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CCBL FUNDING PLC

(incorporated with limited liability in England and Wales with registered number 8062960)

CNY1,000,000,000 3.2% Guaranteed Bonds due 2015

Unconditionally and Irrevocably Guaranteed by

中国建设银行
China Construction Bank

中國建設銀行股份有限公司

China Construction Bank Corporation

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

ISSUE PRICE: 100%

The 3.2% Guaranteed Bonds due 2015 in the aggregate principal amount of CNY1,000,000,000 (the "Bonds") will be issued by CCBL Funding PLC (the "Issuer") and will be unconditionally and irrevocably guaranteed (the "Guarantee") by China Construction Bank Corporation (the "Bank" or the "Guarantor").

The Bonds will constitute direct, unconditional, unsubordinated, general and (subject to Condition 3 of the Terms and Conditions of the Bonds) unsecured obligations of the Issuer ranking *pari passu* among themselves in all respects and rateably without preference or priority and, save for such exceptions as may be provided by applicable legislation and subject to Condition 3 of the Terms and Conditions of the Bonds, ranking at least equally with all its other present unsecured and unsubordinated obligations. The payment obligations of the Bank under the Guarantee shall rank at least equally with all other outstanding unsecured or unsubordinated Public External Indebtedness (as defined in the Terms and Conditions of the Bonds) of the Bank (except for any statutory preference or priority applicable in the winding-up of the Bank).

The Bonds will bear interest from and including 29 November 2012 at the rate of 3.2% per annum. Interest on the Bonds is payable semi-annually in arrear on the Interest Payment Dates (as defined in the Terms and Conditions of the Bonds) falling on, or nearest to, 29 May and 29 November in each year, with the first Interest Payment Date falling on, or nearest to, 29 May 2013. The Bonds will mature on the Interest Payment Date falling on, or nearest to, 29 November 2015 at their principal amount.

The Bank obtained an approval from the People's Bank of China ("PBOC") and the State Administration of Foreign Exchange of the PRC ("SAFE") to provide the Guarantee on 31 July 2012 and 29 September 2012, respectively. The Bank is required by the Administrative Measures on Securities Given to Foreign Parties by Domestic Institutions promulgated by the PBOC on 25 September 1996, the Rules for Implementing the Administrative Measures on Securities Given to Foreign Parties by Domestic Institutions promulgated by SAFE on 11 December 1997 (the "Foreign Security Measures") and the Notice on Issues relating to the Administration of Foreign Security by Domestic Institutions promulgated by SAFE on 30 July 2010 (the "SAFE Notice") to register the Guarantee with SAFE within 15 calendar days after its execution. The Guarantee may not be enforceable until the registration of the Guarantee is completed in accordance with the provisions of the Foreign Security Measures and the SAFE Notice. The Bonds may be redeemed at the option of the Bondholders (as defined in the Terms and Conditions of the Bonds) at 100% of their principal amount, together with accrued interest, following the occurrence of a Non-Registration Event (as defined in the Terms and Conditions of the Bonds). See "Terms and Conditions of the Bonds – Redemption and Purchase". The Bank intends to complete the registration of the Guarantee with SAFE as soon as practicable and in any event before the occurrence of a Non-Registration Event (being 30 days (as defined in the Terms and Conditions of the Bonds) after 29 November 2012 (the "Issue Date")).

Payments on the Bonds will be made without deduction for or on account of taxes of the PRC and the United Kingdom to the extent described under Condition 7 of the Terms and Conditions of the Bonds.

Investing in the Bonds involves certain risks. See "Risk Factors" beginning on page 6.

The Bonds and the Guarantee have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and the Bonds are subject to U.S. tax requirements. The Bonds and the Guarantee may not be offered or sold within the United States or to U.S. persons unless pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Bonds are being offered outside the United States in reliance on Regulation S under the Securities Act ("Regulation S").

For a description of these and certain further restrictions on offers and sales of the Bonds and the distribution of this Offering Circular, see "Subscription and Sale".

Application has been made to the Financial Services Authority in its capacity as competent authority (the "UK Listing Authority") under the Financial Services and Markets Act 2000 (the "FSMA") for the Bonds to be admitted to the official list (the "Official List") of the UK Listing Authority and to be admitted to trading on the Professional Securities Market ("PSM") of the London Stock Exchange plc. The PSM is not a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive). Investors are advised to read and understand the contents of this Offering Circular before investing. If in doubt, investors should consult their advisers.

The denomination of the Bonds will be CNY1,000,000 and integral multiples of CNY10,000 in excess thereof.

The Bonds will initially be represented by a temporary global bond (the "Temporary Global Bond"), without interest coupons, which will be deposited with a common depositary on behalf of Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream") on or about the Issue Date. The Temporary Global Bond will be exchangeable for interests in a permanent global bond (the "Global Bond"), without interest coupons, upon certification as to non-U.S. beneficial ownership in accordance with the terms of the Temporary Global Bond. The Global Bond will be exchangeable for definitive Bonds (the "Definitive Bonds") in bearer form in the limited circumstances set out in it. See "Summary of Provisions relating to the Bonds in Global Form".

The Bonds are expected to be assigned a rating of "A1" by Moody's Investors Service Limited and a rating of "A" by Fitch Ratings Ltd ("Fitch"). As of the date of this Offering Circular, Moody's and Fitch are established in the European Union and are registered under Regulation (EC) No 1060/2009, as amended (the "CRA Regulation"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension and withdrawal at any time by the relevant rating organisation. Potential purchasers should evaluate each rating independently of any other securities of the Bank.

Joint Global Coordinators

CCB International | **BNP PARIBAS** | **HSBC** | **Industrial and Commercial Bank of China (Asia) Limited**

Joint Bookrunners and Joint Lead Managers

CCB International | **BNP PARIBAS** | **HSBC** | **Industrial and Commercial Bank of China (Asia) Limited** | **Bank of Communications Co., Ltd. Hong Kong Branch** | **China International Capital Corporation Hong Kong Securities Limited** | **Standard Chartered Bank (Hong Kong) Limited**

Co-Lead Managers

Santander Global Banking & Markets | **Barclays** | **Goldman Sachs International** | **Morgan Stanley**

Offering Circular dated 23 November 2012

This Offering Circular comprises listing particulars given in compliance with the listing rules made under section 73A of the FSMA by the UK Listing Authority for the purpose of giving information with regard to the Issuer, the Bank and their respective subsidiaries and the Bonds. Each of the Issuer and the Bank accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge of each of the Issuer and the Bank (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Circular has been prepared by the Issuer and the Bank solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Bank and CCB International Capital Limited ("CCBI"), BNP Paribas, The Hongkong and Shanghai Banking Corporation Limited, Industrial and Commercial Bank of China (Asia) Limited, Bank of Communications Co., Ltd. Hong Kong Branch, China International Capital Corporation Hong Kong Securities Limited, Standard Chartered Bank (Hong Kong) Limited, Banco Santander, S.A., Barclays Bank PLC, Goldman Sachs International and Morgan Stanley & Co. International plc (collectively, the "Managers") to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds or redemption of the Bonds, and the circulation of documents relating thereto, in certain jurisdictions including the United States, the United Kingdom, Singapore, the PRC and Hong Kong, and to persons connected therewith. In particular, (1) the Bonds and the Guarantee may not be offered or sold within the United States or to U.S. persons unless pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and (2) no action has been taken by the Issuer, the Bank, the Managers, The Bank of New York Mellon, London Branch as trustee (the "Trustee") or The Bank of New York Mellon, London Branch as the principal paying agent for the Bonds (the "Principal Paying Agent") and other agents appointed in connection with this issue (together with the Principal Paying Agent, the "Agents"), which is intended to permit a public offering of the Bonds or the possession or distribution of this Offering Circular (or any other offering or publicity materials or application form(s) relating to the Bonds) (a) in the United Kingdom, other than to (i) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"), (ii) high net worth entities and other persons to whom it may otherwise be lawfully communicated falling within Article 49(1) of the Order or (iii) persons to whom it may otherwise lawfully be communicated or (b) in any jurisdiction where action for that purpose is required. Accordingly, no Bonds may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Bonds. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this Offering Circular, see "Subscription and Sale".

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Bank, the Group (the Issuer, the Bank and their respective subsidiaries, collectively, the "Group"), the Bonds or the Guarantee other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Bank, the Managers, the Trustee or the Agents. Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Bank or the Group since the date hereof or create any implication that the information contained herein is correct as of any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of, the Issuer, the Bank, the Managers, the Trustee or the Agents to subscribe for or purchase any of the Bonds and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

No representation or warranty, express or implied, is made or given by the Managers, the Trustee or the Agents as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Managers, the Trustee or the Agents. None of the Managers, the Trustee or the Agents have independently verified any of the information contained in this Offering Circular and can give no assurance that this information is accurate, true or complete. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Issuer, the Bank, the Managers, the Trustee or the Agents that any recipient of this Offering Circular should purchase the Bonds.

Certain facts and statistics relating to the PRC, its economy and its banking industry have been extracted from third party sources: the websites of the National Bureau of Statistics of China, the National Development and Reform Commission, the Central People's Government of the People's Republic of China and the PBOC. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Such information however has not been independently verified by the Bank, the Managers, the Trustee or any Agents or any of their respective directors, employees, representatives, affiliates or advisers and, therefore, none of them makes any representation as to the accuracy of such facts and statistics or information, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up-to-date.

IN CONNECTION WITH THE ISSUE OF THE BONDS, BNP PARIBAS (THE "STABILISING MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR ANY PERSON ACTING ON BEHALF OF ANY STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

In making an investment decision, investors must rely on their own examination of the Issuer, the Bank, the Group and the terms of the offering, including the merits and risks involved. The Bonds may not be a suitable investment for all investors. Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained in this Offering Circular or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Potential investors of Bonds should ensure that they understand the nature of the Bonds and the extent of their exposure to risk, that they have sufficient knowledge, experience and access to professional advisers to make their own legal, tax, accounting and financial evaluation of the merits and the risks of investment in the Bonds and that they consider the suitability of the Bonds as an investment in light of their own circumstances and financial condition.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) the Bonds are legal investments for it, (b) the Bonds can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase or pledge of the Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Bonds under any applicable risk-based capital or similar rules.

See "Risk Factors" for a discussion of certain factors to be considered in connection with an investment in the Bonds.

Each person receiving this Offering Circular acknowledges that such person has not relied on the Managers, the Trustee or the Agents or any of their affiliates in connection with its investigation of the accuracy of such information or its investment decision.

To the fullest extent permitted by law, the Managers, the Trustee and the Agents do not accept any responsibility for the contents of this Offering Circular. Each of the Managers, the Trustee and the Agents accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement. None of the Managers, the Trustee or any Agent undertakes to review the financial condition or affairs of the Issuer or the Bank as after the date of this Offering Circular nor to advise any investor or potential investor in the Bonds of any information coming to the attention of the Managers, the Trustee or any Agent.

This Offering Circular contains the audited consolidated financial statements of the Group as at and for the years ended 31 December 2011 and 31 December 2010, respectively, and the unaudited consolidated financial statements of the Group as at and for the six months ended 30 June 2012 and the nine months ended 30 September 2012. These financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRS").

The unaudited consolidated financial statements of the Group as at and for the six months ended 30 June 2012 (which include the comparative financial information for the six months ended 30 June 2011) included in this Offering Circular have been extracted from the Bank's half year report as announced by the Bank on 27 September 2012 (the "Half-Year Report"), which have been reviewed by PricewaterhouseCoopers, Certified Public Accountants, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The unaudited consolidated financial statements of the Group as at and for the nine months ended 30 September 2012 (which include the comparative financial information for the nine months ended 30 September 2011) included in this Offering Circular have been extracted from the Bank's third quarterly report as announced by the Bank on 28 October 2012 (the "Third Quarterly Report"), which have not been audited or reviewed by PricewaterhouseCoopers, Certified Public Accountants. These unaudited financial statements were prepared and presented in accordance with IFRS. However, such financial statements, the Half-Year Report and the Third Quarterly Report should not be relied upon by potential investors to provide the same quality of information associated with information that has been subject to, in the case of the Half-Year Report, an audit, or in the case of the Third Quarterly Report, an audit or review. Potential investors must exercise caution when using such data to evaluate the Group's financial condition, results of operations and results. Such unaudited consolidated financial information as at and for the six months ended 30 June 2012 and the nine months ended 30 September 2012, respectively, should not be taken as an indication of the expected financial condition, results of operations and results of the Group for the full financial year ending 31 December 2012.

Unless otherwise specified or the context requires, references herein to "the Bank", "the Group" and words of similar import are to China Construction Bank Corporation itself or China Construction Bank Corporation and its subsidiaries, as the context requires; all references to "the Bank" and words of similar import regarding the description of the Bonds are to China Construction Bank Corporation itself; "Hong Kong dollars" and "HK$" are to the lawful currency of Hong Kong, references herein to "CNY", "RMB" and "Renminbi" are to the lawful currency of the PRC, references to "US$" are to the lawful currency of the United States and "Pound Sterling" are to the lawful currency of UK.

References to "China" and the "PRC" in this Offering Circular mean The People's Republic of China and for geographical reference only (unless otherwise stated) exclude Taiwan, Macau and Hong Kong; references to "Hong Kong" are to the Hong Kong Special Administrative Region of the PRC; references to "Macau" are to the Macau Special Administrative Region of the PRC; references to "U.S." and the "United States" mean the United States of America; and references to "UK" mean the United Kingdom.

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units. References to information in trillions of units are to the equivalent of a thousand billion units.

FORWARD-LOOKING STATEMENTS

The Issuer and the Bank have made certain forward-looking statements in this Offering Circular. All statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the Group's financial position, future expansion plans, prospects, business strategy and the plans and objectives of the Group's management for its future operations (including development plans and objectives relating to the Group's operations), are forward-looking statements. These forward-looking statements are based on the Issuer's and the Bank's current expectations about future events. Although the Issuer and the Bank believe that these expectations and projections are reasonable, such forward-looking statements are inherently subject to risks, uncertainties and assumptions, including, among other things: risks associated with international global business activities; general economic and political conditions; possible disruptions to commercial activities due to nature and human induced disasters, including terrorist activities and armed conflicts; fluctuations in foreign currency exchange rates; and those other risks identified in the "Risk Factors" section of this Offering Circular.

The words "anticipate", "believe", "estimate", "expect", "intend", "plan" and similar expressions are intended to identify a number of these forward-looking statements. The Issuer and the Bank undertake no obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Offering Circular might not occur and the Issuer's and the Bank's actual results could differ materially from those anticipated in these forward-looking statements.

These forward-looking statements speak only as of the latest practicable date. The Issuer and the Bank expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based.

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OVERVIEW OF THE ISSUER AND THE BANK

The overview below is intended only to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is an overview, it does not contain all the information that may be important to investors. Terms defined elsewhere in this Offering Circular shall have the same meanings when used in this overview. Prospective investors should therefore read this Offering Circular in its entirety.

THE ISSUER

The Issuer was incorporated with limited liability under the laws of England and Wales on 9 May 2012. It is a wholly-owned subsidiary of China Construction Bank (London) Limited which, in turn, is a wholly-owned subsidiary of the Bank. The Issuer's registered office is located at 40 Bank Street, 18th Floor, Heron Quays, London, United Kingdom E14 5NR.

THE BANK

Overview

The Bank is a leading commercial bank in China providing a comprehensive range of banking products and financial services. As at 30 June 2012, the Group's total assets, total liabilities and total equity were RMB13,505,745 million (including total loans and advances to customers of RMB7,061,343 million), RMB12,636,340 million (including total deposits from customers of RMB10,940,837 million) and RMB869,405 million, respectively.

Headquartered in Beijing, the Bank provides convenient and quality banking services to its customers through an extensive network comprised of nationwide branches, self-service facilities and an electronic banking service platform. The Bank operates principally in mainland China with branches in all provinces, autonomous regions and municipalities directly under the central government, and several subsidiaries located in mainland China. The Group adheres to a positive and steady international operation and overseas development strategy, leading to a steady expansion of its overseas network. Its Taipei and Moscow representative offices were opened in May 2011 and the Group is in the process of establishing entities in other regions. As at 30 June 2012, the Group has established overseas entities in 13 countries and regions, with nine overseas branches in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo, Seoul, New York, Ho Chi Minh City and Sydney, two representative offices in Taipei and Moscow, two subsidiaries in Hong Kong, namely CCB Asia and CCB International, and one subsidiary in the United Kingdom, namely CCB London. The application to set up a branch in Taipei has been approved by China Banking Regulatory Commission ("CBRC"), and the proposal to set up a branch in San Francisco has been approved by the board of directors of the Bank. The application and establishment of the Bank's presence in other overseas regions, namely, two banking subsidiaries in Dubai and Russia, and two branches in Toronto and Melbourne, are also in progress. On 24 August 2012, the proposal to set up a branch and a subsidiary in Luxembourg was approved by the board of directors of the Bank. As at 30 June 2012, the total assets of the Group's overseas entities were RMB542,340 million, representing an increase of 22.37% from the end of 2011. For the year ended 31 December 2011, the profit before tax of the Group's overseas entities was RMB2,109 million, representing an increase of 64.00% from 2010. Co-ordinated business operations continued to deepen and the co-ordinated assets as at 31 December 2011 were RMB125.9 billion, representing an increase of 100% from 2010. For the six months ended 30 June 2012, the profit before tax of the Group's overseas entities was RMB1,623 million. The Group's overseas entities continued to improve their asset structure, and the asset quality improved steadily. The collaborative business developed steadily, and infrastructures such as risk management and IT development continued to strengthen. The non-performing loans and non-performing loan ratio continued to decrease.

In the first half of 2012, the Group's good performance in various aspects was widely recognised by the market and the community, with over 30 major awards from renowned local and international institutions. The Group ranked 6th in "Top 1000 World Banks 2012" by The Banker, up two places from 2011. The Group's ranking in "Fortune Global 500" rose to 77th, up by 31 places. The Group's ranking in "Global

2000" by Forbes rose to 13th, up by four places. The Group was the only listed domestic company that won the "Corporate Governance Asia Recognition Award" issued by Hong Kong publication Corporate Governance Asia for the fourth consecutive year. In addition, the Group was named the "Best Bank in China", "Excellent Management and Corporate Governance" and "2011 Most Socially Responsible Financial Institutions" by Global Finance, The Asset and China Banking Association, respectively.

In the first half of 2012, the economy of Europe and the United States slowed down substantially, the growth rate of emerging markets fell, and the domestic economy was faced with downward pressure. Facing the complex and fast-changing domestic and international environment, the Group earnestly followed the government's macroeconomic control measures and regulatory requirements, and actively served the real economy. The Group made great efforts to promote business transformation, improve business structure, and strengthen risk control. As a result, various businesses maintained sound and stable growth, and the operating results achieved sustained growth. The Group's major financial indicators continued to lead among peers.

In the second half of 2012, China's economic development continues to face a complex internal and external environment. Downward economic risk continues to exist and more stringent regulatory requirements and fiercer market competition are expected. The Group will adhere to the principle of "making progress while ensuring stability", and play an active role in serving the real economy. The Group will also accelerate the strategic transformation of its business patterns, and promote a healthy and sustainable business development in accordance with "comprehensive, multi-functional and intensive" requirements. The Group will also expand its branch network and customer base, and gradually raise its service standards, in order to further enhance its comprehensive service capabilities. The Group will improve risk management and internal control, ensure safe and sound operations, and work towards the successful completion of plans for 2012.

The Bank's principal business activities include corporate banking, personal banking, treasury operations, investment banking and overseas operations. Within the Bank's corporate banking business, the Bank offers a broad range of products and services to corporations, government agencies and financial institutions, including infrastructure loans, working capital loans, supply-chain financing, loans to small and medium-sized enterprises ("SMEs"), trade financing, loans through the Bank's e-banking platform and merger and acquisition financing. The Bank also offers corporate deposits under various terms and commission/fee based services, including institutional services and fund custodial services for corporate bonds and trust loans and custodial services for securities settlement and clearing. The Bank provides a broad range of personal banking products and services under well recognised brands, including residential mortgage loans, entrusted housing provident fund mortgage loan services and bank cards services. The Bank's treasury operations primarily consist of money market trading activities, investment portfolio management and agency treasury transactions. The Bank conducts its treasury services mainly through its trading centres in Beijing and Hong Kong. The Bank conducts its investment banking business through the investment banking department at the head office and branch levels as well as through CCB International. The Bank offers a comprehensive and diversified suite of financial services to its customers which includes, among others, financial advisory services, equity capital financing, debt financing, asset securitisation and wealth management services. Leveraging its vast resources and geographic advantages in the Chinese domestic market, the Bank is committed to providing a world-wide banking and financial services platform to service the overseas banking needs of its domestic corporate and personal banking customers and the domestic banking needs of its overseas corporate and personal banking customers seeking to trade with or invest in China.

THE OFFERING

The following overview contains some basic information about the Bonds and is qualified in its entirety by the remainder of this Offering Circular. Some of the terms described below are subject to important limitations and exceptions. Terms and phrases used in this overview and not otherwise defined shall have the meanings given to them in "Terms and Conditions of the Bonds". This is an overview of the terms and conditions of the Bonds (the "Conditions" or the "Terms and Conditions"). Please refer to "Terms and Conditions of the Bonds" in this Offering Circular for a detailed description of the Terms and Conditions.

Issuer	CCBL Funding PLC.
Guarantor	China Construction Bank Corporation.
Issue	CNY1,000,000,000 3.2% Guaranteed Bonds due 2015.
Guarantee	The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Bonds and the Trust Deed, as further described in Condition 2 of the Terms and Conditions of the Bonds. The Guarantor obtained an approval from the PBOC and SAFE to provide the Guarantee on 31 July 2012 and 29 September 2012, respectively. The Guarantor is required by the Foreign Security Measures and the SAFE Notice to register the Guarantee within 15 calendar days after its execution. The Guarantee may not be enforceable until the registration of the Guarantee is completed in accordance with the provisions of the Foreign Security Measures and the SAFE Notice. See also "The Guarantee" and "Risk Factors – Risks relating to the Guarantee and the Bonds – The Guarantee is not enforceable before registration with SAFE, is subject to a maximum Renminbi amount approved by SAFE under a recent regulation, and there may be uncertainty relating to the coverage and enforceability of the Guarantee".
Interest	The Bonds will bear interest from 29 November 2012 at the rate of 3.2% per annum, payable semi-annually in arrear on the Interest Payment Dates falling on, or nearest to, 29 May and 29 November in each year, with the first Interest Payment Date falling on, or nearest to 29 May 2013.
Issue Price	100%.
Issue Date	29 November 2012.
Maturity Date	The Interest Payment Date falling on, or nearest to, 29 November 2015.
Form and Denomination	The Bonds will be issued in bearer form in the denomination of CNY1,000,000 each and integral multiples of CNY10,000 in excess thereof.

Status of the Bonds	The Bonds will constitute direct, unconditional, unsubordinated, general and, subject to Condition 3 of the Terms and Conditions of the Bonds, unsecured obligations of the Issuer and shall rank *pari passu* among themselves in all respects and rateably without preference or priority. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3 of the Terms and Conditions of the Bonds, rank at least equally with its other present and future unsecured and unsubordinated obligations.
Status of the Guarantee	The payment obligations of the Guarantor under the Guarantee shall rank at least equally with all other outstanding unsecured or unsubordinated Public External Indebtedness (as defined in Condition 3 of the Terms and Conditions of the Bonds) of the Guarantor (except for any statutory preference or priority applicable in the winding-up of the Guarantor).
Negative Pledge	The Bonds will contain a negative pledge provision as further described in Condition 3: see "Terms and Conditions of the Bonds – Negative Pledge".
Final Redemption	Unless previously redeemed or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Maturity Date.
Redemption for Relevant Events .	A Bondholder will have the right, at such Bondholder's option, to require the Issuer to redeem all, but not some only, of that Bondholder's Bonds at 100% of their principal amount, together with accrued interest up to, but excluding, the relevant Put Settlement Date, at any time following the occurrence of a Non-Registration Event, as further described in "Terms and Conditions of the Bonds – Redemption and Purchase – Redemption for a Non-Registration Event".
Events of Default.	The Bonds will contain certain events of default provisions, including a cross default provision as further described in Condition 8: see "Terms and Conditions of the Bonds – Events of Default".
Taxation	All payments of principal and interest in respect of the Bonds and the Coupons or under the Guarantee by or on behalf of the Issuer or the Bank will be made free and clear of, and without withholding or deduction for or on account of any present or future tax, duty, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of the United Kingdom, the PRC or any political subdivision or any authority thereof or therein having power to levy tax, unless such withholding or deduction is required by law. In that event, the Issuer or, as the case may be, the Bank shall, subject to the limited exceptions specified in the Terms and Conditions of the Bonds, pay such additional amounts as will result in the receipt by the Bondholders or Couponholders of such amounts as would have been received by them if no such withholding or deduction had been required.

Use of Proceeds	The Issuer intends to use the net proceeds from the sale of the Bonds for the development and expansion of offshore Renminbi business of CCB London.
Further Issues	The Issuer may from time to time, without the consent of the Bondholders or Couponholders, create and issue further bonds having the same terms and conditions as the Bonds in all respects, except for the issue date, issue price, interest commencement date and the date of first payment of interest thereon. Additional bonds issued in this manner will be consolidated with and will form a single series with the Bonds.
Trustee	The Bank of New York Mellon, London Branch.
Principal Paying Agent	The Bank of New York Mellon, London Branch.
Listing	Application has been made for the Bonds to be admitted to the Official List of the UK Listing Authority and application has been made to the London Stock Exchange for the Bonds to be admitted to trading on the PSM.
Clearing System.	The Bonds will initially be represented by the Temporary Global Bond deposited with a common depositary on behalf of Euroclear and Clearstream. The Temporary Global Bond will be exchangeable for interests in the Global Bond upon certification as to non-U.S. beneficial ownership in accordance with the terms of the Temporary Global Bond. The Global Bond will be exchangeable for Definitive Bonds in bearer form in the limited circumstances set out in it. See "Summary of Provisions relating to the Bonds in Global Form".
Clearance and Settlement	The Bonds have been accepted for clearance through Euroclear and Clearsteam under the following codes: ISIN: XS0858771271 Common Code: 085877127
Notices and Payment	So long as the Bonds are represented by the Global Bond and the Global Bond is held on behalf of a clearing system, notices to Bondholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions.
Rating	The Bonds are expected to be rated "A1" by Moody's and "A" by Fitch. A rating is not a recommendation to buy, sell or hold the Bonds and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation.
Governing Law	English law.

