
| Property and equipment | 11,154 | 23,167 | 12,356 | 17,969 | 18,701 | 21,393 | 10,046 | 21,103 | — | 135,889 |
| Other non-current assets (i) | 11,014 | 5,731 | 2,320 | 4,041 | 4,869 | 4,257 | 1,681 | 2,006 | — | 35,919 |
| Unallocated assets | | | | | | | | | | 22,789 |
| Total assets | | | | | | | | | | 17,542,217 |
| Liabilities by geographical areas | 7,410,679 | 3,237,528 | 2,259,922 | 3,839,768 | 2,064,592 | 2,428,238 | 909,743 | 1,124,442 | (6,918,628) | 16,356,284 |
| Unallocated liabilities | | | | | | | | | | 57,474 |
| Total liabilities | | | | | | | | | | 16,413,758 |
| Other segment information: | | | | | | | | | | |
| Credit commitments | 418,897 | 390,236 | 337,265 | 321,305 | 120,188 | 162,835 | 59,386 | 266,094 | — | 2,076,206 |

(i) Including long term receivables, intangible assets, goodwill, long term deferred expenses and other non-current assets.

| | Mainland China (HO and domestic branches) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Head Office | Yangtze River Delta | Pearl River Delta | Bohai Rim | Central China | Western China | Northeastern China | Overseas and others | Eliminations | Total |
| Year ended 31 December 2011 | | | | | | | | | | |
| External net interest income | 143,397 | 56,644 | 33,077 | 29,509 | 31,597 | 44,668 | 14,452 | 9,420 | — | 362,764 |
| Internal net interest income/(expense) | (114,350) | 16,746 | 14,039 | 47,020 | 15,605 | 12,986 | 8,059 | (105) | — | — |
| Net fee and commission income | 2,284 | 25,472 | 17,733 | 18,907 | 14,449 | 14,529 | 4,809 | 3,511 | (144) | 101,550 |
| Other income, net (i) | 2,993 | 275 | 172 | 460 | 336 | 503 | 162 | 1,390 | (4) | 6,287 |
| Operating income | 34,324 | 99,137 | 65,021 | 95,896 | 61,987 | 72,686 | 27,482 | 14,216 | (148) | 470,601 |
| Operating expenses | (10,849) | (30,399) | (21,946) | (30,419) | (27,712) | (30,468) | (12,838) | (5,130) | 148 | (169,613) |
| Impairment losses on: | | | | | | | | | | |
| Loans and advances to customers | (4,206) | (5,988) | (4,003) | (5,493) | (5,415) | (5,291) | (521) | (915) | — | (31,832) |
| Others | 778 | 64 | (4) | 149 | 69 | 129 | (90) | (384) | — | 711 |
| Operating profit | 20,047 | 62,814 | 39,068 | 60,133 | 28,929 | 37,056 | 14,033 | 7,787 | — | 269,867 |
| Share of profits and losses of associates and jointly-controlled entities | — | — | — | — | — | — | — | 2,444 | — | 2,444 |
| Profit before tax | 20,047 | 62,814 | 39,068 | 60,133 | 28,929 | 37,056 | 14,033 | 10,231 | — | 272,311 |
| Income tax expense | | | | | | | | | | (63,866) |
| Profit for the year | | | | | | | | | | 208,445 |
| Other segment information: | | | | | | | | | | |
| Depreciation | 1,343 | 1,931 | 1,341 | 1,754 | 1,974 | 2,182 | 957 | 545 | — | 12,027 |
| Amortisation | 514 | 209 | 100 | 115 | 203 | 195 | 54 | 36 | — | 1,426 |
| Capital expenditure | 1,989 | 4,917 | 2,075 | 2,867 | 3,347 | 3,872 | 1,234 | 8,816 | — | 29,117 |

(i) Including net trading income/(expense), net loss on financial assets and liabilities designated at fair value through profit or loss, net gain on financial investments, and other operating income (net).

(In RMB millions, unless otherwise stated)

## 52. SEGMENT INFORMATION (CONTINUED)

### (b) Geographical information (continued)

| | Mainland China (HO and domestic branches) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Head Office | Yangtze River Delta | Pearl River Delta | Bohai Rim | Central China | Western China | Northeastern China | Overseas and others | Eliminations | Total |
| As at 31 December 2011 | | | | | | | | | | |
| Assets by geographical areas | 7,363,929 | 2,960,832 | 2,037,404 | 3,499,724 | 1,865,008 | 2,150,030 | 845,818 | 926,709 | (6,194,524) | 15,454,930 |
| Including: Investments in associates and jointly-controlled entities | — | — | — | — | — | — | — | 32,750 | — | 32,750 |
| Property and equipment | 9,218 | 22,004 | 11,828 | 17,063 | 17,370 | 18,941 | 9,393 | 13,211 | — | 119,028 |
| Other non-current assets (i) | 7,396 | 5,820 | 2,224 | 3,934 | 5,009 | 4,277 | 1,644 | 1,296 | — | 31,600 |
| Unallocated assets | | | | | | | | | | 21,938 |
| Total assets | | | | | | | | | | 15,476,868 |
| Liabilities by geographical areas | 6,698,446 | 2,901,326 | 1,999,210 | 3,440,828 | 1,837,114 | 2,113,992 | 831,310 | 839,705 | (6,194,524) | 14,467,407 |
| Unallocated liabilities | | | | | | | | | | 51,638 |
| Total liabilities | | | | | | | | | | 14,519,045 |
| Other segment information: | | | | | | | | | | |
| Credit commitments | 394,265 | 434,989 | 343,562 | 311,307 | 118,215 | 142,619 | 56,967 | 174,668 | — | 1,976,592 |

(i) Including long term receivables, intangible assets, goodwill, long term deferred expenses and other non-current assets.

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT

A description and an analysis of the major risks faced by the Group are as follows:

The board of directors (the "Board") has the ultimate responsibility for risk management and oversees the Group's risk management functions through the Risk Management Committee and the Audit Committee of the Board.

The President supervises the risk management strategies and reports directly to the Board. He chairs two management committees including the Risk Management Committee and the Asset and Liability Management Committee. These two committees formulate and make recommendations in respect of risk management strategies and policies through the President to the Risk Management Committee of the Board. The Chief Risk Officer assists the President to supervise and manage various risks.

The Group has also assigned departments monitoring financial risks within the Group, including the Credit Management Department to monitor credit risk, the Risk Management Department together with the Asset and Liability Management Department to monitor market and liquidity risks, and the Internal Control and Compliance Department to monitor operational risk. The Risk Management Department is primarily responsible for coordinating and establishing a comprehensive risk management framework, preparing consolidated reports on credit risk, market risk and operational risk and reporting directly to the Chief Risk Officer.

The Bank maintains a dual-reporting line structure at the branch level for risk management purposes. Under this structure, the risk management departments of the branches report to both the corresponding risk management departments at the head office and management of the relevant branches.

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (a) Credit risk

Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its obligations. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate guarantee, commitment or investment of funds. The Group is exposed to credit risk primarily due to loans, guarantees and other credit related commitments.

The principal features of the Group's credit risk management function include:

- Centralised credit management procedures;
- Risk management rules and procedures that focus on risk control throughout the entire credit business process, including customer investigation and credit rating, granting of credit limits, loan evaluation, loan review and approval, granting of loan and post-disbursement loan monitoring;
- Stringent qualification system for the loan approval officers; and
- Information management systems designed to enable a real time risk monitoring.

To enhance the credit risk management practices, the Group also launches training programs periodically for credit officers at different levels.

In addition to the credit risk exposures on credit-related assets and amounts due from or lending to banks and other financial institutions, credit risk also arises in other areas. For instance, credit risk exposure also arises from derivative financial instruments which is, however, limited to those with positive fair values, as recorded in the statement of financial position. In addition, the Group also makes available to its customers' guarantees which may require the Group to make payments on their behalf. Such payments are collected from customers based on the terms of the agreements signed. They expose the Group to similar risks as loans and these are mitigated by the same control processes and policies.

The Group will normally sign an ISDA Master Agreement, a China Interbank Market Financial Derivatives Master Agreement ("NAFMII master agreement") with its counterparties for documenting over-the-counter derivative activities. Each of these master agreements provides the contractual framework within which derivative dealing activities are conducted. Under each of these master agreements, close-out netting shall be applied across all outstanding transactions covered by the agreement if either party defaults.

*Risk concentration*

Credit risk is often greater when counterparties are concentrated in one single industry or geographical location or have comparable economic characteristics.

*Impairment assessment*

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or whether there are any liquidity problems of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed impairment and collectively assessed impairment.

#### Individually assessed loans

All corporate loans and discounted bills are individually reviewed for objective evidence of impairment and classified based on a five-tier classification system. Corporate loans and discounted bills that are classified as substandard, doubtful or loss are assessed individually for impairment.

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (continued)

If there is objective evidence that an impairment loss on a loan or advance has been incurred on an individual basis, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The allowance for impairment loss is deducted in the carrying amount. The impairment loss is recognised in the income statement. In determining allowances on an individual basis, the following factors are considered:

- The sustainability of the counterparty's business plan;
- The borrower's ability to improve performance once a financial difficulty has arisen;
- Projected receipts and the expected payout should bankruptcy ensue;
- The availability of other financial support and the realisable value of collateral; and
- The timing of the expected cash flows.

It may not be possible to identify a single, discrete event that caused the impairment, but it may be possible to identify impairment through the combined effect of several events. The impairment losses are evaluated at the end of each reporting period, unless unforeseen circumstances require more careful attention.

#### Collectively assessed loans

Loans that are assessed for impairment losses on a collective basis include the following:

- Homogeneous groups of loans, including all personal loans; and
- All loans for which no impairment can be identified individually, either due to the absence of any loss events or due to an inability to measure reliably the impact of potential loss events on future cash flows.

For the purpose of collective assessment, assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

Objective evidence of impairment losses on a collective basis consists of observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans since the initial recognition of those loans, including:

- Adverse changes in the payment status of borrowers in the group of loans; and
- National or local economic conditions that correlate with defaults on assets in the portfolio of loans.

*Homogenous groups of loans not considered individually significant*

For homogeneous groups of loans, the Group uses a collective assessment approach for impairment losses. The approach analyses historical trends of probability of default and the amount of the consequential loss, as well as evaluates current economic conditions that may have a consequential impact on inherent losses in the portfolio.

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (continued)

*Individually assessed loans with no objective evidence of impairment*

When no impairment can be identified for individual loans, either due to the absence of any loss events or due to an inability to measure reliably the impact of potential loss events on future cash flows, these loans are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. This loss covers those loans that were impaired at the end of the reporting period but which would not be individually identified as impaired until sometime in the future. The collective impairment loss is assessed after taking into account:

- Historical loss experience in portfolios of similar risk characteristics; and
- The current economic and credit environment and, whether these, in management's experience, indicate that the actual level of incurred but not yet identified losses is likely to be greater or less than that suggested by historical experience.

As soon as information that specifically identifies objective evidence of impairment on individual assets in a pool is available, those assets are excluded and individually assessed. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment.

*Collateral*

The amount and type of collateral required depend on the assessment of the credit risk of the counterparty. Guidelines are in place specifying the types of collateral and valuation parameters which can be accepted.

Reverse repurchase business is mainly collateralised by bills, loans or investment securities. As part of the reverse repurchase agreements, the Group has received securities that it is allowed to sell or repledge in the absence of default by their owners. Fair value of collateral is shown in note 25.

Corporate loans are mainly collateralised by properties or other assets. As at 31 December 2012, the carrying value of corporate loans covered by collateral amounted to RMB2,907,405 million (31 December 2011: RMB2,306,381 million).

Retail loans are mainly collateralised by residential properties. As at 31 December 2012, the carrying value of retail loans covered by collateral amounted to RMB1,952,522 million (31 December 2011: RMB1,740,603 million).

The Group prefers more liquid collateral with relatively stable market value and does not accept the collateral that is illiquid, with difficulties in registration or high fluctuations in market value. The value of collateral should be assessed and confirmed by the Group or valuation agents identified by the Group. The value of collateral should adequately cover the outstanding balance of loans. The loan-to-value ratio depends on types of collateral, usage condition, liquidity, price volatility and realisation cost. All collateral has to be registered in accordance with the relevant laws and regulations. The credit officers inspect the collateral and assess the changes in the value of collateral regularly.

Although collateral can be an important mitigation of credit risk, the Group grants loans based on the assessment of the borrowers' ability to meet obligations out of their cash flow, instead of the value of collateral. The necessity of a collateral is dependent on the nature of the loan. In the event of default, the Group might sell the collateral for repayment. The fair value of collateral of past due but not impaired loans and impaired loans are disclosed in note 53(a)(iii).

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (continued)

Management monitors the market value of collateral periodically and requests additional collateral in accordance with the underlying agreement when it is considered necessary.

It is the Group's policy to dispose of repossessed assets in an orderly manner. In general, the Group does not occupy repossessed assets for business use.

*(i) Maximum exposure to credit risk without taking account of any collateral and other credit enhancements*

As at the end of the reporting period, the maximum credit risk exposure of the Group and of the Bank without taking account of any collateral and other credit enhancements is set out below:

| | Group | | Bank | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| Balances with central banks | 3,098,883 | 2,702,011 | 3,073,852 | 2,678,544 |
| Due from banks and other financial institutions | 636,450 | 478,002 | 658,317 | 474,287 |
| Financial assets held for trading | 20,317 | 30,675 | 18,064 | 29,849 |
| Financial assets designated at fair value through profit or loss | 201,208 | 121,386 | 200,786 | 120,811 |
| Derivative financial assets | 14,756 | 17,460 | 13,406 | 15,476 |
| Reverse repurchase agreements | 544,579 | 349,437 | 320,133 | 229,769 |
| Loans and advances to customers | 8,583,289 | 7,594,019 | 8,168,369 | 7,246,627 |
| Financial investments | | | | |
| — Receivables | 364,715 | 498,804 | 364,232 | 498,804 |
| — Held-to-maturity investments | 2,576,562 | 2,424,785 | 2,582,790 | 2,434,135 |
| — Available-for-sale financial assets | 917,143 | 836,383 | 860,011 | 795,380 |
| Others | 220,183 | 114,909 | 176,680 | 91,403 |
| | 17,178,085 | 15,167,871 | 16,436,640 | 14,615,085 |
| Credit commitments | 2,076,206 | 1,976,592 | 1,997,653 | 1,965,026 |
| Total maximum credit risk exposure | 19,254,291 | 17,144,463 | 18,434,293 | 16,580,111 |

*(ii) Risk concentrations*

Credit risk is often greater when counterparties are concentrated in one single industry or geographic location or have comparable economic features. In addition, different geographic areas and industrial sectors have their unique characteristics in terms of economic development, and could present a different credit risk.

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (continued)

### By geographical distribution

The following tables set out the breakdown of the Group's and the Bank's maximum credit risk exposure without taking account of any collateral and other credit enhancements, as categorised by geographical distribution.

### Group

*31 December 2012*

| | Head Office | Yangtze River Delta | Pearl River Delta | Bohai Rim | Central China | Western China | North-eastern China | Overseas and others | Total |
|---|---|---|---|---|---|---|---|---|---|
| Balances with central banks | 2,792,670 | 48,293 | 32,904 | 110,108 | 19,753 | 31,345 | 8,301 | 55,509 | 3,098,883 |
| Due from banks and other financial institutions | 291,330 | 49,415 | 61,071 | 52,112 | 16,588 | 20,166 | 37,278 | 108,490 | 636,450 |
| Financial assets held for trading | 18,064 | — | — | — | — | — | — | 2,253 | 20,317 |
| Financial assets designated at fair value through profit or loss | 200,778 | 2 | — | — | 4 | — | 2 | 422 | 201,208 |
| Derivative financial assets | 9,923 | 362 | 433 | 841 | 88 | 109 | 139 | 2,861 | 14,756 |
| Reverse repurchase agreements | 222,043 | 24,603 | 4,587 | 52,565 | 7,355 | 6,028 | 2,188 | 225,210 | 544,579 |
| Loans and advances to customers | 303,625 | 1,887,989 | 1,208,518 | 1,518,202 | 1,158,116 | 1,485,267 | 499,870 | 521,702 | 8,583,289 |
| Financial investments | | | | | | | | | |
| — Receivables | 358,110 | 300 | 220 | 2,224 | 1,860 | 1,398 | 120 | 483 | 364,715 |
| — Held-to-maturity investments | 2,481,924 | 44,108 | 26,543 | 10,853 | — | — | 1,000 | 12,134 | 2,576,562 |
| — Available-for-sale financial assets | 518,842 | 54,141 | 26,764 | 214,574 | 13,535 | 13,404 | 4,187 | 71,696 | 917,143 |
| Others | 122,366 | 15,199 | 6,106 | 13,004 | 7,440 | 8,248 | 2,636 | 45,184 | 220,183 |
| | 7,319,675 | 2,124,412 | 1,367,146 | 1,974,483 | 1,224,739 | 1,565,965 | 555,721 | 1,045,944 | 17,178,085 |
| Credit commitments | 418,897 | 390,236 | 337,265 | 321,305 | 120,188 | 162,835 | 59,386 | 266,094 | 2,076,206 |
| Total maximum credit risk exposure | 7,738,572 | 2,514,648 | 1,704,411 | 2,295,788 | 1,344,927 | 1,728,800 | 615,107 | 1,312,038 | 19,254,291 |

The compositions of each geographical distribution above are set out in note 52(b).

*31 December 2011*

| | Head Office | Yangtze River Delta | Pearl River Delta | Bohai Rim | Central China | Western China | North-eastern China | Overseas and others | Total |
|---|---|---|---|---|---|---|---|---|---|
| Balances with central banks | 2,438,416 | 46,875 | 28,657 | 103,321 | 18,484 | 27,191 | 9,817 | 29,250 | 2,702,011 |
| Due from banks and other financial institutions | 238,762 | 29,940 | 62,048 | 39,783 | 8,550 | 4,837 | 14,838 | 79,244 | 478,002 |
| Financial assets held for trading | 29,849 | — | — | — | — | — | — | 826 | 30,675 |
| Financial assets designated at fair value through profit or loss | 120,811 | — | — | — | — | — | — | 575 | 121,386 |
| Derivative financial assets | 11,681 | 487 | 646 | 973 | 136 | 261 | 559 | 2,717 | 17,460 |
| Reverse repurchase agreements | 188,937 | 3,244 | 4,219 | 29,166 | 3,511 | — | 692 | 119,668 | 349,437 |
| Loans and advances to customers | 241,393 | 1,701,446 | 1,062,254 | 1,372,315 | 1,018,435 | 1,276,320 | 449,556 | 472,300 | 7,594,019 |
| Financial investments | | | | | | | | | |
| — Receivables | 497,504 | — | — | 1,120 | — | 180 | — | — | 498,804 |
| — Held-to-maturity investments | 2,348,867 | 31,782 | 23,423 | 11,235 | — | — | 1,000 | 8,478 | 2,424,785 |
| — Available-for-sale financial assets | 462,216 | 56,726 | 26,225 | 207,643 | 13,833 | 11,977 | 4,464 | 53,299 | 836,383 |
| Others | 49,373 | 10,210 | 5,001 | 9,770 | 6,369 | 7,144 | 2,035 | 25,007 | 114,909 |
| | 6,627,809 | 1,880,710 | 1,212,473 | 1,775,326 | 1,069,318 | 1,327,910 | 482,961 | 791,364 | 15,167,871 |
| Credit commitments | 394,265 | 434,989 | 343,562 | 311,307 | 118,215 | 142,619 | 56,967 | 174,668 | 1,976,592 |
| Total maximum credit risk exposure | 7,022,074 | 2,315,699 | 1,556,035 | 2,086,633 | 1,187,533 | 1,470,529 | 539,928 | 966,032 | 17,144,463 |

The compositions of each geographical distribution above are set out in note 52(b).