RISK FACTORS

Investors should carefully consider, together with all other information contained in this Offering Circular, the risks and uncertainties described below. The business, financial condition or results of operations of the Group and the Bank may be materially and adversely affected by any of these risks. The risks described below are not the only ones relevant to the Issuer, the Bank or the Bonds. The Bank believes the risks described below represents the principal risks inherent when considering an investment in the Bonds. Additional risks and uncertainties not presently known to the Issuer and the Bank, or which the Issuer and the Bank currently deem immaterial, may also have an adverse effect on an investment in the Bonds.

This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The Issuer's and the Bank's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the considerations described below and elsewhere in this Offering Circular.

RISKS RELATING TO THE BANK'S BUSINESS

Uncertainties and instability in global market conditions could adversely affect the Bank's business, financial condition and results of operations.

In 2008, the global credit markets experienced significant dislocation and uncertainty as a result of liquidity disruptions in the U.S. credit and sub-prime residential mortgage markets since the second half of 2007. These and other related events, such as the collapse of a number of financial institutions, have resulted in an economic slowdown in the United States and most economies around the world, substantial volatility in financial markets globally, fluctuations in foreign currency exchange rates and volatility and tightening of liquidity in global financial markets. In response to the adverse conditions in the financial markets and the global economy, many countries, including the PRC, have implemented fiscal measures and other stimulus packages targeted at reducing the adverse impact of the global economic crisis and reviving their economies.

The sovereign debt crisis in some European countries (including Greece, Ireland, Italy, Spain and Portugal) in early 2010, which has continued through the date of this Offering Circular and the downgrading of the credit rating for the United States' sovereign debt in August 2011 have once again caused uncertainty to the global financial markets, an economic slowdown in the United States and most economies around the world, substantial volatility in financial markets globally and volatility and tightening of liquidity in global financial markets. The uncertain global economic outlook, together with the withdrawal or potential withdrawal of existing monetary and fiscal stimulus put in place by various governments, may have an adverse impact on the global economy which may in turn affect the PRC. Although the portfolio of U.S. sub-prime mortgage loan backed securities and Alternative-A bonds (the risk profile of which falls between prime and sub-prime) held by the Bank is relatively small, any further decline in the value of these securities and bonds may adversely affect the Bank's business, financial condition and results of operations. In addition, if the global financial markets experience any further turmoil or if the PRC experiences any significant economic downturn, the Bank's business, financial condition and results of operations could be adversely affected, which in turn may adversely affect its ability to service the Bonds and to satisfy its other obligations under the Bonds.

The Bank has a concentration of credit exposure to certain customers and certain sectors.

As at 30 June 2012, the Bank's loans to its ten largest single borrowers were RMB147,129 million, which represented 14.72% of the Group's net capital.

As at 30 June 2012, the Bank's loans to the domestic (i) manufacturing industry; (ii) transportation, storage and postal industries; (iii) production and supply of electric power, gas and water; and (iv) real estate industry accounted for 16.74%, 11.41%, 8.45% and 6.24% of the Group's total domestic corporate loans, respectively. If any of these industries in which the Bank's loans are highly concentrated experiences a significant downturn, the Bank's asset quality, business, financial condition and results of operations may be materially and adversely affected.

Although the Bank follows its credit risk management policies when extending credit to different industry sectors, such as credit extension guidelines for different industry sectors, and the Bank monitors its credit risks in different industries closely, any significant or extended downturn in any of these sectors may reduce the borrowing activities in these sectors, as well as increase the level of the Bank's impaired loans and related provisions for impaired loans, all of which will in turn reduce its net profit and adversely affect its business, financial condition and results of operations.

The Bank is also exposed to the fluctuations of the real estate market through its extension of personal residential mortgage loans, individual commercial property mortgage loans and home equity loans. The Bank's real estate related loans mainly include both corporate real estate loans and personal residential mortgage loans. As at 30 June 2012, domestic corporate real estate loans amounted to RMB440,631 million, representing 6.24% of the Group's total loans and advances to customers, and its corresponding non-performing loan ratio was 1.24%. As at 30 June 2012, domestic personal residential mortgage loans amounted to RMB1,404,048 million, representing 19.88% of the Group's total loans and advances to customers and its corresponding non-performing loan ratio was 0.20%. Notwithstanding prudent measures the Bank has put in place to maintain a portfolio of high quality real estate loans with sustainable growth, including imposing stringent standards for the acceptance of new customers for personal residential mortgage loans, the PRC real estate market is subject to volatility and property prices have experienced significant fluctuations in recent years. In the event that PRC real estate prices experience a significant decline in the future, the Bank's asset quality will likely be negatively affected. Further, the PRC government has plans to and has already implemented certain adjustment measures aiming at managing the fluctuations of the real estate market. These policies may have an adverse effect on the quality of loans extended to the real estate industry and may also adversely affect the quality of the Bank's mortgage loan portfolio. In addition, if the real estate market in China experiences a significant downturn, the value of the real estate securing the Bank's loans may decrease, resulting in a reduction in the amount the Bank can recover. This will in turn materially and adversely affect the Bank's asset quality, business, financial condition and results of operations.

In accordance with national policies aimed at limiting the over-development of certain industries with excess capacity, including wind power equipment, steel, cement, coal, chemicals, poly-silicon, flat glass and shipping among other industries, the Bank carefully manages its exposure to these industries and has adopted a strict policy towards extending loans to these industries in order to reduce its loan exposure and risks associated with loans to these high-risk industries.

The Bank has reduced its loans to the six major industries with excess capacity, including iron and steel, plate glass and coal chemical industries. The Bank has closely followed the changes to PRC's macro-economic policies and has reviewed and adjusted its credit policies in a timely manner. Further, the Bank has imposed higher standards for extending loans to customers from such industries. At the same time, the new loans the Bank extends to industries with overcapacity are mainly directed towards key projects that are in line with PRC industrial policies.

Notwithstanding the credit measures the Bank has put in place, in the event the PRC government issues policies to further restrict such industries or there is deterioration in the production and operation of the Bank's customers from industries with overcapacity, the quality of the Bank's loans will suffer which will in turn have an adverse effect on its business, financial position and results of operations.

As at 30 June 2012, the Group's gross loans and advances to customers were RMB7,061,343 million representing an increase of 8.70% from the end of 2011; its non-performing loan ratio decreased by 0.09% from the end of 2011 to 1.00%. As at 30 June 2012, the Bank's loans to government financing vehicles amounted to RMB442,598 million.

While the Bank has introduced heightened criteria in 2009 to manage the risks associated with these loans, including stricter requirements for guarantees, it cannot be assured that these loans will not default in the event of macroeconomic instability or other policy changes introduced by the PRC government. Given their importance to the make-up of the Bank's loan portfolio, the default of any portion of such loans for any reason, including macroeconomic volatility or policy changes, may affect its loan quality and will materially and adversely affect its business, financial position and results of operations.

The Bank may be unable to realise the full value of the collateral or guarantees securing the Bank's loan portfolio.

As at 30 June 2012, the balances of the Group's unsecured loans, guaranteed loans, loans secured by mortgages and loans secured by pledges were RMB1,967,381 million, RMB1,408,055 million, RMB2,968,511 million and RMB717,396 million, respectively, accounting for 27.86%, 19.94%, 42.04% and 10.16% of the Group's total loans and advances to customers, respectively. If there is substantial deterioration in the business conditions of a borrower which adversely affects the borrower's ability to repay, the Bank may not be able to recover the amounts lent under unsecured loans, which will in turn adversely affect the Bank's financial position and results of operations. Guaranteed loans are loans that are guaranteed by affiliates of the borrower or other third parties. Notwithstanding the fact that such loans are guaranteed, the Bank's exposure to the guarantor is generally unsecured and if the financial position of the guarantor largely deteriorates, its ability to recover such loans will correspondingly deteriorate. Furthermore, the guarantee provided by such guarantor may be determined by the court as invalid if the guarantor fails to comply with certain regulations in the PRC, including the "Security Law of the PRC". A significant percentage of the Bank's loan portfolio is secured by collateral, mainly domestic assets such as properties, land use rights and bonds. The value of the collateral is generally higher than the amount loaned but such value is affected by factors the Bank cannot control including those affecting the PRC economy. If the PRC economy deteriorates, it could result in a decrease in the value of the collateral which will lead to the reduction of the amount of the loan that can be recovered. In addition, the procedures for liquidating or otherwise realising the value of collateral of borrowers in China may be protracted, and the enforcement process in China may be difficult. According to a judicial interpretation issued by the Supreme Court of the PRC, effective 21 December 2005, courts may not enforce the eviction of a borrower and his dependent families out of their residence if such residence under collateral is their primary residence in the six months following the courts' decision authorising that such collateral be auctioned, sold or liquidated. As a result, it may be difficult and time-consuming for banks to take control of or liquidate the collateral securing non-performing loans. Furthermore, certain specified claims may enjoy priority over the Bank's rights on loan collaterals. According to the "PRC Enterprise Bankruptcy Laws" promulgated on 27 August 2006 and effective on 1 June 2007, claims raised by employees on arrears of pay as well as other fees and expenditures prior to 27 August 2006 for enterprises in bankruptcy proceedings shall be given priority over the Bank's rights to collateral, on the premise that other assets of the enterprise are not sufficient to fulfil such claims. Accordingly, if a borrower fails to repay and if the Bank is not able to timely realise the entire or sufficient part of the value of collateral, pledged assets or guarantees represented, the Bank's asset quality, business, financial condition and results of operations may be materially and adversely affected.

The Bank may not be able to maintain or further reduce its current non-performing loan ratio.

The Bank's results of operations have been negatively affected by its non-performing loans, which may continue to affect the Bank's current and future business performance. As at 30 June 2012, the Group's non-performing loans were RMB70,417 million and the non-performing loan ratio was 1.00%.

Although the Bank's non-performing loan ratio has been continually reduced in recent years, it cannot be assured that the Bank will continue to reduce or even maintain the same level in the future. This is because the quality of the Bank's loan portfolio is affected by factors which the Bank is unable to control, including any adverse changes to the PRC economic structure, deterioration in the PRC's economy, deterioration in the global economy including the on-going credit crisis and financial turmoil in Europe. Adverse changes in the economic environment in the PRC as well as force majeure events including natural disasters or outbreak of diseases may all have a negative impact on the Bank's customers' ability to repay the loans. Factors such as deterioration in the credit conditions of the Bank's customers' trading partners, decline in both residential and commercial property prices, an increase in the unemployment rate in China and a deterioration in the profitability of corporate borrowers will also lead to a reduction in the quality of the Bank's assets. All of these factors can lead to an increase in the Bank's non-performing loan ratio, which will correspondingly affect its business, financial condition and results of operations.

The Bank's allowance for impairment losses may not be adequate to cover future actual losses to its loan portfolio.

As at 30 June 2012, the Group's allowance for impairment losses on loans was RMB184,763 million, the ratio of its allowance for impairment losses to total loans extended to customers was 2.62%, and the ratio of the Group's allowance for impairment losses to non-performing loans was 262.38%. The amount of the allowance for impairment losses to loans is based on the Bank's current assessment of and expectations concerning various factors that may affect the quality of its loan portfolio. These factors include, among other things, the borrowers' financial condition, repayment ability and repayment intention, the realisable value of any collateral and the likelihood of support from guarantors, as well as the PRC's economy, macroeconomic policies, interest rates, exchange rates and legal and regulatory environment. The above-mentioned factors are beyond the Bank's control. If the Bank's assessment of and expectations concerning these factors differ from actual developments in the future, or if the quality of its loan portfolio deteriorates, its allowance for impairment losses may not be adequate to cover its actual losses and the Bank may need to make additional provisions for impairment losses, which may materially and adversely affect its business, financial condition and results of operations.

The expanding range of products and services exposes the Bank to new risks.

The Bank has expanded and it intends to continue to expand the range of its products and services. In respect of its extended customer services and business areas, as at 30 June 2012, the Group has established overseas entities in 13 countries and regions, with nine overseas branches in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo, Seoul, New York, Ho Chi Minh City and Sydney, two representative offices in Taipei and Moscow, two subsidiaries in Hong Kong, namely CCB Construction Bank (Asia) Corporation Limited ("CCB Asia") and CCB International (Holdings) Limited ("CCB International"), and one subsidiary in the United Kingdom, namely China Construction Bank (London) Limited ("CCB London"). As at 30 June 2012, the application to set up a branch in Taipei had been approved by the CBRC, and the proposal to set up a branch in San Francisco had been approved by the board of directors of the Bank. The application and establishment of the Bank's presence in other overseas regions, namely, two banking subsidiaries in Dubai and Russia, and two branches in Toronto and Melbourne, were also in progress. On 24 August 2012, the proposal to set up a branch and a subsidiary in Luxembourg was approved by the board of directors of the Bank. Expansion of business activities exposes the Bank to a number of risks and challenges, including the following:

- the Bank may have limited or no experience in certain new business activities or geographies and may not be able to or may take a relatively long period to compete effectively in these areas;

- the Bank may not be able to devote sufficient resources or management capacity to certain new business activities or geographies;

- there is no guarantee that the new business activities will meet the Bank's expectations of their profitability;

- the Bank may not be able to hire new personnel or retrain existing personnel who are able to conduct new business activities; and

- the Bank may not be able to continually add to the capability of its risk management and information technology systems to support a broader range of activities.

If the Bank is not able to achieve the intended results in these new business areas, its business, financial condition and results of operations may be materially and adversely affected. In addition, if the Bank fails to promptly identify and expand into new areas of business to meet the increasing demand for certain products and services, it may fail to maintain its market share or lose some of its existing customers to its competitors.

Furthermore, the Bank's international expansion into multiple jurisdictions exposes the Bank to a variety of new regulatory and business challenges and risks and has increased the complexity of its risks in a number of areas, including currency risk, interest rate risk, credit risk, regulatory and compliance risk, reputational risk and operational risk. If the Bank is unable to manage the risks resulting from its international expansion, its reputation, business, financial condition and results of operations may be materially and adversely affected.

The Bank is subject to liquidity risk.

Customer deposits have historically been the main source of the Bank's funding. As at 31 December 2011, domestic demand deposits, amounted to RMB5,324,955 million, representing 53.32% of the total deposits from customers, while the Group's loans within one year amounted to RMB2,478,364 million, representing only 38.15% of its total loans and advances to customers. As a result, there is a mismatch between the maturities of the Bank's liabilities and assets. Generally, the Bank's short-term customer deposits have not been withdrawn upon maturity and have represented a stable source of funding. However, it cannot be assured that this will continue to be the case. If a substantial portion of the Bank's depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, the Bank may have no choice but to seek other sources of funding to meet its funding requirements. It cannot be assured that the Bank can source financing based on normal commercial terms when necessary. Furthermore, the Bank's ability to obtain additional funds may also be affected by other factors including factors that the Bank may find difficult to control or totally incapable of controlling, such as the deterioration of overall market conditions, severe disturbance to the financial market or a bleak outlook for industries where it has substantial credit exposure. All of these factors may result in significant adverse effects on the Bank's liquidity, business, financial position and results of operations.

The Bank is subject to credit risks with respect to certain off-balance sheet commitments and guarantees.

In the normal course of the Bank's business, the Bank makes commitments and guarantees which are not reflected as liabilities on its balance sheet, including providing bank acceptances, guarantees, letters of credit and other credit commitments. As at 30 June 2012, the balance of the Group's credit commitments was RMB2,030,445 million. The Bank is subject to credit risks on its commitments and guarantees because certain of its commitments and guarantees may need to be fulfilled as a result of the Bank's customers' default. If the Bank is not able to obtain payment from its customers in respect of these commitments and guarantees or enforce its contracts with them, the Bank's business, financial condition and results of operations may be materially and adversely affected.

The Bank is subject to risks associated with its hedging activities and other derivative transactions.

The Bank has entered into derivative transactions for hedging purposes as well as conducted derivative transactions on behalf of its customers. Accordingly, the Bank faces market and operational risks associated with these transactions. At present, the regulation of China's derivative market remains in the development stage and requires further improvement and this increases the risks of the derivative transactions the Bank enters into. Further, the Bank's capabilities in monitoring, analysing and reporting these transactions are subject to limitations in its information technology developments. Accordingly, the Bank's business, financial position and results of operations may be materially and adversely affected given the volatility of the prices of these derivatives.

Changes in accounting policy may impact the Bank's financial condition and results of operations.

Some of China's generally accepted accounting standards are currently undergoing gradual improvement and relevant regulatory institutions are constantly adjusting specific accounting policies applicable to the banking sector. Changes in specific accounting policies may affect the Bank's financial position. The new "Accounting Standards for Enterprises" promulgated by the PRC Ministry of Finance ("MOF") in February 2006 with effect from 1 January 2007 has been implemented by the Bank.

Going forward, the Bank may be required to revise its accounting policies and estimates according to the amendment of domestic and international accounting standards, the interpretation and guidance of promulgations and other regulatory changes. If the Bank is required to implement significant changes to the handling of certain financial items or the alteration of accounting estimates, it may have adverse effects on its business, financial condition and results of operations.

The Bank's provisioning policies and loan classification may be different in certain respects from those applicable to banks in certain other countries or regions.

The Bank determines a level of allowance for impairment losses and recognise any related provisions made in a year using the concept of impairment under International Accounting Standards and their interpretations ("IAS 39"). The Bank's provisioning policies may be different in certain respects from those of banks incorporated in certain other countries or regions which do not assess loans under IAS 39. As a result, the Bank's allowance for impairment losses, as determined under the provisioning policies, may differ from those that would be reported if it was incorporated in those countries or regions.

The Bank classifies its loans as "normal", "special mention", "sub standard", "doubtful" and "loss" by using the five-category classification system according to requirements of the CBRC. The Bank's five-category classification system may be different in certain respects from those of banks incorporated in certain other countries or regions. As a result, it may reflect a different degree of risk than what would be reported if the Bank was incorporated in those countries or regions.

Future amendments to IAS 39 and interpretive guidance on its application may require the Bank to change its provisioning practice.

The Bank assesses its loans and investment assets for impairment under IAS 39, as amended from time to time. The International Accounting Standards Board issued an exposure draft in November 2009 on amortised cost and impairment which, if adopted, will become effective on 1 January 2013 and result in the replacement of the incurred loss model under IAS 39 with an expected cash flow model. In addition, the International Financial Reporting Interpretations Committee and other relevant accounting standard-setting bodies and regulators have been asked by their constituents to consider providing interpretive guidance relating to the application of IAS 39. Any future amendments to IAS 39 and interpretive guidance on the application of IAS 39 may require the Bank to change its current provisioning practice and may, as a result, materially affect the Bank's business, financial condition and results of operations.

The Bank is subject to certain risks relating to the bond issued by China Cinda.

In 1999, the Bank's predecessor, the former China Construction Bank, received a ten-year non-transferrable bond with a face value of RMB247.0 billion issued by China Cinda Asset Management Corporation ("China Cinda") and RMB3.0 billion in cash in exchange for the disposal to China Cinda of non-performing assets with an aggregate principal amount of RMB250.0 billion (the "Cinda Bond"). China Cinda's ability to make full and timely payment of interest and principal on the Cinda Bond depends primarily on the availability of proceeds generated from its disposal of non-performing loans it holds. China Cinda has repaid interest to the Bank on time in the past.

As approved by the PRC State Council ("State Council"), the MOF issued a notice dated 15 September 2004, which provides that (i) beginning 1 January 2005, in the event that China Cinda is unable to pay any interest on the Cinda Bond to the Bank in full, the MOF will provide financial support, and (ii) when necessary, the MOF will provide support with respect to China Cinda's repayment of the principal of the Cinda Bond.

In September 2009, the Bank was notified by the MOF stating that the corporate bonds of China Cinda held by the Bank will be extended for a further term of 10 years upon maturity with the interest rate maintained at the annual rate of 2.25% and that the MOF shall continue to provide support on the payment of the principal and interest of Cinda Bond to the Bank. The Bank released an announcement on the above-mentioned matter on 21 September 2009.

On 27 July 2010, the MOF issued a notice that the MOF and China Cinda have established a jointly managed fund to secure the payment of the principal of the Cinda Bond. The MOF continues to provide support for the repayment of the interest under the Cinda Bond. The term of the jointly managed fund is from 1 July 2009 to 21 September 2019. The jointly managed fund is owned by the MOF and jointly managed by the MOF and China Cinda during its term. The funding sources of the jointly managed fund include, among others, enterprise income tax payable by the Bank during the term and other appropriations made by the MOF. If the principal under the Cinda Bond is fully repaid before 21 September 2019, the jointly managed fund may be terminated before the end of its term. If the jointly managed fund is not sufficient to fully repay the principal under the Cinda Bond by 21 September 2019, the MOF may extend the terms of the Cinda Bond and the jointly managed fund, provide financial support or use other means to settle the outstanding principal amount of the Cinda Bond, subject to the approval by the State Council. The Bank released an announcement on the above-mentioned matter on 9 August 2010.

On 29 July 2010, the Bank received RMB29.7 billion apportioned to it out of the account of the jointly managed fund. In accordance with the notice issued by MOF On 27 July 2010, such capital was applied to repay the principal of the bond. As at 30 June 2012, the balance of the principal under the Cinda Bond was RMB109,710 million.

The above arrangements on Cinda Bond made by the MOF, a governmental authority entitled to manage state-owned financial assets, are valid and legally binding under the PRC laws. However, given the absence of precedents involving the request or other legal proceedings to enforce the implementation of similar commitments of the MOF or other government institutions in the past, it cannot be assured that the Bank will be able to enforce such notices. If China Cinda cannot fulfil the payment liabilities of such bonds and the Bank is also not able to enforce the notices, the Bank's business, financial position and results of operations will be materially and adversely affected.

It cannot be assured that the Bank's risk management and internal control policies and procedures will be effective in completely managing and avoiding all of its risks.

In recent years, the Bank has achieved progress in terms of risk management by improving its policies and procedures. However, as these policies and procedures are relatively new, the Bank will require additional time to fully measure the impact of, and evaluate its compliance with, these policies and procedures. Moreover, the Bank's staff will require time to adjust to these policies and procedures and it cannot be assured that the Bank's staff will be able to consistently follow or correctly apply these new policies and procedures. In addition, the Bank's risk management capabilities are limited by the information, tools and technologies available to the Bank. Furthermore, the Bank's ability to control market risk and liquidity risk is constrained by the current PRC laws and regulations that restrict the types of financial instruments and investments the Bank may hold. If the Bank is unable to effectively implement the enhanced risk management and internal control policies and procedures, or if the intended results of such policies and procedures are not achieved in a timely manner, its asset quality, business, financial condition and results of operations may be materially and adversely affected.

The Bank's business is highly dependent on the proper functioning and improvement of its information technology systems.

The Bank's business is highly dependent on the ability of its information technology systems to accurately process large numbers of transactions across numerous markets and products in a timely manner. The proper functioning of the Bank's financial control, risk management, accounting, customer service and other data processing systems, together with the communication networks between the Bank's various branch outlets and its main data processing centre, is critical to its business and its ability to compete effectively. The Bank's data centres in Beijing and Shanghai provide backup data that could be used in the event of a system breakdown or a failure of the Bank's primary systems, and have established alternative communications networks where available. However, the Bank does not operate all of its backup systems on a real-time basis and it cannot be assured that the Bank's business activities would not be substantially disrupted if there was a partial or complete failure of any of these primary information technology systems or communications networks. Such failures could be caused by, among other things, software flaws, computer virus attacks or conversion errors due to system upgrading. In addition, any security breach caused by unauthorised access to information or systems, or intentional destruction or loss or corruption of data, software, hardware or other computer equipment, could have a material adverse effect on the Bank's business, financial condition and results of operations.

The Bank's ability to remain competitive will depend in part on its ability to upgrade its information technology systems on a timely and cost-effective basis. In addition, the information available to and received by the Bank through its existing information technology systems may not be timely or sufficient for the Bank to manage risks and plan for, and respond to, market changes and other developments in its current operating environment. As a result, the Bank is making and intends to continue making investments to improve or upgrade its information technology systems. Any substantial failure to improve or upgrade the Bank's information technology systems effectively or on a timely basis could materially and adversely affect its competitiveness, business, financial condition and results of operations.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Issuer or the Group will be unable to comply with its obligations as a company with securities admitted to the Official List.

The Bank may not be able to detect and prevent fraud or other misconduct committed by its employees or third parties on a timely basis.

The Bank may suffer from economic loss, penalties from regulatory institutions and severe damage to its reputation as a result of fraud or other misconduct committed by the Bank's employees or third parties. Types of misconduct conducted by the Bank's employees in the past include, among other things, theft, embezzlement or misappropriation of customers' funds; mishandling of customer deposits and settlement of payment transactions; improper extensions of credit; improper accounting; fraud; and acceptance of bribes. Types of misconduct by third parties which may affect the Bank include, among other things, fraud, theft, robbery and certain armed crimes. In addition, the Bank's employees may commit errors that could subject the Bank to financial claims as well as regulatory actions. While the Bank is constantly strengthening its inspection efforts and increasing its precautionary measures to prevent misconduct by employees and third parties, given the Bank's significant number of branch outlets, it cannot be assured that the Bank can identify and prevent all fraudulent behaviours of misconduct or that the preventive measures the Bank has adopted will be effective in every circumstance. As at 30 June 2012, the Bank had a total of 13,719 domestic operating outlets. It cannot be assured that any fraud or other misconduct committed by the Bank's employees or third parties, whether involving past acts that have gone undetected or future acts, will not have a material adverse effect on the Bank's business, financial condition and results of operations.

The Bank may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose it to additional liability and harm its business or reputation.

The Bank is required to comply with applicable anti-money-laundering, anti-terrorism laws and other regulations in the PRC, Hong Kong and other jurisdictions where the Bank has operations. These laws and regulations require the Bank, among other things, to adopt and enforce "know your customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities in different jurisdictions. While the Bank has adopted policies and procedures aimed at detecting and preventing the use of its banking network for money laundering activities or by terrorists and terrorist-related organisations and individuals generally, such policies and procedures may not completely eliminate instances where the Bank may be used by other parties to engage in money laundering or other illegal or improper activities. To the extent the Bank may fail to fully comply with applicable laws and regulations, the relevant government agencies to whom the Bank reports have the power and authority to impose fines and other penalties on the Bank, which could harm its business and reputation.

The Bank does not possess the relevant land use right certificates or building ownership certificates for some of the properties it holds, and it is subject to risks that its leases over certain properties may not be renewed.

The Bank leases a significant number of properties in the PRC, primarily as business premises for its branch outlets. It cannot be assured that all lessors of the Bank's leased business premises have the relevant land use right certificates or building ownership certificates. As a result, third parties may be able to challenge the validity of the Bank's leases. In addition, it cannot be assured that the Bank will be able to renew its leases on acceptable terms upon their expiration. If any of the Bank's leases were terminated as a result of challenges by third parties or failure of the lessors to renew them upon expiration, the Bank may be forced to relocate affected branch outlets and, if it fails to find suitable replacement sites on acceptable terms, its business, financial condition and results of operations may be materially and adversely affected.

In addition, the Bank occupies certain parcels of land and purports to own certain buildings for which it does not have the relevant land use right certificates or building ownership certificates. The Bank is in the process of applying for the relevant land use right and building ownership certificates that the Bank does not yet hold. However, it cannot be assured that the Bank's ownership rights would not be adversely affected in respect of any parcels of land or buildings for which the Bank was unable to obtain the relevant certificates.

The Bank may face situations where it cannot meet the capital adequacy requirements imposed by the relevant PRC regulators.

According to the "Measures for the Management of Capital Adequacy Ratios of Commercial Banks" formulated by the CBRC in 2004 and amended in July 2007, the minimum capital adequacy ratio and core capital adequacy ratio for commercial banks are 8% and 4%, respectively. As at 30 June 2012, the Group's core capital adequacy ratio was 11.19% and capital adequacy ratio was 13.82%, and therefore in compliance with the Measures for the Management of Capital Adequacy Ratios of Commercial Banks.

In recent years, the CBRC has issued several regulations and guidelines governing capital adequacy requirements applicable to commercial banks in China. In 2010, CBRC began regulating the capital adequacy of commercial banks, and implemented separate regulatory target requirements for separate banks. At the same time, CBRC is actively pushing forward the implementation of the provisions under the new Basel capital accord, known as Basel III (the "Basel Capital Accord"). In April 2011, CBRC promulgated the "Guideline Concerning the Implementation of New Regulatory Standards for the PRC Banking Industry" to clarify the direction for future regulations and the requirement for prudent regulatory requirements. Recently, CBRC has been revising "Guidelines for Management of Capital Adequacy for Commercial Banks", and may further strengthen the supervision of capital adequacy and raise the requirement for capital with a transitional period. On 7 June 2012, CBRC issued the "Measures for Administration of Capital Management of Commercial Banks (Trial)" to implement the Basel Capital Accord and the Bank was preparing for its implementation, which will become effective from 1 January 2013. Given that the new definition of capital and calculation of capital adequacy ratio under the Basel III capital accord may be substantially different, the Bank's capital adequacy may be affected by a substantial degree. Although the Bank is currently in compliance with the requirement for capital adequacy, new requirements and regulations may adversely affect the Bank's compliance with capital adequacy ratios, and it is possible that the Bank may face difficulty in meeting the requirement of the regulations regarding capital adequacy.

Although the Bank has already implemented medium to long term capital management policies to strengthen capital management and its capability to maintain growth, some regulatory developments may affect the Bank's ability to continually comply with capital adequacy requirements, including the decline in asset quality, the decline in value of its investments, the raising of minimum capital adequacy ratios by the CBRC and the changes in calculations of capital adequacy ratios by the CBRC. If any of these circumstances occurs, the Bank may be unable to comply with the regulatory requirements of the CBRC.

In order to support the steady growth and development, the Bank may need to raise more capital to ensure that its capital complies with or exceeds the minimum regulatory requirement. In its future plans to raise capital, the Bank may issue any share securities that can contribute towards core capital or any debt securities that can contribute towards supplementary capital. Any share securities issued by the Bank may dilute the interest and benefits of its shareholders. The Bank's capital-raising ability may be restricted by the Bank's future business, financial and operational results, the Bank's credit rating, necessary regulatory approvals, overall market conditions including Chinese and global economic, political and other conditions at the time of capital raising.

If the Bank fails to meet the capital adequacy requirements, the CBRC may require the Bank to take corrective measures, including, for example, restricting the growth of its loans and other assets or restricting its declaration or distribution of dividends. These measures could materially and adversely affect the Bank's reputation, business, financial condition and results of operations.

The Bank is subject to certain operational requirements as well as guidelines set by the PRC banking regulatory authorities. The Bank is also subject to the supervision and inspection of domestic regulators and overseas regulators in jurisdictions where it operates.

The Bank is subject to regular and irregular supervision and inspection by China's regulatory institutions, including the MOF, the PBOC, the CBRC, the China Securities Regulatory Commission ("CSRC"), the China Insurance Regulatory Commission ("CIRC"), the State Administration of Taxation ("SAT"), the State Administration of Industry & Commerce ("SAIC"), SAFE and the National Audit Office ("NAO").

The Bank is subject to certain operational requirements and guidelines set by the PRC banking regulatory authorities. It cannot be assured that the Bank will be able to meet these operational requirements and guidelines in the future at all times, or that no sanction will be imposed on the Bank in the future if the Bank fails to do so. If sanctions are imposed on the Bank for the breaches of these or other operational requirements and guidelines, its business, financial condition and results of operations may be materially and adversely affected.

Furthermore, the Bank may also be subject to inspection and supervision of overseas regulatory institutions in overseas jurisdictions where it operates. The Bank's overseas branches, subsidiaries and representative offices must follow local laws, regulations and the regulatory requirements of relevant local regulatory institutions of their respective jurisdictions. It cannot be assured that the Bank's overseas branches, subsidiaries and representative offices will be able to meet the applicable laws and regulatory requirements at all times. If the Bank is not able to meet these requirements, there may be significant adverse impact on the Bank's business in these jurisdictions. Some of these inspections have led to penalties and other sanctions imposed on the Bank as a result of non-compliance. Although none of the penalties and sanctions imposed on the Bank has had a material adverse impact on the Bank's operations, financial position, and business performance, it cannot be assured that future inspections by regulatory institutions will not result in penalties or sanctions which may materially and adversely affect the Bank's operations, reputation, business, financial position and results of operations.

The Bank may be subject to OFAC penalties if it conducts transactions in violation of OFAC regulations.

The United States currently imposes various economic sanctions, which are administered by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") and which apply only to U.S. persons and, in certain cases, to foreign subsidiaries of U.S. persons or to transactions involving certain items subject to U.S. jurisdiction. OFAC sanctions are intended to address a variety of policy concerns, primarily denying certain countries, including Cuba, Iran, Syria and Sudan, and certain individuals and entities in those and other countries, the ability to support international terrorism and, in the case of Iran, North Korea and Syria, as well as certain individuals and entities in those and other countries, to pursue weapons of mass destruction and missile programmes. The Bank does not believe that these sanctions are applicable to any of the Bank's activities. However, if the Bank's branch within the U.S. were to provide such services by any means, or if it was otherwise determined that any of the Bank's transactions violated the OFAC regulations, the Bank could be subject to penalties, and the Bank's reputation and ability to conduct future business in the United States or with U.S. persons could be adversely affected.

RISKS RELATING TO THE PRC BANKING INDUSTRY

The highly competitive nature of the PRC banking industry could adversely affect the Bank's profitability.

The PRC banking industry is intensely competitive. The Bank competes primarily with the other domestic commercial banks and financial institutions, as well as foreign-invested financial institutions. These commercial banks and financial institutions compete with the Bank for substantially the same loan, deposit and fee from customers.

Following the removal of regulatory restrictions on their geographical presence, customer base and operating license in China in December 2006 as part of China's WTO accession commitments, the Bank has experienced increased challenges from foreign-invested commercial banks. Furthermore, the "Mainland and Hong Kong Closer Economic Partnership Arrangement", which permits smaller Hong Kong banks to operate in China, has also increased the competition in China's banking industry.

The increased competitive pressures resulting from the above and other factors may materially and adversely affect the Bank's business and prospects, as well as the Bank's business, financial condition and results of operations by, among other things:

- reducing the Bank's market share in its principal products and services;
- affecting the growth of the Bank's loan portfolio or deposit base and other products and services;
- decreasing the Bank's interest income or increasing its interest expense, thereby decreasing its net interest margin;
- reducing the Bank's fee and commission income;
- increasing the Bank's non-interest expenses, such as marketing expenses;
- deteriorating the Bank's asset quality; and
- increasing the turnover of senior management and qualified professional personnel.

The Bank may not always be able to maintain its competitive advantage or successfully compete in all the business areas in which it currently or will in the future operate.

The Bank may also face competition for funds from other forms of investment alternatives as the PRC capital market continues to develop. For example, as the PRC capital market continues to develop and become a more viable and attractive investment alternative, the Bank's deposit customers may elect to transfer their funds into bonds, equities and other capital market instruments, which may reduce the Bank's deposit base and adversely affect the Bank's business, financial condition and results of operations.

The Bank's businesses are highly regulated which may be materially and adversely affected by future regulatory changes.

The Bank's business and operations are directly affected by changes in China's policies, laws and regulations relating to the banking industry, such as those affecting the extent to which the Bank can engage in specific businesses, as well as changes in other governmental policies. There can be no assurance that the policies, laws and regulations governing the banking industry will not change in the future or that any such changes will not materially and adversely affect the Bank's business, financial condition and result of operations nor can the Bank assure that it will be able to adapt to all such changes on a timely basis. In addition, there may be uncertainties regarding the interpretation and application of new policies, laws and regulations, which may result in penalties and restrictions on the Bank's activities and could also have a significant impact on the Bank's business.

The PBOC has increased the reserve requirement ratio for commercial banks over the years, which has been increased from 7.5% in 2006 to 20% in May 2012, and has issued a circular in August 2011 requiring commercial banks to bring three kinds of margin deposits including bank acceptances, letters of guarantee and letters of credit into the depository scope of required reserve. The reserve requirement refers to the amount of funds that banks must hold in reserve against deposits made by their customers. The PBOC may further adjust the reserve requirement ratio or revise its calculation basis in the future. Increases in the bank reserve requirement ratio or expansion of the calculation basis of the reserve requirement may negatively impact the amount of funds available for loans to businesses by the Bank and other commercial banks in China and therefore may have adversely affect the Bank's ability to earn interest income.

The rate of growth of the PRC banking market may not be sustainable.

The Bank expects the banking market in the PRC to expand as a result of anticipated growth in the PRC economy, increases in household wealth, continued social welfare improvement, demographic changes and the opening of the PRC banking market to foreign participants. The prospective impact on the PRC banking industry of certain trends and events, such as the pace of economic growth in the PRC and the ongoing reform of the social welfare system is currently not clear. Consequently, it cannot be assured that the growth and development of the PRC banking market will be sustainable.

Fluctuations in interest rates may adversely affect the Bank's lending business and its financial condition.

As with most commercial banks, the Bank's results of operations depend to a great extent on the Bank's net interest income. For the six months ended 30 June 2012, net interest income represented 74.49% of the Group's operating income. Fluctuations in interest rates could affect the Bank's financial condition and profitability in different ways. For example, a decrease in interest rates may reduce the Bank's interest income and yields from interest-earning investments. An increase in interest rates may decrease the value of the Bank's investment debt securities portfolio and raise the Bank's funding costs. In addition, an increase in interest rates may reduce overall demand for loans, and, accordingly, reduce the Bank's origination of new loans, as well as increase the risk of customer default. Interest rate fluctuations will also affect the market value of and return on derivative financial instruments. Volatility in interest rates may also result in a gap between the Bank's interest rate sensitive assets and interest rate sensitive liabilities.

In addition, increasing competition in the banking industry and further deregulation of interest rates by the PBOC may result in more volatility in market interest rates. If the interest rates the Bank pays for its deposits increase to a greater extent than the interest rates it receives for its loans, the Bank's net interest spread will narrow, leading to a reduction in its net interest income. Increases in interest rates might also affect borrowers' financial condition and hence their ability to repay loans. As a result, fluctuations in interest rates may materially and adversely affect the Bank's lending operations, financial condition and results of operations.

The Bank's results of operations may be materially and adversely affected if the PBOC further expedites the deregulation of interest rates.

In recent years, the PBOC has adopted reform measures to liberalise China's interest rate regime. For example in 2002, the PBOC substantially liberalised interest rates for foreign currency-denominated loans and deposits. In October 2004, the PBOC eliminated restrictions in respect of the maximum interest rate for RMB-denominated loans and the minimum interest rate for RMB-denominated deposits. In June 2012, PBOC lowered the one-year Renminbi benchmark deposit and loan interest rates each by 0.25 percentage points. At the same time, PBOC also adjusted the upper limit of the floating range for deposit interest rates and the lower limit of the floating range for loan interest rates. Under current PBOC regulations, commercial banks in China cannot set interest rates (1) below 80% of the relevant PBOC benchmark rate for RMB-denominated loans (for RMB-denominated residential mortgage loans, since 27 October 2008, the interest rates cannot be set below 70% of the relevant PBOC benchmark rate, which is subject to increase from time to time during the government's campaign to control real estate prices) or (2) above 110% of the relevant PBOC benchmark rate for RMB-denominated deposits. The PBOC may further liberalise the existing interest rate restrictions on RMB-denominated loans and deposits. If the existing regulations are substantially liberalised or eliminated, competition in China's banking industry will likely intensify as China's commercial banks seek to offer more attractive interest rates to customers. Further liberalisation by the PBOC may result in the narrowing of the spread in the average interest rates between RMB-denominated loans and RMB-denominated deposits, thereby materially and adversely affecting the Bank's business, financial condition and results of operations.

The effectiveness of the Bank's credit risk management system is affected by the quality and scope of information available in the PRC.

National credit information databases developed by the PBOC have been in operation since January 2006. However, as the information infrastructure in China is still under development and there remains limitations on the availability of information, national credit information databases are generally under-developed and are not able to provide complete credit information on many of the Bank's credit applicants. Therefore, the Bank's assessment of the credit risk associated with a particular customer may not be based on complete, accurate or reliable information, and the Bank's ability to effectively manage the Bank's credit risk may be materially and adversely affected.

RISKS RELATING TO THE PRC

PRC economic, political and social conditions and government policies could affect the Bank's financial condition and results of operations.

A substantial majority of the Bank's businesses, assets and operations are located in China. Accordingly, the Bank's financial condition, results of operations and business prospects are, to a significant degree, subject to the economic, political and legal developments in China. China's economy differs from the economies of most developed countries in many respects, including, among other things, government involvement, level of development, growth rate, control of foreign exchange and allocation of resources.

China's economy has historically been a planned economy. A substantial portion of productive assets in China is still owned by the PRC government. The government also exercises significant control over China's economic growth by allocating resources, setting monetary policy and providing preferential treatment to particular industries or companies. These measures are aimed to benefit the overall economy of the PRC, but some of them may have negative effects on certain industries, including the commercial banking industry. For example, the Bank's operating results may be adversely affected by government control over capital investments or changes in, interpretation of, and application of applicable tax regulations.

The PRC government is entitled to implement macroeconomic control measures to regulate the economy of China. China's GDP growth maintained its rapid pace for years before it slowed down due to the recent global financial crisis. In response to the global financial crisis and market volatility, the PRC government implemented a series of macroeconomic measures and relatively loose monetary policies from the second half of 2008, including a RMB4 trillion economic stimulus package and lower benchmark interest rates. Some of the measures may have material effects on the Bank's business, financial condition, results of operations and asset quality. The PRC government may take measures to prevent the economy of China from overheating following the success of the above economic stimulus measures, including restraining investment in industries with excess production capacity, adjusting its tax policy on real estate, raising benchmark interest rates, raising deposit reserve rate or issuing administrative guidelines to control bank lending. Furthermore, there is a risk of a "double dip" recession in the global economy, including China's economy, and there are signs that the growth of the PRC economy may slow down, so the PRC government may again implement its macroeconomic control measures accordingly. As the PRC government continues to regulate the economy by using monetary and fiscal policies, the Bank's business, financial condition and results of operations may be continuously and materially affected.

Interpretation of PRC laws and regulations may involve uncertainty.

The Bank is organised under the laws of the PRC. The PRC legal system is based on written statutes. Since 1979, the PRC government has promulgated laws and regulations dealing with economic matters, such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with a view towards developing a comprehensive system of commercial law. However, as many of these laws and regulations are relatively new and continue to evolve, these laws and regulations may be subject to different interpretation and inconsistently enforced. In addition, there is a limited volume of published court decisions, which may be cited for reference but are not binding on subsequent cases and have limited precedential value unless the Supreme People's Court otherwise provides. These uncertainties relating to the interpretation and implementation of PRC laws and regulations may adversely affect the legal protections and remedies that are available to the Bank and the Bondholders.

Bondholders may experience difficulties in effecting service of legal process and enforcing judgments against the Bank and its directors and officers.

The Bank is a company incorporated under the laws of the PRC, and substantially all of its assets and its subsidiaries are located in the PRC. In addition, most of the Bank's directors and officers reside within the PRC, and the assets of its directors and officers may be located within the PRC. As a result, it may not be possible to effect service of process within the United Kingdom or elsewhere outside of the PRC upon most of the Bank's directors and officers. The PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of the United States, the United Kingdom, Japan or most other Western countries. Hence, the recognition and enforcement in China of a judgment issued by a court in any of these jurisdictions in relation to any matter not subject to a binding jurisdiction provision may be difficult or impossible.

The Bank is subject to PRC government controls on currency conversion and future movements in exchange rates.

The Bank receives a substantial majority of its revenues in RMB, which is currently not a freely convertible currency. A portion of these revenues must be converted into other currencies in order to meet the Bank's demands for foreign currency.

The value of the RMB against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in Chinese and international political and economic conditions. Since 1994, China had adopted a market-based, managed and unified floating exchange rate regime to determine the exchange rate of RMB with reference to the exchange rate determined by the PBOC based on the interbank exchange rates and the prevailing rate of the international financial market on the previous business day. Thereafter, the official exchange rate of RMB against the U.S. dollar remained stable. On 21 July 2005, the PRC government adopted a more flexible market-based and managed floating exchange rate regime with reference to a basket of currencies when the exchange rate of RMB against the U.S. dollar recorded a one-off increase of 2%. Under the new system, the exchange rate of RMB was allowed to fluctuate within a regulated band. In addition, a market maker system was introduced to the interbank spot foreign exchange market. In July 2008, China announced that its exchange rate regime was further transformed into a managed floating mechanism based on market supply and demand. Given the domestic and overseas economic developments, the PBOC decided to further improve the RMB exchange rate regime in June 2010 to enhance the flexibility of the RMB exchange rate and widen the daily fluctuation band for the USD/RMB exchange rate in April 2012. As at 31 December 2011, the exchange rate of RMB against the U.S. dollar had appreciated by approximately 28.71% since 21 July 2005.

The Bank is also currently required to obtain the approval of the SAFE before converting significant sums of foreign currencies into RMB. All of these factors could materially and adversely affect the Bank's business, financial condition, results of operations and compliance with capital adequacy ratios and operational ratios.

Any force majeure events, including future occurrence of natural disasters or outbreaks of contagious diseases in China may have a material adverse effect on the Bank's business operations, financial condition and results of operations.

Any future force majeure events, such as occurrence of natural disasters or outbreaks of health epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, or SARS, and swine flu caused by H1N1 virus, or H1N1 Flu, may materially and adversely affect the Bank's business, financial condition and results of operations. Possible force majeure events may give rise to additional costs to be borne by the Bank and have adverse effects on the quality of the Bank's assets, business, financial condition and results of operations. An outbreak of a health epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activity in affected areas, which may in turn adversely affect the Bank's business. Moreover, China has experienced natural disasters like earthquakes, floods and drought in the past few years. For example, in May 2008 and April 2010, China experienced earthquakes with reported magnitudes of 8.0 and 7.1 on the Richter scale in Sichuan province and Qinghai Province respectively, resulting in the death of tens of thousands of people. Any future occurrence of severe natural disasters in China may adversely affect its economy and in turn the Bank's business. There is no guarantee that any future occurrence of natural disasters or outbreak of avian influenza, SARS, H1N1 Flu or other epidemics, or the measures taken by the PRC government or other countries in response to a future outbreak of avian influenza, SARS, H1N1 Flu or other epidemics, will not seriously interrupt the Bank's operations or those of the Bank's customers, which may have a material adverse effect on the Bank's business, financial condition and results of operations.

RISKS RELATING TO THE GUARANTEE AND THE BONDS

Each of the Bonds and the Guarantee are subordinated to all secured debt of each of the Issuer and the Bank.

Each of the Bonds and the Guarantee are unsecured and will rank equally with all other unsecured and unsubordinated indebtedness (except for creditors whose claims are preferred by laws and rank ahead of the holders of the Bonds) that each of the Issuer and the Bank has issued or may issue. Payments under the Bonds and the Guarantee are effectively subordinated to all secured debt of each of the Issuer and the Bank to the extent of the value of the assets securing such debt.

As a result of such security interests given to the Issuer's and the Bank's secured lenders, in the event of a bankruptcy, liquidation, dissolution, reorganisation or similar proceeding involving the Issuer and the Bank, the affected assets of the Issuer and the Bank may not be used to pay the Bondholders until after:

- all secured claims against the affected entity have been fully paid; and
- if the affected entity is a subsidiary of the Issuer or the Bank, all other claims against such subsidiary, including trade payables, have been fully paid.

The Issuer is a special purpose company with no business activities of its own and will be dependent on funds from its affiliates to make payments under the Bonds.

The Issuer is a wholly-owned subsidiary of CCB London which, in turn, is a wholly-owned subsidiary of the Bank. The Issuer was formed for the sole purpose of issuing the Bonds and will on-lend the entire proceeds from the issue of the Bonds to CCB London for the development and expansion of its offshore Renminbi business. The Issuer does not and will not have any net assets other than such on-lent loans and its ability to make payments under the Bonds depends on timely payments under such loans. In the event that CCB London does not make such payments due to limitation in such loans or other agreements, lack of available cash flow or other factors, the Issuer's ability to make payments under the Bonds could be adversely affected.

Payments on Bonds may be subject to U.S. Foreign Account Tax Compliance Withholding.

The Issuer, the Bank and other non-U.S. financial institutions through which payments on the Bonds are made may be required to withhold U.S. tax at a rate of 30% on all, or a portion of, payments made after 31 December 2016 in respect of any Bonds issued or materially modified on or after 1 January 2013 pursuant to the foreign account provisions ("FATCA") of the Hiring Incentives to Restore Employment Act of 2010.

This withholding tax may be triggered if (i) the Issuer and/or the Bank is a foreign financial institution ("FFI") (as defined in FATCA) which enters into and complies with an agreement with the U.S. Internal Revenue Service ("IRS") to provide certain information on its account holders (making the Issuer a "Participating FFI"), (ii) the Issuer has a positive "passthru percentage" (as defined in FATCA), and (iii)(a) an investor does not provide information sufficient for the relevant Participating FFI to determine whether the investor is subject to withholding under FATCA, or (b) any FFI through which payment on such Bonds is made is not a Participating FFI or otherwise exempt from FATCA withholding.

The application of FATCA to interest, principal or other amounts paid with respect to the Bonds is not clear. If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Bonds as a result of FATCA, none of the Issuer, the Bank, any paying agent or any other person would, pursuant to the Terms and Conditions of the Bonds be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, investors may, if FATCA is implemented as currently proposed by the IRS, receive less interest or principal than expected. Holders of the Bonds should consult their own tax advisers on how these rules may apply to payments they receive under the Bonds.

The ratings of the Bonds may be downgraded or withdrawn.

The Bonds are expected to be rated "A1" by Moody's and "A" by Fitch. The ratings represent the opinions of the rating agencies and their assessment of the ability of the Issuer and the Bank to perform their respective obligations under the Bonds and the Guarantee and credit risks in determining the likelihood that payments will be made when due under the Bonds. A rating is not a recommendation to buy, sell or hold securities. The ratings can be lowered or withdrawn at any time. Neither the Bank nor the Issuer is obliged to inform the holders of the Bonds if the ratings are lowered or withdrawn. A reduction or withdrawal of the ratings may adversely affect the market price of the Bonds and the Issuer's and the Bank's ability to access the debt capital markets.

If the Issuer and the Bank are unable to comply with the restrictions and covenants contained in their debt agreements, including the Bonds, an event of default could occur under the terms of such agreements, which could cause repayment of such debt to be accelerated.

If the Issuer and the Bank are unable to comply with their current or future debt and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Issuer or the Bank, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, whichever the case may be. Furthermore, some of the Issuer's or the Bank's debt agreements may contain cross-acceleration or cross-default provisions. As a result, the Issuer's or the Bank's default under one debt agreement may cause the acceleration of debt, including the Bonds, or result in a default under other debt agreements of the Issuer or the Bank. If any of these events occur, it cannot be assured that the Issuer's and the Bank's assets and cash flow will be sufficient to repay in full all of their indebtedness, or that the Issuer and the Bank will be able to find alternative financing. Even if the Issuer and the Bank can obtain alternative financing, it cannot be assured that such financing would be on terms that are favorable or acceptable to the Issuer and the Bank.

An active trading market for the Bonds may not develop.