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (continued)

**Bank**

*31 December 2012*

| | Head Office | Yangtze River Delta | Pearl River Delta | Bohai Rim | Central China | Western China | North-eastern China | Overseas and others | Total |
|---|---|---|---|---|---|---|---|---|---|
| Balances with central banks | 2,792,670 | 48,293 | 32,904 | 110,108 | 19,753 | 31,345 | 8,301 | 30,478 | 3,073,852 |
| Due from banks and other financial institutions | 338,818 | 49,700 | 61,499 | 52,144 | 16,657 | 20,237 | 37,359 | 81,903 | 658,317 |
| Financial assets held for trading | 18,064 | — | — | — | — | — | — | — | 18,064 |
| Financial assets designated at fair value through profit or loss | 200,778 | 2 | — | — | 4 | — | 2 | — | 200,786 |
| Derivative financial assets | 10,678 | 362 | 433 | 841 | 88 | 109 | 139 | 756 | 13,406 |
| Reverse repurchase agreements | 222,043 | 24,603 | 4,785 | 52,565 | 7,355 | 6,594 | 2,188 | — | 320,133 |
| Loans and advances to customers | 303,625 | 1,888,157 | 1,208,818 | 1,520,432 | 1,158,116 | 1,485,267 | 502,698 | 101,256 | 8,168,369 |
| Financial investments | | | | | | | | | |
| — Receivables | 358,110 | 300 | 220 | 2,224 | 1,860 | 1,398 | 120 | — | 364,232 |
| — Held-to-maturity investments | 2,483,486 | 44,108 | 26,543 | 10,853 | — | — | 1,000 | 16,800 | 2,582,790 |
| — Available-for-sale financial assets | 518,842 | 54,141 | 26,764 | 214,574 | 13,535 | 13,404 | 4,187 | 14,564 | 860,011 |
| Others | 122,139 | 15,199 | 6,106 | 13,004 | 7,440 | 8,248 | 2,636 | 1,908 | 176,680 |
| | 7,369,253 | 2,124,865 | 1,368,072 | 1,976,745 | 1,224,808 | 1,566,602 | 558,630 | 247,665 | 16,436,640 |
| Credit commitments | 420,767 | 402,690 | 362,804 | 331,240 | 123,199 | 164,203 | 60,024 | 132,726 | 1,997,653 |
| Total maximum credit risk exposure | 7,790,020 | 2,527,555 | 1,730,876 | 2,307,985 | 1,348,007 | 1,730,805 | 618,654 | 380,391 | 18,434,293 |

The compositions of each geographical distribution above are set out in note 52(b), except that "overseas and others" does not include domestic and overseas subsidiaries.

*31 December 2011*

| | Head Office | Yangtze River Delta | Pearl River Delta | Bohai Rim | Central China | Western China | North-eastern China | Overseas and others | Total |
|---|---|---|---|---|---|---|---|---|---|
| Balances with central banks | 2,438,416 | 46,875 | 28,657 | 103,321 | 18,484 | 27,191 | 9,817 | 5,783 | 2,678,544 |
| Due from banks and other financial institutions | 265,768 | 30,119 | 63,297 | 40,055 | 8,809 | 4,891 | 14,843 | 46,505 | 474,287 |
| Financial assets held for trading | 29,849 | — | — | — | — | — | — | — | 29,849 |
| Financial assets designated at fair value through profit or loss | 120,811 | — | — | — | — | — | — | — | 120,811 |
| Derivative financial assets | 11,696 | 487 | 646 | 973 | 136 | 261 | 559 | 718 | 15,476 |
| Reverse repurchase agreements | 188,937 | 3,244 | 4,219 | 29,166 | 3,511 | — | 692 | — | 229,769 |
| Loans and advances to customers | 241,393 | 1,701,639 | 1,062,254 | 1,374,727 | 1,018,435 | 1,276,623 | 452,063 | 119,493 | 7,246,627 |
| Financial investments | | | | | | | | | |
| — Receivables | 497,504 | — | — | 1,120 | — | 180 | — | — | 498,804 |
| — Held-to-maturity investments | 2,355,034 | 31,782 | 23,423 | 11,235 | — | — | 1,000 | 11,661 | 2,434,135 |
| — Available-for-sale financial assets | 462,216 | 56,726 | 26,225 | 207,643 | 13,833 | 11,977 | 4,464 | 12,296 | 795,380 |
| Others | 49,541 | 10,210 | 5,001 | 9,770 | 6,369 | 7,144 | 2,035 | 1,333 | 91,403 |
| | 6,661,165 | 1,881,082 | 1,213,722 | 1,778,010 | 1,069,577 | 1,328,267 | 485,473 | 197,789 | 14,615,085 |
| Credit commitments | 394,265 | 465,608 | 369,203 | 319,876 | 121,876 | 145,641 | 57,971 | 90,586 | 1,965,026 |
| Total maximum credit risk exposure | 7,055,430 | 2,346,690 | 1,582,925 | 2,097,886 | 1,191,453 | 1,473,908 | 543,444 | 288,375 | 16,580,111 |

The compositions of each geographical distribution above are set out in note 52(b), except that "overseas and others" does not include domestic and overseas subsidiaries.

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (continued)

**By industry distribution**

The credit risk exposures of the Group mainly comprise loans and advances to customers and investments in securities. Details of the composition of the Group's investments in debt securities are set out in note 53(a)(iv) to the financial statements. The composition of the Group's and of the Bank's gross loans and advances to customers by industry is analysed as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Manufacturing | 1,455,792 | 1,163,275 | 1,406,071 | 1,129,781 |
| Transportation, storage and postal services | 1,154,071 | 1,114,765 | 1,144,740 | 1,066,027 |
| Wholesale and retail | 816,650 | 633,769 | 737,249 | 569,694 |
| Production and supply of electricity, heating, gas and water | 617,734 | 613,140 | 587,206 | 595,101 |
| Real estate | 562,563 | 577,563 | 491,014 | 515,240 |
| Water, environment and public utility management | 468,526 | 507,112 | 464,000 | 503,015 |
| Leasing and commercial services | 398,359 | 362,011 | 386,810 | 352,400 |
| Mining | 243,289 | 190,180 | 237,203 | 185,582 |
| Lodging and catering | 162,971 | 75,193 | 103,955 | 61,292 |
| Construction | 153,701 | 121,432 | 147,014 | 115,490 |
| Science, education, culture and sanitation | 87,450 | 70,069 | 85,096 | 67,674 |
| Others | 211,472 | 238,002 | 161,944 | 179,721 |
| Subtotal for corporate loans and advances | 6,332,578 | 5,666,511 | 5,952,302 | 5,341,017 |
| Personal mortgage and business loans | 1,660,600 | 1,455,670 | 1,640,298 | 1,440,103 |
| Others | 626,503 | 559,256 | 610,116 | 551,169 |
| Subtotal for personal loans | 2,287,103 | 2,014,926 | 2,250,414 | 1,991,272 |
| Discounted bills | 184,011 | 107,460 | 182,113 | 106,560 |
| Total for loans and advances to customers | 8,803,692 | 7,788,897 | 8,384,829 | 7,438,849 |

#### *(iii) Loans and advances to customers*

The total credit risk exposures of loans and advances to customers are summarised as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Neither past due nor impaired | 8,672,503 | 7,670,928 | 8,260,964 | 7,326,564 |
| Past due but not impaired | 56,614 | 44,958 | 52,104 | 41,604 |
| Impaired | 74,575 | 73,011 | 71,761 | 70,681 |
| | 8,803,692 | 7,788,897 | 8,384,829 | 7,438,849 |
| Allowance for impairment losses | (220,403) | (194,878) | (216,460) | (192,222) |
| | 8,583,289 | 7,594,019 | 8,168,369 | 7,246,627 |

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (continued)

#### Neither past due nor impaired

The loans and advances to customers of the Group that are neither past due nor impaired are classified as "Pass" or "Special mention" under the five-tier loan classification system maintained by the Group. Management of the Group considers that these loans are exposed to normal business risk and there was no identifiable objective evidence of impairment for these loans which may incur losses to the Group at the end of the reporting period.

The following table presents the types of loans and advances to customers which are neither past due nor impaired as at the end of the reporting period:

#### Group

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Pass | Special mention | Total | Pass | Special mention | Total |
| Unsecured loans | 2,626,242 | 50,142 | 2,676,384 | 2,484,037 | 62,741 | 2,546,778 |
| Guaranteed loans | 1,197,403 | 42,074 | 1,239,477 | 1,126,494 | 50,018 | 1,176,512 |
| Loans secured by mortgages | 3,610,019 | 69,638 | 3,679,657 | 3,098,165 | 65,880 | 3,164,045 |
| Pledged loans | 1,052,280 | 24,705 | 1,076,985 | 761,016 | 22,577 | 783,593 |
| | 8,485,944 | 186,559 | 8,672,503 | 7,469,712 | 201,216 | 7,670,928 |

#### Bank

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Pass | Special mention | Total | Pass | Special mention | Total |
| Unsecured loans | 2,484,865 | 48,351 | 2,533,216 | 2,371,749 | 61,560 | 2,433,309 |
| Guaranteed loans | 1,118,505 | 41,407 | 1,159,912 | 1,046,953 | 49,412 | 1,096,365 |
| Loans secured by mortgages | 3,440,501 | 66,354 | 3,506,855 | 2,957,563 | 61,867 | 3,019,430 |
| Pledged loans | 1,036,402 | 24,579 | 1,060,981 | 754,935 | 22,525 | 777,460 |
| | 8,080,273 | 180,691 | 8,260,964 | 7,131,200 | 195,364 | 7,326,564 |

#### Past due but not impaired

The following tables present the ageing analysis of each type of loans and advances to customers of the Group and the Bank that are subject to credit risk which are past due but not impaired as at the end of the reporting period:

#### Group

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Corporate loans and advances | Personal loans | Total | Corporate loans and advances | Personal loans | Total |
| Past due for: | | | | | | |
| Less than one month | 12,010 | 31,814 | 43,824 | 3,819 | 30,882 | 34,701 |
| One to two months | 192 | 7,478 | 7,670 | 376 | 5,717 | 6,093 |
| Two to three months | 53 | 5,060 | 5,113 | 353 | 3,770 | 4,123 |
| Over three months | 5 | 2 | 7 | 37 | 4 | 41 |
| Total | 12,260 | 44,354 | 56,614 | 4,585 | 40,373 | 44,958 |
| Fair value of collateral held | 13,313 | 93,568 | 106,881 | 3,541 | 87,258 | 90,799 |

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (continued)

**Bank**

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Corporate loans and advances | Personal loans | Total | Corporate loans and advances | Personal loans | Total |
| Past due for: | | | | | | |
| Less than one month | 9,004 | 30,669 | 39,673 | 1,581 | 30,544 | 32,125 |
| One to two months | 2 | 7,389 | 7,391 | 2 | 5,675 | 5,677 |
| Two to three months | 2 | 5,035 | 5,037 | 37 | 3,765 | 3,802 |
| Over three months | 3 | — | 3 | — | — | — |
| Total | 9,011 | 43,093 | 52,104 | 1,620 | 39,984 | 41,604 |
| Fair value of collateral held | 11,533 | 92,130 | 103,663 | 654 | 85,592 | 86,246 |

### Impaired

Impaired loans and advances are defined as those loans and advances having objective evidence of impairment as a result of one or more events that occured after initial recognition and that event has an impact on the estimated future cash flows of loans and advances that can be reliably estimated. These loans and advances include corporate loans and personal loans which are graded as "Substandard", "Doubtful" or "Loss".

The fair values of collateral that the Group and the Bank hold relating to loans individually determined to be impaired as at 31 December 2012 amounted to RMB13,994 million (31 December 2011: RMB14,599 million) and RMB12,183 million (31 December 2011: RMB13,096 million), respectively. The collateral mainly consists of land and buildings, equipment and also others.

### Renegotiated loans and advances to customers

The Group has formulated a set of loan restructuring policies to renegotiate the contractual terms with customers, to maximise the collectability of loans and to manage customer relationships.

The carrying amount of renegotiated loans and advances to customers is as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Renegotiated loans and advances to customers | 7,188 | 8,312 | 6,875 | 8,093 |
| Impaired loans and advances to customers included in above | 4,761 | 6,622 | 4,691 | 6,554 |

### Collateral repossessed

During the year, the Group took possession of collateral held as security with a carrying amount of RMB558 million (2011: RMB661 million). Such collateral mainly comprises land and buildings, equipment and also others.

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (continued)

*(iv) Debt securities*

The credit risk of debt securities mainly arises from the risk that the issuer might default on a payment or go into liquidation. Debt securities by different types of issuers are generally subject to different degrees of credit risk.

The following tables present an analysis of the Group's total credit risk exposures of debt securities by types of issuers and investments:

**Group**

*31 December 2012*

| | Receivables | Held-to-maturity investments | Available-for-sale financial assets | Financial assets held-for- trading | Financial assets designated at fair value through profit or loss | Total |
|---|---|---|---|---|---|---|
| Neither past due nor impaired | | | | | | |
| Governments and central banks | 101,276 | 1,260,176 | 149,997 | 1,525 | 1,118 | 1,514,092 |
| Policy banks | 35,090 | 1,271,887 | 252,416 | 516 | 28,040 | 1,587,949 |
| Public sector entities | 2,500 | 22,508 | 66,048 | 190 | 3,354 | 94,600 |
| Banks and other financial institutions | 204,406 | 12,165 | 116,975 | 890 | 5,738 | 340,174 |
| Corporate entities | 21,443 | 9,533 | 328,802 | 17,196 | 65,210 | 442,184 |
| Subtotal | 364,715 | 2,576,269 | 914,238 | 20,317 | 103,460 | 3,978,999 |
| Impaired (*) | | | | | | |
| Banks and other financial institutions | — | 723 | — | — | — | 723 |
| Corporate entities | — | 30 | 106 | — | — | 136 |
| | — | 753 | 106 | — | — | 859 |
| Less: Allowance for impairment losses | — | (460) | — | — | — | (460) |
| Subtotal | — | 293 | 106 | — | — | 399 |
| Total | 364,715 | 2,576,562 | 914,344 | 20,317 | 103,460 | 3,979,398 |

*31 December 2011*

| | Receivables | Held-to-maturity investments | Available-for-sale financial assets | Financial assets held-for-trading | Financial assets designated at fair value through profit or loss | Total |
|---|---|---|---|---|---|---|
| Neither past due nor impaired | | | | | | |
| Governments and central banks | 119,808 | 1,315,218 | 189,320 | 723 | 801 | 1,625,870 |
| Policy banks | 35,090 | 1,052,666 | 221,214 | 444 | 9,168 | 1,318,582 |
| Public sector entities | 2,500 | 21,688 | 68,259 | 1,008 | 100 | 93,555 |
| Banks and other financial institutions | 332,756 | 23,968 | 78,829 | 463 | 212 | 436,228 |
| Corporate entities | 8,650 | 10,967 | 278,309 | 28,037 | 263 | 326,226 |
| Subtotal | 498,804 | 2,424,507 | 835,931 | 30,675 | 10,544 | 3,800,461 |
| Impaired (*) | | | | | | |
| Banks and other financial institutions | — | 742 | 4 | — | — | 746 |
| Corporate entities | — | 30 | 48 | — | — | 78 |
| | — | 772 | 52 | — | — | 824 |
| Less: Allowance for impairment losses | — | (494) | — | — | — | (494) |
| Subtotal | — | 278 | 52 | — | — | 330 |
| Total | 498,804 | 2,424,785 | 835,983 | 30,675 | 10,544 | 3,800,791 |

(*) Impaired debt securities above are all determined based on individual assessments. In determining whether a debt security is impaired, the Group considers the evidence of a loss event and the decreases in estimated future cash flows. No collateral was held by the Group as security of the impaired debt securities.

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (a) Credit risk (continued)

**Bank**

*31 December 2012*

| | Receivables | Held-to-maturity investments | Available-for-sale financial assets | Financial assets held-for- trading | Financial assets designated at fair value through profit or loss | Total |
|---|---|---|---|---|---|---|
| Neither past due nor impaired | | | | | | |
| Governments and central banks | 101,276 | 1,256,414 | 141,821 | 268 | 1,118 | 1,500,897 |
| Policy banks | 35,090 | 1,271,881 | 249,991 | 508 | 28,040 | 1,585,510 |
| Public sector entities | 2,500 | 21,586 | 63,833 | 100 | 3,193 | 91,212 |
| Banks and other financial institutions | 204,406 | 24,782 | 88,114 | 20 | 5,672 | 322,994 |
| Corporate entities | 20,960 | 7,835 | 316,252 | 17,168 | 65,015 | 427,230 |
| Subtotal | 364,232 | 2,582,498 | 860,011 | 18,064 | 103,038 | 3,927,843 |
| Impaired (*) | | | | | | |
| Banks and other financial institutions | — | 623 | — | — | — | 623 |
| Corporate entities | — | 30 | — | — | — | 30 |
| | — | 653 | — | — | — | 653 |
| Less: Allowance for impairment losses | — | (361) | — | — | — | (361) |
| Subtotal | — | 292 | — | — | — | 292 |
| Total | 364,232 | 2,582,790 | 860,011 | 18,064 | 103,038 | 3,928,135 |

*31 December 2011*

| | Receivables | Held-to-maturity investments | Available-for-sale financial assets | Financial assets held-for- trading | Financial assets designated at fair value through profit or loss | Total |
|---|---|---|---|---|---|---|
| Neither past due nor impaired | | | | | | |
| Governments and central banks | 119,808 | 1,313,005 | 186,055 | 470 | 801 | 1,620,139 |
| Policy banks | 35,090 | 1,052,561 | 220,592 | 436 | 9,168 | 1,317,847 |
| Public sector entities | 2,500 | 21,607 | 67,289 | 915 | — | 92,311 |
| Banks and other financial institutions | 332,756 | 35,811 | 54,038 | 20 | — | 422,625 |
| Corporate entities | 8,650 | 10,878 | 267,402 | 28,008 | — | 314,938 |
| Subtotal | 498,804 | 2,433,862 | 795,376 | 29,849 | 9,969 | 3,767,860 |
| Impaired (*) | | | | | | |
| Banks and other financial institutions | — | 630 | 4 | — | — | 634 |
| Corporate entities | — | 30 | — | — | — | 30 |
| | — | 660 | 4 | — | — | 664 |
| Less: Allowance for impairment losses | — | (387) | — | — | — | (387) |
| Subtotal | — | 273 | 4 | — | — | 277 |
| Total | 498,804 | 2,434,135 | 795,380 | 29,849 | 9,969 | 3,768,137 |

(*) Impaired debt securities above are all determined based on individual assessments. In determining whether a debt security is impaired, the Bank considers the evidence of a loss event and the decreases in estimated future cash flows. No collateral was held by the Bank as security of the impaired debt securities.

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (b) Liquidity risk

Liquidity risk is the risk that capital will not be sufficient or funds will not be raised at a reasonable cost in a timely manner to meet the need of asset growth or repayment of debts due, although remaining solvent. This may arise from amount or maturity mismatches of assets and liabilities.

The Group manages its liquidity risk through the Asset and Liability Management Department and aims at:

- optimising the structure of assets and liabilities;
- maintaining the stability of the deposit base;
- projecting cash flows and evaluating the level of current assets; and
- in terms of liquidity of the branches, maintaining an efficient internal fund transfer mechanism.

The Group and the Bank's expected remaining maturity of its financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

*(i) Analysis of the remaining maturity of the assets and liabilities is set out below:*

**Group**

*31 December 2012*

| | Overdue/ repayable on demand | Less than one month | One to three months | Three months to one year | One to five years | More than five years | Undated (***) | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets:** | | | | | | | | |
| Cash and balances with central banks | 596,027 | — | — | — | — | — | 2,578,916 | 3,174,943 |
| Due from banks and other financial institutions (*) | 106,092 | 647,390 | 206,587 | 112,412 | 108,213 | 335 | — | 1,181,029 |
| Financial assets held for trading | — | 488 | 2,467 | 10,815 | 6,091 | 456 | 146 | 20,463 |
| Financial assets designated at fair value through profit or loss | 9 | 29,380 | 47,522 | 17,518 | 87,014 | 10,469 | 9,296 | 201,208 |
| Derivative financial assets | 105 | 1,189 | 3,194 | 5,703 | 2,785 | 1,780 | — | 14,756 |
| Loans and advances to customers | 17,189 | 599,599 | 746,692 | 2,308,352 | 1,946,681 | 2,927,776 | 37,000 | 8,583,289 |
| Financial investments | — | 29,975 | 57,999 | 766,932 | 1,709,631 | 1,293,623 | 4,056 | 3,862,216 |
| Investments in associates and jointly-controlled entities | — | — | — | — | — | — | 33,284 | 33,284 |
| Property and equipment | — | — | — | — | — | — | 135,889 | 135,889 |
| Others | 165,191 | 35,938 | 28,595 | 50,748 | 6,789 | 12,931 | 34,948 | 335,140 |
| Total assets | 884,613 | 1,343,959 | 1,093,056 | 3,272,480 | 3,867,204 | 4,247,370 | 2,833,535 | 17,542,217 |
| **Liabilities:** | | | | | | | | |
| Due to central banks | — | 219 | 18 | 50 | 846 | — | — | 1,133 |
| Financial liabilities designated at fair value through profit or loss | 52,346 | 160,691 | 103,980 | 818 | 1,907 | — | — | 319,742 |
| Derivative financial liabilities | 11 | 2,396 | 1,448 | 4,595 | 3,024 | 1,787 | — | 13,261 |
| Due to banks and other financial institutions (**) | 581,632 | 746,416 | 190,709 | 138,616 | 64,405 | 2,791 | — | 1,724,569 |
| Certificates of deposit | — | 6,323 | 2,895 | 27,376 | 1,415 | — | — | 38,009 |
| Due to customers | 7,076,646 | 818,534 | 1,222,968 | 2,964,264 | 1,533,049 | 27,449 | — | 13,642,910 |
| Debt securities issued | — | 581 | 2,516 | 7,970 | 63,721 | 157,398 | — | 232,186 |
| Others | 182,562 | 48,284 | 29,809 | 129,488 | 40,764 | 11,041 | — | 441,948 |
| Total liabilities | 7,893,197 | 1,783,444 | 1,554,343 | 3,273,177 | 1,709,131 | 200,466 | — | 16,413,758 |
| Net liquidity gap | (7,008,584) | (439,485) | (461,287) | (697) | 2,158,073 | 4,046,904 | 2,833,535 | 1,128,459 |

(*) Includes reverse repurchase agreements.