The Issuer and the Bank cannot assure potential purchasers that it will be able to obtain or to maintain a listing and quotation of the Bonds on the London Stock Exchange plc, and even if listed, no assurance can be given that an active trading market for the Bonds will develop or as to the liquidity or sustainability of any such market, the ability of holders to sell their Bonds or the price at which holders will be able to sell their Bonds. If a market does develop, it may not be liquid and the Bonds may trade at prices that may be higher or lower than the initial offering price, depending upon many factors, including prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Group. The Managers are not obliged to make a market in the Bonds and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Managers. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. In addition, the Bondholders should be aware of the prevailing and widely reported uncertainties and inability in global market conditions (which continue at the date of this Offering Circular), as a result of which there may be a general lack of liquidity in the secondary market for instruments similar to the Bonds. Such lack of liquidity may result in investors suffering losses on the Bonds in secondary resales regardless of the performance of the Issuer and the Bank. It is not possible to predict which of these circumstances will change and whether, if and when they do change, there will be a more liquid market for the Bonds and instruments similar to the Bonds at that time.

The Bonds have a limited upside.

The Bonds carry a fixed interest rate which is paid in Renminbi semi-annually in arrear. Upon maturity, the Bank will pay investors the principal amount of the Bonds plus any unpaid accrued interest. The maximum return on an investment in the Bonds is limited to these interest payments in Renminbi. As the Bonds are fixed income securities which are structured to provide investors with returns primarily through regular interest payments thereon, investors who hold the Bonds through to maturity or who dispose of the Bonds in the secondary market may not realise any capital gain.

Investment in the Bonds is subject to exchange rate risks.

The value of Renminbi against Pounds Sterling and other foreign currencies fluctuates and is affected by changes in China and international political and economic conditions and by many other factors. The Issuer, or as the case may be, the Bank will make all payments of interest and principal with respect to the Bonds in Renminbi. As a result, the value of these Renminbi payments in other currency terms may vary with the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against such other currency between then and when the Bank pays back the principal of the Bonds in Renminbi at maturity, the value of investment in such other currency terms will have declined.

Investment in the Bonds is also subject to interest rate risks.

The PRC government has gradually liberalised the regulation of interest rates in recent years. Further liberalization may increase interest rate volatility. The Bonds will carry a fixed interest rate. Consequently, the value of the Bonds will vary with the fluctuations in the Renminbi interest rates. If a Bondholder tries to sell his Bonds before their maturity, he may receive an offer that is less than the amount the Bondholder has invested.

The Guarantee is not enforceable in the PRC before registration with SAFE, is subject to a maximum Renminbi amount approved by SAFE under a recent regulation, and there may be uncertainty relating to the coverage and enforceability of the Guarantee.

Under the Deed of Guarantee, the Guarantor will undertake to guarantee all payments due under the Bonds and under the trust deed dated on or about the Issue Date (the "Trust Deed") between the Issuer, the Guarantor and the Trustee. The Guarantor, as a PRC-incorporated financial institution, is required to obtain PBOC and SAFE approval in order to guarantee any indebtedness incurred by a foreign entity under any bond issuance, including its foreign incorporated subsidiary. The Guarantor obtained approval from the PBOC and SAFE on 31 July 2012 and 29 September 2012, respectively, to guarantee indebtedness of the Issuer incurred outside the PRC under an offshore bond issuance with an issue size of not more than CNY2.5 billion. The PBOC approval was granted pursuant to the Notice on Clarifying Issues Relating to Cross-border RMB Transactions promulgated by the PBOC on 3 June 2012 (the "PBOC Notices") and the SAFE approval was granted pursuant to the Foreign Security Measures and the SAFE Notice.

The Guarantor understands from the approval and its discussion with SAFE that:

(i) the Guarantee will only be valid and binding against the Guarantor under PRC law upon execution and completion of the approval and registration procedures with SAFE or its local branch; and

(ii) the Guarantee will cover all payments due under the Bonds and under the Trust Deed (including any Renminbi principal, interest and relevant expenses) so long as the principal amount of the Bonds does not exceed CNY2.5 billion on the Issue Date.

The Guarantor is required by the Foreign Security Measures and the SAFE Notice to further register the Guarantee with the Beijing Bureau of SAFE within 15 calendar days of the date of execution of the Guarantee. The Guarantee may not be enforceable in the PRC until the registration of the Guarantee is completed in accordance with the provisions of the Foreign Security Measures and the SAFE Notice. The Guarantor intends to register the Guarantee as soon as practicable and in any event before the Registration Deadline (being 30 days after the Issue Date) and in the opinion of the Guarantor's PRC legal advisors, subject to any contrary interpretation by SAFE, there is no legal impediment to completion of such registration. If the registration is not completed on or before the Issue Date, each Bondholder will have the right to request the Issuer to redeem all of that Bondholder's Bonds and will need to rely on the Issuer to source sufficient Renminbi to fully discharge its obligations under the Bonds and the Trust Deed. Prior to the performance or discharge of its obligations under the Guarantee, the Guarantor is also required to complete a verification process with the Beijing Bureau of SAFE for each remittance under the Guarantee.

The SAFE Notice and the PBOC Notice are relatively recent regulation and its interpretation may involve significant uncertainty, which may adversely affect the enforceability of the Guarantee in the PRC. In addition, the administration of the SAFE Notice and the PBOC Notice may be subject to a certain degree of executive and policy discretion by SAFE and the PBOC. There is no assurance that the registration of the Guarantee with SAFE can be completed or that the approval of, or registration with, SAFE obtained by the Guarantor will not be revoked or amended in the future or that future changes in PRC laws and regulations will not have a negative impact on the validity and enforceability of the Guarantee in the PRC.

There could be conflicts of interest arising out of the different roles played by the Bank and its subsidiaries and its other activities may affect the value of the Bonds.

The Bank is the Guarantor of the Bonds and its subsidiary is also appointed as Joint Global Coordinator, Joint Bookrunner and Joint Lead Manager for the Bonds. The Bank or its subsidiaries may also issue other competing financial products which may affect the value of the Bonds. Investors should also note that potential and actual conflicts of interest may arise from the different roles played by the Bank and its subsidiaries in connection with the Bonds and the economic interests in each role may be adverse to the investors' interests in the Bonds. Although the Bank has internal control policies and procedures to minimise any potential conflict of interest, the Bank owes no duty to investors to avoid such conflicts.

Renminbi is not freely convertible and may adversely affect the liquidity of the Bonds.

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite the significant reduction over the years by the PRC government of its control over routine foreign exchange transactions under current accounts. Participating banks in Hong Kong have been permitted to engage in the settlement of RMB trade transactions under the pilot scheme introduced in July 2009. This represents current account activity. The pilot scheme was extended in August 2011 to cover all provinces and cities in China and to make RMB trade and other current account item settlement available in all countries worldwide.

On 7 April 2011, SAFE promulgated the Circular on Issues Concerning the Capital Account Items in connection with Cross-Border Renminbi (the "SAFE Circular"), which became effective on 1 May 2011. According to the SAFE Circular, in the event that foreign investors intend to use cross-border Renminbi (including offshore Renminbi and onshore Renminbi held in the capital accounts of non-PRC residents) to make contribution to an onshore enterprise or make payment for the transfer of an equity interest of an onshore enterprise by a PRC resident, such onshore enterprise shall be required to submit the prior written consent of the relevant Ministry of Commerce ("MOFCOM") to the relevant local branches of SAFE of such onshore enterprise and register for a foreign invested enterprise status. Further, the SAFE Circular clarifies that the foreign debts borrowed, and the external guarantees provided, by an onshore entity (including a financial institution) in RMB shall, in principle, be regulated under the current PRC foreign debt and external guarantee regime.

On 12 October 2011, MOFCOM promulgated the Circular on Issues in relation to Cross-border RMB Foreign Direct Investment (the "MOFCOM RMB FDI Circular"). Pursuant to the MOFCOM RMB FDI Circular, MOFCOM and its local counterparts are authorised to approve RMB Foreign Direct Investment ("RMB FDI") in accordance with existing PRC laws and regulations regarding foreign investment, with certain exceptions which require the preliminary approval by the provincial counterpart of MOFCOM and the consent of MOFCOM. The MOFCOM RMB FDI Circular also states that the proceeds of RMB FDI may not be used towards investment in securities, financial derivatives or entrustment loans in the PRC, except for investments in PRC domestic listed companies through private placements or share transfers by agreement under the PRC strategic investment regime.

On 13 October 2011, PBOC issued the Measures on Administration of the RMB Settlement in relation to Foreign Direct Investment (the "PBOC RMB FDI Measures"), to roll out PBOC's detailed RMB FDI administration system, which covers almost all aspects of RMB FDI, including capital injection, payment of purchase price in the acquisition of PRC domestic enterprises, repatriation of dividends and distribution, as well as RMB denominated crossborder loans. Under the PBOC RMB FDI Measures, special approval for RMB FDI and shareholder loans from the PBOC which was previously required is no longer necessary. The MOFCOM RMB FDI Circular and the PBOC RMB FDI Measures, which are new regulations, will be subject to interpretation and application by the relevant PRC authorities.

There is no assurance that the PRC government will continue to gradually liberalise the control over cross-border RMB remittances in the future, that the pilot scheme introduced in July 2009 will not be discontinued or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC.

There is only limited availability of Renminbi outside China, which may affect the liquidity of the Bonds and the Issuer's and the Bank's ability to source Renminbi outside China to service the Bonds.

As a result of the restrictions by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside of China is limited. Since February 2004, in accordance with arrangements between the PRC Central Government and the Hong Kong government, licensed banks in Hong Kong may offer limited Renminbi-denominated banking services to Hong Kong residents and specified business customers.

The PBOC, the central bank of the PRC, has also established a clearing and settlement system for participating banks in Renminbi banking in Hong Kong. On 19 July 2010, further amendments were made to the Settlement Agreement on the Clearing of RMB Business (the "Settlement Agreement") between the PBOC and Bank of China (Hong Kong) Limited (the "RMB Clearing Bank") to further expand the scope of RMB business for participating banks in Hong Kong. Pursuant to the revised arrangements, all corporations are allowed to open RMB accounts in Hong Kong. There is no longer any limit on the ability of corporations to convert RMB and there will no longer be any restriction on the transfer of RMB funds between different accounts in Hong Kong.

However, the current size of Renminbi-denominated financial assets outside China is limited. As of 30 June 2012, the total amount of Renminbi deposits held by institutions authorised to engage in Renminbi banking business in Hong Kong amounted to approximately CNY557.7 billion. In addition, participating banks are also required by the HKMA to maintain a Renminbi liquidity ratio of no less than 25 per cent. of their Renminbi deposits, which further limits the availability of Renminbi that participating banks can utilise for conversion services for their customers. Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. The RMB Clearing Bank only has access to onshore liquidity support from the PBOC to square open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement and for individual customers of up to CNY20,000 per person per day. The RMB Clearing Bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services and the participating banks will need to source Renminbi from the offshore market to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Agreement will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi offshore. The limited availability of Renminbi outside China may affect the liquidity of the Bonds. To the extent the Issuer or the Bank is required to source Renminbi in the offshore market to service the Bonds, there is no assurance that the Issuer or the Bank will be able to source such Renminbi on satisfactory terms, if at all.

Gains on the transfer of the Bonds may become subject to income taxes under PRC tax laws.

Under the new PRC Enterprise Income Tax Law and its implementation rules which took effect on 1 January 2008 and the new PRC Individual Income Tax Law and its implementation regulations which came into force on 1 September 2011, any gain realized on the transfer of bonds by non-resident enterprise holders and non-resident individual holders may be subject to PRC income tax if such gain is regarded as income derived from sources within China. However, there remain uncertainties as to whether the gain realized from the transfer of the bonds would be treated as income derived from sources within China and be subject to the PRC tax. This will depend on how the PRC tax authorities interpret, apply or enforce the relevant tax laws and rules. According to the arrangement between China and Hong Kong, residents of Hong Kong, including enterprise holders and individual holders, will not be subject to the PRC tax on any capital gains derived from a sale or exchange of bonds.

Therefore, if a Bondholder, as a non-resident enterprise holder, is required to pay any PRC income tax on gains on the transfer of the Bonds (such enterprise income tax is currently levied at the rate of 10% of the gross proceeds, unless there is an applicable tax treaty between China and the jurisdiction in which non-resident enterprise holder of the Bonds resides that reduces or exempts the relevant tax), the value of its investment in the Bonds may be materially and adversely affected.

Similarly, if a Bondholder, as a non-resident individual holder, is required to pay any PRC income tax on gains on the transfer of the Bonds (such individual income tax is currently levied at the rate of 20% of the gross proceeds, unless there is an applicable tax treaty between China and the jurisdiction in which relevant non-resident individual holder of the Bonds resides that reduces or exempts the relevant tax), the value of his investment in the Bonds may be materially and adversely affected.

The Trustee may request Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances (including giving of notice to the Issuer pursuant to Condition 8 and taking enforcement steps as contemplated in Condition 11), the Trustee may (at its sole discretion) request Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of Bondholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the Bondholders to take such actions directly.

Payments on Bonds may be subject to EU Directive on the taxation of savings income.

EC Council Directive 2003/48/EC on the taxation of savings income (the "Savings Directive") requires EU Member States to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual or certain other persons in that other EU Member State, except that Austria and Luxembourg will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise. The European Commission has proposed certain amendments to the Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment to an individual were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Bond as a result of the imposition of such withholding tax. The Issuer is required to maintain a paying agent with a specified office in an EU Member State that is not obliged to withhold or deduct tax pursuant to any law implementing the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

TERMS AND CONDITIONS OF THE BONDS

The following are the terms and conditions substantially in the form in which they will be endorsed on the definitive bonds and referred to in the global bond. References to the Issuer shall mean CCBL Funding PLC and the Guarantor shall mean China Construction Bank Corporation.

The issue of the CNY1,000,000,000 3.2% bonds due 2015 (the "Bonds") was authorised by a resolution of the board of directors of the Issuer passed on 15 November 2012 and the Guarantee of the Bonds was approved by the credit committee of the Guarantor on 19 October 2012. The Bonds are constituted by a Trust Deed (the "Trust Deed") dated 29 November 2012 between the Issuer, the Guarantor and The Bank of New York Mellon, London Branch (the "Trustee" which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Bonds (the "Bondholders"). These terms and conditions (the "Conditions") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds and the coupons relating to them (the "Coupons"). The Bonds and the Coupons have the benefit of a deed of guarantee (the "Deed of Guarantee") dated on or about 29 November 2012 executed by the Guarantor. Copies of the Trust Deed, and of the Agency Agreement (the "Agency Agreement") dated 29 November 2012 relating to the Bonds between the Issuer, Guarantor, the Trustee and The Bank of New York Mellon, London Branch as the principal paying agent (the "Principal Paying Agent") and the other paying agents named in it (the "Paying Agents", which expression shall include the Principal Paying Agent), are available for inspection during usual business hours (being between 9:00 a.m. and 3:00 p.m., Monday to Friday other than public holidays) at the principal office of the Trustee (presently at 40th Floor, One Canada Square, London, E14 5AL, United Kingdom). The Bondholders and the holders of the Coupons (whether or not attached to the relevant Bonds) (the "Couponholders") are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed.

1 Form, Denomination and Title

(a) Form and Denomination

The Bonds are serially numbered and in bearer form in the specified denominations of CNY1,000,000 and integral multiples of CNY10,000 in excess thereof up to and including CNY1,990,000, each with Coupons attached on issue.

(b) Title

Title to the Bonds and Coupons appertaining thereto will pass by delivery. The holder of any Bond or Coupon will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder.

2 Guarantee and Status

(a) Guarantee

The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Trust Deed, the Bonds and the Coupons. Its obligations in that respect (the "Guarantee") are contained in the Deed of Guarantee.

(b) Status

The Bonds and Coupons are direct, unconditional, unsubordinated, general and (subject to Condition 3) unsecured obligations of the Issuer ranking *pari passu* among themselves in all respects and rateably without preference or priority. The payment obligations of the Issuer under the Bonds and the Coupons shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

The payment obligations of the Guarantor under the Guarantee shall rank at least equally with all other outstanding unsecured or unsubordinated Public External Indebtedness (as defined in Condition 3) of the Guarantor (except for any statutory preference or priority applicable in the winding-up of the Guarantor).

3 Negative Pledge and Undertakings relating to the Guarantee

(a) Negative Pledge

So long as any Bond or Coupon remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor will, and will ensure that none of its Subsidiaries will, create or have outstanding, any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Public External Indebtedness, or any guarantee or indemnity in respect of any Public External Indebtedness, without at the same time or prior thereto according to the Bonds and the Coupons the same security as is created or subsisting to secure any such Public External Indebtedness, guarantee or indemnity or such other security as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders, provided that the provisions of this Condition 3 shall not apply to (i) any security interest in existence on 21 November 2012 to the extent that it secures Public External Indebtedness outstanding on such date; or (ii) any lien arising by operation of law.

(b) Undertakings relating to the Guarantee

The Guarantor undertakes that:

(i) it will register or cause to be registered with SAFE the Deed of Guarantee within 15 calendar days after the date of execution of the Deed of Guarantee in accordance with the Notice on Issues relating to the Administration of Foreign Security by Domestic Institutions, complete the registration of the Deed of Guarantee and obtain a certificate of registration and a certified registration form from SAFE on or before the Registration Deadline and comply with all application PRC laws (國家外匯管理局關於境內機構對外擔保管理問題的通知(匯發[2010]39號)) and regulations in relation to the Guarantee; and

(ii) it shall not guarantee any further indebtedness of the Issuer (including, without limitation, any further Bonds issued pursuant to Condition 14 by the Issuer) pursuant to or in connection with the approval from SAFE dated 28 September 2012 (國家外匯管理局匯覆[2012]186號) which together with the aggregate principal amount of the Bonds then outstanding exceed an aggregate principal amount of CNY2.5 billion.

(c) Definitions

In these Conditions:

"Public External Indebtedness" means any indebtedness of the Issuer or the Guarantor (or, for the purposes of Condition 8, any Subsidiary), or any guarantee or indemnity by the Issuer or the Guarantor of indebtedness, for money borrowed which, (i) is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is issued outside the People's Republic of China (for the purposes hereof not including the Hong Kong and Macau Special Administrative Regions or Taiwan) ("PRC") and is, or is capable of being listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market) outside the PRC (without regard, however, to whether or not such instruments are sold through public offerings or private placements); and (ii) has an original maturity of more than 365 days;

"SAFE" means the State Administration of Foreign Exchange or any local branch thereof; and

"Subsidiary" means any entity whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the Guarantor or the Issuer, as the case may be.

4 Interest

(a) Interest Payment Dates

The Bonds bear interest from 29 November 2012 (the "Issue Date" or "Interest Commencement Date") at the rate of 3.2 per cent. per annum, payable semi-annually in arrear on 29 May and 29 November in each year (each an "Interest Payment Date"); provided that if any Interest Payment Date would otherwise fall on a day which is not a business day, it shall be postponed to the next day which is a business day unless it would thereby fall into the next calendar month in which event it shall be brought forward to the immediately preceding business day. Each Bond will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying Agent has notified the Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is a failure in the subsequent payment to the relevant holders under these Conditions).

The period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is called an "Interest Period".

(b) Calculation of Interest

Interest in respect of any Bond shall be calculated per CNY10,000 in principal amount of the Bonds (the "Calculation Amount"). The amount of interest payable per Calculation Amount for any Interest Period shall be the product of (i) the rate of interest specified in Condition 4(a); (ii) the Calculation Amount; and (iii) the actual number of days in the Interest Period concerned divided by 365, and rounding the resulting figure to the nearest CNY0.01 (CNY0.005 being rounded upwards).

(c) Business Day

In this Condition 4, the expression "business day" means a day (other than Saturdays and Sundays) on which commercial banks in Hong Kong are open for business and settle Renminbi payments and, if on that day a payment is to be made, banks in Beijing, PRC are not authorised or obligated by law or executive order to be closed.

5 Redemption and Purchase

(a) Final Redemption

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Interest Payment Date falling on or nearest to 29 November 2015.

(b) Redemption for a Non-Registration Event

At any time following the occurrence of a Non-Registration Event (as defined below), the holder of any Bond will have the right, at such holder's option, to require the Issuer to redeem all but not some only of that holder's Bonds on the Put Settlement Date (as defined herein) at 100 per cent. of their principal amount, together with accrued interest up to but excluding such Put Settlement Date. In order to exercise such right, the holder of the relevant Bond must deposit at the specified office of the Principal Paying Agent or any other Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of the Principal Paying Agent or any other Paying Agent (a "Put Exercise Notice"), together with the Bonds to be redeemed by not later than 30 days following the Non-Registration Event, or, if later, 30 days following the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 13.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds the subject of the Put Exercise Notices delivered as aforesaid on the Put Settlement Date.

The Issuer shall give notice to Bondholders in accordance with Condition 13 and to the Trustee and the Principal Paying Agent by not later than five days following the first day on which it becomes aware of the occurrence of a Non-Registration Event, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Bonds pursuant to this Condition 5(b).

The Trustee and the Paying Agents shall not be required to take any steps to ascertain whether a Non-Registration Event has occurred and shall not be responsible or liable to Bondholders, the Issuer or the Guarantor for any loss arising from any failure to do so.

(c) Purchases

Each of the Issuer and the Guarantor may at any time purchase Bonds (provided that all unmatured Coupons appertaining thereto are surrendered therewith) in the open market or by private treaty at any price. Any Bonds purchased pursuant to this Condition 5(b) may be held, reissued, resold or surrendered to the Principal Paying Agent for cancellation. The Bonds so purchased, while held by or on behalf of the Issuer or the Guarantor, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings or for the purposes of Condition 9(a).

(d) Definitions

In this Condition 5:

a "Non-Registration Event" shall occur if when the Registration Condition is not fully satisfied on or before the day falling 30 days after 29 November 2012; and

"Put Settlement Date" shall be the fifth business day after the expiry of such period of 30 days as referred to in Condition 5(b); and

"Registration Condition" means the receipt by the Trustee of:

(i) a certificate of the Guarantor, executed by a duly authorised officer of the Guarantor, confirming the completion of the registration of the Guarantee with SAFE in accordance with the Notice on Issues relating to the Administration of Foreign Security by Domestic Institutions (國家外匯管理局關於境內機構對外擔保管理問題的通知(匯發[2010]39號));

(ii) a copy of the relevant SAFE registration certificate and a copy of the certified SAFE registration form relating to the registration of the Guarantee with SAFE in (i) above of this definition and the particulars of registration; and

(iii) a legal opinion as to PRC law issued by a PRC law firm of international repute (at the Guarantor's expense), addressed to and in form and substance satisfactory to the Trustee, that the Guarantee is enforceable against the Guarantor.

6 Payments

(a) Method of Payment and Presentation of Bonds and Coupons

(i) *Payment:* Payments of principal in respect of the Bonds will (subject as provided below) be made in Renminbi against presentation and surrender of the Bonds and payments of interest in respect of the Bonds will (subject as provided below) be made in Renminbi against presentation and surrender of Coupons, in each case at the specified office of any Paying Agent by transfer to a Renminbi account maintained by the payee with a bank in Hong Kong.

(ii) *Unmatured Coupons:* The Bonds should be presented for payment together with all unmatured Coupons appertaining thereto. Upon the date on which any such Bond becomes due and payable, unmatured Coupons relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof. Where any Bond is presented for redemption without all unmatured Coupons relating to it, redemption shall be made only against the provision of such indemnity as the Issuer and the Guarantor may require.

(iii) *Payments on business days:* A Bond or Coupon may only be presented for payment and payment will only be made on a day which is a business day. No further interest or other payment will be made as a consequence of the day on which the relevant Bond or Coupon may be presented for payment under this paragraph falling after the due date. In this Condition "business day" means any day (other than Saturdays and Sundays) on which commercial banks are open for business in the relevant place of presentation and any day (other than Saturdays and Sundays) on which commercial banks in Hong Kong are open for business and settle Renminbi payments and banks in Beijing, PRC are not authorised or obligated by law or executive order to be closed.

(iv) *Interest payable other than on an Interest Payment Date:* If the due date for redemption of any Bond is not an Interest Payment Date, interest (if any) accrued with respect to such Bond from and including the preceding Interest Payment Date or, as the case may be, the Issue Date shall be payable only against presentation or surrender of the relevant Bond.

(v) *Payments subject to fiscal laws:* Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment or other laws to which the Issuer or the Guarantor agrees to be subject and neither the Issuer nor the Guarantor will be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements, but without prejudice to the provisions of Condition 7. No commission or expenses shall be charged to the Bondholders or Couponholders in respect of such payments.

(b) Paying Agents

The initial Principal Paying Agent and its initial specified office are listed below. The Issuer and the Guarantor reserve the right at any time with the approval of the Trustee to vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that they will maintain (i) a Principal Paying Agent and (ii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. Notice of any change in the Paying Agents or their specified offices will promptly be given to the Bondholders.

7 Taxation and Withholding

All payments of principal and/or interest in respect of the Bonds and the Coupons or under the Guarantee will be made free and clear of, and without withholding or deduction for or on account of any present or future tax, duty, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of the United Kingdom or the PRC or any political subdivision or any authority thereof or therein having power to levy tax, unless such withholding or deduction is required by law. In that event, the Issuer, or as the case may be, the Guarantor shall pay such additional amounts as will result in the receipt by the Bondholders or Couponholders of such amounts as would have been received by them if no such withholding or deduction had been required, provided, however, that no such additional amounts shall be payable in respect of any Bond or Coupon presented for payment:

(i) by a Bondholder or Couponholder which is liable to such taxes, duties, assessments or governmental charges in respect of such Bond or Coupon by reason of its having some connection with the United Kingdom other than the mere holding of such Bond or Coupon; or

(ii) more than 30 days after the Relevant Date except to the extent that the relevant Bondholder or Couponholder would have been entitled to such additional amounts if it had presented such Bond or Coupon on the last day of such period of 30 days; or

(iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(iv) by or on behalf of a Bondholder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Bond or Coupon to another Paying Agent in a Member State of the European Union.

"Relevant Date" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which the full amount has been received and notice to that effect has been given to the Bondholders.

For the avoidance of doubt, the Issuer's, or as the case may be, the Guarantor's obligation to pay additional amounts in respect of taxes, duties, assessments and other governmental charges will not apply to (a) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, duty, assessment or other governmental charge or (b) any tax, duty, assessment or other governmental charge which is payable otherwise than by deduction or withholding from payments of principal of, or interest on the Bonds; provided that the Issuer, or as the case may be, the Guarantor shall pay all stamp or other taxes, duties, assessments or other governmental charges, if any, which may be imposed by the United Kingdom, the PRC or any political subdivision thereof or any taxing authority thereof or therein, with respect to the Trust Deed or the Guarantee or as a consequence of the issuance of the Bonds.

Any reference to principal or interest with respect to the Bonds will be deemed to include any additional amounts payable by the Issuer or the Guarantor (as the case may be) in respect of such principal or interest under this Condition.

8 Events of Default

If any of the following events (each an "Event of Default") occurs and is continuing, the Trustee at its discretion may, and if so requested in writing by holders of at least one-fifth in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to it first being indemnified and/or secured and/or prefunded to its satisfaction) give notice to the Issuer that the Bonds are, and they shall immediately become, due and payable at their principal amount together (if applicable) with accrued interest without further formality:

(a) Non-Payment

The Issuer or the Guarantor fails to pay the principal of or any interest on any of the Bonds when due and such failure continues for a period of 30 days; or

(b) Breach of Other Obligations

The Issuer or the Guarantor does not perform or comply with any one or more of its other obligations in the Bonds, the Trust Deed or the Deed of Guarantee which default continues for a period of 45 days after written notice of such default shall have been given to the Issuer or the Guarantor by the Trustee; or

(c) Cross-Default

(i) Any other present or future Public External Indebtedness of the Guarantor or any of its Subsidiaries becomes due and payable prior to its stated maturity by reason of any default, event of default or the like (howsoever described) in respect of the terms thereof, or

(ii) any such Public External Indebtedness is not paid when due or, as the case may be, within any applicable grace period,

provided that the aggregate amount of the relevant Public External Indebtedness in respect of which one or more of the events mentioned above in this Condition 8(c) have occurred equals or exceeds US$25,000,000 or its equivalent; or

(d) Insolvency

The Issuer or the Guarantor or any of the Material Subsidiaries is insolvent or bankrupt or unable to pay its debts, stops or suspends payment of all or a material part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Issuer, the Guarantor or any of the Material Subsidiaries; or

(e) Winding-up

An order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or the Guarantor or any of the Material Subsidiaries, or the Issuer or the Guarantor ceases to carry on all or a material part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Bondholders, or (ii) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in the Issuer, the Guarantor or another of their respective Subsidiaries; or

(f) Illegality

It is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under any of the Bonds, Coupons, the Trust Deed or the Deed of Guarantee;

(g) Guarantee

The Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect; or

(h) Ownership

The Issuer ceases to be directly or indirectly wholly-owned by the Guarantor.

For the purpose of these Conditions, "Material Subsidiary" means a Subsidiary of the Guarantor whose total assets or total revenue (consolidated in the case of a Subsidiary which itself has subsidiaries) as at the date at which its latest audited (consolidated or, as the case may be, unconsolidated) financial statements were prepared or, as the case may be, for the financial period to which these audited financial statements relate, account for 5% or more of the consolidated assets or consolidated revenue of the Guarantor as at such date or for such period. If a Material Subsidiary transfers all of its assets and business to another Subsidiary of the Guarantor, the transferee shall become a Material Subsidiary and the transferor shall cease to be a Material Subsidiary on completion of such transfer.

9 Meetings, Modification of Conditions and Waiver

(a) Generally

The Trust Deed contains provisions for convening meetings of the holders of Bonds for the time being outstanding (as defined in the Trust Deed) to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of, or an arrangement in respect of, the Conditions or the provisions of the Trust Deed or the Deed of Guarantee. Such a meeting may be convened by the Guarantor or by the Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being outstanding. A resolution duly passed at any such meeting shall be binding on the holders of Bonds whether present or not and on all holders of Coupons. The quorum at any such meeting for passing an Extraordinary Resolution shall be two or more persons holding or representing more than one half in principal amount of the Bonds for the time being outstanding, or, at any adjourned meeting, two or more persons being or representing holders of Bonds whatever the principal amount of the Bonds so held or represented, except that, at any meeting the business of which includes the modification of certain of these Conditions or of certain provisions of the Trust Deed (as set out therein) or to modify or cancel the Deed of Guarantee or the Guarantee, the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing not less than three-quarters, or at any such adjourned meeting, not less than one-quarter, of the principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of all the Bondholders who for the time being are entitled to receive notice of a meeting of Bondholders under the Trust Deed will take effect as it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(b) Modification and Waiver

The Trustee may agree, without the consent of the Bondholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed or the Deed of Guarantee that is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed or the Deed of Guarantee), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed or the Deed of Guarantee that is in the opinion of the Trustee not materially prejudicial to the interests of the Bondholders. Any such modification, authorisation or waiver shall be binding on the Bondholders and the Couponholders and, if the Trustee so requires, such modification shall be notified by the Issuer to the Bondholders as soon as practicable.

(c) Entitlement of the Trustee

In connection with the exercise of its functions, rights, powers and discretions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders or Couponholders and the Trustee, acting for and on behalf of Bondholders shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer or the Guarantor any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders or Couponholders.

10 Prescription

The right of a Bondholder or Couponholder to receive any payment under the Bonds shall become void 10 years (in the case of principal) or six years (in the case of interest) after the due date for such payment.

11 Enforcement

At any time after the Bonds become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed, the Guarantee, the Bonds and the Coupons, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least one-fifth in principal amount of the Bonds outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Bondholder or Couponholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

12 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit.

The Trustee may rely without liability to Bondholders or Couponholders on any report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Guarantor, the Trustee and the Bondholders.

13 Notices

Notices to Bondholders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the Financial Times) or, if such publication shall not be practicable, in an English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made. Couponholders (if any) will be deemed for all purposes to have notice of the contents of any notice given to the holders of Bonds in accordance with this Condition 13.

14 Further Issues

The Issuer may from time to time without the consent of the Bondholders or Couponholders create and issue further Bonds which are (a) expressed to be consolidated and form a series with the Bonds; and (b) identical to the Bonds in all respects except for their respective issue prices, issue dates and interest commencement dates and the dates of first payment of interest on them, and so that the same shall be consolidated and form a single series with the Bonds, and references in these Conditions to Bonds include (unless the context requires otherwise) any other bonds issued pursuant to this Condition 14 and forming a single series with the Bonds. Any further Bonds forming a single series with the outstanding Bonds constituted by the Trust Deed or any deed supplemental to it shall be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of Bonds of other series where the Trustee so decides.

15 Replacement of Bonds

Any Bond (including for the purposes of this Condition 15 any Coupon) which is lost, stolen, mutilated, defaced or destroyed may be replaced at the specified office of the Paying Agent upon payment by the claimant of the expense incurred in connection therewith and on such terms as to evidence, indemnity, security or otherwise as the Issuer and the Guarantor may require. Mutilated or defaced Bonds must be surrendered before replacements will be issued.

16 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

17 Governing Law and Jurisdiction

(a) Governing Law

The Trust Deed, the Deed of Guarantee, the Bonds and the Coupons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) Jurisdiction

For the exclusive benefit of the Bondholders, the Guarantor hereby irrevocably agrees that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Bonds, the Deed of Guarantee or the Coupons and that accordingly any suit, action or proceedings (together in this Condition 17 referred to as "Proceedings") arising out of or in connection with the Bonds, the Deed of Guarantee or the Coupons may be brought in such courts. Pursuant to the Trust Deed, the Guarantor has irrevocably submitted to the jurisdiction of such courts.

(c) Service of Process

Pursuant to the Trust Deed, the Guarantor has agreed to receive service of process at the Issuer's principal place of business at 40 Bank Street, 18th Floor, Heron Quays, London, United Kingdom E14 5NR in any Proceedings in England based on any of the Bonds or the Coupons. If the Issuer ceases to have a place of business in England, each of the Issuer and the Guarantor shall promptly appoint an agent in England to accept service of process on its behalf and deliver to the Trustee a copy of such agent's acceptance of that appointment within 30 days. Nothing herein shall affect the right to serve process in any other manner permitted by law.

(d) Waiver of Immunity

Each of the Issuer and the Guarantor further irrevocably agrees that no immunity (to the extent that it may now or hereafter exist, whether on the grounds of sovereignty or otherwise) from any Proceedings or from execution of judgment shall be claimed by or on behalf of it or with respect to its assets, any such immunity being irrevocably waived by the Issuer and the Guarantor, and each of the Issuer and the Guarantor irrevocably consents generally in respect of any such Proceedings to the giving of any relief or the issue of any process in connection with any such Proceedings including, without limitation, the making, enforcement or execution against any property whatsoever of any order or judgment which may be made or given in such Proceedings.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

The Global Bond contains provisions which apply to the Bonds while they are in global form, some of which modify the effect of the Terms and Conditions set out in this document. Terms defined in the Terms and Conditions have the same meaning in the paragraphs below. The following is a summary of certain of those provisions:

Exchange

The Temporary Global Bond is exchangeable in whole or in part for interests in the Global Bond on or after a date which is expected to be the Issue Date, upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Bond. The Global Bond is exchangeable in whole but not in part (free of charge to the holder) for the Definitive Bonds described below if the Global Bond is held on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so. Thereupon, the holder may give notice to the Principal Paying Agent of its intention to exchange the Global Bond for Definitive Bonds on or after the Exchange Date (as defined below) specified in the notice.

On or after any Exchange Date the holder of the Global Bond may surrender the Global Bond or present it for endorsement to or to the order of the Principal Paying Agent. In exchange for the Global Bond, the Issuer shall deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Bonds (having attached to them all Coupons in respect of interest which has not already been paid on the Global Bond), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Schedule 1 to the Trust Deed. On exchange of the Global Bond, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with any relevant Definitive Bonds.

"Exchange Date" means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and in the cities in which the relevant clearing system is located.

Payments

No payment will be made on the Temporary Global Bond unless exchange for an interest in the Global Bond is improperly withheld or refused. Payments of principal and interest in respect of Bonds represented by the Global Bond will be made against presentation for endorsement and (if no further payment falls to be made in respect of the Bonds) surrender of the Global Bond to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Bondholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Bond, which endorsement will be prima facie evidence that such payment has been made in respect of the Bonds. For the purpose of any payments made in respect of a Global Bond, Condition 6(a)(iii) shall not apply, and all such payments shall be made on a day on which commercial banks in Hong Kong are open for business and settle Renminbi payments and banks in Beijing, the PRC are not authorised or obligated by law or executive order to be closed.

Notices

So long as the Bonds are represented by the Global Bond and the Global Bond is held on behalf of a clearing system, notices to Bondholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions.

Prescription

Claims against the Issuer in respect of principal and interest on the Bonds while the Bonds are represented by the Global Bond will become void unless it is presented for payment within a period of 10 years (in the case of principal) and six years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 7).

Meetings

The holder of the Global Bond shall (unless the Global Bond represents only one Bond) be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Bondholders and, at any such meeting, as having one vote in respect of each CNY10,000 in principal amount of Bonds.

Purchase and Cancellation

Cancellation of any Bond required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Global Bond.

Trustee's Powers

In considering the interests of Bondholders while the Global Bond is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Bond and may consider such interests as if such accountholders were the holder of the Global Bond.

Put Option

The Bondholders' put option in Condition 5(b) may be exercised by the holder of the Global Bond, giving notice to the Principal Paying Agent of the principal amount of Bonds in respect of which the option is exercised and presenting the Global Bond for endorsement of exercise within the time limits specified in Condition 5(b).

USE OF PROCEEDS

The net proceeds from the issue of the Bonds, estimated to be approximately CNY995,590,000 after deducting certain expenses, will be used primarily for the development and expansion of offshore Renminbi business of CCB London.

SELECTED CONSOLIDATED FINANCIAL DATA

The following tables set forth the summary consolidated financial information of the Group as at and for the periods indicated.

The selected financial information presented below as at and for the two years ended 31 December 2010 and 2011 are extracted from the Group's audited consolidated financial statements for the year ended 31 December 2011.

The selected financial information presented below as at and for the nine months ended 30 September 2011 and 2012 are extracted from the Group's unaudited consolidated financial statements for the nine months ended 30 September 2012, which have not been audited or reviewed by PricewaterhouseCoopers, Certified Public Accountants. The Managers do not make any representation or warranty, express or implied, regarding the sufficiency of such financial statements for an assessment of the Group's financial condition, results of operations and results. Accordingly, potential investors must exercise caution when using such data to evaluate the Group's financial condition, results of operations and results. Such unaudited consolidated financial information as at and for the nine months ended 30 September 2012 should not be taken as an indication of the expected financial condition, results of operations and results of the Group for the full financial year ending 31 December 2012.

The audited consolidated financial statements for the year ended 31 December 2011 and unaudited consolidated financial statements for the nine months ended 30 September 2012 were prepared and presented in accordance with IFRS.

The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the relevant consolidated financial statements of the Group, including the notes thereto, included elsewhere in this Offering Circular.

Consolidated Statement of Financial Position

	As at 31 December		As at 30 September
	2010	**2011**	**2012**
	(audited)		(unaudited and unreviewed)
	(RMB millions, unless otherwise stated)		
Assets:			
Cash and deposits with central banks	1,848,029	2,379,809	2,347,707
Deposits with banks and non-bank financial institutions	78,318	276,752	540,512
Precious metals	14,495	22,718	31,945
Placements with banks and non-bank financial institutions	63,962	109,040	121,765
Financial assets at fair value through profit or loss	17,344	23,096	38,234
Positive fair value of derivatives	11,224	14,127	14,937
Financial assets held under resale agreements	181,075	200,045	70,938
Interest receivable	44,088	56,776	68,725
Loans and advances to customers	5,526,026	6,325,194	7,074,190
Available-for-sale financial assets	696,848	675,058	672,864
Held-to-maturity investments	1,884,057	1,743,569	1,841,225
Debt securities classified as receivables	306,748	300,027	295,535
Interests in associates and jointly controlled entities	1,777	2,069	2,351
Fixed assets	83,434	94,222	102,416
Land use rights	16,922	16,457	15,998
Intangible assets	1,310	1,660	1,357
Goodwill	1,534	1,662	1,662
Deferred tax assets	17,825	21,410	26,688
Other assets	15,301	18,143	27,433
Total assets	10,810,317	12,281,834	13,296,482

	As at 31 December 2010	As at 31 December 2011	As at 30 September 2012
	(audited)	(audited)	(unaudited and unreviewed)
	(RMB millions, unless otherwise stated)		
Liabilities:			
Borrowings from central banks	1,781	2,220	383
Deposits from banks and non-bank financial institutions	683,537	966,229	690,322
Placements from banks and non-bank financial institutions	66,272	78,725	90,186
Financial liabilities at fair value through profit or loss	15,287	33,656	27,980
Negative fair value of derivatives	9,358	13,310	12,680
Financial assets sold under repurchase agreements	4,922	10,461	31,492
Deposits from customers	9,075,369	9,987,450	11,058,503
Accrued staff costs	31,369	35,931	34,739
Taxes payable	34,241	47,189	41,657
Interest payable	65,659	80,554	115,064
Provisions	3,399	5,180	5,373
Debt securities issued	93,315	168,312	219,381
Deferred tax liabilities	243	358	366
Other liabilities	24,660	35,598	50,672
Total liabilities	10,109,412	11,465,173	12,378,798
Equity:			
Share capital	250,011	250,011	250,011
Capital reserve	135,136	135,178	135,210
Investment revaluation reserve	6,706	6,383	4,834
Surplus reserve	50,681	67,576	67,576
General reserve	61,347	67,342	80,236
Retained earnings	195,950	289,266	375,435
Exchange reserve	(3,039)	(4,615)	(4,542)
Total equity attributable to equity shareholders of the Bank	696,792	811,141	908,760
Non-controlling interests	4,113	5,520	8,924
Total equity	700,905	816,661	917,684
Total liabilities and equity	10,810,317	12,281,834	13,296,482

Consolidated Statement of Comprehensive Income

	For the year ended 31 December		For the nine months ended 30 September	
	2010	**2011**	**2011**	**2012**
	(audited)		(unaudited and unreviewed)	
	(RMB millions, unless otherwise stated)			
Interest income	377,783	482,247	348,353	448,166
Interest expense	(126,283)	(177,675)	(125,343)	(187,142)
Net interest income	251,500	304,572	223,010	261,024
Fee and commission income	68,156	89,494	70,808	71,923
Fee and commission expense	(2,024)	(2,500)	(2,016)	(2,002)
Net fee and commission income	66,132	86,994	68,792	69,921
Net trading (loss)/gain	3,509	388	1,557	971
Dividend income	228	158	88	159
Net gain arising from investment securities	1,903	1,756	1,227	2,300
Other operating income, net	2,508	5,535	3,143	8,063
Operating income	325,780	399,403	297,817	342,438
Operating expenses	(121,366)	(144,537)	(96,630)	(113,828)
	204,414	254,866	201,187	228,610
Impairment losses on:				
– Loans and advances to customers	(25,641)	(32,403)	(20,023)	(22,989)
– Others	(3,651)	(3,380)	(807)	(131)
Impairment losses	(29,292)	(35,783)	(20,830)	(23,120)
Share of profits less losses of associates and jointly controlled entities	34	24	59	16
Profit before tax	175,156	219,107	180,416	205,506
Income tax expense	(40,125)	(49,668)	(41,209)	(46,987)
Net profit	135,031	169,439	139,207	158,519

	For the year ended 31 December		For the nine months ended 30 September	
	2010	**2011**	**2011**	**2012**
	(audited)		**(unaudited and unreviewed)**	
	(RMB millions, unless otherwise stated)			
Other comprehensive income:				
Gain/(loss) of available-for-sale financial assets arising during the period	(8,183)	(966)	(10,675)	(1,548)
Less: Income tax relating to available-for-sale financial assets	1,995	318	2,739	378
Reclassification adjustments for (gain)/loss included in profit or loss	(288)	265	(118)	(389)
	(6,476)	(383)	(8,054)	(1,559)
Exchange difference on translating foreign operations	(1,057)	(1,577)	(1,243)	73
Others	33	42	23	32
Other comprehensive income for the period, net of tax	(7,500)	(1,918)	(9,274)	(1,454)
Total comprehensive income for the period	127,531	167,521	129,933	157,065
Net profit attributable to:				
Equity shareholders of the Bank	134,844	169,258	139,012	158,191
Non-controlling interests	187	181	195	328
	135,031	169,439	139,207	158,519
Total comprehensive income attributable to:				
Equity shareholders of the Bank	127,363	167,401	129,805	156,747
Non-controlling interests	168	120	128	318
	127,531	167,521	129,933	157,065
Basic and diluted earnings per share (in RMB Yuan)	0.56	0.68	0.56	0.63

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the Bank's capitalisation and indebtedness as at 30 June 2012. This table should be read in conjunction with the consolidated financial statements and the accompanying notes included in the F-pages of this Offering Circular.

	As at 30 June 2012
	(CNY in millions)
Debt	
Bonds issued	213,628
Other borrowings[1]	12,422,712
Total debt	12,636,340
Equity	
Share capital	250,011
Capital reserve	135,183
General reserve	80,163
Retained earnings	323,600
Other reserves[2]	74,569
Minority interest	5,879
Total equity	869,405
Total capitalisation[3]	13,505,745

Notes:

(1) Other borrowings include customer deposits, deposits and borrowings from other banks and financial institutions, etc.

(2) Other reserves comprise the statutory surplus reserve fund, investment revaluation reserve and foreign exchange reserve.

(3) Total capitalisation equals the sum of total debt and total equity.

Unless otherwise disclosed in this Offering Circular, there has not been any material change in the Bank's capitalisation and indebtedness since 30 June 2012.

THE ISSUER

FORMATION

The Issuer was incorporated with limited liability under the laws of England and Wales on 9 May 2012. It is a wholly-owned subsidiary of China Construction Bank (London) Limited which, in turn, is a wholly-owned subsidiary of the Bank. The Issuer's registered office is located at 40 Bank Street, 18th Floor, Heron Quays, London, United Kingdom E14 5NR and its registration number is 8062960.

BUSINESS ACTIVITY

The Issuer was established and bound by the unrestricted objects and powers set out in its articles of association. The Issuer does not sell any products or provide any services and it has undertaken no business activities since the date of its incorporation, other than those incidental to its incorporation and establishment as a indirect wholly-owned subsidiary of the Bank and those incidental to the issue of the Bonds and, subject to applicable laws, the on-lending of the proceeds thereof to CCB London.

DIRECTORS AND OFFICERS

The directors of the Issuer are Peter Manning and Jian Wu. The directors of the Issuer do not hold any shares or options to acquire shares of the Issuer. The directors of the Issuer are also directors of CCB London. There are no potential conflicts of interest between any duties to the Issuer of the directors listed above and their private interests or other duties. The business address of each of the directors is 40 Bank Street, 18th Floor, Heron Quays, London, United Kingdom E14 5NR.

The Issuer does not have any employees and has no subsidiaries.

SHARE CAPITAL

The authorised share capital of the Issuer is £2 divided into 2 ordinary shares of £1 each, all of which have been issued and are fully paid. No part of the equity securities of the Issuer is listed or dealt in on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought.

SUMMARY FINANCIAL INFORMATION

As at the date of this Offering Circular, the Issuer does not have any debt outstanding.

The financial year of the Issuer runs from 1 January to 31 December. There has been no material change to the activities of the Issuer since its incorporation.

The Issuer has not produced any audited financial statements.

THE BANK

OVERVIEW

The Bank is a leading commercial bank in China providing a comprehensive range of banking products and financial services. As at 30 June 2012, the Group's total assets, total liabilities and total equity were RMB13,505,745 million (including total loans and advances to customers of RMB7,061,343 million), RMB12,636,340 million (including total deposits from customers of RMB10,940,837 million) and RMB869,405 million, respectively.

The Bank was incorporated as a joint stock company in the PRC on 17 September 2004. The registered address of the Bank is No. 25, Financial Street, Xicheng District, Beijing, China 100033 and its corporate business licence serial number is 100000000039122. The telephone number of the registered office is (86) 10-6621 5533. Headquartered in Beijing, the Bank provides convenient and quality banking services to its customers through an extensive network comprised of nationwide branches, self-service facilities and an electronic banking service platform. The Bank operates principally in mainland China with branches in all provinces, autonomous regions and municipalities directly under the central government, and several subsidiaries located in mainland China. The Group adheres to a positive and steady international operation and overseas development strategy, leading to a steady expansion of its overseas network. As at 30 June 2012, the Group has established overseas entities in 13 countries and regions, with nine overseas branches in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo, Seoul, New York, Ho Chi Minh City and Sydney, two representative offices in Taipei and Moscow, two subsidiaries in Hong Kong, namely CCB Asia and CCB International, and one subsidiary in the United Kingdom, namely CCB London. The application to set up a branch in Taipei has been approved by CBRC, and the proposal to set up a branch in San Francisco has been approved by the board of directors of the Bank. The application and establishment of the Bank's presence in other overseas regions, namely, two banking subsidiaries in Dubai and Russia, and two branches in Toronto and Melbourne, are also in progress. On 24 August 2012, the proposal to set up a branch and a subsidiary in Luxembourg was approved by the board of directors of the Bank. As at 30 June 2012, the total assets of the Group's overseas entities were RMB542,340 million, representing an increase of 22.37% from the end of 2011. For the year ended 31 December 2011, the profit before tax of the Group's overseas entities was RMB2,109 million, representing an increase of 64.00% from 2010. Co-ordinated business operations continued to deepen and the co-ordinated assets as at 31 December 2011 were RMB125.9 billion, representing an increase of 100% from 2010. For the six months ended 30 June 2012, the profit before tax of the Group's overseas entities was RMB1,623 million. The Group's overseas entities continued to improve their asset structure, and the asset quality improved steadily. The collaborative business developed steadily, and infrastructures such as risk management and information technology development continued to strengthen. The non-performing loans and non-performing loan ratio continued to decrease.

In the first half of 2012, the Group's good performance in various aspects was widely recognised by the market and the community, with over 30 major awards from renowned local and international institutions. The Group ranked 6th in "Top 1000 World Banks 2012" by The Banker, up two places from 2011. The Group's ranking in "Fortune Global 500" rose to 77th, up by 31 places. The Group's ranking in "Global 2000" by Forbes rose to 13th, up by four places. The Group was the only listed domestic company that won the "Corporate Governance Asia Recognition Award" issued by Hong Kong publication Corporate Governance Asia for the fourth consecutive year. In addition, the Group was named the "Best Bank in China", "Excellent Management and Corporate Governance" and "2011 Most Socially Responsible Financial Institutions" by Global Finance, The Asset and China Banking Association, respectively.

The Bank's principal business activities include corporate banking, personal banking, treasury operations, investment banking and overseas operations. Within the Bank's corporate banking business, the Bank offers a broad range of products and services to corporations, government agencies and financial institutions, including infrastructure loans, working capital loans, supply-chain financing, loans to small and medium-sized enterprises ("SMEs"), trade financing, loans through the Bank's e-banking platform and merger and acquisition financing. The Bank also offers corporate deposits under various terms and commission/fee based services, including institutional services and fund custodial services for corporate bonds and trust loans and custodial services for securities settlement and clearing. The Bank provides a broad range of personal banking products and services under well recognised brands, including residential mortgage loans, entrusted housing provident fund mortgage loan services and bank card services. The Bank's treasury operations primarily consist of money market trading activities, investment portfolio management and agency treasury transactions. The Bank conducts its treasury services mainly through its trading centres in Beijing and Hong Kong. The Bank conducts its investment banking business through the investment banking department at the head office and branch levels as well as through CCB International. The Bank offers a comprehensive and diversified suite of financial services to its customers which includes, among others, financial advisory services, equity capital financing, debt financing, asset securitisation and wealth management services. Leveraging its vast resources and geographic advantages in the Chinese domestic market, the Bank is committed to providing a world-wide banking and financial services platform to service the overseas banking needs of its domestic corporate and personal banking customers and the domestic banking needs of its overseas corporate and personal banking customers seeking to trade with or invest in China.