(**) Includes repurchase agreements.

(***) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (b) Liquidity risk (continued)

*31 December 2011*

| | Overdue/ repayable on demand | Less than one month | One to three months | Three months to one year | One to five years | More than five years | Undated (***) | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets:** | | | | | | | | |
| Cash and balances with central banks | 357,050 | — | — | — | — | — | 2,405,106 | 2,762,156 |
| Due from banks and other financial institutions (*) | 108,997 | 550,919 | 27,159 | 42,040 | 98,324 | — | — | 827,439 |
| Financial assets held for trading | — | 4,133 | 4,209 | 16,093 | 5,068 | 1,172 | 147 | 30,822 |
| Financial assets designated at fair value through profit or loss | — | 39,959 | 9,887 | 17,306 | 49,092 | 5,142 | — | 121,386 |
| Derivative financial assets | 138 | 1,950 | 5,761 | 4,200 | 2,733 | 2,678 | — | 17,460 |
| Loans and advances to customers | 11,254 | 483,214 | 673,999 | 1,948,716 | 1,811,643 | 2,633,077 | 32,116 | 7,594,019 |
| Financial investments | — | 22,441 | 66,038 | 480,383 | 1,858,304 | 1,332,419 | 4,109 | 3,763,694 |
| Investments in associates and jointly-controlled entities | — | — | — | — | — | — | 32,750 | 32,750 |
| Property and equipment | — | — | — | — | — | — | 119,028 | 119,028 |
| Others | 72,640 | 26,574 | 15,640 | 42,135 | 10,469 | 10,183 | 30,473 | 208,114 |
| Total assets | 550,079 | 1,129,190 | 802,693 | 2,550,873 | 3,835,633 | 3,984,671 | 2,623,729 | 15,476,868 |
| **Liabilities**: | | | | | | | | |
| Due to central banks | — | — | 30 | 70 | — | — | — | 100 |
| Financial liabilities designated at fair value through profit or loss | 6,343 | 46,490 | 112,473 | 6,667 | — | — | — | 171,973 |
| Derivative financial liabilities | 10 | 3,447 | 1,042 | 1,767 | 3,296 | 3,055 | — | 12,617 |
| Due to banks and other financial institutions (**) | 505,380 | 736,118 | 125,658 | 122,343 | 52,731 | 5,314 | — | 1,547,544 |
| Certificates of deposit | — | 10,396 | 13,529 | 11,364 | 6,137 | — | — | 41,426 |
| Due to customers | 6,660,720 | 753,224 | 1,143,595 | 2,615,102 | 1,071,244 | 17,334 | — | 12,261,219 |
| Debt securities issued | — | 577 | 1,813 | 2,028 | 62,315 | 137,428 | — | 204,161 |
| Others | 84,725 | 38,096 | 22,868 | 102,533 | 25,958 | 5,825 | — | 280,005 |
| Total liabilities | 7,257,178 | 1,588,348 | 1,421,008 | 2,861,874 | 1,221,681 | 168,956 | — | 14,519,045 |
| Net liquidity gap | (6,707,099) | (459,158) | (618,315) | (311,001) | 2,613,952 | 3,815,715 | 2,623,729 | 957,823 |

(*) Includes reverse repurchase agreements.

(**) Includes repurchase agreements.

(***) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (b) Liquidity risk (continued)

**Bank**

*31 December 2012*

| | Overdue/ repayable on demand | Less than one month | One to three months | Three months to one year | One to five years | More than five years | Undated (***) | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets:** | | | | | | | | |
| Cash and balances with central banks | 579,363 | — | — | — | — | — | 2,567,296 | 3,146,659 |
| Due from banks and other financial institutions (*) | 109,556 | 442,889 | 209,806 | 115,197 | 100,846 | 156 | — | 978,450 |
| Financial assets held for trading | — | 103 | 1,962 | 9,746 | 5,895 | 358 | — | 18,064 |
| Financial assets designated at fair value through profit or loss | 9 | 29,380 | 47,522 | 17,436 | 86,674 | 10,469 | 9,296 | 200,786 |
| Derivative financial assets | — | 1,448 | 3,043 | 5,345 | 2,371 | 1,199 | — | 13,406 |
| Loans and advances to customers | 13,516 | 562,283 | 707,529 | 2,213,382 | 1,822,675 | 2,813,426 | 35,558 | 8,168,369 |
| Financial investments | — | 26,265 | 52,894 | 771,852 | 1,668,977 | 1,286,715 | 1,579 | 3,808,282 |
| Investments in subsidiaries and associates | — | — | — | — | — | — | 103,521 | 103,521 |
| Property and equipment | — | — | — | — | — | — | 114,950 | 114,950 |
| Others | 156,248 | 23,366 | 17,990 | 42,431 | 6,371 | 9,974 | 23,524 | 279,904 |
| Total assets | 858,692 | 1,085,734 | 1,040,746 | 3,175,389 | 3,693,809 | 4,122,297 | 2,855,724 | 16,832,391 |
| **Liabilities:** | | | | | | | | |
| Due to central banks | — | — | — | — | 658 | — | — | 658 |
| Financial liabilities designated at fair value through profit or loss | 52,346 | 160,691 | 103,980 | 818 | 1,907 | — | — | 319,742 |
| Derivative financial liabilities | — | 2,695 | 1,339 | 4,293 | 2,542 | 1,453 | — | 12,322 |
| Due to banks and other financial institutions (**) | 584,761 | 564,628 | 148,731 | 77,660 | 55,805 | — | — | 1,431,585 |
| Certificates of deposit | — | 4,699 | 7,755 | 5,670 | — | — | — | 18,124 |
| Due to customers | 6,997,634 | 710,211 | 1,145,185 | 2,902,588 | 1,522,754 | 23,100 | — | 13,301,472 |
| Debt securities issued | — | 549 | 1,011 | 2,632 | 61,651 | 148,201 | — | 214,044 |
| Others | 165,933 | 44,497 | 28,774 | 129,190 | 41,514 | 5,835 | — | 415,743 |
| Total liabilities | 7,800,674 | 1,487,970 | 1,436,775 | 3,122,851 | 1,686,831 | 178,589 | — | 15,713,690 |
| Net liquidity gap | (6,941,982) | (402,236) | (396,029) | 52,538 | 2,006,978 | 3,943,708 | 2,855,724 | 1,118,701 |

(*) Includes reverse repurchase agreements.

(**) Includes repurchase agreements.

(***) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (b) Liquidity risk (continued)

*31 December 2011*

| | Overdue/ repayable on demand | Less than one month | One to three months | Three months to one year | One to five years | More than five years | Undated (***) | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets:** | | | | | | | | |
| Cash and balances with central banks | 337,356 | — | — | — | — | — | 2,399,882 | 2,737,238 |
| Due from banks and other financial institutions (*) | 103,861 | 438,342 | 24,444 | 43,951 | 93,300 | 158 | — | 704,056 |
| Financial assets held for trading | — | 3,827 | 4,121 | 15,967 | 4,768 | 1,166 | — | 29,849 |
| Financial assets designated at fair value through profit or loss | — | 39,959 | 9,887 | 17,306 | 48,663 | 4,996 | — | 120,811 |
| Derivative financial assets | — | 1,708 | 5,594 | 3,439 | 2,475 | 2,260 | — | 15,476 |
| Loans and advances to customers | 4,377 | 446,881 | 630,310 | 1,872,672 | 1,720,170 | 2,541,403 | 30,814 | 7,246,627 |
| Financial investments | — | 20,252 | 65,694 | 476,045 | 1,831,371 | 1,334,623 | 2,369 | 3,730,354 |
| Investments in subsidiaries and associates | — | — | — | — | — | — | 87,276 | 87,276 |
| Property and equipment | — | — | — | — | — | — | 105,971 | 105,971 |
| Others | 66,580 | 18,900 | 13,571 | 38,587 | 6,244 | 9,919 | 23,960 | 177,761 |
| Total assets | 512,174 | 969,869 | 753,621 | 2,467,967 | 3,706,991 | 3,894,525 | 2,650,272 | 14,955,419 |
| Liabilities: | | | | | | | | |
| Financial liabilities designated at fair value through profit or loss | 6,343 | 46,462 | 112,473 | 6,667 | — | — | — | 171,945 |
| Derivative financial liabilities | — | 3,179 | 817 | 1,415 | 2,648 | 2,786 | — | 10,845 |
| Due to banks and other financial institutions (**) | 508,386 | 656,733 | 106,433 | 53,536 | 51,410 | — | — | 1,376,498 |
| Certificates of deposit | — | 6,484 | 5,955 | 1,432 | 563 | — | — | 14,434 |
| Due to customers | 6,588,132 | 654,100 | 1,076,448 | 2,560,547 | 1,067,254 | 17,334 | — | 11,963,815 |
| Debt securities issued | — | 568 | 1,332 | 510 | 61,829 | 128,200 | — | 192,439 |
| Others | 77,428 | 35,834 | 21,482 | 102,276 | 26,471 | 5,543 | — | 269,034 |
| Total liabilities | 7,180,289 | 1,403,360 | 1,324,940 | 2,726,383 | 1,210,175 | 153,863 | — | 13,999,010 |
| Net liquidity gap | (6,668,115) | (433,491) | (571,319) | (258,416) | 2,496,816 | 3,740,662 | 2,650,272 | 956,409 |

(*) Includes reverse repurchase agreements.

(**) Includes repurchase agreements.

(***) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

#### *(ii) Maturity analysis of contractual undiscounted cash flows*

The tables below summarise the maturity profile of the Group's and of the Bank's financial instruments based on the contractual undiscounted cash flows. The balances of some items in the tables below are different from the balances on the statement of financial position as the tables incorporate all cash flows relating to both principal and interest. The Group and the Bank's expected cash flows on these instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (b) Liquidity risk (continued)

**Group**

*31 December 2012*

| | Overdue/ repayable on demand | Less than one month | One to three months | Three months to one year | One to five years | More than five years | Undated (***) | Total |
|---|---|---|---|---|---|---|---|---|
| **Non-derivative cash flows:** | | | | | | | | |
| **Financial assets:** | | | | | | | | |
| Cash and balances with central banks | 596,027 | — | 1,316 | — | — | — | 2,578,916 | 3,176,259 |
| Due from banks and other financial institutions (*) | 106,650 | 648,657 | 208,535 | 115,129 | 118,200 | 433 | — | 1,197,604 |
| Financial assets held for trading | — | 500 | 2,605 | 11,578 | 7,098 | 521 | 146 | 22,448 |
| Financial assets designated at fair value through profit or loss | 9 | 29,844 | 48,967 | 21,752 | 99,404 | 11,757 | 9,296 | 221,029 |
| Loans and advances to customers (**) | 17,944 | 677,978 | 881,125 | 2,749,973 | 3,172,666 | 4,522,308 | 76,275 | 12,098,269 |
| Financial investments | — | 35,160 | 79,114 | 891,374 | 2,057,438 | 1,539,585 | 4,926 | 4,607,597 |
| Others | 154,899 | 11,269 | 10,440 | 8,124 | 371 | 4,009 | 664 | 189,776 |
| | 875,529 | 1,403,408 | 1,232,102 | 3,797,930 | 5,455,177 | 6,078,613 | 2,670,223 | 21,512,982 |

(*) Includes reverse repurchase agreements.

(**) The maturity profile of the renegotiated loans' contractual undiscounted cash flows is determined according to the negotiated terms.

(***) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

*31 December 2012*

| | Overdue/ repayable on demand | Less than one month | One to three months | Three months to one year | One to five years | More than five years | Undated | Total |
|---|---|---|---|---|---|---|---|---|
| **Non-derivative cash flows:** | | | | | | | | |
| **Financial liabilities:** | | | | | | | | |
| Due to central banks | — | 220 | 22 | 55 | 852 | — | — | 1,149 |
| Financial liabilities designated at fair value through profit or loss | 52,346 | 161,202 | 104,881 | 822 | 1,952 | — | — | 321,203 |
| Due to banks and other financial institutions (*) | 582,655 | 748,231 | 192,119 | 140,817 | 65,406 | 4,054 | — | 1,733,282 |
| Certificates of deposit | — | 6,378 | 3,108 | 27,674 | 1,531 | — | — | 38,691 |
| Due to customers | 7,079,079 | 838,220 | 1,258,654 | 3,069,964 | 1,660,171 | 30,817 | — | 13,936,905 |
| Debt securities issued | — | 605 | 2,546 | 17,789 | 98,579 | 199,755 | — | 319,274 |
| Others | 160,629 | 29 | 23 | 225 | 1,021 | 10,325 | — | 172,252 |
| | 7,874,709 | 1,754,885 | 1,561,353 | 3,257,346 | 1,829,512 | 244,951 | — | 16,522,756 |
| **Derivative cash flows:** | | | | | | | | |
| Derivative financial instruments settled on net basis | — | 2 | (44) | (128) | 77 | (83) | — | (176) |
| **Derivative financial instruments settled on gross basis:** | | | | | | | | |
| — Cash inflow | 30,968 | 388,784 | 311,498 | 537,367 | 53,489 | — | — | 1,322,106 |
| — Cash outflow | (30,735) | (382,958) | (308,246) | (535,419) | (53,933) | — | — | (1,311,291) |
| | 233 | 5,826 | 3,252 | 1,948 | (444) | — | — | 10,815 |

(*) Includes reverse repurchase agreements.

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (b) Liquidity risk (continued)

*31 December 2011*

| | Overdue/ repayable on demand | Less than one month | One to three months | Three months to one year | One to five years | More than five years | Undated (***) | Total |
|---|---|---|---|---|---|---|---|---|
| **Non-derivative cash flows:** | | | | | | | | |
| **Financial assets:** | | | | | | | | |
| Cash and balances with central banks | 357,050 | — | 1,216 | — | — | — | 2,405,106 | 2,763,372 |
| Due from banks and other financial institutions (*) | 109,000 | 551,821 | 27,615 | 43,798 | 116,719 | — | — | 848,953 |
| Financial assets held for trading | — | 4,158 | 4,270 | 16,377 | 5,900 | 1,317 | 147 | 32,169 |
| Financial assets designated at fair value through profit or loss | — | 40,474 | 10,565 | 20,367 | 56,677 | 6,230 | — | 134,313 |
| Loans and advances to customers (**) | 13,578 | 550,434 | 802,630 | 2,383,145 | 2,937,992 | 3,854,456 | 68,661 | 10,610,896 |
| Financial investments | — | 26,984 | 81,370 | 584,345 | 2,191,951 | 1,581,820 | 5,851 | 4,472,321 |
| Others | 64,172 | 6,111 | 1,948 | 3,517 | 4,559 | 485 | — | 80,792 |
| | 543,800 | 1,179,982 | 929,614 | 3,051,549 | 5,313,798 | 5,444,308 | 2,479,765 | 18,942,816 |

(*) Includes reverse repurchase agreements.

(**) The maturity profile of the renegotiated loans' contractual undiscounted cash flows is determined according to the negotiated terms.

(***) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

*31 December 2011*

| | Overdue/ repayable on demand | Less than one month | One to three months | Three months to one year | One to five years | More than five years | Undated | Total |
|---|---|---|---|---|---|---|---|---|
| **Non-derivative cash flows:** | | | | | | | | |
| **Financial liabilities:** | | | | | | | | |
| Due to central banks | — | — | 31 | 71 | — | — | — | 102 |
| Financial liabilities designated at fair value through profit or loss | 6,343 | 46,960 | 114,096 | 6,879 | — | — | — | 174,278 |
| Due to banks and other financial institutions (*) | 505,456 | 741,789 | 140,151 | 142,561 | 57,158 | 6,007 | — | 1,593,122 |
| Certificates of deposit | — | 10,462 | 13,685 | 11,514 | 6,210 | — | — | 41,871 |
| Due to customers | 6,662,545 | 767,519 | 1,173,412 | 2,664,733 | 1,091,575 | 17,663 | — | 12,377,447 |
| Debt securities issued | — | 615 | 1,817 | 10,535 | 93,902 | 178,722 | — | 285,591 |
| Others | 67,117 | 21 | 778 | 89 | 839 | 5,271 | — | 74,115 |
| | 7,241,461 | 1,567,366 | 1,443,970 | 2,836,382 | 1,249,684 | 207,663 | — | 14,546,526 |
| **Derivative cash flows:** | | | | | | | | |
| Derivative financial instruments settled on net basis | — | 7 | (75) | 397 | 804 | (500) | — | 633 |
| **Derivative financial instruments settled on gross basis:** | | | | | | | | |
| — Cash inflow | 16,784 | 243,207 | 257,353 | 348,926 | 25,010 | 136 | — | 891,416 |
| — Cash outflow | (16,877) | (242,356) | (252,503) | (347,302) | (25,090) | (155) | — | (884,283) |
| | (93) | 851 | 4,850 | 1,624 | (80) | (19) | — | 7,133 |

(*) Includes reverse repurchase agreements.

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (b) Liquidity risk (continued)

**Bank**

*31 December 2012*

| | Overdue/ repayable on demand | Less than one month | One to three months | Three months to one year | One to five years | More than five years | Undated (***) | Total |
|---|---|---|---|---|---|---|---|---|
| **Non-derivative cash flows:** | | | | | | | | |
| **Financial assets:** | | | | | | | | |
| Cash and balances with central banks | 579,363 | — | 1,313 | — | — | — | 2,567,296 | 3,147,972 |
| Due from banks and other financial institutions (*) | 109,995 | 443,936 | 211,791 | 117,387 | 110,537 | 164 | — | 993,810 |
| Financial assets held for trading | — | 109 | 2,087 | 10,466 | 6,879 | 403 | — | 19,944 |
| Financial assets designated at fair value through profit or loss | 9 | 29,842 | 48,965 | 21,655 | 99,063 | 11,757 | 9,296 | 220,587 |
| Loans and advances to customers (**) | 14,204 | 638,113 | 837,914 | 2,640,950 | 3,002,070 | 4,370,809 | 73,460 | 11,577,520 |
| Financial investments | — | 31,209 | 73,686 | 882,287 | 2,013,423 | 1,531,378 | 2,095 | 4,534,078 |
| Others | 147,141 | — | — | — | — | — | — | 147,141 |
| | 850,712 | 1,143,209 | 1,175,756 | 3,672,745 | 5,231,972 | 5,914,511 | 2,652,147 | 20,641,052 |

(*) Includes reverse repurchase agreements.

(**) The maturity profile of the renegotiated loans' contractual undiscounted cash flows is determined according to the negotiated terms.