OVERVIEW OF THE BANKING INDUSTRY

China's economy has grown significantly over the past three decades largely as a result of the PRC government's extensive economic reforms. At the outset, these reforms focused on transforming China from a centrally planned economy to a more market-based economy. More recently, particularly following China's accession to the WTO in 2001, such economic reforms have also aimed, among other things, to enhance the competitiveness of PRC enterprises. As a consequence of these reforms, China's nominal GDP grew at a compounded annual growth rate of 14.99% between 2000 and 2010, according to the National Bureau of Statistics of China. In 2011, however, China's economic growth decelerated to 9.3% after its economy grew 10.4% in 2010. Despite the adverse effects of the European debt crisis, China remains the second largest economy in the world after the United States. In response to the adverse impact of the global financial crisis on the PRC economy, since 2008 the PRC government began to implement a series of expansionary macroeconomic measures and moderately loose monetary policies, including lowering the benchmark interest rates on Renminbi-denominated loans and deposits, lowering the statutory required reserve ratio, announcing a RMB4 trillion economic stimulus package and relaxation of application requirements for qualified residential mortgage loans. The PBOC also actively provided guidance to financial institutions on the pace of granting credit, optimisation of credit structures and minimisation of credit risks, in order to provide a favourable currency and financial environment for economic development whereas the CBRC focused on the banking regulatory and supervisory functions. The PRC government may be taking measures to prevent the economy from overheating following the success of the economic stimulus package. For example, in the first half of 2011, the PBOC has raised the required reserves ratio six times. In addition, on 17 April 2010, the State Council issued a circular on curbing housing prices in urban areas, which provides that the down payment for any second-time residential property purchases should not be less than 50% of the appraised value of the residential properties, the loan rate for such property should not be less than 110% of the benchmark rate. Households purchasing a third residential property shall pay a much higher down payment and loan rate and banks may suspend the provision of loans for the purchase of a third residential property. On 26 January 2011, the General Office of the State Council issued a circular on issues relevant to the regulation of the real estate market, which further raises the down payment for the purchase by a household of a second residential property to be not less than 60%.

As an important component of the country's overall economic system, the PRC financial system has also grown rapidly. According to the PBOC, M2 money supply of China grew by 19.7% from 31 December 2009 to 31 December 2010, to RMB72.58 trillion.

The slowdown in China's growth in 2011 reflected the continued cooling of domestic demand in response to measures applied by the PRC government country-wide (on both the credit and property fronts) as well as the recent weakening of external demand. The pace of this slowdown remains under control and has been relatively stable and better controlled as compared to the sharp deceleration (to as low as 6.2% year on year in the first quarter of 2009) during the financial crisis in 2008 and 2009. However, the significant drop in the annualised seasonally-adjusted growth rate (from 9.1% in the third quarter of 2011 to a three-year low at 8.9% in the fourth quarter of 2011) suggests that the growth momentum remains weak and that there may be a further slowdown in the coming quarter.

Overall, despite some initial signs of stabilisation, China's slowdown has yet to be fully reversed. The sluggish pace of recovery may be attributed to the on-going weakening of external demand. Property-led investments and their associated impact on industrial production will likely continue for a longer period as Beijing's property tightening policies are unlikely to be relaxed in the near future.

The stronger than expected new loan and M2 growth data indicate that the easing measures, notably the first reserve ratio cut that came into effect on 5 December 2011, have started to have an effect. Despite subdued lending to the property market, a significant jump in new lending to corporations helped boost lending and M2 growth, which are critical for supporting growth and employment. China's banking industry has experienced and continues to experience rapid growth, consistent with the development of the PRC financial system. Banks have historically been, and are likely to remain, the principal providers of capital for enterprises and the primary choice for domestic savings in China. According to information published by the PBOC, loans accounted for 75.32% of total financing by non-financial institutions in 2010 with the remaining 24.68% raised through bond and equity issuances. Total customer banking deposits denominated in Renminbi amounted to RMB71.82 trillion as at 31 December 2010, an increase of RMB12.05 trillion compared to 31 December 2009. Total balance of loans and advances denominated in Renminbi amounted to RMB47.92 trillion as at 31 December 2010, an increase of RMB7.95 trillion, or 19.9% compared to 31 December 2009.

Although attempts by the PRC government to restrict credit have had an impact, the growth in bank profits remained relatively strong in 2011. This is primarily the result of a rapidly growing deposit base, increased net interest margins ("NIM") and growth in non-interest income. While there are concerns about the quality of bank loans, particularly those issued to local government financing vehicles, non-performing loans have continued to decline and there has not been significant deterioration in any specific asset classes to date.

From an outbound perspective, Chinese banks have continued their expansion abroad largely through organic growth by establishing new branches and subsidiaries, as well as through some mergers and acquisitions. The sector's growth may also be due to expansions in pilot programmes by the CBRC, such as the introduction of new types of rural financial institutions and consumer finance companies, as well as in the banking sector's willingness to focus on the development of new products and services, the success of which is evidenced by the continued growth of non-interest income. According to figures from the PBOC, the number of debit cards and credit cards issued in China by the end of the first quarter of 2011 exceeds 2.31 billion and 242 million, respectively.

Growth in NIM has dampened the impact of credit tightening measures on profits, while the increasingly diversified service offered by banks is creating additional sources of revenue. The banks have become increasingly active in the capital markets, as a result of the IPOs, each of China's big four commercial banks are now one of the world's ten largest banks according to market capitalisation. More listings are expected in the near future and a number of banks have reportedly applied for listing or are currently in preparations to list.

Profitability in 2010 saw substantial growth across the entire banking sector, with only a few exceptions. Despite the implementation of credit tightening measures, overall sector profitability increased by 35% in 2011, which outpaced the growth rates of both interest and non-interest income, indicating that net interest margins for many banks have increased.

Regulation and Supervision Trends in the Banking Industry

The Bank is subject to inspections, examinations, inquiries and audits by PRC regulatory authorities, such as the MOF, the PBOC, the CBRC, the CSRC, the CIRC, the SAT, the SAIC, the SAFE, the NAO and other authorities.

In recent years, the CBRC and other PRC regulatory authorities have taken a number of steps to enhance supervision of the banking industry, such measures include the following:

- ***Improving corporate governance***

The CBRC has encouraged banks to establish a corporate governance structure that includes a board with independent directors, audit, risk management, related party transaction and other specified board committees, as well as a supervisory board. Additionally, banks have been instructed to create an independent internal audit department that is supported by clearly defined policies and procedures;

- ***Enhancing risk management***

The CBRC has promulgated a series of risk management guidelines and undertaken measures to closely monitor and enforce the adoption and implementation of the five-category loan classification system and risk rating system, compliance with due diligence requirements during the credit extension process, as well as enhanced management of market, liquidity and operational risks in addition to credit risks by banking institutions;

- ***Enhancing supervision over information disclosure***

The CBRC has required commercial banks to enhance disclosure in their annual reports. In November 2009, the CBRC promulgated the "Guideline Concerning the Information Disclosure of Commercial Bank's Capital Adequacy", which required commercial banks to disclose its temporary information, quarterly information, semi-annual information and annual information;

- ***Strengthening supervision over capital adequacy***

In March 2004, the CBRC implemented a set of new and more stringent capital adequacy guidelines which were based on the Basel Capital Accord I ("Basel I") and also took into consideration the Basel Capital Accord II ("Basel II"). To ensure the timely implementation of Basel II, the CBRC has announced 12 directives intended to establish a Basel II-based capital regulatory regime. Under these guidelines, all banks in China were required to comply with the new capital adequacy requirements as at 1 January 2007. In February 2007, the CBRC announced a plan to start as early as the end of 2010, and not later than 2013, to monitor the first category of commercial banks, which includes the Bank, to start implementing the Basel II framework. At the same time, the CBRC is actively promoting the implementation of the new Basel capital accord. In April 2011, the CBRC promulgated the "Guideline Concerning the Implementation of New Regulatory Standards for the PRC Banking Industry" to clarify the direction for future regulations and the implementation of prudent regulatory requirements. On 7 June 2012, CBRC issued the "Measures for Administration of Capital Management of Commercial Banks (Trial)" to implement the new Basel Capital Accord and specifies the capital regulatory requirements (such as minimum capital requirement, reserved capital requirement and counter-cyclical capital requirement and additional capital requirement for systematically important banks), calculation of capital adequacy ratios, definition of capital and definition of credit risk-weighted assets. After the implementation of new standards, the capital adequacy ratios for systemically important banks and non-systemically important banks under normal condition shall not be lower than 11.5% and 10.5%, respectively; and

- ***Improving regulation of related party transactions of commercial banks***

In April 2004, the CBRC promulgated guidelines on related-party transactions between a bank and its associates or shareholders in an attempt to control the risks represented by such related party transactions and to ensure the orderly operation of commercial banks. The CBRC has undertaken additional regulatory measures in response to the global financial crisis, including the following:

  - ***Optimising risk management for foreign currency assets***

  Since August 2008, the CBRC has required banking institutions to closely monitor market changes by re-assessing losses generated through trading with high-risk international financial counterparties for each account and for each trade on a daily basis. The CBRC has also required banks to improve risk management over offshore correspondent banks, adjust their credit risk exposure to foreign currency bonds issuers and their portfolio structure of foreign currency bonds promptly;

  - ***Strengthening information disclosure***

  The CBRC has required banking institutions to disclose to customers the performance of their Qualified Domestic Institutional Investors ("QDII") products and the impact of the global financial crisis on their operations and financial positions accurately and on a timely and ongoing basis;

- ***Implementing the PRC government's pro-growth policies***

  The CBRC promulgated a series of measures including the "Guidance on Risk Management on Merger and Acquisition Loans of Commercial Banks" and the "Guidance on Issues Relevant to Establishing Special Agencies for Small Business Lending by Banks", to encourage banking institutions to implement the PRC government's macroeconomic policies, and, in particular, to proactively support a steady, healthy economic growth by increasing lending activities while effectively controlling any associated risks; and

- ***Regulation of subordinated debt financing***

  In October 2009, the CBRC issued a notice which requires commercial banks to deduct the balance of their holdings of long-term subordinated notes issued by other banks since 1 July 2009 from their supplemental capital in computing their capital adequacy ratios. The notice further limits the amount of long-term subordinated notes issued by national commercial banks to no more than 25% of their core capital. Additionally, the notice requires a national commercial bank to maintain a core capital adequacy ratio of no less than 7% if it seeks to issue long-term subordinated notes as part of its supplemental capital.

THE BANK'S COMPETITIVE STRENGTHS

The Bank believes its strengths, as set out below, provide a stable and effective platform through which it will be able to maintain its competitive advantage in China's banking industry:

Large customer base and established relationships

The Bank has a quality corporate customer base and large personal banking customer base. In the first half of 2011, the Group continued to consolidate its customer base. By 30 June 2012, individual customers with assets in the Bank had increased by 10.10 million compared to 31 December 2011. The number of private banking customers with over RMB5 million assets under management ("AUM") increased by 9.24%, and the financial AUM increased by 17.97% compared to the end of 2011. Corporate and institutional customers increased by 210,000, with increased proportion of basic bank settlement accounts and improved account structure.

Extensive distribution network and a diversified service channel

The Bank has an extensive distribution network. Through branches, customer self-service equipment, specialised service entities across the country and an electronic banking service platform, the Bank provides customers with convenient and high-quality banking services. As at 30 June 2012, the Bank had a total of 13,719 operating outlets in the PRC, including its head office, 38 tier-one branches, 308 tier-two branches, 9,246 sub-branches, 4,126 entities under sub-branches and a specialised credit card centre at the head office. The number of operating outlets increased by 138 from 31 December 2011, and the distribution of operating outlets is prioritised towards the super large cities, major cities, and key economic counties and towns. By 30 June 2012, a total of 260 private banking centres and wealth management centres had been opened. As at 30 June 2012, the Bank had 12,225 self-service banking centres in operation, representing an increase of 1,544 from 31 December 2011 and 49,766 ATMs in operation, representing an increase of 4,121 from 31 December 2011. The Bank's extensive distribution network and diversified service channels provide it with the competitive measures and resources for sustainable development.

Leading positions in key products and services, pioneering new product and service development

The Bank believes its leading positions in its core product and service offerings have allowed the Bank to continually enhance its business structure and, in turn, create a favourable environment to generate leading profitability among its peers. The Bank has historically been the major provider of infrastructure projects loans and mid-to-long term loans to large and medium sized enterprises and the Bank is the only commercial bank in China qualified to provide project cost consultancy and advisory services. While strengthening its capabilities in the personal residential mortgage loan business, the Bank has supported its residential mortgage loan applicants in their purchase of self-use housing and subsidised housing. In the first half of 2011, the Group's credit card business continued to grow rapidly. As at 30 June 2012, the number of credit cards issued by the Bank was approximately 36.04 million, representing an increase of 3.79 million from 31 December 2011. For the six months ended 30 June 2012, the total spending through the Bank's credit cards amounted to approximately RMB360,037 million.

In addition to strengthening its core product and service offerings, the Bank has also placed emphasis on pioneering new products and services to optimise its business structure. In recent years, the Bank has increased its lending to SMEs, major agricultural projects, environmentally conscious or "green" projects and new and emerging industries. The Bank has also provided stronger financial services support to social services sectors such as healthcare, education and development of social culture as well as actively exploring new products and services such as domestic factoring, syndicated loans and wealth management.

Prudent risk management and internal control practices

The Bank continues to promote a risk management system reform and has established an overall risk management framework which reflects the Bank's philosophy that value should be created upon a sound risk management system. As one of the first banks in China to centralise the Bank's risk management through the development of a comparatively independent and vertical risk management system, the Bank has implemented a "Parallel Operation" system to separate the roles of risk managers and customer managers. The Bank has also assigned designated credit reviewers and adopted a comparatively independent and vertically managed internal audit system. As a result of the Bank's risk management and internal control efforts over the years, its average non-performing loan ratio for the last three years was at a comparatively lower level among the large-size commercial banks.

Advanced financial management capabilities and financial controls

The Bank is one of the first domestic banks to establish a resource allocation and performance evaluation assessment system on the basis of economic value-added approach. The Bank has further centralised its financial management and promoted an overall cost control system, while increasing the Bank's research efforts on strategic cost management. In addition, the Bank followed the successful experience of leading global banks and developed an internal fund transfer pricing (FTP) system, an enterprise resource planning (ERP) system and a management accounting system.

The Bank believes that its advanced financial management capabilities and sound financial controls have allowed the Bank to implement development strategies effectively, optimise resource allocation and improve overall operating efficiency.

Growing commission/fee based businesses

From 1 January 2011 to 31 December 2011, the Group's net income from fees and commissions achieved rapid growth at a CAGR of 31.55%. For the year ended 31 December 2011, the Group's net income from fees and commissions accounted for 21.78% of its total operating income. For the six months ended 30 June 2012, the Group's net income from fees and commissions were RMB49,243 million, representing an increase at a CAGR of 3.30% over the same period in 2011.

Effective strategic co-operation

The Bank has cooperated with its strategic investor, Bank of America Corporation ("Bank of America"), in a number of areas including personal banking business, risk management, corporate governance, information technology and human resources. In 2011, the Bank continued to work with Bank of America on various co-operative projects including site selection for bank outlets, position management and counterparty risk management.

The Bank's strategic investor, Temasek Holdings (Private) Limited, has shared its experience with the Bank in relation to SME business operation, human resource management, money market trading and other areas.

Experienced management team

The Bank's vice chairman and president, Mr. Zhang Jianguo and the chairman of the Bank's board of supervisors, Mr. Zhang Furong and other senior management team members, have extensive management experience in the banking and financial sector in China. Under their leadership, the Bank's operations have further strengthened in recent years. For the years ended 31 December 2010 and 2011, the Group's average returns on assets were 1.32% and 1.47%, respectively, and its average returns on equity were 22.61% and 22.51%, respectively, one of the highest among domestic and international peers. For the six months ended 30 June 2012, the Group's annualised average return on assets was 1.65%, and its annualised average return on equity was 24.56%.

THE BANK'S PRINCIPAL BUSINESS ACTIVITIES

The Bank's principal businesses include corporate banking, personal banking, treasury business, investment banking and overseas operations.

The following tables set forth, for the periods indicated, the profit before tax of each of the Bank's major business segments:

	Year Ended 31 December				For the six months ended 30 June			
	2010		2011		2011		2012	
(In millions of RMB, except percentages)	*Amount*	*% of total*	*Amount*	*% of total*	*Amount*	*% of total*	*Amount*	*% of total*
Corporate banking	91,167	52.05	111,041	50.68	58,385	48.34	66,299	47.87
Personal banking	30,590	17.46	37,627	17.17	22,702	18.79	22,345	16.13
Treasury business	51,198	29.23	71,059	32.43	37,444	31.00	46,248	33.39
Other businesses.	2,201	1.26	(620)	(0.28)	2,258	1.87	3,620	2.61
Profit before tax	175,156	100.00	219,107	100.00	120,789	100.00	138,512	100.00

CORPORATE BANKING

Overview

For the years ended 31 December 2010 and 2011, the Group's corporate banking operations represented 52.05% and 50.68%, respectively, of its profit before tax. For the six months ended 30 June 2012, the profit before tax from the Group's corporate banking operations increased by 13.55% over the same period in 2011 to RMB66,299 million, accounting for 47.87% of the Group's profit before tax. The Bank offers a broad range of corporate banking products and services for corporations, government agencies and financial institutions. As at 30 June 2012, the Group had RMB4,720,136 million of domestic corporate loans, representing 66.84% of the Group's total loans, RMB120,027 million of domestic discounted bills outstanding, representing 1.70% of the Group's total loans and RMB5,788,348 million of domestic corporate deposits, representing 52.91% of the Group's total deposits.

Key Products and Services

Corporate loans products

Corporate loans have historically been the largest component of the Bank's loan portfolio. As at 31 December 2011, the balance of domestic corporate loans amounted to RMB4,446,168 million. The Bank's corporate loan products mainly comprise medium to long-term loans and short-term loans. As at 30 June

2012, the balance of domestic corporate loans amounted to RMB4,720,136 million, and the Group's domestic medium to long-term loans and short-term loans amounted to RMB3,157,183 million and RMB1,562,953 million, representing 44.71% and 22.13%, respectively, of its total loans.

Infrastructure loans

The Bank provides various infrastructure loan products to meet the funding requirements relating to the construction and expansion of its customers' infrastructure projects. The continuing expansion of the PRC economy has led to an increase in the number of new large-scale infrastructure projects which have resulted in an increased demand for infrastructure loans.

Working capital loans

The Bank offers working capital loans primarily to provide liquidity for the Bank's customers' regular business production and operational turnover needs and for their temporary funding needs. The Bank's working capital loans are mainly granted to its high quality customers to supplement their infrastructure loans. The Bank also provides working capital loans to SMEs.

Other corporate loan products

The Bank offers various other corporate loan products, including trade finance facilities, supply-chain financing and merger and acquisition financing. In March 2009, the Bank became one of the first commercial banks in China approved to undertake merger and acquisition financing business pursuant to the Guidelines to M&A Loan Risk Management of Commercial Banks issued by the CBRC and the Bank was one of the first to launch corporate merger and acquisition financing products aimed to facilitate the financing needs of the Bank's customers' merger and acquisition transactions by providing a comprehensive set of financial resources.

The expansion of loans to SMEs is an important measure of the Bank to realise its strategic transformation of corporate banking business. As at 30 June 2012, the Group had 244 credit factories for small enterprises. As at 30 June 2012, according to the SME standards jointly issued in 2011 by four ministries and commissions headed by the Ministry of Industry and Information Technology, loans to small and micro businesses were RMB681,415 million, an increase of RMB49,525 million compared to the end of 2011.

Discounted bills

Discounted bills are bank acceptance bills and commercial acceptance bills with a remaining maturity of less than six months purchased by the Bank from its customers at a discount. The Bank provides discounted bills as part of its comprehensive financing solution for its corporate customers. As at 30 June 2012, the Group had outstanding domestic discounted bills of RMB120,027 million.

Corporate deposit products

In accordance with interest rate policies issued by the PBOC, the Bank offers a variety of time and demand deposit products to its corporate and institutional customers. In addition, the Bank also accepts negotiated deposits from customers including insurance companies, the NSSF and the Postal Savings Bank of China, whereby interest rates and other conditions are separately negotiated between them and ourselves. As at 30 June 2012, the Group's domestic corporate deposits amounted to RMB5,788,348 million.

Commission/fee based products and services

The Bank provides its corporate customers with a broad range of commission/fee based products and services. The development of its commission/fee based products and services remains as the focus of the Bank's future business transformation. The Group's net fee and commission income from corporate banking business for the year 2011 reached RMB39,170 million, an increase of 37.14% from the same period last year. Corporate RMB settlement income amounts to RMB7,431 million, cost advisory services income amounts to RMB5,474 million and domestic factoring income amounts to RMB3,191 million. The Group's net fee and commission income from corporate banking business for the six months ended 30 June 2012 reached RMB21,892 million, a decrease of 0.16% from the same period in 2011.

Agency services

The Bank acts as an agent at the request of its clients in providing payment disbursement, collection, settlement, clearance and other agency services to corporations and government agencies. The key products and services the Bank provides include agency treasury settlement, agency premium collection and payment and entrusted loans. The Bank also acts as payroll agent as well as the agent to collect utilities, telecommunication and taxes payment and surcharges. The Bank was ranked first in the comprehensive evaluation of the agency payment services authorised by the MOF. In addition, in terms of the number of budget units it served, the volume of agency disbursement and related fee income, the Bank continued to be the market leader. The Bank is a major correspondent bank for China Development Bank. The Bank also distributes products and services on behalf of insurance companies and securities firms and provides payment and fee collection services to public utility and telecommunications companies. In addition, the Bank provides entrusted lending services to its corporate customers. The Bank charges a fee for providing entrusted lending services and does not take the credit risk with respect to these loans. In addition to generating fee income, the Bank's agency services also help the Bank develop and enhance its relationships with its customers.

Project cost consulting and advisory services

Project cost consulting and advisory services include project consultancy services, cost evaluation and control services and project funding monitoring services for infrastructure projects. The Bank is the only commercial bank in China licensed to provide project cost consulting and advisory services and the Bank believes the Bank has teams with extensive domestic experience in this area. In 2008, the Bank launched the "Project Funding Monitoring Business", which is an extension of its project cost consulting services and integrates its project cost consulting platform with its credit risk management platform. The Bank provides funding monitoring services for projects through its professional project cost consultant team, along with its investment management team.

Syndicated loan services

The Bank has provided to customers various syndicated loan products including, among others, direct external syndicated loans, internal syndicated loans and transferable syndicated loan products. The Bank has maintained strong growth in its syndicated loan businesses.

Domestic factoring services

In 2003, the Bank was among the first commercial banks in China to obtain approval to undertake domestic factoring business. In conducting the Bank's domestic factoring business, the Bank aims to further optimise its credit portfolio mix, expedite the transformation of its corporate banking business, encourage the development of supply-chain financing businesses and support and develop the Bank's SME customers, all of which the Bank believes will enhance its ability to provide integrated services as a commercial bank.

Cash management services

The Bank was one of the first domestic commercial banks to provide cash management services. In recent years, the Bank's cash management services expanded rapidly as the Bank introduced various new cash management products, such as "Yu Dao (禹道)-Smart Win Cash Management", which covers major service lines including account settlement services, fees receipt and payment services, liquidity management services, investment and financing management services, information and reporting services, industry-focused solutions and on-line banking services. The Bank has a range of cash management products and tailor-made industry specific cash management solutions for multinational corporations, large and medium sized enterprises, government agencies and financial institutions. In addition, through its internet and other electronic channels as well as its customer-oriented branch network, the Bank has been able to provide comprehensive cash management services to its customers.

Remittance and settlement services

The Bank provides account management, remittance, foreign currency exchange, bills and promissory notes, corporate cheques, domestic letters of credit, electronic commerce exchange bills, agency settlement, asset custodial services and other settlement services.

Investment custodial services

The Bank's offering of custodial services is among the most comprehensive in China, including securities investment funds, targeted customer funds, QDII, QFII, social security funds, corporate annuity funds, trust properties, insurance assets, entrusted investment assets of securities companies, basic pension insurance personal account funds, industrial investment funds and banking wealth management products.

Guarantee and commitment services

The Bank offers its corporate customers letters of credit, bid bonds, performance bonds and other forms of guaranteed payment and performance security services. The Bank's customers in construction-related industries often obtain bid bonds or performance bonds from the Bank for their construction projects. The Bank's guarantee and commitment services are generally subject to substantially the same credit approval procedures as those applicable to the Bank's loan products.

International settlement services

The Bank offers international settlement products and services including import letters of credit, export letters of credit, import collection, export collection, outward remittance, inward remittance and guarantees. In the year ended 31 December 2011, the volume of the Bank's international settlement increased by 26.24% from the same period of the previous year to US$842,076 million. In the first half of 2012, the volume of the Bank's international settlement volume increased by 14.17% from the same period of the previous year to US$478,947 million. The Bank is approved by the PBOC as the Hong Kong dollar settlement bank and approved by the China Foreign Exchange Trade System as the U.S. dollar agency settlement bank in the interbank foreign currency markets. The Bank was one of the first PRC banks to provide cross-border trade RMB settlement services and this pioneer status has allowed it to be one of the market leaders of this service.

Annuity management services

In 2007, the Bank was approved to be the trustee and custodian for corporate annuity funds and was authorised to offer related services including annuity planning, consulting, corporate annuity custodian and personal account management.

Customer Base

As a leading provider of capital for some of the key industries in China such as infrastructure, energy, transportation and telecommunication, the Bank has maintained close relationships with leading corporations in industries that are strategically important to China's economy and with major government agencies and financial institutions.

The Bank has focused and will continue to focus on customers in industries strategically important to China's economy. Most of these large companies in China's strategic industries are state-owned enterprises or state-controlled joint stock companies. Private enterprises have become important customers to the Bank, as in recent years, they have experienced significant growth in China and have become a major sector in China's economy. The Bank also focuses on expanding its range of high-quality SME customers.

Marketing

Based on its customer-focused philosophy, the Bank employs both industry-wide and localised marketing strategies tailored to specific regions, customers and products. The Bank's head office formulates its overall corporate business development based on industry, geographical region, customer and product considerations. The Bank's tier-one branches then develop detailed marketing plans according to these guidelines tailored to local market needs.