(***) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

*31 December 2012*

| | Overdue/ repayable on demand | Less than one month | One to three months | Three months to one year | One to five years | More than five years | Undated | Total |
|---|---|---|---|---|---|---|---|---|
| **Non-derivative cash flows:** | | | | | | | | |
| **Financial liabilities:** | | | | | | | | |
| Due to central banks | — | — | — | — | 673 | — | — | 673 |
| Financial liabilities designated at fair value through profit or loss | 52,346 | 161,202 | 104,881 | 822 | 1,952 | — | — | 321,203 |
| Due to banks and other financial institutions (*) | 585,797 | 566,293 | 149,786 | 78,844 | 56,439 | — | — | 1,437,159 |
| Certificates of deposit | — | 4,725 | 7,796 | 5,781 | — | — | — | 18,302 |
| Due to customers | 7,000,361 | 727,780 | 1,179,397 | 3,008,085 | 1,650,068 | 25,950 | — | 13,591,641 |
| Debt securities issued | — | 570 | 1,029 | 11,708 | 94,365 | 187,183 | — | 294,855 |
| Others | 146,000 | 29 | 23 | 225 | 1,021 | 5,221 | — | 152,519 |
| | 7,784,504 | 1,460,599 | 1,442,912 | 3,105,465 | 1,804,518 | 218,354 | — | 15,816,352 |
| **Derivative cash flows:** | | | | | | | | |
| Derivative financial instruments settled on net basis | — | 4 | (15) | (10) | (158) | (434) | — | (613) |
| **Derivative financial instruments settled on gross basis:** | | | | | | | | |
| — Cash inflow | — | 336,122 | 261,034 | 475,867 | 63,998 | — | — | 1,137,021 |
| — Cash outflow | — | (337,584) | (260,096) | (474,242) | (63,882) | — | — | (1,135,804) |
| | — | (1,462) | 938 | 1,625 | 116 | — | — | 1,217 |

(*) Includes reverse repurchase agreements.

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (b) Liquidity risk (continued)

*31 December 2011*

| | Overdue/ repayable on demand | Less than one month | One to three months | Three months to one year | One to five years | More than five years | Undated (***) | Total |
|---|---|---|---|---|---|---|---|---|
| **Non-derivative cash flows:** | | | | | | | | |
| **Financial assets:** | | | | | | | | |
| Cash and balances with central banks | 337,356 | — | 1,213 | — | — | — | 2,399,882 | 2,738,451 |
| Due from banks and other financial institutions (*) | 103,861 | 439,173 | 24,899 | 45,655 | 110,787 | 170 | — | 724,545 |
| Financial assets held for trading | — | 3,851 | 4,179 | 16,243 | 5,590 | 1,311 | — | 31,174 |
| Financial assets designated at fair value through profit or loss | — | 40,472 | 10,564 | 20,338 | 56,179 | 5,649 | — | 133,202 |
| Loans and advances to customers (**) | 6,566 | 511,885 | 755,523 | 2,296,273 | 2,810,298 | 3,732,687 | 66,331 | 10,179,563 |
| Financial investments | — | 24,635 | 80,830 | 579,316 | 2,162,765 | 1,585,084 | 3,744 | 4,436,374 |
| Others | 58,429 | — | — | — | — | — | — | 58,429 |
| | 506,212 | 1,020,016 | 877,208 | 2,957,825 | 5,145,619 | 5,324,901 | 2,469,957 | 18,301,738 |

(*) Includes reverse repurchase agreements.

(**) The maturity profile of the renegotiated loans' contractual undiscounted cash flows is determined according to the negotiated terms.

(***) Includes loans and advances to customers and bond investments that are impaired or not impaired but overdue for more than one month.

*31 December 2011*

| | Overdue/ repayable on demand | Less than one month | One to three months | Three months to one year | One to five years | More than five years | Undated | Total |
|---|---|---|---|---|---|---|---|---|
| **Non-derivative cash flows:** | | | | | | | | |
| **Financial liabilities:** | | | | | | | | |
| Financial liabilities designated at fair value through profit or loss | 6,343 | 46,917 | 114,096 | 6,879 | — | — | — | 174,235 |
| Due to banks and other financial institutions (*) | 508,423 | 662,609 | 121,739 | 71,025 | 55,171 | — | — | 1,418,967 |
| Certificates of deposit | — | 6,521 | 6,023 | 1,455 | 566 | — | — | 14,565 |
| Due to customers | 6,590,038 | 667,004 | 1,106,960 | 2,635,857 | 1,140,720 | 19,103 | — | 12,159,682 |
| Debt securities issued | — | 612 | 1,339 | 8,580 | 91,564 | 166,197 | — | 268,292 |
| Others | 61,403 | 21 | 13 | 89 | 839 | 4,972 | — | 67,337 |
| | 7,166,207 | 1,383,684 | 1,350,170 | 2,723,885 | 1,288,860 | 190,272 | — | 14,103,078 |
| **Derivative cash flows:** | | | | | | | | |
| Derivative financial instruments settled on net basis | — | (82) | (35) | 89 | (182) | (710) | — | (920) |
| **Derivative financial instruments settled on gross basis:** | | | | | | | | |
| — Cash inflow | — | 181,595 | 210,025 | 276,533 | 18,819 | 136 | — | 687,108 |
| — Cash outflow | — | (182,698) | (206,857) | (274,964) | (18,796) | (155) | — | (683,470) |
| | — | (1,103) | 3,168 | 1,569 | 23 | (19) | — | 3,638 |

(*) Includes reverse repurchase agreements.

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (b) Liquidity risk (continued)

#### *(iii) Analysis of credit commitments by contractual expiry date*

Management expects that not all of the commitments will be drawn before the expiry of the commitments.

**Group**

| | Repayable on demand | Less than one month | One to three months | Three months to one year | One to five years | More than five years | Total |
|---|---|---|---|---|---|---|---|
| **31 December 2012** | | | | | | | |
| Credit commitments | 635,824 | 143,048 | 278,689 | 510,723 | 287,642 | 220,280 | 2,076,206 |
| **31 December 2011** | | | | | | | |
| Credit commitments | 625,080 | 129,611 | 232,590 | 399,221 | 311,409 | 278,681 | 1,976,592 |

**Bank**

| | Repayable on demand | Less than one month | One to three months | Three months to one year | One to five years | More than five years | Total |
|---|---|---|---|---|---|---|---|
| **31 December 2012** | | | | | | | |
| Credit commitments | 680,309 | 134,498 | 248,766 | 447,492 | 277,626 | 208,962 | 1,997,653 |
| **31 December 2011** | | | | | | | |
| Credit commitments | 613,772 | 111,996 | 234,740 | 389,608 | 291,057 | 323,853 | 1,965,026 |

### (c) Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's trading and non-trading businesses.

The Group is primarily exposed to structural interest rate risk arising from commercial banking and position risk arising from treasury transactions. Interest rate risk is inherent in many of its businesses and largely arises from mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities.

The Group's currency risk mainly results from the risk arising from exchange rate fluctuations on its foreign exchange exposures. Foreign exchange exposures include the mismatch of foreign exchange assets and liabilities, and off-balance sheet foreign exchange positions arising from derivative transactions.

The Group considers the market risk arising from stock price fluctuations in respect of its investment portfolios as immaterial.

Sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major market risk management tools used by the Group. The Bank monitors market risk separately in respect of trading and other non-trading portfolios. The Value-at-risk ("VaR") analysis is a major tool used by the Bank to measure and monitor the market risk of its trading portfolios. The following sections include a VaR analysis by risk type of the Group's trading portfolios including Head Office and all overseas branches and a sensitivity analysis based on the Group's currency risk exposure and interest rate risk exposure (both trading and non-trading portfolios).

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (c) Market risk (continued)

*(i) VaR*

VaR analysis is a statistical technique which estimates the potential maximum losses that could occur on risk positions taken due to movements in interest rates, foreign exchange rates or prices over a specified time horizon and at a specified level of confidence. The Bank adopts a historical simulation model to calculate and monitor trading portfolio VaR with 250 days' historical market data (with a 99% confidence level, and one-day holding period) on a daily basis.

A summary of VaR by risk type of the Bank's trading portfolios is as follows:

| | 2012 | | | |
|---|---|---|---|---|
| | 31 December 2012 | Average | Highest | Lowest |
| Interest rate risk | 14 | 28 | 81 | 7 |
| Foreign exchange risk | 28 | 28 | 60 | 3 |
| Commodity risk | 0 | 7 | 20 | 0 |
| Total portfolio VaR | 32 | 41 | 88 | 22 |

| | 2011 | | | |
|---|---|---|---|---|
| | 31 December 2011 | Average | Highest | Lowest |
| Interest rate risk | 39 | 44 | 103 | 23 |
| Foreign exchange risk | 15 | 14 | 81 | 3 |
| Commodity risk | 1 | 4 | 63 | 1 |
| Total portfolio VaR | 41 | 46 | 101 | 24 |

(1) The Bank extended the VaR calculation by 14 overseas branches in 2012.

VaR for each risk factor is the derived largest potential loss due to fluctuations solely in that risk factor. As there was a diversification effect due to the correlation amongst the risk factors, the individual VaR did not add up to the total portfolio VaR.

Although VaR is an important tool for measuring market risk under normal market environment, the assumptions on which the model is based do give rise to some limitations, mainly including the following:

(1) VaR does not reflect liquidity risk. In the VaR model, a one-day holding period assumes that it is possible to hedge or dispose of positions within that period without restriction, the price of the financial instruments will fluctuate in the specified range, and the correlation between these market prices will remain unchanged. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;

(2) Even though positions may change throughout the day, VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level; and

(3) VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, especially those of an exceptional nature due to significant market moves.

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (c) Market risk (continued)

*(ii) Currency risk*

The Group conducts it businesses mainly in RMB, with certain transactions denominated in USD, HK$ and, to a lesser extent, other currencies. Transactions in foreign currencies mainly arise from the Group's treasury operations, foreign exchange dealings and overseas investments.

The exchange rate of RMB to USD is managed under a floating exchange rate system. The HK$ exchange rate has been pegged to USD and therefore the exchange rate of RMB to HK$ has fluctuated in line with the changes in the exchange rate of RMB to USD.

The Group manages its currency risk through various methods, including limitation management and risk hedging to hedge foreign exchange risk, and performing currency risk sensitivity analysis and stress testing regularly.

The tables below indicate a sensitivity analysis of exchange rate changes of the currencies to which the Group had significant exposure on its monetary assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement in the currency rates against RMB, with all other variables held constant, on profit before tax and equity. A negative amount in the table reflects a potential net reduction in profit before tax or equity, while a positive amount reflects a potential net increase. This effect, however, is based on the assumption that the Group's foreign exchange exposures as at the year end are kept unchanged and, therefore, have not incorporated actions that would be taken by the Group to mitigate the adverse impact of this foreign exchange risk.

**Group**

| | Change in | Effect on profit before tax | | Effect on equity | |
|---|---|---|---|---|---|
| Currency | currency rate | 2012 | 2011 | 2012 | 2011 |
| USD | -1% | (172) | (175) | (58) | (41) |
| HK$ | -1% | 62 | (42) | (375) | (293) |

**Bank**

| | Change in | Effect on profit before tax | | Effect on equity | |
|---|---|---|---|---|---|
| Currency | currency rate | 2012 | 2011 | 2012 | 2011 |
| USD | -1% | (76) | (225) | (16) | (14) |
| HK$ | -1% | 54 | 2 | (4) | (3) |

While the tables above indicates the effect on profit before tax and equity of 1% depreciation of USD and HK$, there will be an opposite effect with the same amount if the currencies appreciate by the same percentage.

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (c) Market risk (continued)

A breakdown of the assets and liabilities analysed by currency is as follows:

### Group

*31 December 2012*

| | RMB | USD (equivalent to RMB) | HK$ (equivalent to RMB) | Others (equivalent to RMB) | Total |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Cash and balances with central banks | 3,099,725 | 36,778 | 10,617 | 27,823 | 3,174,943 |
| Due from banks and other financial institutions (*) | 725,041 | 371,620 | 15,730 | 68,638 | 1,181,029 |
| Financial assets held for trading | 18,458 | 460 | 991 | 554 | 20,463 |
| Financial assets designated at fair value though profit or loss | 200,777 | 340 | 82 | 9 | 201,208 |
| Derivative financial assets | 7,186 | 2,373 | 171 | 5,026 | 14,756 |
| Loans and advances to customers | 7,827,810 | 575,977 | 108,872 | 70,630 | 8,583,289 |
| Financial investments | 3,772,068 | 63,498 | 3,980 | 22,670 | 3,862,216 |
| Investments in associates and jointly-controlled entities | 121 | 719 | 184 | 32,260 | 33,284 |
| Property and equipment | 118,917 | 15,490 | 488 | 994 | 135,889 |
| Others | 220,571 | 44,129 | 7,503 | 62,937 | 335,140 |
| Total assets | 15,990,674 | 1,111,384 | 148,618 | 291,541 | 17,542,217 |
| **Liabilities:** | | | | | |
| Due to central banks | 68 | 219 | — | 846 | 1,133 |
| Financial liabilities designated at fair value through profit or loss | 265,489 | 1,906 | 1 | 52,346 | 319,742 |
| Derivative financial liabilities | 2,017 | 10,132 | 71 | 1,041 | 13,261 |
| Due to banks and other financial institutions (**) | 1,175,996 | 450,420 | 1,034 | 97,119 | 1,724,569 |
| Certificates of deposit | 10,646 | 14,116 | 4,444 | 8,803 | 38,009 |
| Due to customers | 13,076,332 | 250,042 | 137,219 | 179,317 | 13,642,910 |
| Debt securities issued | 209,050 | 18,420 | 549 | 4,167 | 232,186 |
| Others | 389,533 | 34,441 | 4,164 | 13,810 | 441,948 |
| Total liabilities | 15,129,131 | 779,696 | 147,482 | 357,449 | 16,413,758 |
| Net position | 861,543 | 331,688 | 1,136 | (65,908) | 1,128,459 |
| Credit commitments | 1,566,440 | 298,301 | 140,770 | 70,695 | 2,076,206 |

(*) Includes reverse repurchase agreements.

(**) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (c) Market risk (continued)

*31 December 2011*

| | RMB | USD (equivalent to RMB) | HK$ (equivalent to RMB) | Others (equivalent to RMB) | Total |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Cash and balances with central banks | 2,723,401 | 15,813 | 16,664 | 6,278 | 2,762,156 |
| Due from banks and other financial institutions (*) | 521,393 | 228,860 | 10,262 | 66,924 | 827,439 |
| Financial assets held for trading | 29,836 | 399 | 471 | 116 | 30,822 |
| Financial assets designated at fair value though profit or loss | 120,811 | 490 | 85 | — | 121,386 |
| Derivative financial assets | 12,414 | 3,014 | 226 | 1,806 | 17,460 |
| Loans and advances to customers | 6,990,074 | 454,907 | 101,925 | 47,113 | 7,594,019 |
| Financial investments | 3,689,661 | 52,392 | 3,933 | 17,708 | 3,763,694 |
| Investments in associates and jointly-controlled entities | 55 | 709 | 174 | 31,812 | 32,750 |
| Property and equipment | 108,613 | 9,602 | 386 | 427 | 119,028 |
| Others | 153,057 | 6,752 | 5,745 | 42,560 | 208,114 |
| Total assets | 14,349,315 | 772,938 | 139,871 | 214,744 | 15,476,868 |
| **Liabilities:** | | | | | |
| Due to central banks | 100 | — | — | — | 100 |
| Financial liabilities designated at fair value through profit or loss | 164,480 | 865 | 1 | 6,627 | 171,973 |
| Derivative financial liabilities | 3,893 | 3,731 | 57 | 4,936 | 12,617 |
| Due to banks and other financial institutions (**) | 1,197,095 | 267,673 | 8,164 | 74,612 | 1,547,544 |
| Certificates of deposit | 13,592 | 15,794 | 4,883 | 7,157 | 41,426 |
| Due to customers | 11,829,251 | 183,146 | 140,648 | 108,174 | 12,261,219 |
| Debt securities issued | 189,504 | 11,476 | 497 | 2,684 | 204,161 |
| Others | 258,867 | 12,186 | 2,024 | 6,928 | 280,005 |
| Total liabilities | 13,656,782 | 494,871 | 156,274 | 211,118 | 14,519,045 |
| Net position | 692,533 | 278,067 | (16,403) | 3,626 | 957,823 |
| Credit commitments | 1,459,699 | 402,491 | 74,916 | 39,486 | 1,976,592 |

(*) Includes reverse repurchase agreements.

(**) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (c) Market risk (continued)

**Bank**

*31 December 2012*

| | RMB | USD (equivalent to RMB) | HK$ (equivalent to RMB) | Others (equivalent to RMB) | Total |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Cash and balances with central banks | 3,093,873 | 34,945 | 1,416 | 16,425 | 3,146,659 |
| Due from banks and other financial institutions (*) | 724,270 | 178,759 | 8,588 | 66,833 | 978,450 |
| Financial assets held for trading | 17,995 | 69 | — | — | 18,064 |
| Financial assets designated at fair value though profit or loss | 200,777 | — | — | 9 | 200,786 |
| Derivative financial assets | 6,815 | 1,271 | 1 | 5,319 | 13,406 |
| Loans and advances to customers | 7,698,301 | 441,787 | 9,048 | 19,233 | 8,168,369 |
| Financial investments | 3,750,661 | 44,143 | 1,638 | 11,840 | 3,808,282 |
| Investments in subsidiaries and associates | 11,379 | 12,163 | 41,723 | 38,256 | 103,521 |
| Property and equipment | 114,690 | 212 | 8 | 40 | 114,950 |
| Others | 181,971 | 37,635 | 873 | 59,425 | 279,904 |
| Total assets | 15,800,732 | 750,984 | 63,295 | 217,380 | 16,832,391 |
| **Liabilities:** | | | | | |
| Due to central banks | — | — | — | 658 | 658 |
| Financial liabilities designated at fair value through profit or loss | 265,489 | 1,906 | 1 | 52,346 | 319,742 |
| Derivative financial liabilities | 2,244 | 7,505 | 16 | 2,557 | 12,322 |
| Due to banks and other financial institutions (**) | 1,104,836 | 233,104 | 6,560 | 87,085 | 1,431,585 |
| Certificates of deposit | 841 | 7,872 | 1,280 | 8,131 | 18,124 |
| Due to customers | 13,004,725 | 166,080 | 14,838 | 115,829 | 13,301,472 |
| Debt securities issued | 205,973 | 5,293 | — | 2,778 | 214,044 |
| Others | 375,246 | 28,711 | 1,375 | 10,411 | 415,743 |
| Total liabilities | 14,959,354 | 450,471 | 24,070 | 279,795 | 15,713,690 |
| Net position | 841,378 | 300,513 | 39,225 | (62,415) | 1,118,701 |
| Credit commitments | 1,561,904 | 326,651 | 42,845 | 66,253 | 1,997,653 |

(*) Includes reverse repurchase agreements.

(**) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (c) Market risk (continued)

*31 December 2011*

| | RMB | USD (equivalent to RMB) | HK$ (equivalent to RMB) | Others (equivalent to RMB) | Total |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Cash and balances with central banks | 2,718,281 | 14,944 | 1,378 | 2,635 | 2,737,238 |
| Due from banks and other financial institutions (*) | 519,154 | 119,560 | 16,592 | 48,750 | 704,056 |
| Financial assets held for trading | 29,781 | 68 | — | — | 29,849 |
| Financial assets designated at fair value though profit or loss | 120,811 | — | — | — | 120,811 |
| Derivative financial assets | 11,903 | 1,877 | 21 | 1,675 | 15,476 |
| Loans and advances to customers | 6,878,495 | 338,868 | 10,150 | 19,114 | 7,246,627 |
| Financial investments | 3,680,907 | 35,505 | 4,485 | 9,457 | 3,730,354 |
| Investments in subsidiaries and associates | 5,679 | 5,801 | 37,214 | 38,582 | 87,276 |
| Property and equipment | 105,690 | 241 | 8 | 32 | 105,971 |
| Others | 136,026 | 1,580 | 116 | 40,039 | 177,761 |
| Total assets | 14,206,727 | 518,444 | 69,964 | 160,284 | 14,955,419 |
| **Liabilities:** | | | | | |
| Financial liabilities designated at fair value through profit or loss | 164,515 | 802 | 1 | 6,627 | 171,945 |
| Derivative financial liabilities | 3,792 | 2,617 | 25 | 4,411 | 10,845 |
| Due to banks and other financial institutions (**) | 1,138,782 | 151,167 | 15,028 | 71,521 | 1,376,498 |
| Certificates of deposit | 140 | 6,280 | 857 | 7,157 | 14,434 |
| Due to customers | 11,761,008 | 120,874 | 16,617 | 65,316 | 11,963,815 |
| Debt securities issued | 187,912 | 1,843 | — | 2,684 | 192,439 |
| Others | 254,729 | 8,248 | 443 | 5,614 | 269,034 |
| Total liabilities | 13,510,878 | 291,831 | 32,971 | 163,330 | 13,999,010 |
| Net position | 695,849 | 226,613 | 36,993 | (3,046) | 956,409 |
| Credit commitments | 1,466,855 | 430,971 | 33,849 | 33,351 | 1,965,026 |

(*) Includes reverse repurchase agreements.

(**) Includes repurchase agreements.

#### *(iii) Interest rate risk*

The Group's interest rate risk mainly arises from the mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB. The PBOC establishes RMB interest rate policy which includes a cap for RMB deposit rates and a floor for RMB loan rates.

The Group manages its interest rate risk by:

- regularly monitoring the macroeconomic factors that may have impact on the PBOC benchmark interest rates;
- optimising the differences in timing between contractual repricing (maturities) of interest-generating assets and interest-bearing liabilities; and
- managing the deviation of the pricing of interest-generating assets and interest-bearing liabilities from the PBOC benchmark interest rates.

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (c) Market risk (continued)

A principal part of the Group's management of interest rate risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modeling). The Group aims to mitigate the impact of prospective interest rate movements which could reduce future net interest income, while balancing the cost of such hedging on the current revenue.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's and the Bank's net interest income and equity.

The sensitivity of the net interest income is the effect of the assumed changes in interest rates on the net interest income, arising from the financial assets and financial liabilities held at year end that are subject to repricing within the coming year, including the effect of hedging instruments. The sensitivity of equity is the effect of the assumed changes in interest rates on other comprehensive income, calculated by revaluing fixed rate available-for-sale financial assets held at year end, including the effect of any associated hedges.

**Group**

| | Effect on net interest income | | Effect on equity | |
|---|---|---|---|---|
| Change in basis points | 2012 | 2011 | 2012 | 2011 |
| +100 basis points | (6,994) | (12,509) | (22,489) | (19,151) |
| -100 basis points | 6,994 | 12,509 | 23,851 | 20,417 |

**Bank**

| | Effect on net interest income | | Effect on equity | |
|---|---|---|---|---|
| Change in basis points | 2012 | 2011 | 2012 | 2011 |
| +100 basis points | (6,553) | (12,363) | (21,733) | (18,931) |
| -100 basis points | 6,553 | 12,363 | 23,094 | 20,197 |

The interest rate sensitivities set out in the tables above are for illustration only and are based on simplified scenarios. The figures represent the effect of the pro forma movements in net interest income and equity based on the projected yield curve scenarios and the Group's and the Bank's current interest rate risk profile. This effect, however, does not incorporate actions that would be taken by management to mitigate the impact of interest rate risk. The projections above also assume that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income and equity in the case where some rates change while others remain unchanged.

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (c) Market risk (continued)

The tables below summarise the contractual repricing or maturity dates, whichever is earlier, of the Group's assets and liabilities:

*31 December 2012*

| | Less than three months | Three months to one year | One to five years | More than five years | Non-interest-bearing | Total |
|---|---|---|---|---|---|---|
| **Assets:** | | | | | | |
| Cash and balances with central banks | 2,736,423 | — | — | — | 438,520 | 3,174,943 |
| Due from banks and other financial institutions (*) | 979,890 | 166,681 | 31,010 | 335 | 3,113 | 1,181,029 |
| Financial assets held for trading | 3,831 | 10,707 | 5,493 | 286 | 146 | 20,463 |
| Financial assets designated at fair value through profit or loss | 84,272 | 19,330 | 77,366 | 7,502 | 12,738 | 201,208 |
| Derivative financial assets | — | — | — | — | 14,756 | 14,756 |
| Loans and advances to customers | 5,041,876 | 3,363,398 | 22,392 | 117,512 | 38,111 | 8,583,289 |
| Financial investments | 276,967 | 939,062 | 1,446,678 | 1,195,889 | 3,620 | 3,862,216 |
| Investments in associates and jointly-controlled entities | — | — | — | — | 33,284 | 33,284 |
| Property and equipment | — | — | — | — | 135,889 | 135,889 |
| Others | 30,406 | 813 | — | — | 303,921 | 335,140 |
| Total assets | 9,153,665 | 4,499,991 | 1,582,939 | 1,321,524 | 984,098 | 17,542,217 |
| **Liabilities:** | | | | | | |
| Due to central banks | 237 | 50 | 846 | — | — | 1,133 |
| Financial liabilities designated at fair value through profit or loss | 266,578 | 818 | — | — | 52,346 | 319,742 |
| Derivative financial liabilities | — | — | — | — | 13,261 | 13,261 |
| Due to banks and other financial institutions (**) | 1,523,838 | 172,359 | 9,461 | 1,199 | 17,712 | 1,724,569 |
| Certificates of deposit | 22,360 | 14,359 | 1,290 | — | — | 38,009 |
| Due to customers | 8,873,020 | 2,962,878 | 1,527,808 | 23,100 | 256,104 | 13,642,910 |
| Debt securities issued | 7,218 | 9,460 | 92,442 | 123,066 | — | 232,186 |
| Others | — | — | — | — | 441,948 | 441,948 |
| Total liabilities | 10,693,251 | 3,159,924 | 1,631,847 | 147,365 | 781,371 | 16,413,758 |
| Interest rate mismatch | (1,539,586) | 1,340,067 | (48,908) | 1,174,159 | N/A | N/A |

(*) Includes reverse repurchase agreements.

(**) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (c) Market risk (continued)

*31 December 2011*

| | Less than three months | Three months to one year | One to five years | More than five years | Non-interest-bearing | Total |
|---|---|---|---|---|---|---|
| **Assets:** | | | | | | |
| Cash and balances with central banks | 2,502,220 | — | — | — | 259,936 | 2,762,156 |
| Due from banks and other financial institutions (*) | 709,319 | 82,608 | 31,714 | — | 3,798 | 827,439 |
| Financial assets held for trading | 8,859 | 16,301 | 4,530 | 985 | 147 | 30,822 |
| Financial assets designated at fair value through profit or loss | 100,310 | 15,403 | 4,853 | 820 | — | 121,386 |
| Derivative financial assets | — | — | — | — | 17,460 | 17,460 |
| Loans and advances to customers | 4,384,282 | 3,017,912 | 30,127 | 130,447 | 31,251 | 7,594,019 |
| Financial investments | 253,166 | 638,919 | 1,650,739 | 1,217,148 | 3,722 | 3,763,694 |
| Investments in associates and jointly-controlled entities | — | — | — | — | 32,750 | 32,750 |
| Property and equipment | — | — | — | — | 119,028 | 119,028 |
| Others | 15,431 | 610 | — | — | 192,073 | 208,114 |
| Total assets | 7,973,587 | 3,771,753 | 1,721,963 | 1,349,400 | 660,165 | 15,476,868 |
| **Liabilities:** | | | | | | |
| Due to central banks | 30 | 70 | — | — | — | 100 |
| Financial liabilities designated at fair value through profit or loss | 158,963 | 6,667 | — | — | 6,343 | 171,973 |
| Derivative financial liabilities | — | — | — | — | 12,617 | 12,617 |
| Due to banks and other financial institutions (**) | 1,375,418 | 161,538 | 2,481 | 4,679 | 3,428 | 1,547,544 |
| Certificates of deposit | 24,240 | 11,049 | 6,137 | — | — | 41,426 |
| Due to customers | 8,295,296 | 2,614,211 | 1,071,176 | 17,334 | 263,202 | 12,261,219 |
| Debt securities issued | 6,681 | 2,028 | 58,024 | 137,428 | — | 204,161 |
| Others | — | — | — | — | 280,005 | 280,005 |
| Total liabilities | 9,860,628 | 2,795,563 | 1,137,818 | 159,441 | 565,595 | 14,519,045 |
| Interest rate mismatch | (1,887,041) | 976,190 | 584,145 | 1,189,959 | N/A | N/A |

(*) Includes reverse repurchase agreements.

(**) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (c) Market risk (continued)

The tables below summarise the contractual repricing or maturity dates, whichever is earlier, of the Bank's assets and liabilities:

*31 December 2012*

| | Less than three months | Three months to one year | One to five years | More than five years | Non-interest-bearing | Total |
|---|---|---|---|---|---|---|
| **Assets:** | | | | | | |
| Cash and balances with central banks | 2,711,421 | — | — | — | 435,238 | 3,146,659 |
| Due from banks and other financial institutions (*) | 784,074 | 169,197 | 22,850 | — | 2,329 | 978,450 |
| Financial assets held for trading | 2,581 | 9,869 | 5,425 | 189 | — | 18,064 |
| Financial assets designated at fair value through profit or loss | 84,272 | 19,248 | 77,026 | 7,502 | 12,738 | 200,786 |
| Derivative financial assets | — | — | — | — | 13,406 | 13,406 |
| Loans and advances to customers | 4,958,996 | 3,032,902 | 22,375 | 117,425 | 36,671 | 8,168,369 |
| Financial investments | 265,695 | 942,510 | 1,410,090 | 1,188,738 | 1,249 | 3,808,282 |
| Investments in subsidiaries and associates | — | — | — | — | 103,521 | 103,521 |
| Property and equipment | — | — | — | — | 114,950 | 114,950 |
| Others | — | — | — | — | 279,904 | 279,904 |
| Total assets | 8,807,039 | 4,173,726 | 1,537,766 | 1,313,854 | 1,000,006 | 16,832,391 |
| **Liabilities:** | | | | | | |
| Due to central banks | — | — | 658 | — | — | 658 |
| Financial liabilities designated at fair value through profit or loss | 266,578 | 818 | — | — | 52,346 | 319,742 |
| Derivative financial liabilities | — | — | — | — | 12,322 | 12,322 |
| Due to banks and other financial institutions (**) | 1,308,588 | 112,222 | 3,880 | — | 6,895 | 1,431,585 |
| Certificates of deposit | 12,730 | 5,394 | — | — | — | 18,124 |
| Due to customers | 8,622,299 | 2,902,588 | 1,522,748 | 23,100 | 230,737 | 13,301,472 |
| Debt securities issued | 5,181 | 5,216 | 90,246 | 113,401 | — | 214,044 |
| Others | — | — | — | — | 415,743 | 415,743 |
| Total liabilities | 10,215,376 | 3,026,238 | 1,617,532 | 136,501 | 718,043 | 15,713,690 |
| Interest rate mismatch | (1,408,337) | 1,147,488 | (79,766) | 1,177,353 | N/A | N/A |

(*) Includes reverse repurchase agreements.

(**) Includes repurchase agreements.

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (c) Market risk (continued)

*31 December 2011*

| | Less than three months | Three months to one year | One to five years | More than five years | Non-interest-bearing | Total |
|---|---|---|---|---|---|---|
| **Assets:** | | | | | | |
| Cash and balances with central banks | 2,478,780 | — | — | — | 258,458 | 2,737,238 |
| Due from banks and other financial institutions (*) | 592,359 | 83,215 | 27,049 | — | 1,433 | 704,056 |
| Financial assets held for trading | 8,205 | 16,301 | 4,363 | 980 | — | 29,849 |
| Financial assets designated at fair value through profit or loss | 100,310 | 15,403 | 4,424 | 674 | — | 120,811 |
| Derivative financial assets | — | — | — | — | 15,476 | 15,476 |
| Loans and advances to customers | 4,296,838 | 2,759,265 | 30,127 | 130,447 | 29,950 | 7,246,627 |
| Financial investments | 249,099 | 634,888 | 1,628,976 | 1,215,356 | 2,035 | 3,730,354 |
| Investments in subsidiaries and associates | — | — | — | — | 87,276 | 87,276 |
| Property and equipment | — | — | — | — | 105,971 | 105,971 |
| Others | — | — | — | — | 177,761 | 177,761 |
| Total assets | 7,725,591 | 3,509,072 | 1,694,939 | 1,347,457 | 678,360 | 14,955,419 |
| **Liabilities:** | | | | | | |
| Financial liabilities designated at fair value through profit or loss | 158,935 | 6,667 | — | — | 6,343 | 171,945 |
| Derivative financial liabilities | — | — | — | — | 10,845 | 10,845 |
| Due to banks and other financial institutions (**) | 1,281,615 | 92,466 | 2,417 | — | — | 1,376,498 |
| Certificates of deposit | 12,754 | 1,117 | 563 | — | — | 14,434 |
| Due to customers | 8,081,975 | 2,560,547 | 1,067,224 | 17,334 | 236,735 | 11,963,815 |
| Debt securities issued | 6,193 | 510 | 57,536 | 128,200 | — | 192,439 |
| Others | — | — | — | — | 269,034 | 269,034 |
| Total liabilities | 9,541,472 | 2,661,307 | 1,127,740 | 145,534 | 522,957 | 13,999,010 |
| Interest rate mismatch | (1,815,881) | 847,765 | 567,199 | 1,201,923 | N/A | N/A |

(*) Includes reverse repurchase agreements.

(**) Includes repurchase agreements.

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (d) Capital management

The Group's objectives on capital management are:

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To allocate capital using an efficient and risk-based approach to optimise the risk adjusted return to the shareholders; and
- To maintain an adequate capital base to support the development of its business.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust its profit distribution policy, issue or redeem own shares, long term subordinated bonds, convertible bonds and hybrid instruments.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management based on regulations issued by the CBRC. The required information is filed with the CBRC by the Group and the Bank semi-annually and quarterly.

The CBRC requires each bank to maintain the capital adequacy ratio and core capital adequacy ratio not below the minimum of 8% and 4%, respectively. In addition, those individual banking subsidiaries or branches incorporated outside Mainland China are also directly regulated and supervised by their local banking supervisors. There are certain differences in the capital adequacy requirements of different countries.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk capital adjustment is calculated using the standardised approach.

The Group computes the capital adequacy ratio and core capital adequacy ratio in accordance with "Regulations Governing Capital Adequacy of Commercial Banks" and related regulations promulgated by the CBRC. The requirements pursuant to these regulations may have significant differences comparing to those applicable in Hong Kong and other countries.

The capital adequacy ratios and related components of the Group are computed in accordance with the statutory financial statements of the Group prepared under PRC GAAP. During the year, the Group has complied in full with all its externally imposed capital requirements.

(In RMB millions, unless otherwise stated)

## 53. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

### (d) Capital management (continued)

The Group calculates the capital adequacy ratios in accordance with "Regulations Governing Capital Adequacy of Commercial Banks" and relevant requirements promulgated by the CBRC.

| | 2012 | 2011 |
|---|---|---|
| **Core capital adequacy ratio** | **10.62%** | **10.07%** |
| **Capital adequacy ratio** | **13.66%** | **13.17%** |
| Components of capital base | | |
| Core capital: | | |
| Share capital | 349,620 | 349,084 |
| Reserves (i) | 691,482 | 532,135 |
| Non-controlling interests | 3,462 | 1,081 |
| Total core capital | 1,044,564 | 882,300 |
| Supplementary capital: | | |
| General provisions for loan impairment (ii) | 88,037 | 77,889 |
| Long term subordinated bonds | 187,585 | 167,655 |
| Convertible bonds (iii) | 22,558 | 24,615 |
| Other supplementary capital | 185 | 1,671 |
| Total supplementary capital | 298,365 | 271,830 |
| Total capital base before deductions | 1,342,929 | 1,154,130 |
| Deductions: | | |
| Goodwill | (24,287) | (22,223) |
| Unconsolidated equity investments (iv) | (19,574) | (18,957) |
| Others (v) | (54) | (487) |
| Net capital base | 1,299,014 | 1,112,463 |
| Net core capital base | 1,010,463 | 850,355 |
| Risk weighted assets and market risk capital adjustment | 9,511,205 | 8,447,263 |

(i) Pursuant to the Administrative Measures of Capital Adequacy Ratios of Commercial Banks issued by the CBRC, reserves include the valid portion of capital reserve and retained profits, surplus reserve and general reserve.

(ii) Pursuant to the Notice on Specifying the Calculating Method of General Provisions for Loan Impairment issued by the CBRC, the general provisions for loan impairment included in supplementary capital should not exceed 1% of the total loan balance since the second quarter of 2010.

(iii) On 31 August 2010, as approved by the relevant regulators, the Bank issued convertible bonds of RMB25 billion. All funds raised from the issuance are utilised to enhance the Bank's supplementary capital after deducting direct transaction costs.

(iv) Pursuant to the Administrative Measures of Capital Adequacy Ratios of Commercial Banks issued by the CBRC, 100% and 50% of unconsolidated equity investments were deducted when calculating the net capital base and net core capital base, respectively.

(v) Included in the amount was the asset securitisation risk exposure deducted according to relevant regulations issued by the CBRC.

## 54. FAIR VALUE OF FINANCIAL INSTRUMENTS

### Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(In RMB millions, unless otherwise stated)

## 54. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

### (a) Financial instruments recorded at fair value

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

### Group

*31 December 2012*

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| Financial assets held for trading | | | | |
| Equity investments | 146 | — | — | 146 |
| Debt securities | 1,955 | 18,362 | — | 20,317 |
| | 2,101 | 18,362 | — | 20,463 |
| Financial assets designated at fair value through profit or loss | | | | |
| Debt securities | 341 | 103,119 | — | 103,460 |
| Other debt instruments | — | 85,010 | — | 85,010 |
| Others | — | 12,738 | — | 12,738 |
| | 341 | 200,867 | — | 201,208 |
| Derivative financial assets | | | | |
| Exchange rate contracts | — | 10,674 | 178 | 10,852 |
| Interest rate contracts | — | 2,422 | 896 | 3,318 |
| Commodity derivatives and others | — | 277 | 309 | 586 |
| | — | 13,373 | 1,383 | 14,756 |
| Available-for-sale financial assets | | | | |
| Equity investments | 2,479 | 176 | — | 2,655 |
| Debt securities | 54,237 | 859,092 | 1,015 | 914,344 |
| Other debt instruments | — | 2,799 | — | 2,799 |
| | 56,716 | 862,067 | 1,015 | 919,798 |
| | 59,158 | 1,094,669 | 2,398 | 1,156,225 |
| **Financial liabilities:** | | | | |
| Financial liabilities designated at fair value through profit or loss | | | | |
| Wealth management products | — | 205,064 | — | 205,064 |
| Structured deposits | — | 60,425 | — | 60,425 |
| Financial liabilities related to precious metals | — | 52,346 | — | 52,346 |
| Other debt securities issued | — | 1,907 | — | 1,907 |
| | — | 319,742 | — | 319,742 |
| Derivative financial liabilities | | | | |
| Exchange rate contracts | — | 8,017 | 180 | 8,197 |
| Interest rate contracts | — | 2,735 | 943 | 3,678 |
| Commodity derivatives and others | — | 1,310 | 76 | 1,386 |
| | — | 12,062 | 1,199 | 13,261 |
| | — | 331,804 | 1,199 | 333,003 |

(In RMB millions, unless otherwise stated)

## 54. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

### (a) Financial instruments recorded at fair value (continued)

*31 December 2011*

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| Financial assets held for trading | | | | |
| Equity investments | 147 | — | — | 147 |
| Debt securities | 595 | 30,080 | — | 30,675 |
| | 742 | 30,080 | — | 30,822 |
| Financial assets designated at fair value through profit or loss | | | | |
| Debt securities | 279 | 10,265 | — | 10,544 |
| Other debt instruments | — | 110,842 | — | 110,842 |
| | 279 | 121,107 | — | 121,386 |
| Derivative financial assets | | | | |
| Exchange rate contracts | — | 11,427 | 716 | 12,143 |
| Interest rate contracts | — | 2,970 | 1,796 | 4,766 |
| Commodity derivatives and others | — | 9 | 542 | 551 |
| | — | 14,406 | 3,054 | 17,460 |
| Available-for-sale financial assets | | | | |
| Equity investments | 2,559 | — | — | 2,559 |
| Debt securities | 34,502 | 799,441 | 2,040 | 835,983 |
| Other debt instruments, at fair value | — | 400 | — | 400 |
| | 37,061 | 799,841 | 2,040 | 838,942 |
| | 38,082 | 965,434 | 5,094 | 1,008,610 |
| **Financial liabilities:** | | | | |
| Financial liabilities designated at fair value through profit or loss | | | | |
| Wealth management products | — | 121,191 | — | 121,191 |
| Structured deposits | — | 44,376 | — | 44,376 |
| Financial liabilities related to precious metals | — | 6,343 | — | 6,343 |
| Certificates of deposit | — | 63 | — | 63 |
| | — | 171,973 | — | 171,973 |
| Derivative financial liabilities | | | | |
| Exchange rate contracts | — | 6,027 | 731 | 6,758 |
| Interest rate contracts | — | 3,528 | 2,329 | 5,857 |
| Commodity derivatives and others | — | — | 2 | 2 |
| | — | 9,555 | 3,062 | 12,617 |
| | — | 181,528 | 3,062 | 184,590 |