The Bank's corporate banking marketing channel primarily involves corporate and institutional customer managers, branch outlets and electronic banking channels which include on-line banking and phone-banking. The Bank's corporate and institutional customer managers are its key marketing channel for its corporate banking business. They are responsible for exploring new market opportunities, promoting the Bank's banking products, coordinating and accessing the Bank's bank-wide resources to provide a package of personalised and comprehensive financial services to the Bank's corporate and institutional customers.

The Bank's branch outlets offer the physical venue for the Bank to provide services to corporate and institutional customers. Through the Bank's branch outlets, the Bank promotes and sells its products, mainly providing payment and settlement services and SME corporate customer services, and developing the Bank's corporate liabilities business and commission/fee based business.

With the aim to improve customer experience, the Bank also provides its customers with e-banking channels such as the Bank's cash management service system, corporate online banking, customer hotline service centre and mobile phone banking platform, thereby providing greater access for the Bank's customers. As at 30 June 2012, the Group's corporate online banking customers reached 1.73 million and mobile phone banking customers reached 65.17 million.

The Bank seeks to provide differentiated products and services to the Bank's important customers to meet their specific banking needs. The Bank's head office generally coordinates client coverage and marketing efforts for the Bank's largest corporate customers to ensure consistency and quality of service. The Bank's senior management at the headquarters and branch level are often directly involved in and lead in these marketing efforts. The Bank's branches in key cities provide differentiated, high quality, professional and integrated products and services to meet the Bank's customers' specific banking needs. By providing integrated financial solutions to the Bank's customers and improving the Bank's cross-selling synergies among the Bank's products and services, the Bank aims to further increase overall customer satisfaction and optimise value for the Bank's customers.

For SMEs, the Bank has established a specialised and standard marketing system that allows the Bank to further integrate the Bank's resources of products, distribution channels and brands to provide more efficient services with controlled risks.

PERSONAL BANKING

Overview

The Bank provides a broad range of personal banking products and services. As at 30 June 2012, the Group's domestic personal loans and advances to customers rose to RMB1,818,426 million, which accounted for 25.75% of the Group's gross loans and advances to customers; and the Group's domestic personal deposits rose to RMB5,004,480 million. The Group's profit before tax derived from personal banking for the years ended 31 December 2010 and 2011 amounted to RMB30,590 million and RMB37,627 million, respectively, representing 17.46% and 17.17% of the Group's total profit before tax for the same period. The Group's profit before tax derived from personal banking for the six months ended 30 June 2012 amounted to RMB22,345 million, representing 16.13% of the Group's total profit before tax for the same period.

Key Products and Services

The Bank provides a broad range of products and services including personal housing financing services, personal consumption loans and other related financial services for its personal banking customers based on their needs. The Bank also provides bank card services and fee-based personal banking services such as personal wealth management services and settlement services for its personal banking customers. The Bank is committed to providing comprehensive banking services to its personal banking customers and is focused on creating and improving its personal banking product chain and value chain. The Bank sets out below its key personal banking products and services.

Personal housing financing services

The Bank was one of the earliest providers of and continues to be the market leader of personal housing financing services in China.

Recently, in line with PRC government policies for the real estate industry in China, the Bank has placed greater focus on providing financing services for first-time home buyers and those homeowners who wish to improve their standard of living. The Bank has introduced a differentiated pricing strategy, taking into consideration various factors including percentage of down payment, product coverage, customer creditability and post-credit performance. As a result, the asset quality of the Bank's mortgage loans improved and its residential mortgage loans increased in value. As at 30 June 2012, the Group's non-performing loan ratio for residential mortgage loans remained at 0.20%.

Residential mortgage loans

The Bank provides residential mortgage loans to individuals to finance the purchase and construction of their residential properties. Residential mortgage loans include new home residential mortgage loans, residential refinancing mortgages, home equity loans to refinance residential property and fixed-rate residential mortgage loans. As at 30 June 2012, the Group's domestic personal residential mortgage loans rose by 6.94% from 31 December 2011 to RMB1,404,048 million, remaining first in both loan balance and increase. The Bank believes that residential mortgage loans are key to its personal housing financing services. The Bank generally offers loans with maturities of up to 30 years and for up to 70% of the property value. In 2010, the Bank introduced a differentiated residential mortgage loan policy based on the latest national policy which requires families that have an existing mortgage loan to pay not less than a 50% down payment and the mortgage lending rate must be at least 110% of the PRC benchmark lending rate when purchasing their second homes. Residential mortgage loans to families purchasing homes that are their third or above, have been temporarily suspended.

The Bank has also introduced the home equity loan, whereby the borrower uses his self-owned residential property as maximum collateral to take out loans that can be revolved within the validity period and within the loan limit. This product targets the re-financing needs of the Bank's customers. The Bank appraises the value of the residential property regularly and clearly stipulates that the loan cannot be used for securities trading purpose.

Individual commercial property mortgage loans

The Bank offers commercial property mortgage loans to individuals requiring financing for purchasing commercial properties. These loans are generally required to be secured by the underlying property and have a maximum maturity of ten years.

Entrusted housing financing services

The Bank acts as an agent to national housing fund management departments to collect housing provident funds and housing maintenance funds and provide individual housing provident funds mortgages. The Bank is one of the earliest banks and the largest in China approved to engage in the housing provident fund management business. The Bank maintains sound business cooperation with local administrative centres of housing provident funds across China from which it takes deposits as a steady funding source. By implementing national policies on supporting the construction of homes and providing financing to mid and low-income households, the Bank is able to capture such specialised market opportunities. As at 30 June 2012, the Bank's housing provident fund loans amounted to RMB666,708 million, representing an increase of RMB50,502 million from 31 December 2011, and its housing provident fund deposits amounted to RMB573,033 million, representing an increase of RMB66,077 million from 31 December 2011. Through innovative financial services, the Bank has launched new products and services including small amount cross-bank payments for housing provident funds, housing provident fund e-channel, housing provident fund co-named card and entrusted housing provident fund withdrawal for repayment of loans.

Home savings services

In February 2004, the Bank formed Sino-German Bausparkasse Corporation Limited with Bausparkasse Schwaebisch Hall, a German home savings bank. As at 30 June 2012, the Bank held a 75.1% equity interest in Sino-German Bausparkasse Corporation Limited. The Bank's home savings bank products allow the Bank's customers to make scheduled deposits for the purpose of obtaining residential mortgage loans in the future. Sino-German Bausparkasse Corporation Limited has improved the Bank's ability to develop more personal housing financing products.

Personal consumption loans

The Bank's personal consumption loans primarily consist of personal credit lines and automobile loans which usually have a maturity of up to five years. Personal credit lines are granted for general purposes based on the borrowers' credit history and the value of collateral provided. The Bank's automobile loans are primarily secured by the purchased automobile and residential properties. As at 30 June 2012, the Bank had domestic personal consumption loans of RMB77,732 million, representing 1.10% of the Group's gross loans and advances to customers.

Other personal loans

The Bank's other personal loan products primarily consist of personal business loans, education loans and other personal loans. In 2009, the Bank introduced personal business loans for private business owners involved in various specialised markets. The Bank also introduced personal rural loans to farmers on a trial basis in line with the PRC government's policy of supporting economic development of rural areas. The Bank also introduced a series of personal loan products, including the "Easy Education Loan" for personal education, the "Fortune Loan" for personal banking customers and the "Refurbishment Loan" for home renovations.

Bank card business

The Bank offers a variety of bank card products comprising credit card and debit card to its customers under the registered "Long Card" brand. As at 30 June 2012, the Bank had issued 36.04 million credit cards and 398 million debit cards. For the year ended 31 December 2011, the fee and commission income from the Group's card business increased to RMB14,910 million from RMB12,344 million for the same period in 2010, representing a CAGR of 20.79%. For the six months ended 30 June 2012, the fee and commission income from the Group's card business increased to RMB9,132 million from RMB7,829 million for the same period in 2011, representing a CAGR of 16.64%.

Since the Bank is a member of China Unionpay, its customers can complete transactions through ATMs and point-of-sale terminals connected to the China Unionpay network. China Unionpay is responsible for establishing and operating a nationwide, interbank bank card information exchange and transaction network for its members. The Bank is one of the founding members of China Unionpay and holds a 4.87% equity interest in China Unionpay. The Bank joined the MasterCard network in 1990 and the Visa network in 1991. The Bank's dual-currency debit cards and dual-currency credit cards are also accepted outside of China through its association with the MasterCard and Visa networks. In August 2009, the Bank further joined the JCB international credit card network.

Credit cards

Through the credit card centre in Shanghai established in December 2002, which centrally manages the Bank's credit card business, the Bank seeks to enhance its operational efficiency, improve its risk management and maintain a consistent level of customer service quality. The Bank has also established credit card departments in most of its tier-one branches to manage its operations locally. As approved by the CBRC and accepted by the Shanghai Banking Regulatory Bureau in 2008, the Bank's credit card centre was upgraded to a branch-level sales institution and obtained its business license in 2009. As at 30 June 2012, the Bank had issued 36.04 million credit cards. The total spending amount from the Bank's credit cards was RMB588,901 million in the year ended 31 December 2011, representing a growth of 44.86% compared to the same period in 2010. The total spending amount from the Bank's credit cards was RMB360,037 million in the six months ended 30 June 2012. As at 30 June 2012, the Bank's credit card balance increased by 25.62%% from the prior year-end to RMB122,542 million. As such, the Bank is ranked as one of the top banks in respect of total number of credit card customers, transaction volume and asset quality.

The Bank's primary credit card product is its RMB and U.S. Dollar-denominated dual currency credit card, which the Bank began to issue in 2003. The Bank's dual currency credit cards are accepted through its own network and through the China Unionpay network which are located in the PRC and various other countries and are also accepted overseas through the Bank's association with the Visa and MasterCard networks. The Bank has established five product lines including standard cards, co-branded cards (being cards co-branded with primary cities, well-known enterprises and top-tier universities), specialty cards, public welfare cards and corporate cards, which primarily target mid- to high-end customers and cover various marketing channels. The Bank also issues diamond cards, which target high-end customers and issued specialised car-owner credit cards to car owners.

Debit cards

As at 30 June 2012, the Bank issued 398 million debit cards in aggregate, representing an increase of 33.45 million cards from 2011. Total spending through the Bank's debit cards amounted to RMB1,792,757 million in the year ended 31 December 2011. Fee income from the Bank's debit cards amounted to RMB8,477 million in the year ended 31 December 2011. Total spending through the Bank's debit cards amounted to RMB1,027,000 million in the six months ended 30 June 2012. Fee income from credit cards rose by more than 30% from the same period in 2011. The Bank also launched the Social Security IC Card with financial functions and the Healthy Long Card. For the year ended 31 December 2011, the Bank issued 1.98 million express settlement cards targeted at individual, industrial and commercial households, representing an increase of 1.39 million cards compared to 2010.

Personal deposits

The Bank provides its personal banking customers with a broad range of demand and time deposit services denominated in RMB and other foreign currencies. Personal demand deposit products include demand savings deposits and demand pledged deposits.

Personal time deposit products include time savings deposits, education savings deposits and personal notification deposits. Personal deposits provide the Bank with a stable funding source. In the first half of 2012, the Group's domestic personal deposits achieved steady growth and as at 30 June 2012, the Group's total domestic personal deposits were RMB5,004,480 million.

Commission/fee based products and services

In addition to bank card businesses, the Bank offers a broad range of commission/fee based products and services for the Bank's personal banking customers, including personal wealth management, personal settlement, securities agency, insurance agency and online banking services.

For the year ended 31 December 2011, the net fee and commission income from the Group's personal banking business increased from RMB23,919 million in the same period of 2010 to RMB29,061 million in 2011. For the six months ended 30 June 2012, the net fee and commission income from the Group's personal banking business increased from RMB15,386 million in the same period of 2011 to RMB16,205 million.

Personal wealth management business

The Bank offers its wealth management customers a number of value-added wealth management services, such as financial advisory services, priority branch services, exclusive wealth management products, product discounts and airport VIP lounge services. The Bank has established personal wealth management centres and wealth centres which are staffed with dedicated personal customer managers to serve its wealth management customers.

Personal settlement business

The Bank provides RMB and foreign currency-denominated money transfer and remittance services. The Bank markets its RMB-denominated remittance services under the brand, "Swift Remit" (速匯通). In August 2006, the Bank introduced RMB personal deposit full access services across China to satisfy customer needs for cross-region payment. To meet the increasing demand for foreign currency in China, the Bank further introduced nationwide foreign currency full access services across China in 2009. The Bank's personal settlement business provides convenience to the Bank's personal banking customers and generates attractive fee income.

Securities agency business

The Bank acts as an agent for the distribution of government bonds and securities investment fund products.

Insurance agency business

The Bank also cooperates with insurance companies to undertake insurance agency sales business. The Bank focuses on innovations in the insurance agency business and have developed a bancassurance interface system and the "Compulsory Auto Insurance" system, which improved the Bank's capability in selling insurance products.

Personal electronic banking

The Bank generates income from personal electronic banking business primarily through facilitating transactions for the Bank's personal banking customers through electronic means. As at 30 June 2012, the Bank's online banking service had 101.68 million individual customers. For the year ended 31 December 2011, income from the Bank's personal electronic banking business was RMB4,246 million, representing an increase of 47.48% from the same period in 2010. For the six months ended 30 June 2012, the number of transactions for personal online banking was 2,033 million.

The Bank's e-commerce financial service platform "Shan Rong Business" was formally launched on 28 June 2012, providing professional e-commerce services and financial support services to enterprises and individuals. Services such as precious metals trading with USD accounts, e-accounts for personal online banking, foreign exchange remittance using corporate online banking, and purchase of wealth management products using mobile phone banking, were introduced to provide customers with fast and convenient electronic banking services.

Customer Base

As at 31 December 2011, the number of customers with financial assets of more than RMB3 million under the Bank's management increased by 20.43%, compared with 2010 while customers with financial assets of more than RMB10 million increased by 27.99% and the financial assets of high-end customers increased by 25.03%, compared with 2010. For the six months ended 30 June 2012, the number of customers with financial assets of more than RMB5 million under the Bank's management increased by 9.24% and the financial assets under the Bank's management increased by 17.97% compared to 31 December 2011.

As at 30 June 2012, the Bank had 260 wealth management centres and private banking centres. The Bank has successfully established dedicated telephone banking services for its high-end customers, creating a high-end customer service network with a focus on wealth management and private banking services.

Marketing

The Bank's head office generally formulates marketing initiatives and sets marketing guidelines for the Bank's bank-wide personal banking products. The Bank's tier-one branches develop detailed marketing plans to implement these initiatives based on the economic and market conditions of their respective geographical regions. The Bank conducts its marketing activities mainly through its branch network, which the Bank supplements with specialised sales centres for specific products such as personal wealth management centres and residential mortgage loan centres. As at 30 June 2012, the Bank had 260 wealth management centres and private banking centres. It also conducts personal banking product marketing through e-banking channels, such as online banking, telephone banking and mobile phone banking.

The Bank offers different products and services and adopts different marketing strategies to cater for different customer groups' needs. For high net worth and high-end customers, the Bank focuses on building a one-to-one customer manager marketing relationship to develop a more focused marketing strategy for promoting its products. For mass customers and mass high net worth customers, the Bank adopts a mass marketing strategy focusing on its outlets, taking initiatives in product and service marketing through introduction by its lobby managers, on-site promotion of its products and media advertising campaigns. The Bank also adopts an interactive marketing strategy for its personal banking business, whereby its personal loan department and corporate banking department cooperate to take a proactive approach in exploring business opportunities in residential mortgage loans while granting real estate development loans. In addition, the Bank focuses on cross-selling its personal banking products such as promoting its credit cards and wealth management cards to its residential mortgage loan customers. The Bank also sells various loan products to the holders of its wealth management cards and credit cards.

TREASURY BUSINESS

The Bank's treasury operations primarily consist of its money market activities, the management of its investment portfolio, treasury transactions on behalf of its customers, bond underwriting and development of treasury products. The Group's treasury business recorded a profit before tax of RMB71,059 million in the year ended 31 December 2011, representing 32.43% of its total profit before tax. The Group's treasury business recorded a profit before tax of RMB46,248 million in the six months ended 30 June 2012, representing 33.39% of its total profit before tax.

Key products and services

Money market activities

The Bank's money market activities primarily consist of (i) repurchase and reverse repurchase with the PBOC; (ii) borrowings from and loans to other domestic and foreign banks and non-bank financial institutions, often referred to as the interbank money market activities; (iii) purchase of securities under resale agreements, often referred to as repurchase and reverse repurchase transactions via the interbank market, bond repurchase pledge or buy-out, sell-out of RMB-denominated treasury bonds, policy bank bonds and central bank notes; and (iv) money market transactions with major international banks such as foreign currency fund lending, foreign currency denominated bond repurchase and foreign exchange swap on the international financial markets.

The Bank is an active participant in the interbank money market, one of the first market-makers in the interbank market and one of the sixteen Shanghai Interbank Offered Rate quotation banks approved by the PBOC. As at 30 June 2012, the net funds the Group had placed and loaned to the interbank money market amounted to RMB 703,847 million, representing 5.21% of the Group's total assets. As at the same date, the total funds placed by and borrowed by the Group from the interbank money market and other financial institutions amounted to RMB1,136,372 million, representing 8.99% of the Group's total liabilities.

Investment portfolio management

The Bank's investment portfolio mainly targets bond investment. The Bank classifies its portfolio as: (i) trading financial assets; (ii) debt securities classified as receivables; (iii) available-for-sale financial assets; and (iv) held-to-maturity investments. Trading financial assets are primarily used in proprietary trading, while debt securities are classified as receivables, available-for-sale financial assets and held-to-maturity investments are used in proprietary investment.

As at 30 June 2012, financial assets at fair value through profit or loss, debt securities classified as receivables, available-for-sale financial assets and held-to-maturity investments represented 0.86%, 10.60%, 24.68% and 63.86% of the Group's investment portfolio, respectively.

Proprietary trading

The Bank conducts short-term proprietary trading in order to gain short-term spread income and avoid market risk. Proprietary trading mainly includes treasury bonds, central bank notes, policy bank bonds, short-term debentures issued by large-scale prime enterprises, mid-term notes, foreign exchange trading and precious metal trading. Additionally, the Bank hedges its investment risk through financial derivative trading, which mainly includes interest rate swap contracts and foreign exchange spot, forward, swap and option contracts. Apart from hedging of its risks, the Bank generally does not hold financial derivatives for short-term gain.

Proprietary investment

The Bank manages its investment portfolio to maximise its investment return. The Bank determines the average investment term of its investment portfolio, duration and investment return objective based on its judgment on risk factors such as interest rates, exchange rates and credit risks. The Bank's RMB-denominated securities investments primarily include government bonds, central bank notes, policy financial bonds, commercial bank bonds, short-term debentures, corporate bonds and asset-backed securities. The Bank's foreign currency denominated securities investments are primarily in sovereign bonds, financial institution bonds, corporate bonds and asset-backed securities of investment rating "A-/A3" or above as rated by internationally recognised ratings agencies.

Treasury transactions on behalf of customers

The Bank's treasury transactions on behalf of its customers mainly include agency foreign exchange derivatives trading, agency precious metal business, bond settlement agency business, agency sale and purchase of foreign exchange and foreign exchange trading. Foreign exchange purchases and sales and foreign exchange trading grew steadily. For the year ended 31 December 2011, the volume of customer-driven foreign exchange purchases and sales and foreign exchange trading reached US$388.4 billion, an increase of 25.74% over the same period last year. For the six months ended 30 June 2012, the volume of customer-driven foreign exchange purchases and sales and foreign exchange trading reached US$196,537 million, representing an increase of 131.82% over the same period in 2011. The Bank generally hedges its risk exposure by trading risk-matched derivatives in the market.

Bond underwriting

The Bank is an active underwriter in the domestic bond market and it is also a Class A underwriter in the MOF treasury bond underwriting syndicate. The Bank is a primary dealer in the PBOC open market. The Bank is also a financial bond underwriter for financial institutions. As at 30 June 2012, the Bank ranked first in its underwriting business in terms of market share and remained second in over-the-counter transaction volume of book-entry treasury bonds.

Innovation and development of treasury products

The Bank focused on the innovation of precious metal products with diversified product lines and introduced new products including silver, platinum and customer-driven forward gold transactions. At the end of 2011, the Bank's precious metal trading volume reached a total of 9,752.00 tonnes, representing an increase of 759% over the previous year. The CCB brand physical gold continued to command the largest market share.

INVESTMENT BANKING BUSINESS

The Bank conducts investment banking business through the investment banking department at its head office and branch levels as well as its subsidiary, CCB International, providing customers with financial service packages such as short-term debentures, international bonds, trust benefit voucher, asset securitisation, project financing, outbound IPO and refinancing, equity investment, financial advisory and wealth management services. The Bank's substantial customer base, extensive marketing network, strong funding capability and research and development strength lay a foundation for the development of its investment banking business. For the year ended 31 December 2011, income generated from the Bank's investment banking business was RMB18,949 million, an increase of 36.26%, compared to the same period in the previous year.

Key products and services

Financial advisory service

The Bank's financial advisory business refers to its provision of consultation, analysis and solution design services to customers in respect of investment and financing, capital operation, asset management, debt management and corporate diagnosis based on the customers' requirements with an aim to assist them in reducing financing cost, increasing funding utilisation efficiency and optimising financial management. Furthermore, the Bank focused on providing its customers with product portfolios consisting of both investment banking and commercial banking products. In 2009, the Bank took the industry lead in launching FITS (Financial Total Solution), a comprehensive financial solution also known as "Feichi". Depending on different situations and financial needs, FITS combines products and vehicles such as traditional commercial banking, new investment banking, various funds and bank wealth management programs in order to provide comprehensive and diversified financial services plans. For the year ended 31 December 2011, income from financial advisory service totalled RMB10,400 million. For the six months ended 30 June 2012, income from financial advisory service totalled RMB5,463 million.

Equity financing service

Through CCB International and the Bank's overseas branches and subsidiaries, the Bank provides enterprises with equity financing services such as listing sponsorship and underwriting services for their overseas capital markets IPOs and refinancing services and strategic investor introduction services in Hong Kong and Singapore. Separately the Bank also cooperates with the Bank's business partners, including domestic and overseas securities companies to provide equity financing related services, such as domestic and overseas listing guidance, sponsorship, underwriting and financial advisory services.

Bond financing service

The Bank provides composite bond financing services for clients including short-term debentures, and mid-term notes. The Bank is one of the first commercial banks in China qualified to underwrite corporate short-term debentures and mid-term notes. For the year ended 31 December 2011, the Bank's debt financing instrument underwriting business maintained its competitive edge, generating income of RMB880 million, and the underwriting amount of short-term commercial papers reached RMB121,410 million, ranking first among the Bank's peers for the sixth consecutive year in terms of accumulated underwriting volume. For the six months ended 30 June 2012, the Bank's debt financing instrument underwriting business reached RMB139,025 million, the underwriting amount of commercial papers reached RMB55,570 million and the underwriting amount of non-public debt financing instruments (private placement notes) amounted to RMB32,265 million.

Asset securitisation

The Bank was among the first commercial banks approved to undertake asset securitisation business. In 2005, the Bank issued the first residential mortgage-backed securities in China with a size of RMB3.0 billion. The transaction was named by The Banker magazine as "Transaction of the Year in China". In 2007 and 2008, the Bank successively issued the "Jianyuan 2007-1 personal residential mortgage-backed securities" with a size of RMB4.16 billion and the "Jianyuan 2008-1 realigned asset securitisation trust asset-backed securities" with a size of RMB2,765 million. The Bank has developed a specialised information system for its securitisation products and the Bank has extensive experience in the development of securitisation products and the execution of such transactions.

Wealth management service

The Bank designed and launched various wealth management products according to customer needs to provide wealth management services to customers. In the development of "Li De Ying", a wealth management product, the Bank introduced a trust benefit voucher investment product and launched the "CCB Fortune" (建行財富) series of wealth management products for high-end customers. The investment scope of the Bank's wealth management products includes not only new share subscriptions and trust loans, but also fund-based wealth management products which the Bank was among the first to launch in the market. In addition to serving high-end personal customers, the Bank also provides the "Qian Tu" (乾圖) series of special wealth management products for corporate and institutional customers. These wealth management products play an important role in securing the Bank's customers, particularly high-end customers. In addition, the Bank proactively adjusted the development approach of its wealth management business, intensified product innovations and introduced treasury bond certificates, alternative investment products, SME collective credit and other innovative wealth management products to the market in a timely fashion. Through this, the Bank was able to widen the geographic area and scope of its product issuance for highly liquid wealth management products based on an open-ended asset portfolio, thereby expanding the variety of the Bank's wealth management products. For the year ended 31 December 2011, the Bank issued 4,036 batches of wealth management products, generating an income of RMB7,570 million, representing an increase of 39.62% over the same period in the previous year. For the six months ended 30 June 2012, the Bank issued 2,253 batches of wealth management products, generating an income of RMB2,524,595 million. As at 30 June 2012, the Bank's outstanding balance from wealth management products was RMB650,435 million.

Customer base

The Bank's prime corporate and personal customers from its commercial banking business have formed a solid customer base for developing its investment banking business through the years. Most domestic PRC conglomerates and top quality corporates have established extensive and close business relationships with the Bank. The Bank believes that there remains potential for its investment banking business in the areas of bond financing, equity financing, asset securitisation, financial advisory, wealth management and trust services. The Bank also proactively strives to provide equity financing and equity investment services to SMEs that present promising growth. The Bank's personal banking customers, especially its high net worth and high-end clients, will also help the Bank expand its wealth management business and ensure the successful offering of its wealth management products.

Marketing

The Bank's major marketing model for the investment banking business involves cooperation between the head office, domestic and overseas offices and different business lines. A key strategy of the Bank's bank-wide marketing efforts is to combine the marketing efforts of the investment banking business and commercial banking business.