(In RMB millions, unless otherwise stated)

## 54. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

### (a) Financial instruments recorded at fair value (continued)

**Bank**

*31 December 2012*

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| Financial assets held for trading | | | | |
| Debt securities | — | 18,064 | — | 18,064 |
| Financial assets designated at fair value through profit or loss | | | | |
| Debt securities | — | 103,038 | — | 103,038 |
| Other debt instruments | — | 85,010 | — | 85,010 |
| Others | — | 12,738 | — | 12,738 |
| | — | 200,786 | — | 200,786 |
| Derivative financial assets | | | | |
| Exchange rate contracts | — | 10,360 | 178 | 10,538 |
| Interest rate contracts | — | 1,624 | 896 | 2,520 |
| Commodity derivatives and others | — | 272 | 76 | 348 |
| | — | 12,256 | 1,150 | 13,406 |
| Available-for-sale financial assets | | | | |
| Equity investments | 148 | — | — | 148 |
| Debt securities | 5,763 | 853,911 | 337 | 860,011 |
| | 5,911 | 853,911 | 337 | 860,159 |
| | 5,911 | 1,085,017 | 1,487 | 1,092,415 |
| **Financial liabilities:** | | | | |
| Financial liabilities designated at fair value through profit or loss | | | | |
| Wealth management products | — | 205,064 | — | 205,064 |
| Structured deposits | — | 60,425 | — | 60,425 |
| Financial liabilities related to precious metals | — | 52,346 | — | 52,346 |
| Other debt securities issued | — | 1,907 | — | 1,907 |
| | — | 319,742 | — | 319,742 |
| Derivative financial liabilities | | | | |
| Exchange rate contracts | — | 7,820 | 180 | 8,000 |
| Interest rate contracts | — | 1,998 | 943 | 2,941 |
| Commodity derivatives and others | — | 1,305 | 76 | 1,381 |
| | — | 11,123 | 1,199 | 12,322 |
| | — | 330,865 | 1,199 | 332,064 |

(In RMB millions, unless otherwise stated)

## 54. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

### (a) Financial instruments recorded at fair value (continued)

*31 December 2011*

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| Financial assets held for trading | | | | |
| Debt securities | — | 29,849 | — | 29,849 |
| Financial assets designated at fair value through profit or loss | | | | |
| Debt securities | — | 9,969 | — | 9,969 |
| Other debt instruments | — | 110,842 | — | 110,842 |
| | — | 120,811 | — | 120,811 |
| Derivative financial assets | | | | |
| Exchange rate contracts | — | 10,585 | 716 | 11,301 |
| Interest rate contracts | — | 2,378 | 1,796 | 4,174 |
| Commodity derivatives and others | — | — | 1 | 1 |
| | — | 12,963 | 2,513 | 15,476 |
| Available-for-sale financial assets | | | | |
| Equity investments | 910 | — | — | 910 |
| Debt securities | 5,504 | 789,328 | 548 | 795,380 |
| | 6,414 | 789,328 | 548 | 796,290 |
| | 6,414 | 952,951 | 3,061 | 962,426 |
| **Financial liabilities:** | | | | |
| Financial liabilities designated at fair value through profit or loss | | | | |
| Wealth management products | — | 121,191 | — | 121,191 |
| Structured deposits | — | 44,411 | — | 44,411 |
| Financial liabilities related to precious metals | — | 6,343 | — | 6,343 |
| | — | 171,945 | — | 171,945 |
| Derivative financial liabilities | | | | |
| Exchange rate contracts | — | 5,072 | 731 | 5,803 |
| Interest rate contracts | — | 2,711 | 2,329 | 5,040 |
| Commodity derivatives and others | — | — | 2 | 2 |
| | — | 7,783 | 3,062 | 10,845 |
| | — | 179,728 | 3,062 | 182,790 |

The following is a description of the fair value of the financial instruments recorded at fair value which are determined using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

*Financial investments*

Financial investments valued using a valuation technique consist of certain debt securities and asset-backed securities. The Group values such securities in use of a discounted cash flow analysis which incorporates either only observable data or both observable and non-observable data. Observable inputs include assumptions regarding current interest rates; unobservable inputs include assumptions regarding expected future default rates, prepayment rates and market liquidity discounts.

A majority of the debt securities classified as level 2 are RMB bonds. The fair value of these bonds are determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data.

(In RMB millions, unless otherwise stated)

## 54. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

### (a) Financial instruments recorded at fair value (continued)

*Derivatives*

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps contracts, forward and swap contracts, etc.. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate yield curves.

Derivatives valued using a valuation technique with significant non-market observable inputs are primarily certain structured products. These derivatives are valued using models. which calculate present value such as the binomial model for options. The models incorporate various non-observable assumptions such as market rate volatilities.

*Other liabilities designated at fair value through profit or loss*

For unquoted other liabilities designated at fair value through profit or loss, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity adjusted for market liquidity and credit spreads.

### (b) Movement in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing balance of level 3 financial assets and liabilities which are recorded at fair value and the movement during the year:

**Group**

| | As at 1 January 2012 | Total gains/ (losses) recorded in profit or loss | Total losses recorded in other comprehensive income | Additions | Disposals | Settlements | Transfers to level 2 from level 3 | As at 31 December 2012 |
|---|---|---|---|---|---|---|---|---|
| **Financial assets:** | | | | | | | | |
| Derivative financial assets | | | | | | | | |
| Exchange rate contracts | 716 | (296) | — | — | — | (242) | — | 178 |
| Interest rate contracts | 1,796 | (266) | — | — | — | (377) | (257) | 896 |
| Commodity derivatives and others | 542 | (261) | — | 29 | — | (1) | — | 309 |
| | 3,054 | (823) | — | 29 | — | (620) | (257) | 1,383 |
| Available-for-sale financial assets | | | | | | | | |
| Debt securities | 2,040 | — | (311) | 647 | (953) | (408) | — | 1,015 |
| | 5,094 | (823) | (311) | 676 | (953) | (1,028) | (257) | 2,398 |
| **Financial liabilities:** | | | | | | | | |
| Derivative financial liabilities | | | | | | | | |
| Exchange rate contracts | (731) | 294 | — | — | — | 257 | — | (180) |
| Interest rate contracts | (2,329) | 283 | — | — | — | 416 | 687 | (943) |
| Commodity derivatives and others | (2) | (76) | — | — | — | 2 | — | (76) |
| | (3,062) | 501 | — | — | — | 675 | 687 | (1,199) |

(In RMB millions, unless otherwise stated)

## 54. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

### (b) Movement in level 3 financial instruments measured at fair value (continued)

| | As at 1 January 2011 | Total gains/ (losses) recorded in profit or loss | Total losses recorded in other comprehensive income | Additions | Disposals | Settlements | Transfers to level 3 from level 2 | As at 31 December 2011 |
|---|---|---|---|---|---|---|---|---|
| **Financial assets:** | | | | | | | | |
| Derivative financial assets | | | | | | | | |
| Exchange rate contracts | 1,180 | 630 | — | — | — | (1,094) | — | 716 |
| Interest rate contracts | 1,055 | 791 | — | — | — | (335) | 285 | 1,796 |
| Commodity derivatives and others | 709 | (167) | — | — | — | — | — | 542 |
| | 2,944 | 1,254 | — | — | — | (1,429) | 285 | 3,054 |
| Available-for-sale financial assets | | | | | | | | |
| Debt securities | 6,907 | 54 | (183) | 276 | (2,203) | (2,944) | 133 | 2,040 |
| | 9,851 | 1,308 | (183) | 276 | (2,203) | (4,373) | 418 | 5,094 |
| **Financial liabilities:** | | | | | | | | |
| Derivative financial liabilities | | | | | | | | |
| Exchange rate contracts | (1,181) | 351 | — | — | — | 99 | — | (731) |
| Interest rate contracts | (1,415) | (1,030) | — | — | — | 116 | — | (2,329) |
| Commodity derivatives and others | — | (2) | — | — | — | — | — | (2) |
| | (2,596) | (681) | — | — | — | 215 | — | (3,062) |

### Bank

| | As at 1 January 2012 | Total gains/ (losses) recorded in profit or loss | Total losses recorded in other comprehensive income | Additions | Disposals | Settlements | Transfers to level 2 from level 3 | As at 31 December 2012 |
|---|---|---|---|---|---|---|---|---|
| **Financial assets:** | | | | | | | | |
| Derivative financial assets | | | | | | | | |
| Exchange rate contracts | 716 | (296) | — | — | — | (242) | — | 178 |
| Interest rate contracts | 1,796 | (266) | — | — | — | (377) | (257) | 896 |
| Commodity derivatives and others | 1 | 76 | — | — | — | (1) | — | 76 |
| | 2,513 | (486) | — | — | — | (620) | (257) | 1,150 |
| Available-for-sale financial assets | | | | | | | | |
| Debt securities | 548 | 6 | (14) | 460 | (254) | (409) | — | 337 |
| | 3,061 | (480) | (14) | 460 | (254) | (1,029) | (257) | 1,487 |
| **Financial liabilities:** | | | | | | | | |
| Derivative financial liabilities | | | | | | | | |
| Exchange rate contracts | (731) | 294 | — | — | — | 257 | — | (180) |
| Interest rate contracts | (2,329) | 283 | — | — | — | 416 | 687 | (943) |
| Commodity derivatives and others | (2) | (76) | — | — | — | 2 | — | (76) |
| | (3,062) | 501 | — | — | — | 675 | 687 | (1,199) |

(In RMB millions, unless otherwise stated)

## 54. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

### (b) Movement in level 3 financial instruments measured at fair value (continued)

| | As at 1 January 2011 | Total gains/ (losses) recorded in profit or loss | Total losses recorded in other comprehensive income | Disposals | Settlements | Transfers to level 3 from level 2 | As at 31 December 2011 |
|---|---|---|---|---|---|---|---|
| **Financial assets:** | | | | | | | |
| Derivative financial assets | | | | | | | |
| Exchange rate contracts | 1,180 | 630 | — | — | (1,094) | — | 716 |
| Interest rate contracts | 1,055 | 791 | — | — | (335) | 285 | 1,796 |
| Commodity derivatives and others | 2 | (1) | — | — | — | — | 1 |
| | 2,237 | 1,420 | — | — | (1,429) | 285 | 2,513 |
| Available-for-sale financial assets | | | | | | | |
| Debt securities | 5,311 | (12) | (10) | (1,930) | (2,944) | 133 | 548 |
| | 7,548 | 1,408 | (10) | (1,930) | (4,373) | 418 | 3,061 |
| **Financial liabilities:** | | | | | | | |
| Derivative financial liabilities | | | | | | | |
| Exchange rate contracts | (1,181) | 351 | — | — | 99 | — | (731) |
| Interest rate contracts | (1,415) | (1,030) | — | — | 116 | — | (2,329) |
| Commodity derivatives and others | — | (2) | — | — | — | — | (2) |
| | (2,596) | (681) | — | — | 215 | — | (3,062) |

Gains or losses on level 3 financial instruments included in the income statement for the year comprise:

| | Group | | | Bank | | |
|---|---|---|---|---|---|---|
| | Realised | Unrealised | Total | Realised | Unrealised | Total |
| 2012 | | | | | | |
| Total gains/(losses) for the year | (49) | (273) | (322) | (49) | 70 | 21 |
| 2011 | | | | | | |
| Total gains/(losses) for the year | (1,480) | 2,107 | 627 | (1,480) | 2,207 | 727 |

### (c) Transfers between level 1 and level 2

During the year, the transfers between level 1 and level 2 of the fair value hierarchy for financial assets and liabilities of the Group were immaterial.

### (d) Fair value of financial assets and liabilities not carried at fair value

The following table summarises the carrying values and the fair values of receivables, held-to-maturity investments, subordinated bonds and convertible bonds whose fair values have not been presented or disclosed above:

| | Group | | Bank | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| 31 December 2012: | | | | |
| Receivables | 364,715 | 364,669 | 364,232 | 364,186 |
| Held-to-maturity investments | 2,576,562 | 2,566,959 | 2,582,790 | 2,573,157 |
| Subordinated bonds | 187,589 | 183,135 | 183,000 | 178,030 |
| Convertible bonds | 21,353 | 20,472 | 21,353 | 20,472 |
| 31 December 2011: | | | | |
| Receivables | 498,804 | 498,683 | 498,804 | 498,683 |
| Held-to-maturity investments | 2,424,785 | 2,436,782 | 2,434,135 | 2,446,125 |
| Subordinated bonds | 167,619 | 158,696 | 163,000 | 153,921 |
| Convertible bonds | 22,608 | 19,367 | 22,608 | 19,367 |

(In RMB millions, unless otherwise stated)

## 54. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

### (d) Fair value of financial assets and liabilities not carried at fair value (continued)

Subject to the existence of an active market, such as an authorised securities exchange, the market value is the best reflection of the fair value of financial instruments. As there is no available market value for certain of the financial assets and liabilities held and issued by the Group, the discounted cash flow method or other valuation methods described below are adopted to determine the fair values of these assets and liabilities:

(i) The receivables are not quoted in an active market. The fair values of those receivables relating to the restructuring of the Bank are estimated on the basis of the stated interest rates and the consideration of the relevant special clauses of the instruments evaluated in the absence of any other relevant observable market data, and the fair values approximate to their carrying amounts. The fair values of receivables other than those relating to the restructuring of the Bank are estimated on the basis of pricing models or discounted cash flows.

(ii) The fair values of held-to-maturity investments, subordinated bonds and convertible bonds are determined with reference to the available market values. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

All of the above-mentioned assumptions and methods provide a consistent basis for the calculation of the fair values of the Group and the Bank's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

Those financial instruments for which their carrying amounts are the reasonable approximations of their fair values because, for example, they are short term in nature or repriced at current market rates frequently, are as follows:

| Assets | Liabilities |
|---|---|
| Balances with central banks | Due to banks and other financial institutions |
| Due from banks and other financial institutions | Repurchase agreements |
| Reverse repurchase agreements | Due to customers |
| Loans and advances to customers | Other financial liabilities |
| Other financial assets | |

## 55. EVENTS AFTER THE REPORTING PERIOD

### The profit distribution plan

A final dividend of RMB0.239 per share after the appropriation of statutory surplus reserve and general reserve, was approved at the board of directors' meeting held on 27 March 2013, and is subject to the approval of the Bank's shareholders at the forthcoming annual general meeting. Based on the number of shares issued as at 31 December 2012, the final dividend amounted to approximately RMB83,559 million. The dividend payable was not recognised as a liability as at 31 December 2012.

## 56. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

## 57. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2013.

(In RMB millions, unless otherwise stated)

## (a) Illustration of differences between the financial statements prepared under IFRSs and those prepared in accordance with PRC GAAP

There are no differences between the profit attributable to equity holders of the parent company under PRC GAAP and IFRSs for the year ended 31 December 2012 (2011: no differences). There are no differences between the equity attributable to equity holders of the parent company under PRC GAAP and IFRSs as at 31 December 2012 (31 December 2011: no differences).

## (b) Liquidity ratios

| | As at 31 December 2012 | Average for the year ended 31 December 2012 | As at 31 December 2011 | Average for the year ended 31 December 2011 |
|---|---|---|---|---|
| RMB current assets to RMB current liabilities | 32.54% | 32.64% | 27.55% | 28.90% |
| Foreign currency current assets to foreign currency current liabilities | 65.23% | 72.75% | 90.59% | 70.63% |

The above liquidity ratios are calculated in accordance with the formula promulgated by the CBRC and based on the financial information prepared in accordance with PRC GAAP.

The Hong Kong Banking (Disclosure) Rules (the "Rules") took effect on 1 January 2007. It requires the disclosure of an average liquidity ratio, which is the arithmetic mean of the liquidity ratios for each calendar month liquidity ratio. The Group prepares the liquidity ratio on a semi-annual basis and the disclosed average liquidity ratio is the arithmetic mean of two consecutive liquidity ratios as at 30 June and 31 December.

## (c) Foreign currency concentrations

| | USD | HK$ | Others | Total |
|---|---|---|---|---|
| As at 31 December 2012 | | | | |
| Spot assets | 1,095,207 | 147,946 | 257,293 | 1,500,446 |
| Spot liabilities | (779,717) | (147,482) | (357,428) | (1,284,627) |
| Forward purchases | 520,694 | 52,815 | 336,903 | 910,412 |
| Forward sales | (827,449) | (21,721) | (246,209) | (1,095,379) |
| Net option position | (2,068) | 16 | (35) | (2,087) |
| Net long/(short) position | 6,667 | 31,574 | (9,476) | 28,765 |
| Net structural position | 16,177 | 672 | 34,248 | 51,097 |
| As at 31 December 2011 | | | | |
| Spot assets | 762,627 | 139,311 | 181,103 | 1,083,041 |
| Spot liabilities | (494,871) | (156,274) | (211,118) | (862,263) |
| Forward purchases | 309,022 | 64,873 | 69,008 | 442,903 |
| Forward sales | (551,110) | (13,800) | (56,001) | (620,911) |
| Net option position | (5,305) | (1) | 7 | (5,299) |
| Net long/(short) position | 20,363 | 34,109 | (17,001) | 37,471 |
| Net structural position | 10,311 | 560 | 33,641 | 44,512 |

(In RMB millions, unless otherwise stated)

## (c) Foreign currency concentrations (continued)

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority. The net structural position of the Group includes the structural positions of the Bank's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

- property and equipment, net of depreciation charges;
- capital and statutory reserves of overseas branches; and
- investments in overseas subsidiaries, associates and jointly-controlled entities.

## (d) Cross-border claims

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

Cross-border claims include loans and advances to customers, balances with central banks, amounts due from banks and other financial institutions and debt investments.

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 transfers are 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 | Others | Total |
|---|---|---|---|---|
| As at 31 December 2012: | | | | |
| Asia Pacific excluding Mainland China | 163,667 | 25,540 | 264,335 | 453,542 |
| — of which attributed to Hong Kong | 91,553 | 5,779 | 134,656 | 231,988 |
| Europe | 55,135 | 7,040 | 25,436 | 87,611 |
| North and South America | 81,836 | 1,461 | 34,672 | 117,969 |
| | 300,638 | 34,041 | 324,443 | 659,122 |
| As at 31 December 2011: | | | | |
| Asia Pacific excluding Mainland China | 166,035 | 11,084 | 241,179 | 418,298 |
| — of which attributed to Hong Kong | 92,232 | 6,587 | 146,821 | 245,640 |
| Europe | 65,515 | 1,014 | 18,489 | 85,018 |
| North and South America | 82,508 | 1,109 | 31,874 | 115,491 |
| | 314,058 | 13,207 | 291,542 | 618,807 |

(In RMB millions, unless otherwise stated)

## (e) Loans and advances to customers

### *(i) Analysis by industry sector*

*31 December 2012*

| | Gross loans and advances to customers | Loans and advances covered by collateral | Overdue loans and advances to customers * | Loans and advances individually assessed to be impaired | Allowance for impairment losses | | |
|---|---|---|---|---|---|---|---|
| | | | | | Individually assessed | Collectively assessed | Total |
| Manufacturing | 1,455,792 | 661,890 | 24,603 | 23,793 | 13,091 | 32,864 | 45,955 |
| Transportation, storage and postal services | 1,154,071 | 334,842 | 8,662 | 9,955 | 4,309 | 20,568 | 24,877 |
| Wholesale and retail | 816,650 | 470,869 | 18,731 | 14,293 | 6,797 | 13,038 | 19,835 |
| Production and supply of electricity, heating, gas and water | 617,734 | 113,365 | 2,866 | 2,778 | 1,208 | 16,553 | 17,761 |
| Real estate | 562,563 | 444,353 | 6,704 | 4,691 | 2,735 | 15,979 | 18,714 |
| Water, environment and public utility management | 468,526 | 178,217 | 85 | 341 | 158 | 11,400 | 11,558 |
| Leasing and commercial services | 398,359 | 218,788 | 931 | 961 | 477 | 4,685 | 5,162 |
| Mining | 243,289 | 34,401 | 503 | 474 | 252 | 860 | 1,112 |
| Lodging and catering | 162,971 | 88,360 | 928 | 972 | 391 | 2,003 | 2,394 |
| Construction | 153,701 | 73,997 | 1,452 | 1,027 | 610 | 2,283 | 2,893 |
| Science, education, culture and sanitation | 87,450 | 21,286 | 725 | 592 | 421 | 546 | 967 |
| Others | 211,472 | 83,026 | 1,631 | 1,100 | 956 | 4,151 | 5,107 |
| Subtotal of corporate loans and advances | 6,332,578 | 2,723,394 | 67,821 | 60,977 | 31,405 | 124,930 | 156,335 |
| Personal mortgage and business loans | 1,660,600 | 1,594,477 | 37,989 | — | — | 51,323 | 51,323 |
| Others | 626,503 | 358,045 | 19,792 | — | — | 9,026 | 9,026 |
| Subtotal of personal loans | 2,287,103 | 1,952,522 | 57,781 | — | — | 60,349 | 60,349 |
| Discounted bills | 184,011 | 184,011 | 60 | — | — | 3,719 | 3,719 |
| Total loans and advances to customers | 8,803,692 | 4,859,927 | 125,662 | 60,977 | 31,405 | 188,998 | 220,403 |
| Current market value of collateral held against the covered portion of overdue loans and advances * | | | | | | | 134,863 |
| Covered portion of overdue loans and advances * | | | | | | | 61,635 |
| Uncovered portion of overdue loans and advances * | | | | | | | 64,027 |

* Please see section (e) (ii) for the definition of overdue loans and advances to customers.

*31 December 2011*

| | Gross loans and advances to customers | Loans and advances covered by collateral | Overdue loans and advances to customers * | Loans and advances individually assessed to be impaired | Allowance for impairment losses | | |
|---|---|---|---|---|---|---|---|
| | | | | | Individually assessed | Collectively assessed | Total |
| Manufacturing | 1,163,275 | 513,294 | 23,534 | 24,573 | 15,905 | 27,436 | 43,341 |
| Transportation, storage and postal services | 1,114,765 | 296,196 | 8,465 | 12,209 | 4,934 | 20,143 | 25,077 |
| Wholesale and retail | 633,769 | 337,117 | 8,355 | 8,434 | 5,311 | 10,666 | 15,977 |
| Production and supply of electricity, heating, gas and water | 613,140 | 83,580 | 4,040 | 5,102 | 2,334 | 14,575 | 16,909 |
| Real estate | 577,563 | 445,779 | 5,306 | 5,096 | 2,983 | 14,042 | 17,025 |
| Water, environment and public utility management | 507,112 | 137,796 | 103 | 1,103 | 88 | 11,607 | 11,695 |
| Leasing and commercial services | 362,011 | 157,342 | 2,008 | 750 | 526 | 3,487 | 4,013 |
| Mining | 190,180 | 27,724 | 512 | 619 | 265 | 519 | 784 |
| Construction | 121,432 | 51,615 | 1,170 | 1,137 | 800 | 1,594 | 2,394 |
| Lodging and catering | 75,193 | 66,967 | 965 | 922 | 586 | 1,047 | 1,633 |
| Science, education, culture and sanitation | 70,069 | 12,018 | 730 | 711 | 510 | 318 | 828 |
| Others | 238,002 | 69,493 | 1,658 | 1,607 | 1,167 | 4,323 | 5,490 |
| Subtotal of corporate loans and advances | 5,666,511 | 2,198,921 | 56,846 | 62,263 | 35,409 | 109,757 | 145,166 |
| Personal mortgage and business loans | 1,455,670 | 1,373,746 | 33,843 | — | — | 42,424 | 42,424 |
| Others | 559,256 | 366,857 | 17,091 | — | — | 5,117 | 5,117 |
| Subtotal of personal loans | 2,014,926 | 1,740,603 | 50,934 | — | — | 47,541 | 47,541 |
| Discounted bills | 107,460 | 107,460 | 25 | — | — | 2,171 | 2,171 |
| Total loans and advances to customers | 7,788,897 | 4,046,984 | 107,805 | 62,263 | 35,409 | 159,469 | 194,878 |
| Current market value of collateral held against the covered portion of overdue loans and advances * | | | | | | | 117,651 |
| Covered portion of overdue loans and advances * | | | | | | | 54,394 |
| Uncovered portion of overdue loans and advances * | | | | | | | 53,411 |

* Please see section (e) (ii) for the definition of overdue loans and advances to customers.

(In RMB millions, unless otherwise stated)

## (e) Loans and advances to customers (continued)

The amount of new impairment loss charged to the consolidated income statement and the amount of impaired loans and advances written off during the year are set out below:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | New impairment loss | Write-offs of impaired loans | New impairment loss | Write-offs of impaired loans |
| Manufacturing | 29,905 | 4,121 | 11,436 | 2,871 |
| Transportation, storage and postal services | 4,209 | 203 | 21,203 | 25 |
| Wholesale and retail | 14,917 | 682 | 9,209 | 370 |
| Production and supply of electricity, heating, gas and water | 8,748 | 407 | 16,030 | 94 |
| Real estate | 9,402 | 214 | 6,411 | 144 |
| Water, environment and public utility management | 78 | — | 167 | 3 |
| Leasing and commercial services | 4,826 | 6 | 274 | 94 |
| Mining | 1,606 | 77 | 451 | 31 |
| Lodging and catering | 4,267 | 100 | 1,091 | 92 |
| Construction | 3,308 | 68 | 1,081 | 48 |
| Science, education, culture and sanitation | 1,112 | 56 | 331 | 74 |
| Others | 2,172 | 345 | 2,160 | 211 |
| Subtotal for corporate loans and advances | 84,550 | 6,279 | 69,844 | 4,057 |
| Personal mortgage and business loans | 27,438 | 538 | 19,291 | 303 |
| Others | 1,483 | 711 | 3,974 | 186 |
| Subtotal for personal loans | 28,921 | 1,249 | 23,265 | 489 |
| Discounted bills | 3,719 | — | 2,171 | — |
| Total for loans and advances to customers | 117,190 | 7,528 | 95,280 | 4,546 |

### *(ii) Overdue loans and advances to customers*

| | 2012 | 2011 |
|---|---|---|
| Gross loans and advances to customers of the Group which have been overdue with respect to either principal or interest for periods of: | | |
| Between 3 and 6 months | 9,485 | 4,475 |
| Between 6 and 12 months | 11,903 | 6,539 |
| Over 12 months | 40,707 | 47,001 |
| | 62,095 | 58,015 |
| As a percentage of the total gross loans and advances to customers: | | |
| Between 3 and 6 months | 0.11% | 0.06% |
| Between 6 and 12 months | 0.14% | 0.08% |
| Over 12 months | 0.46% | 0.60% |
| | 0.71% | 0.74% |

The definition of overdue loans and advances to customers is set out as follows:

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amounts of these loans and advances would be classified as overdue.

(In RMB millions, unless otherwise stated)

## (e) Loans and advances to customers (continued)

*(iii) Overdue and impaired loans and advances to customers by geographical distribution*

*31 December 2012*

| | Overdue loans and advances to customers | | | Impaired loans and advances to customers | | |
|---|---|---|---|---|---|---|
| | Gross amount | Individually assessed to be impaired | Individually assessed allowance for impairment losses | Individually assessed to be impaired | Individually assessed allowance for impairment losses | Collectively assessed allowance for impairment losses |
| Head Office | 7,131 | 136 | 90 | 136 | 106 | 9,196 |
| Yangtze River Delta | 30,067 | 12,831 | 4,886 | 13,130 | 6,159 | 42,574 |
| Pearl River Delta | 16,493 | 7,180 | 3,552 | 8,619 | 4,358 | 27,438 |
| Bohai Rim | 19,517 | 10,476 | 5,947 | 10,925 | 6,354 | 34,412 |
| Central China | 18,949 | 10,072 | 4,175 | 12,097 | 5,554 | 26,657 |
| Western China | 19,021 | 8,392 | 4,379 | 8,983 | 5,065 | 33,742 |
| Northeastern China | 7,340 | 4,125 | 2,125 | 4,362 | 2,486 | 11,674 |
| Overseas and others | 7,144 | 2,408 | 1,175 | 2,725 | 1,323 | 3,305 |
| Total | 125,662 | 55,620 | 26,329 | 60,977 | 31,405 | 188,998 |

*31 December 2011*

| | Overdue loans and advances to customers | | | Impaired loans and advances to customers | | |
|---|---|---|---|---|---|---|
| | Gross amount | Individually assessed to be impaired | Individually assessed allowance for impairment losses | Individually assessed to be impaired | Individually assessed allowance for impairment losses | Collectively assessed allowance for impairment losses |
| Head Office | 5,965 | 165 | 90 | 165 | 118 | 6,533 |
| Yangtze River Delta | 15,778 | 8,026 | 5,216 | 10,043 | 5,927 | 36,478 |
| Pearl River Delta | 15,153 | 7,352 | 4,217 | 9,590 | 5,041 | 22,952 |
| Bohai Rim | 17,589 | 10,300 | 6,452 | 10,893 | 6,742 | 30,257 |
| Central China | 18,012 | 9,757 | 5,267 | 11,952 | 6,711 | 22,793 |
| Western China | 21,574 | 10,444 | 5,490 | 12,933 | 6,614 | 28,198 |
| Northeastern China | 8,069 | 3,979 | 2,881 | 4,240 | 3,124 | 10,229 |
| Overseas and others | 5,665 | 2,262 | 1,050 | 2,447 | 1,132 | 2,029 |
| Total | 107,805 | 52,285 | 30,663 | 62,263 | 35,409 | 159,469 |

(In RMB millions, unless otherwise stated)

## (e) Loans and advances to customers (continued)

*(iv) Renegotiated loans and advances to customers*

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | | % of total loans and advances | | % of total loans and advances |
| Renegotiated loans and advances | 7,188 | 0.08% | 8,312 | 0.10% |
| Less: Renegotiated loans and advances overdue for more than three months | (3,969) | (0.04%) | (5,724) | (0.07%) |
| Renegotiated loans and advances overdue for less than three months | 3,219 | 0.04% | 2,588 | 0.03% |

## (f) Overdue placements with banks and other financial institutions

| | 2012 | 2011 |
|---|---|---|
| The Group's gross placements with banks and other financial institutions which have been overdue with respect to either principal or interest for a period of: | | |
| Over 12 months | 16 | 20 |
| As a percentage of total gross placements with banks and other financial institutions: | | |
| Over 12 months | 0.01% | 0.01% |

## (g) Exposures to Mainland China non-bank entities

| | 2012 | 2011 |
|---|---|---|
| On-balance sheet exposure | 10,374,194 | 9,614,706 |
| Off-balance sheet exposure | 1,765,308 | 1,705,753 |
| | 12,139,502 | 11,320,459 |
| Individually assessed allowance for impairment losses | 30,289 | 34,414 |

In addition to those disclosed above, exposures to other non-bank counterparties outside Mainland China to which credit is granted for use in Mainland China are considered insignificant to the Group.

# 2012 Ranking and Awards

## 2012 Ranking

### Forbes
The 5th place among the Global 2000
(Overall ranking in terms of four aspects:
sales, profit, assets and market value)

### The Banker
The 3rd place among Top 1000 World Banks
(Ranking in terms of tier-1 capital of the Bank)

### Fortune
The 54th place among the Global 500
(Ranking in terms of revenue)

### Millward Brown
The 13th place among the Top 100 Most Valuable Global Brands
First among the financial institution brands
(Ranking in terms of brand value)

### China Enterprise Confederation
The 4th place among the Top 500 Enterprises of China
(Ranking in terms of operating income)

## 2012 Awards

### Hong Kong Commercial Daily
Global Commercial Bank Transparency Gold Award

### The Chamber of Hong Kong Listed Companies
Hong Kong Corporate Governance Excellence Awards

### Hong Kong Institute of Certified Public Accountants
2012 Best Corporate Governance Disclosure Awards:
H-Share Category Platinum Award

### The Hong Kong Management Association
Citation for Corporate Governance Disclosure

### Euromoney
Best Bank in China
Best Private Banking Services Overall in China
Best Precious Metal Trading Bank in China

### The Banker
Deal of the Year (Asia-Pacific): FIG Capital Raising

### Global Finance
Best Sub-Custodian Bank in China
Best Corporate Bank in China
Best Treasury and Cash Management Bank in China
Best Credit Card Bank in China
Best Bond Underwriting Bank in China
Best Consumer Internet Bank in China
Best Corporate/Institutional Internet Bank in China
Best Investment Management Services (Asia)
Best Online Cash Management (Asia)
Best Integrated Corporate Bank Site (Asia)
Best Information Security Initiatives (Asia)
Best in Social Media (Asia)
Best Online Treasury Services (Asia)

### The Asian Banker
Best Large-Scale Retail Bank in China
Best Asian International Transaction Bank
Leading Counterparty Bank in Asia Pacific
Leading Counterparty Bank in China
Best Cash Management Bank in China
Best Internet Banking in Asia Pacific
Best Internet Banking in China
Best Private Bank in China

### Asiamoney
Best Domestic Bank in China

### The Asset
Best Domestic Bank (China)
Best Transaction Bank (China)
Best Domestic Custodian (China)
Best MNC/Large Corporate Treasury & Working Capital Bank (China)
China's Most Promising Companies
Best Wealth Management House (China)
Platinum Award for All-Round Excellence

### Reader's Digest
Trusted Brand – Bank: Gold (China)
Trusted Brand – Credit Card Issuing Bank: Gold (China)

### Global Custodian
Domestic Top Rated Provider (China)

### EuroWeek Asia
Most Impressive Bond Issuer

### Institutional Investor
Best Chinese Commercial Bank Diamond Award

### Fortune China
Top 25 Socially Responsible Enterprises

### Corporate Governance Asia
Asian Corporate Director Recognition Awards
Corporate Governance Asia Recognition Awards

### YZZK
Excellent Corporate Governance Enterprise
Enterprise with the Largest Market Value

### FinanceAsia
Asia's Top Blue Chip Company

### The Corporate Treasurer
Best Cash Management House in China

### IFR Asia
China Bond House

### Marine Money
Project Finance Deal of the Year
Innovation Deal of the Year

**China Law & Practice**
In-house Team of the Year 2012 – Chinese Financial Institutions

**Ta Kung Pao**
Most Influential Leader
Listed Company with Most Overseas Influence

**Ming Pao**
Favorite Greater China Brand

**ifeng.com**
Most Competitive Bank

**International Data Group**
Global Competitiveness Top 10 Brands from China

**Teradata Partner**
Operation Excellence

**Ministry of Finance**
Award of Excellence in Underwriting Book-entry Treasury Bond

**Ministry of Finance, People's Bank of China**
Award of Excellence in Savings Bond Underwriting

**People's Bank of China**
Bank Technological Development Award

**China Central Depository & Clearing Co., Ltd.**
Excellent Member in National Interbank Bond Market

**National Interbank Funding Center**
Top 100 Trading in Interbank Local Currency Market
Excellent Deal Member

**China Foreign Exchange Trade System**
Best Market Maker
Most Standardized Market Maker in Derivatives
Most Popular Market Maker in Derivatives
Best Market Maker in Technologies
Best Market Maker in Emerging Market Currencies
Best Market Maker in Back-office Support
Excellent Member in Derivative Trading

**China Banking Association**
Best Social Responsibility Financial Institution Award
Best Public Welfare Contribution Award in Social Responsibility
Customer Service Center — Comprehensive Model Award
Customer Service Center — Excellent Service Award
Top Ten Feature Financial Products for Serving Small and Micro Enterprises and Sannong
Best Organizer for "Popularizing Financial Knowledge" Series in Chinese Banking Industry

**Trade Finance Committee of China Banking Association**
Best Bank in Trade Finance Product Innovation

**Syndicated Loan and Transactions Committee of China Banking Association**
Best Deal Award
Best Performance Award

**National Association of Financial Market Institutional Investors**
Best Market Maker in Interbank Bond Market

**CCTV-2**
Top 10 Governance Companies

**Shanghai Stock Exchange**
Information Disclosure Award for Listed Companies

**Shanghai Gold Exchange**
Outstanding Member
Outstanding Members of Award of Trade (Gold Category)
Outstanding Members of Award of Trade (Silver Category)
Outstanding Members of Award of Trade (Platinum Category)

**China Association of Small and Medium Enterprises**
Excellent Service Organization for SMEs

**China Foundation for Poverty Alleviation**
Outstanding Contribution Award

**Chinese Foundation for Lifeline Express**
Special Award for 15th Anniversary of Lifeline Express
Bright Merit Award of Lifeline Express

**China UnionPay**
Excellent Contribution Award for Win-win Cooperation
Contribution Award for Domestic and Overseas Inter-bank Transactions
Best Promotion Award

**Shanghai Clearing House**
Excellent Settlement Member
Excellent Clearing Member

**People's Daily Online**
People's Award for Social Responsibility

**Hexun**
Annual Brand Bank
Excellent Internet Banking
Best Investment and Wealth Management Award
Best Annual Asset Custodian Bank of China
Best Precious Metal Service Bank
Best User Experience Award
Best Popularity Award

**sohu.com**
Enterprise of the Year
Best User Experience Award – Mobile Banking

**NetEase**
Best Internet Banking

**Tencent**
Top 100 Hong Kong Stocks (Top Ten in terms of comprehensive strength)

**jrj.com**
Best Cash Management Bank

**Eastmoney.com**
Best Comprehensive Bank
Best Bank Website
Best E-banking Award
Best Bank Platform for Precious Metal Transactions

**cn.msn.com**
Most Influential Bank

**renren.com**
Most Popular Bank

**ChinaHR**
Best Employer in Financial Sector
Top 50 Best Domestic Employers

**kblcw.com**
Top-rated E-banking Award
Top-rated Internet Banking

**21st Century Business Herald**
Best Commercial Bank in Asia
Most Reliable Chinese Bank

**Financial News**
Best Bank of the Year in International Banking

**Securities Times**
Top 100 Valuable Main Board Listed Companies in China
Best Innovative Bank
Best E-service Bank
Best Bank in Investment Banking
Best Online Financial Supermarket
Best Internet Banking
Excellent Weibo Marketing Bank
Best Cross-border Financing Bank
Best Project in M&A and Reorganization

**China Securities Journal**
Most Profitable Company
Best Corporate Leader

**Shanghai Securities News**
Information Disclosure Enterprises – Board Secretary Award

**CBN**
Best Cash Management Service Bank
Excellent Practice Award of CBN Corporate Social Responsibility Ranking in China

**The Economic Observer**
Most Respectable Enterprise in China

**China Times**
Most Stable Chinese Bank

**National Business Daily**
Best Fund Custodian Bank of China

**China Business Journal**
Investment Banking with Excellent Competitiveness

**Chinese Securities Journal**
Best Continuous Investment Value Award
Gold Board Secretary

**China Newsweek**
Most Responsible Enterprise

**China Finance**
Best Corporate Image in Serving Small and Micro Enterprises

**China WTO Tribune**
Golden Bee Enterprise

**The Chinese Banker**
Best Commercial Bank
Best Financial Enterprise Image Award
Top Ten Financial Brand Marketing Award

**Global Entrepreneur**
Best Asset Management Bank
Best Bank in Precious Metal Business
Best Internet Banking Products
Best Bank in Data Center

**CFO WORLD**
Best Trade Finance Award
Best Cash Management Brand Award
Best Investment Banking Award
Best Bank in International Banking

**Directors & Boards**
Most Innovative Board Secretary
Best Board of Directors

**Money Week**
Most Valuable President of Listed Companies in China
Best Board Secretary of Listed Companies in China
Best Board of Directors of Main Board Listed Companies in China (Top 10)
Best Board of Directors of State-owned (Holding) Listed Companies in China (Top 10)
Most Respectable Chinese Bank in China

**China Institute of Internal Audit**
Leading Enterprise in Internal Audit

## 2012 Ranking and Awards

**China E-Commerce Association**
Best Secure Internet Banking Products
Top Ten Electronic Finance Brands with User Satisfaction
Best Internet Banking

**China Association of Trade in Service**
Best Customer Service Center in China
Best Customer Service Management Team in China

**China Association of National Advertisers**
Outstanding Brand Influencing China of 2012

**CFCA**
Best Internet Banking Award

**China Capital Market Annual Conference**
"Golden Tripod Award" in Chinese Securities Market

**COIS**
The Annual Best China Overseas Investment Case Award

**China Call-Centre & CRM Association (CNCCA), China Electronics Chamber of Commerce**
Best Call Center Marketing Award in China

**Organizing Committee for Summit Forum on Risk Management of Chinese Listed Companies**
Best Information Disclosure – Risk Management Award

**Organizing Committee for Environmental Responsibility Investigation Action of Chinese Listed Companies**
Top 100 Enterprises in Environmental Responsibilities of Chinese Listed Companies
Leading Award in Financial Sector of Chinese Listed Companies
Green Finance Award of Chinese Listed Companies

**China Center for Market Value Management**
Top Ten Wealth Leader Award of Chinese Listed Companies
Top 100 Chinese Listed Companies in Market Value Management
Top 100 Chinese Listed Companies in Capital Brand

**Wisemoney**
Excellent E-banking
Excellent Bank Websites
Excellent Bank in Retail Banking Service

**Financial Money**
Gold Brand in Influence

**Treasury China**
Best Cash Management Bank

**China Internet Week**
Best Bank in Online Financing Service in China

**New Finance World**
Best Case in Financial Innovation in China

**Financial Computerizing**
E-banking Publicity Innovation Award

**Finance**
CFO First-choice Bank

**CCM World**
Best Call Center

**Osen**
Most Popular E-banking among Business Elites

**tianya.cn**
Best Social Responsibility Award

**Chinese Internet Banking Promotion Association**
Best Customer Experience Award

**Research Centre of Corporate Governance**
Best Corporate Governance Award

**Horizon Research Consultancy Group**
Brand Rising Award

**Zero2IPO Group**
China VC/PE Fund Custodian Bank of the Year

**Global Compact Network China**
Best Practice Award for Social Responsibility Management
Best Practice Award for Social Development Promotion

**Online-edu**
Best Application in Learning Management System

## List of Domestic and Overseas Branches and Offices

### Domestic Institutions

**ANHUI PROVINCIAL BRANCH**
Address: No. 189 Wuhu Road, Hefei City, Anhui Province, China
Postcode: 230001
Tel: 0551-62869178/62868101
Fax: 0551-62868077

**BEIJING MUNICIPAL BRANCH**
Address: Tower B, Tianyin Mansion, No. 2 Fuxingmen South Street, Xicheng District, Beijing, China
Postcode: 100031
Tel: 010-66410579
Fax: 010-66410579

**CHONGQING MUNICIPAL BRANCH**
Address: No. 9 Jiangnan Road, Nan'an District, Chongqing, China
Postcode: 400060
Tel: 023-62918002/62918047
Fax: 023-62918059

**DALIAN BRANCH**
Address: No. 5 Zhongshan Square, Dalian City, Liaoning Province, China
Postcode: 116001
Tel: 0411-82378888/82819593
Fax: 0411-82808377

**FUJIAN PROVINCIAL BRANCH**
Address: No. 108 Gutian Road, Fuzhou City, Fujian Province, China
Postcode: 350005
Tel: 0591-88087810/88087819/88087000
Fax: 0591-83353905/83347074

**GANSU PROVINCIAL BRANCH**
Address: No. 408 Qingyang Road, Chengguan District, Lanzhou City, Gansu Province, China
Postcode: 730030
Tel: 0931-8432532
Fax: 0931-8435166

**GUANGDONG PROVINCIAL BRANCH**
Address: No. 123 Yanjiangxi Road, Guangzhou City, Guangdong Province, China
Postcode: 510120
Tel: 020-81308130/81308123
Fax: 020-81308789

**GUANGXI AUTONOMOUS REGION BRANCH**
Address: No. 15-1 Jiaoyu Road, Nanning City, Guangxi Autonomous Region, China
Postcode: 530022
Tel: 0771-5316617
Fax: 0771-5316617/2806043

**GUIZHOU PROVINCIAL BRANCH**
Address: No. 41 Ruijin Middle Road, Guiyang City, Guizhou Province, China
Postcode: 550003
Tel: 0851-8620000/8620018
Fax: 0851-5963911/8620017

**HAINAN PROVINCIAL BRANCH**
Address: Tower A, No. 3 Heping South Road, Haikou City, Hainan Province, China
Postcode: 570203
Tel: 0898-65303138
Fax: 0898-65303138

**HEBEI PROVINCIAL BRANCH**
Address: Tower B, Zhonghua Shangwu Tower, No. 188 Zhongshan West Road, Shijiazhuang City, Hebei Province, China
Postcode: 050051
Tel: 0311-66001888/66000001
Fax: 0311-66001889/66000002

**HENAN PROVINCIAL BRANCH**
Address: No. 99 Jingsan Road, Zhengzhou City, Henan Province, China
Postcode: 450011
Tel: 0371-65776888
Fax: 0371-65776889

**HEILONGJIANG PROVINCIAL BRANCH**
Address: No. 218 Zhongyang Road, Daoli District, Harbin City, Heilongjiang Province, China
Postcode: 150010
Tel: 0451-85870963
Fax: 0451-84698115/85870962

**HUBEI PROVINCIAL BRANCH**
Address: No. 31 Zhongbei Road, Wuchang District, Wuhan City, Hubei Province, China
Postcode: 430071
Tel: 027-69908676/69908658
Fax: 027-69908040

**HUNAN PROVINCIAL BRANCH**
Address: No. 619 Furong Middle Road Yi Duan, Changsha City, Hunan Province, China
Postcode: 410011
Tel: 0731-84428833/84420000
Fax: 0731-84430039

**JILIN PROVINCIAL BRANCH**
Address: No. 9559 Renmin Avenue, Changchun City, Jilin Province, China
Postcode: 130022
Tel: 0431-89569073/89569712
Fax: 0431-88923808

**JIANGSU PROVINCIAL BRANCH**
Address: No. 408 Zhongshan South Road, Nanjing City, Jiangsu Province, China
Postcode: 210006
Tel: 025-52858000/52858999
Fax: 025-52858111

**JIANGXI PROVINCIAL BRANCH**
Address: No. 233, Fuhe North Road, Nanchang City, Jiangxi Province, China
Postcode: 330008
Tel: 0791-6695117/6695018
Fax: 0791-6695230

**LIAONING PROVINCIAL BRANCH**
Address: No. 9 Nanshan Dongbao Road, Shenhe District, Shenyang City, Liaoning Province, China
Postcode: 110013
Tel: 024-88768630/88768684
Fax: 024-88768539

**INNER MONGOLIA AUTONOMOUS REGION BRANCH**
Address: No. 105 Xilin North Road, Huhehot City, Inner Mongolia Autonomous Region, China
Postcode: 010050
Tel: 0471-6940192/6940297
Fax: 0471-6940591/6940048

**NINGBO BRANCH**
Address: No. 218 Zhongshan West Road, Ningbo City, Zhejiang Province, China
Postcode: 315010
Tel: 0574-87361162
Fax: 0574-87361190

**NINGXIA AUTONOMOUS REGION BRANCH**
Address: No. 901 Huanghe East Road, Jinfeng District, Yinchuan City, Ningxia Autonomous Region, China
Postcode: 750002
Tel: 0951-5039558
Fax: 0951-5026437

**QINGDAO BRANCH**
Address: No. 25 Shandong Road, Shinan District, Qingdao City, Shandong Province, China
Postcode: 266071
Tel: 0532-85809988-621031
Fax: 0532-85814711

**QINGHAI PROVINCIAL BRANCH**
Address: No. 2 Shengli Road, Xining City, Qinghai Province, China
Postcode: 810001
Tel: 0971-6146733/6146734
Fax: 0971-6146733

**SHANDONG PROVINCIAL BRANCH**
Address: No. 310 Jingsi Road, Jinan City, Shandong Province, China
Postcode: 250001
Tel: 0531-66681622
Fax: 0531-87941749

**SHANXI PROVINCIAL BRANCH**
Address: No. 145 Yingze Street, Taiyuan City, Shanxi Province, China
Postcode: 030001
Tel: 0351-6248888/6248011
Fax: 0351-6248004

**SHAANXI PROVINCIAL BRANCH**
Address: No. 395 Dongxin Street, Xi'an City, Shaanxi Province, China
Postcode: 710004
Tel: 029-87602608/87602630
Fax: 029-87602999

**SHANGHAI MUNICIPAL BRANCH**
Address: No. 9 Pudong Avenue, Pudong New District, Shanghai, China
Postcode: 200120
Tel: 021-58885888
Fax: 021-58886888

**SHENZHEN BRANCH**
Address: North Block Financial Center, No. 5055 Shennan East Road, Luohu District, Shenzhen City, Guangdong Province, China
Postcode: 518015
Tel: 0755-82246400
Fax: 0755-82062761

**SICHUAN PROVINCIAL BRANCH**
Address: No. 35 Zongfu Road, Jinjiang District, Chengdu City, Sichuan Province, China
Postcode: 610016
Tel: 028-82866000
Fax: 028-82866025

**TIANJIN MUNICIPAL BRANCH**
Address: No. 123 Weidi Road, Hexi District, Tianjin, China
Postcode: 300074
Tel: 022-28400033/28401380
Fax: 022-28400123

**XIAMEN BRANCH**
Address: No. 17 Hubin North Road, Xiamen City, Fujian Province, China
Postcode: 361012
Tel: 0592-5292000
Fax: 0592-5054663

**XINJIANG AUTONOMOUS REGION BRANCH**
Address: No. 231 Remin Road, Tianshan District, Urumuqi, Xinjiang Autonomous Region, China
Postcode: 830002
Tel: 0991-5981888
Fax: 0991-2337527

**TIBET AUTONOMOUS REGION BRANCH**
Address: No. 31 Jinzhu Mid-Rd., Lhasa, Tibet Autonomous Region
Postcode: 850000
Tel: 0891-6898019/6898002
Fax: 0891-6898001

**YUNNAN PROVINCIAL BRANCH**
Address: Bank Mansion, No. 395 Qingnian Road, Kunming City, Yunnan Province, China
Postcode: 650021
Tel: 0871-3136172/3178888
Fax: 0871-3134637

**ZHEJIANG PROVINCIAL BRANCH**
Address: No. 150 Zhonghe Middle Road, Hangzhou City, Zhejiang Province, China
Postcode: 310009
Tel: 0571-87803888
Fax: 0571-87808207

**ICBC Credit Suisse Asset Management Co., Ltd.**
Address: Bank of Beijing Building, 17 C Financial Street, Xicheng District, Beijing, China
Postcode: 100140
Tel: 010-66583333
Fax: 010-66583158

**ICBC Financial Leasing Co., Ltd.**
Address: E5AB, Finance Street, No. 20 Plaza East Road, Economic Development Zone, Tianjin
Postcode: 300457
Tel: 022-66283766/010-66105888
Fax: 022-66224510/010-66105999

**ICBC-AXA Assurance Co., Ltd.**
Address: 19/F Mirae Asset Tower, No. 166 Lujiazui Ring Road, Pudong New Area, Shanghai
Postcode: 200120
Tel: 021-5879-2288
Fax: 021-5879-2299

**CHONGQING BISHAN ICBC RURAL BANK CO., LTD.**
Address: No.1 Aokang Avenue, Bishan County, Chongqing
Postcode: 402760
Tel: 023-85297704
Fax: 023-85297709

**ZHEJIANG PINGHU ICBC RURAL BANK CO., LTD.**
Address: No.258 Chengnan West Road, Pinghu, Zhejiang
Postcode: 314200
Tel: 0573-85139616
Fax: 0573-85139626

## Overseas Institutions

### ICBC, Hong Kong Branch
Address: 33/F, ICBC Tower,
3 Garden Road, Central,
Hong Kong
Email: icbchk@icbcasia.com
Tel: +852-25881188
Fax: +852-28787784
SWIFT: ICBKHKHH

### ICBC, Seoul Branch
Address: 16 Floor,
Taepeongno Bldg.,
#310 Taepeongno2-ga,
Jung-gu, Seoul, 100-767,
Korea
Email: icbcseoul@kr.icbc.com.cn
Tel: +822-37886670
Fax: +822-7553748
SWIFT: ICBKKRSE

### ICBC, Busan Branch
Address: 1st Floor, Samsung Fire &
Marine Insurance Bldg.,
#1205-22 Choryang-
1dong, Dong-Gu, Busan,
601-728, Korea
Email: busanadmin@kr.icbc.com.cn
Tel: +8251-4638868
Fax: +8251-4636880
SWIFT: ICBKKRSE

### ICBC, Tokyo Branch
Address: 2-1 Marunouchi 1-Chome,
Chiyoda-Ku Tokyo,
100-0005, Japan
Email: icbctokyo@icbc.co.jp
Tel: +813-52232088
Fax: +813-52198502
SWIFT: ICBKJPJT

### ICBC, Singapore Branch
Address: 6 Raffles Quay #12-01,
Singapore 048580
Email: icbcsg@icbc.com.sg
Tel: +65-65381066
Fax: +65-65381370
SWIFT: ICBKSGSG

### ICBC, Hanoi City Branch
Address: Daeha Business Center,
No.360, Kim Ma Str.,
Ba Dinh Dist., Hanoi,
Vietnam
Email: weiyong@vn.icbc.com.cn
Tel: +84-462698888
Fax: +84-462699800
SWIFT: ICBKVNVN

### ICBC, Karachi Branch
Address: Room No.G-02 &
G-03 Ground Floor,
Office #803-807,
8th Floor, Parsa Towers,
Plot No.31-1-A, Block 6,
PECHS, Karachi, Pakistan
Tel: +92-2135208990
Fax: +92-2135208930
SWIFT: ICBKPKKAXXX

### ICBC, Mumbai Branch
Address: Level 1, East Wing,
Wockhardt Tower,
C-2, G Block,
Bandra Kurla Complex,
Bandra(E),
Mumbai-400 051, India
Email: icbcmumbai@india.icbc.com.cn
Tel: +91-2233155999
Fax: +91-2233155900
SWIFT: ICBKINBBXXX

### ICBC, Vientiane Branch
Address: Lanexang Avenue,
Home No.12, Unit 15,
Ban Hatsadee-Tai,
Chanthabouly District,
Vientiane Capital,
Lao PDR.
Email: icbcvte@la.icbc.com.cn
Tel: +856-21258897
Fax: +856-21258897
SWIFT: ICBKLALA

### ICBC, Phnom Penh Branch
Address: No. 15, Preah Norodom
Boulevard, Phsar Thmey I,
Duan Penh, Phnom Penh,
Cambodia
Tel: +855-23965280
Fax: +855-23965268
SWIFT: ICBKKHPP

### ICBC, Doha Branch
Address: Office 702, 7/F,
QFC Tower,
Diplomatic Area,
West Bay, Doha, Qatar
Email: dboffice@dxb.icbc.com.cn,
Tel: +974-4968076
Fax: +974-4968080
SWIFT: ICBKQAQA

### ICBC, Abu Dhabi Branch
Address: 9th floor &
Mezzanine floor
AKAR properties,
Al Bateen Tower C6
Bainuna Street,
Al Bateen Area, Abu Dhabi
United Arab Emirates
Email: dboffice@dxb.icbc.com.cn,
Tel: +971-47031111
Fax: +971-47031199
SWIFT: ICBKAEAA

### ICBC, Sydney Branch
Address: Level 1,
220 George Street,
Sydney NSW 2000,
Australia
Email: Info@icbc.com.au
Tel: +612-94755588
Fax: +612-92333982
SWIFT: ICBKAU2S

### ICBC, Frankfurt Branch
Address: Bockenheimer Anlage 15,
60322 Frankfurt am Main,
Germany
Email: icbc@icbc-ffm.de
Tel: +49-6950604700
Fax: +49-6950604708
SWIFT: ICBKDEFF

### ICBC, Luxembourg Branch
Address: 32, Boulevard Royal,
L-2449 Luxembourg
B.P.278 L-2012
Luxembourg
Email: icbc@icbc.lu
Tel: +352-2686661
Fax: +352-26866666
SWIFT: ICBKLULL

### ICBC, New York Branch
Address: 725 Fifth Avenue,
20th Floor, New York,
NY 10022, USA
Email: info@icbkus.com
Tel: +1-2128387799
Fax: +1-2128386688
SWIFT: ICBKUS33

**Industrial and Commercial Bank of China (Asia) Limited**
Address: 33/F, ICBC Tower,
3 Garden Road, Central,
Hong Kong
Email: enquiry@icbcasia.com
Tel: +852-25881188
Fax: +852-28787784
SWIFT: UBHKHKHH

**ICBC International Holdings Limited**
Address: Level 18,
Three Pacific Place,
1 Queen's Road East,
Hong Kong
Email: info@icbci.com.hk
Tel: +852-26833888
Fax: +852-26833900
SWIFT: ICILHKHH

**Industrial and Commercial Bank of China (Macau) Limited**
Address: 18th Floor, ICBC Tower,
Macau Landmark,
555 Avenida da Amizade,
Macau
Email: icbc@mc.icbc.com.cn
Tel: +853-28555222
Fax: +853-28338064
SWIFT: ICBKMOMX

**Industrial and Commercial Bank of China (Malaysia) Berhad**
Address: Level 35, Menara Maxis,
Kuala Lumpur City Centre,
50088 Kuala Lumpur,
Malaysia
Email: icbcmalaysia@icbcmalaysia.com.my
Tel: +603-23013399
Fax: +603-23013388
SWIFT: ICBKMYKL

**PT. Bank ICBC Indonesia**
Address: TCT ICBC Tower,
Jl. MH.Thamrin No.81,
Jakarta Pusat, Indonesia
Email: icbc@icbc.co.id
Tel: +62-2131996088
Fax: +62-2131996016
SWIFT: ICBKIDJA

**Industrial and Commercial Bank of China (Thai) Public Company Limited**
Address: 622 Emporium Tower
11th-13th Fl.,
Sukhumvit Road,
Khlong Ton, Khlong Toei,
Bangkok, Thailand
Tel: +66-26639333
Fax: +66-26639333
SWIFT: ACLXTHBK

**Industrial and Commercial Bank of China (Almaty) Joint Stock Company**
Address: 150/230,
Abai/Turgut Ozal Street,
Almaty, Kazakhstan.
050046
Email: office@icbcalmaty.kz
Tel: +7727-2377085
Fax: +7727-2377070
SWIFT: ICBKKZKX

**Industrial and Commercial Bank of China (Middle East) Limited**
Address: 19/F, Al Kifaf Tower,
Sheikah Zayed Road,
Dubai, U.A.E
Email: dboffice@dxb.icbc.com.cn
Tel: +971-47031111
Fax: +971-47031199
SWIFT: ICBKAEAD

**Industrial and Commercial Bank of China, (London) plc**
Address: 81 King William Street,
London EC4N 7BG, UK
Email: admin@icbclondon.com
Tel: +44-2073978888
Fax: +44-2073978899
SWIFT: ICBKGB2L

**Industrial and Commercial Bank of China (Europe) S.A.**
Address: 32, Boulevard Royal,
L-2449 Luxembourg
Email: icbc@icbc.lu
Tel: +352-2686661
Fax: +352-26866666
SWIFT: ICBKLULU

**ZAO Industrial and Commercial Bank of China (Moscow)**
Address: Serebryanicheskaya
Naberejnaya Street build.
29, First floor, room 46-1,
109028, Moscow, Russia
Email: info@ms.icbc.com.cn
Tel: +74-952873099
Fax: +74-952873098
SWIFT: ICBKRUMM

**Industrial and Commercial Bank of China (Canada)**
Address: Unit 3710,
Bay Adelaide Centre,
333 Bay Street, Toronto,
Ontario, M5H 2R2
Email: info@icbk.ca
Tel: +1416-366-5588
Fax: +1416-607-2000
SWIFT: ICBKCAT2

**Industrial and Commercial Bank of China Financial Services LLC**
Address: 1633 Broadway,
28th Floor, New York,
NY, 10019
Email: icbcfs@icbkus.com
Tel: +1-212-993-7300
Fax: +1-212-993-7349
SWIFT: ICBKUS33FIN

**Industrial and Commercial Bank of China (USA) NA**
Address: 202 Canal Street,
New York, NY 10013, USA
Email: info@us.icbc.com.cn
Tel: +1-212-238-8208
Fax: +1-212-219-3378
SWIFT: BEAKU

**Standard Bank Argentina S.A.**
Address: Blvd. Cecilia Grierson
355 — Piso 2°
(C1107BHA) Buenos Aires,
Argentina
Email: argentina.team@icbc.com.cn
Tel: +54-911-4820-3627
Fax: +54-911-4820-1901
SWIFT: SBSAARBA

**ICBC, Yangon Representative Office**
Address: No. 601A, 6th Floor,
Sakura Tower,
No. 339,
Bogyoke Aung San Street,
Kyauktada Township,
Yangon, Myanmar
Tel: +95-1255045
Fax: +95-1255078

**ICBC, African Representative Office**
Address: 20th Floor
Standard Bank Centre
Heerengracht Tower
Adderley Street
Cape Town 8001,
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