OVERSEAS BUSINESS

As at 31 December 2011, the Bank had nine overseas branches in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo, Seoul, New York City, Ho Chi Minh City and Sydney and two representative offices in Taipei and Moscow. The Bank had three wholly-owned operating subsidiaries, namely CCB Asia, CCB International and CCB London, and gained global presence in 13 overseas countries and regions. As at 30 June 2012, the application to set up a branch in Taipei had been approved by CBRC, and the proposal to set up a branch in San Francisco had been approved by the board of directors of the Bank. The application and establishment of the Bank's presence in other overseas regions, namely, two banking subsidiaries in Dubai and Russia, and two branches in Toronto and Melbourne, were also in progress. On 24 August 2012, the proposal to set up a branch and a subsidiary in Luxembourg was approved by the board of directors of the Bank.

As at 30 June 2012, the total assets of the Group's overseas entities were RMB542,340 million, representing an increase of 22.37% from 31 December 2011. For the year ended 31 December 2011, the profit before tax of the Group's overseas entities was RMB2,109 million, representing an increase of 64.00% from 2010. For the six months ended 30 June 2012, the profit before tax of the Group's overseas entities was RMB1,623 million.

RECENT DEVELOPMENTS

Completion of the CNY Bonds Issuance

On 28 June 2012, the Bank issued the CNY denominated 3.08% bonds due 2014 in the aggregate principal amount of CNY500 million ("the 2014 CNY Bonds") and CNY denominated 3.25% bonds due 2015 in the aggregate principal amount of CNY500 million ("the 2015 CNY Bonds"). Both the 2014 CNY Bonds and 2015 CNY Bonds were issued outside the PRC.

The net proceeds from the issue of the 2014 CNY Bonds and 2015 CNY Bonds will be used primarily for general corporate purposes.

MAJOR SUBSIDIARIES

In 2009, the Bank established the equity investment and strategy cooperation department to coordinate and manage its subsidiaries. The following table sets out the major subsidiaries of the Bank as at 30 June 2012:

Name of subsidiary	Principal activities
Sing Jian Development Company Limited	Investment
Sino-German Bausparkasse Corporation Limited	Loan and deposit taking business
CCB Principal Asset Management Corporation Limited	Fund management services
CCB International Group Holdings Limited	Investment
CCB Financial Leasing Corporation Limited	Financial leasing

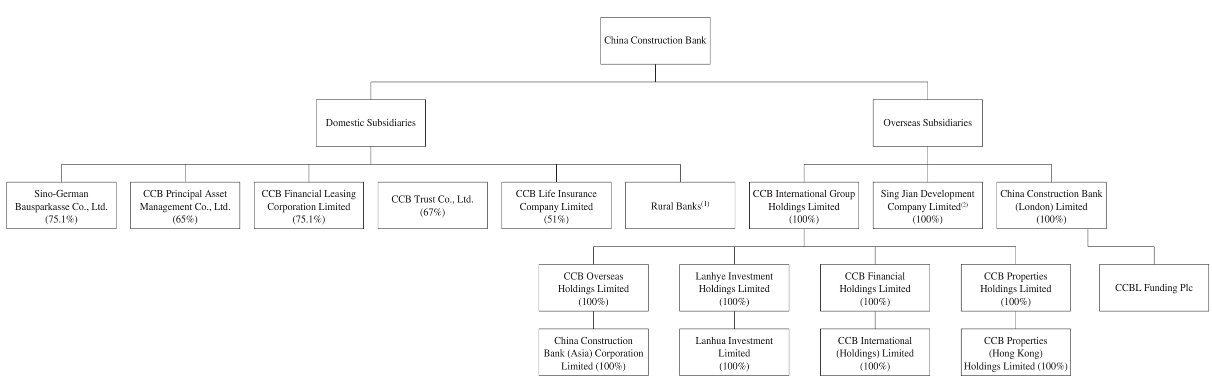
Name of subsidiary	Principal activities
China Construction Bank (London) Limited	Commercial banking
Jianxin Trust Corporation Limited	Trust business
CCB Life Insurance Company Limited	Insurance
Lanhye Investment Holdings Limited	Investment
CCB International (Holdings) Limited	Investment
China Construction Bank (Asia) Corporation Limited	Commercial banking

DOMESTIC SUBSIDIARIES

In June 2011, the Bank had completed the equity transfer procedures for ING's 50% interests in Pacific-Antai Life Insurance Co., Ltd. ("Pacific-Antai") and completed those for China Pacific Insurance (Group) Co., Ltd's 50% interests in Pacific-Antai with joint investors as well. The Bank became the controlling shareholder of Pacific-Antai, which was subsequently renamed as CCB Life Insurance Company Limited. As a result of the acquisition, the Bank became the first among the four state-owned banks in the PRC to own a controlling interest in a life insurance company. The Bank actively promoted new types of rural financial institutions and had established 16 rural banks by the end of 2011. As at 30 June 2012, the Bank had 20 rural banks, and the total assets of the domestic subsidiaries were RMB84,447 million, representing an increase of RMB17,003 million from the end of 2011. The net profit of the domestic subsidiaries for the year ended 31 December 2011 was RMB725 million, representing an increase of 52.95% from the same period last year.

ORGANISATIONAL STRUCTURE

The following chart shows the Bank's group structure as at 30 June 2012:



(1) As at 30 June 2012, the Bank had established 20 rural banks including: Hunan Taojiang Jianxin Rural Bank Corporation Limited, Zhejiang Cangnan Jianxin Rural Bank Corporation Limited, Zhejiang Qingtian Jianxin Oversea-Chinese Rural Bank Company Limited, Zhejiang Wuyi Jianxin Rural Bank Company Limited, Anhui Fanchang Jianxin Rural Bank Company Limited, Shanxi Ansai Jianxin Rural Bank Company Limited, Hebei Fengning Jianxin Rural Bank Company Limited, Shanghai Pudong Jianxin Rural Bank Company Limited, Suzhou Changshu Jianxin Rural Bank Company Limited, Jiangsu Haimen Jianxin Rural Bank Company Limited, Jiangsu Taixing Jianxin Rural Bank Company Limited, Zhejiang Jiangshan Jianxin Rural Bank Company Limited, Ningbo Cixi Jianxin Rural Bank Company Limited, Ningbo Ninghai Jianxin Rural Bank Company Limited, Henan Xinye Jianxin Rural Bank Company Limited, Shandong Tengzhou Jianxin Rural Bank Company Limited, Jiangsu Gaochun Jianxin Rural Bank Company Limited, Zhejiang Liandu Jianxin Rural Bank Company Limited, Shandong Zhucheng Jianxin Rural Bank Company Limited and Shandong Zoucheng Jianxin Rural Bank Company Limited.

(2) The winding-up of Sing Jian Development Company Limited was approved by the board of directors of the Bank on 24 August 2012.

RISK MANAGEMENT AND INTERNAL CONTROL

OVERVIEW

In 2011, in response to the changes in the macroeconomic environment, the Bank re-examined and optimised its credit policy, enhanced credit structure adjustments, and strengthened the risk resistance ability of its credit portfolio. The risk management of key credit areas such as local government financing vehicles, real estate and industries with excess capacity was strengthened through the continuous improvement of customer quality and credit structure. The Bank strengthened the fundamental risk management in various areas including off-balance sheet activities, overseas business, country-specific collaterals and consolidation, promoting the level of comprehensive risk management. The optimisation and usage of risk management techniques and tools were implemented to support business development and innovation. The Bank strengthened market risk management by proactively responding to the volatility in the global financial markets. Operational risk controls were strengthened through the active identification of critical risk points, ensuring the security and stability of business operations.

The Bank enhanced overall risk management. The economic capital, industry limits and credit approval management systems were enhanced, and the use of credit risk measurement tools was greatly promoted. The Bank adopted a proactive attitude in responding to the volatility in global financial markets by actively promoting the building of market risk measurement systems and tools. Operational risk controls were strengthened through active identification of critical risk points to ensure safe and stable operations and steady progress will be achieved in implementing the new Basel Capital Accord.

In the first half of 2012, internal control and risk management capabilities continued to improve, and asset quality remained stable. The Bank focused on improving the foresightedness and effectiveness of risk management, and enhanced lending criteria and risk surveillance. An internal control and compliance department was established, specialising in internal control and compliance management. The Bank also continued to promote its credit structure adjustments, strengthened risk control in key and potential risk areas, reinforced market risk management, and further standardised and strengthened its operational risk management. The Bank continued to push forward the application for implementation of the new Basel Capital Accord. In accordance with the latest capital regulatory requirements, the Group strengthened capital management system and process development in order to meet the capital requirements and achieve business development under risk management.

RISK MANAGEMENT STRUCTURE

The risk management committee under the Bank's board is responsible for formulating the Bank's risk strategy and risk management policies and supervising their implementation, as well as evaluating the overall risk management on a regular basis.

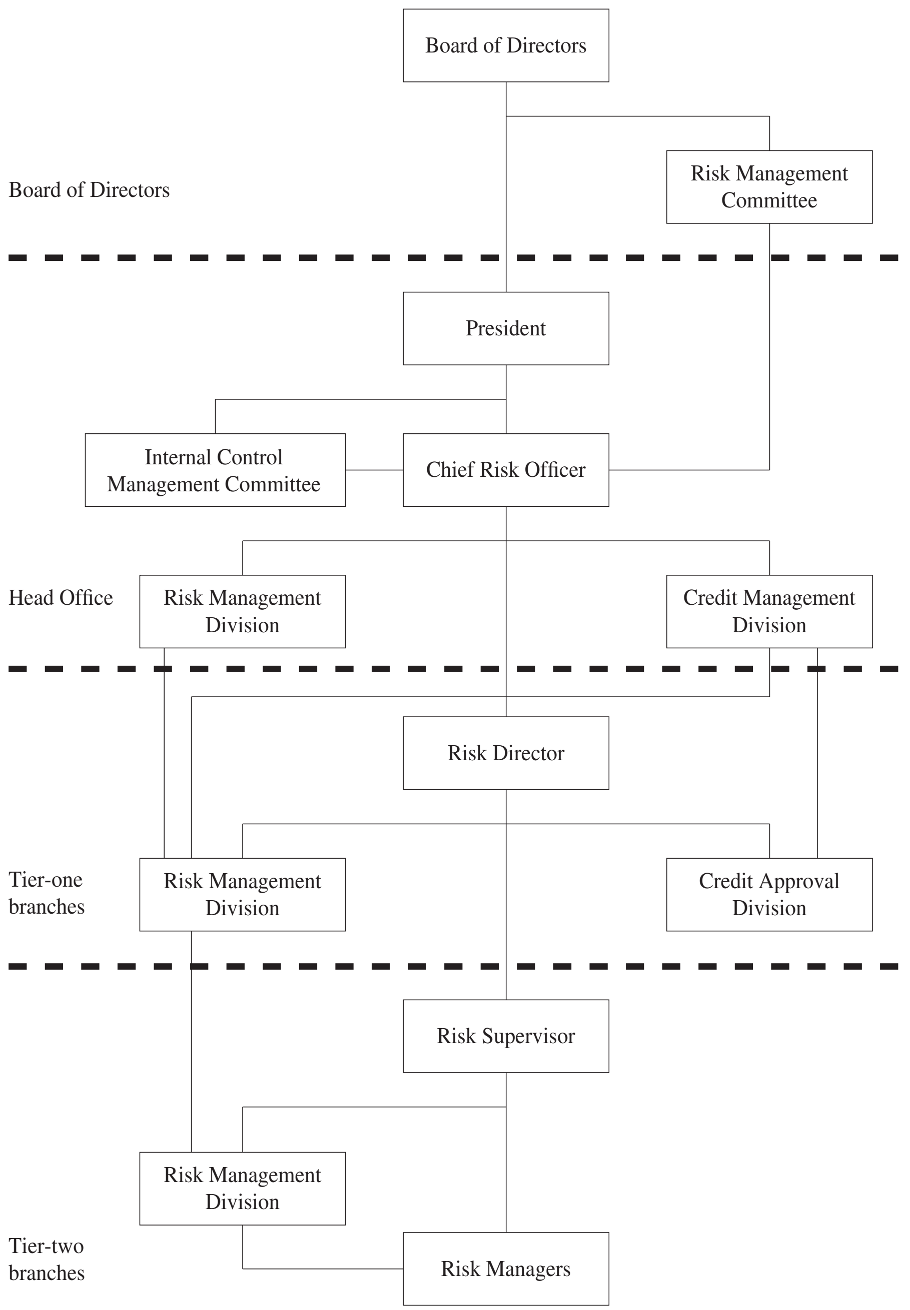
The Bank has established a vertical and centralised risk management structure at the management level, with the following descending vertical risk reporting route: "chief risk officer – risk supervisors – risk heads – risk managers".

At the head office level, the chief risk officer is responsible for comprehensive risk management under the direct leadership of the president. The Risk Management Department, under the supervision of the chief risk officer, is responsible for formulating risk management policies, and performing risk measurement and analysis, with the Market Risk Management Department and the Overseas Risk Management team under the Risk Management Department. The Credit Management Department is responsible for credit approval and risk monitoring. Other departments at the head office perform their risk management duties within their respective scopes of duty.

At the branch level, there are risk supervisors in tier-one branches who are responsible for organising and facilitating comprehensive risk management and credit approval within the branch and these risk supervisors report to the chief risk officer. There are risk heads at tier-two branches and risk managers at sub-branches who are responsible for risk management in their respective branch or sub-branch. The risk management personnel have two reporting lines: the first reporting line is to risk management officers at higher levels and the second is to managers of their respective entities or business units. In 2011, the Bank explored the idea of instilling a risk supervisor at the Hong Kong branch and implemented a dual reporting line similar to the existing system at the domestic branches.

At the subsidiary level, through the general meeting of shareholders and board of directors of each subsidiary, the Bank guides and supervises the subsidiaries in optimising the risk management and internal control mechanism so as to establish effective controls over business risks.

In addition, the Bank establishes and continuously improves the internal "firewall" system and significant exposure reporting system in order to prevent the internal transmission of risks, thereby strengthening the Group's overall risk control.



CREDIT RISK MANAGEMENT

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its obligation or commitment to the Group.

In the first half of 2012, the Bank improved its credit policies, promoted the credit structure adjustments, and optimised the credit approval management system. It strengthened the risk management in key credit areas such as local government financing vehicles and real estate sector, tightened the management of small business loans and wealth management business, and enhanced the early warning in areas with potential risk. It enhanced the risk management for the overseas branches and subsidiaries at home and abroad, with unified control on customers' risk exposures. It enhanced the development and application of its credit risk management tools, in order to further raise the credit risk management standard.

- ***Optimising credit policies and promoting credit structure adjustments.***

  The Bank refined its policy requirements of "promoting, securing, controlling, curtailing and exiting", and used capital return as a tool to guide its branches to optimise the allocation of credit resources. In light of the trends in economic and industrial structure adjustments, it optimised its industry layout for its credit business. With focus on its customers, the Bank strived to lift its innovation ability in terms of credit products and services. Identifying economic characteristics of different regions, it seized many new growth opportunities in the regional economy. It also made adjustments in the structure of loans to small businesses, in order to promote sound development in this sector. On the whole, the Bank's structure adjustments achieved good results, and the credit portfolio continued to improve, leading to steadily improving asset quality.

- ***Enhancing risk monitoring and early warning in key areas.***

  The Bank implemented its "One Strategy for One Customer" policy for local government financing vehicle customers, by verifying the source of repayment and developing a repayment plan, while strictly controlling loan increase. Guidance on property development loan business was made to enhance the risk surveillance, monitoring and early warning of property loans. In light of market changes, it strengthened risk monitoring in areas with potential risks, and raised its credit approval and risk control capabilities for private sector customers, providing strong support to the development of the real economy. The Bank strengthened the monitoring of non-performing loans from small businesses, and standardised the entry management of associated guarantee agencies. It incorporated the wealth management business into the bank-wide credit approval management system, and set a reasonable limit on the total size of such exposures, in order to promote the sound growth of wealth management business.

- ***Strengthening the risk management of overseas entities and subsidiaries both at home and abroad.***

  The Bank continued to improve its risk management system, and established specialised procedures and policies for credit approval. It continued to promote the development of the information system for overseas entities, and optimised the fundamental platform for business operation and risk management. It strengthened the unified credit management mechanism to prevent overseas branches and local and overseas subsidiaries from granting too much credit and granting credit through multiple channels. It also promoted the use of the consultation results in country-specific risk management in order to improve its management in this area.

- ***Deepening the development and use of risk management tools.***

  The Bank improved the measurement method for economic capital and optimised the indicator system of risk-adjusted return on capital ("RAROC"). It refined its industry credit limit management with intensified efforts in enforcement, accelerated the development of overseas customer ratings model, and standardised ratings for overseas institutional customers. It strengthened reviews on rating result adjustments, and consolidated the management fundamentals for customer ratings. It optimised the wholesale and retail business model to improve its ability in customer selection. It started the development of anti-fraud, collection, and micro-enterprise scorecards, in order to provide effective managing tools for the risk management in relation to retail and small enterprise business. It conducted stress tests in areas such as macroeconomic fluctuations, real estate industry and government financing vehicles, and launched the first phase of its credit risk stress testing system.

Concentration of Credit Risks

In the first half of 2012, the Bank adopted a series of measures to prevent large exposure concentration risk, including tightening the lending criteria, adjusting business structure, controlling lending pace, revitalising existing credit assets and innovating product lines.

At the end of June 2012, the Bank's lending to the single largest borrower accounted for 3.05% of the net capital, while those to the ten largest customers accounted for 14.72% of net capital.

Concentration of loans

	Regulatory standards	As at 31 December 2011	As at 31 December 2010	As at 30 June 2012
Ratio of loans to the single largest customer (%)	≤10	3.30	2.76	3.05
Ratio of loans to the ten largest customers (%).	–	15.18	16.00	14.72

Concentration of Borrowers

As at 30 June 2012, the Bank's ten largest single borrowers were listed as follows:

		As at 30 June 2012	
	Industry	**Amount**	**% of total loans**
		(CNY in millions, except percentages)	
Customer A	Railway transport	30,487	0.43
Customer B	Road transport	16,380	0.23
Customer C	Production and supply of electricity and heat	15,616	0.22
Customer D	Road transport	13,936	0.20
Customer E	Road transport	12,386	0.18
Customer F	Railway transport	12,116	0.17
Customer G	Road transport	11,880	0.17
Customer H	Railway transport	11,795	0.17
Customer I.	Public utility management	11,540	0.16
Customer J.	Road transport	10,993	0.16
Total		147,129	2.09

LIQUIDITY RISK MANAGEMENT

Liquidity risk is the type of risk that occurs when, despite its debt servicing ability, the Group cannot obtain sufficient funds in time, or in time and at a reasonable cost, to meet the needs of asset growth or repay liabilities when they are due. The Group's liquidity management objective is to maintain a reasonable level of liquidity, ensuring payment and settlement security while complying with regulatory requirements. The Group also strives to deploy its funds in a reasonable and effective way in order to enhance the yield of funds.

In the first half of 2012, the PBOC lowered the statutory deposit reserve ratio twice by a total of one percentage point. At the end of June, the statutory deposit reserve ratio for the Bank was 20%. Starting from June, the PBOC injected liquidity into the market through reverse repurchase transactions, and gradually eased the tight liquidity in the interbank market. However, as the statutory deposit reserve ratios were still kept at a high level, the banks' function of creating deposits was inhibited to some extent, leading to increased competition for deposits. In response to its liquidity situation, the Bank took timely measures, including actively attracting deposits, adjusting the amounts of investments in debt securities, financial assets held under resale agreements, deposits with banks and non-bank financial institutions, and other products that have a large influence on liquidity, and making flexible adjustments in accordance with its liquidity position. Through these measures, the Bank continued to maintain a reasonable level of liquidity sufficient for payments and settlements. The Bank conducted regular stress testing on its liquidity risk gauge, its risk tolerance in extreme scenarios of low probability and other adverse circumstances. The results show that under the stress scenarios, although liquidity risk increased, it stayed within a controllable range.

The Bank regularly monitors the gap between its assets and liabilities for various periods to repayment, in order to assess its liquidity risk for different periods. As at 30 June 2012, the Bank's accumulated gap of various periods to repayment was RMB869,405 million, an increase of RMB52,744 million over the end of 2011. Despite the negative gap for repayment on demand totalling RMB5,577,959 million, the Bank is expected to have a stable funding source and maintain stable liquidity in the future, given its strong and expansive deposit customer base, the relatively high proportion of core demand deposits, and continuous growth in deposits.

MARKET RISK MANAGEMENT

Market risk is the risk of loss in respect of the Group's on- and off-balance sheet activities, arising from adverse movement in market rates, including interest rates, foreign exchange rates, commodity prices, stock prices and other relevant prices.

In the first half of 2012, the Bank continued to improve its market risk management policy system, strengthen the monitoring and reporting of market risk, and promote the development of risk measurement system and tools.

- ***Improving market risk management policy system.***

  The Bank developed its market risk policies and limit plan for the year 2012, and established a contingency mechanism for material market risk. It enhanced the investment approval and post-investment management of debenture bonds. Keeping close watch on the risk of new products in the financial markets business, it further improved the counterparty credit risk management.

- ***Strengthening the monitoring and reporting of market risk.***

  The implementation of credit lines, authorisation, and risk limits in financial market business was closely monitored, and early warnings and risk prompts were issued on a timely basis. The Bank strengthened risk control over business process, and conducted regular reviews on financial market business. In exploring comprehensive reporting mechanism for market risk, it promptly reported and responded to market changes including interest rate and exchange rate policy adjustments and the European sovereign-debt crisis.

- ***Promoting the development of market risk measurement system and tools.***

  The Bank employed its financial market business risk management information system to conduct daily risk measurement and management. The transaction exposure risk management system was also rolled out to overseas branches. The Bank further conducted model validation and trading data quality checks, and promoted the implementation of the counterparty exposure control project.

Interest Rate Risk Management

Interest rate risk is the risk of loss in the overall income and economic value of the banking book as a result of adverse movements in interest rates, term structure and other interest-related factors. Re-pricing risk and basis risk arising from mismatch of term structure and pricing basis of assets and liabilities are the primary sources of interest rate risk for the Group. The overall objective of the Group's interest rate risk management is to maintain a steady growth of net interest income while keeping interest rate risk within a tolerable level in accordance with the Group's risk appetite and risk management capabilities.

In the first half of 2012, the Bank used multiple tools such as interest rate sensitivity gap, net interest income sensitivity analysis, scenario simulation and stress testing to measure and analyse interest rate risks. It integrated the interest rate risk management with fund transfer pricing, product pricing and other elements, in order to adjust the business structure and interest rate risk characteristics of its balance sheet. The overall interest rate risk of the Group was kept within the set tolerance.

In the first half of 2012, the PBOC lowered the benchmark deposit and lending rates once and expanded the floating range of deposit and lending rates. In response to this change, the Bank took a long term view by combining standardised pricing and comprehensive pricing for its pricing strategy. It made appropriate adjustments to fund transfer prices and authorisation of pricing management, in order to obtain a reasonable assets and liabilities structure and stabilise the growth of net interest income.

In the first half of 2012, the repricing gap of the Bank's assets and liabilities narrowed on the whole. The accumulated negative gap for a period less than one year was RMB237,593 million, a decrease of RMB360,708 million compared to the end of 2011, which was mainly due to the increases in loans, deposits and placements with banks and non-bank financial institutions, and investments. The positive gap for a period more than one year was RMB929,477 million, a decrease of RMB291,449 million over the end of last year, which was mainly due to the increase in long-term deposits. The proportion of the accumulated negative gap for a period less than one year to the total assets decreased, but the structure was still liability-sensitive.

Foreign Exchange Risk Management

Foreign exchange rate risk is the risk of there being an impact on the Bank's financial position arising from unfavourable movements in foreign exchange rates. The Bank is exposed to foreign exchange rate risks primarily because it holds loans, deposits, marketable securities and financial derivatives that are denominated in currencies other than RMB.

In accordance with the CBRC's "Market Risk Management Guidelines for Commercial Banks" and related rules, gold is incorporated into the scope of measurement for foreign exchange rate risk. In the first half of 2012, in line with newly launched products and services including platinum, silver and "USD gold", the Bank optimised its method of measuring gold-related foreign exchange rate exposure, and initiated the improvement of its asset and liability management system.

In line with changes in situations at home and abroad, the Bank strengthened the exchange risk management over its overseas investments. In the newly formulated "Provisional Measures on Management of Capital/Working Capital of Overseas Banking Entities", exchange risk management requirements such as matching currencies were clearly set, and the head office took up all hedging operations for working capital of overseas branches.

In the first half of 2012, the Bank's net position exposed to foreign exchange rate risk increased by RMB4,420 million over the end of 2011 to RMB23,929 million, mainly due to the temporary impact of purchasing foreign exchange to pay out annual dividend.

OPERATIONAL AND REPUTATION RISK MANAGEMENT AND CONSOLIDATED MANAGEMENT

Operational risk is the risk of loss due to inadequate or flawed internal processes, people and systems, or external events.

In the first half of 2012, the Bank further strengthened the operational risk management in key businesses and processes, and promoted the development and use of tools for operational risk management. This led to a marked improvement in the fundamental management of operational risk.

In accordance with the main features of operational risk under the new situation, the Bank focused on the identification, prevention and control of anti-fraud risk in credit business and other key areas. It further expanded the coverage of risk and control self-assessment to improve its systems, processes and service standards. Adjusting and extending the scope and contents of monitoring and inspection according to risk changes, the Bank accelerated the application of key risk indicators in monitoring and analysing risk. It reviewed and optimised the rules for segregation of incompatible positions and responsibilities, strengthening the rigid constraints of position checks and balances. It improved its internal control and operational risk management evaluation system for tier-one branches, guiding the whole bank to enhance its operational risk management. It refined the emergency plan and strengthened contingency drills to ensure safe business operations. The Bank continued to push forward the project of advanced measurement approach for operational risk management to prepare for the application for implementation of the new Basel Capital Accord.

Reporting and Monitoring of Non-compliance

By the end of 2011, four criminal offences committed by the Bank's employees to misappropriate the Bank's or its customers' funds, involving an amount of RMB7.11 million, had been reported to the head office. Of these, two cases involved a sum of RMB1 million or above, totalling RMB5.36 million. After investigation by the police, funds relating to these offences have now been recovered.

Anti-Money Laundering

In the first half of 2012, the Bank strictly complied with laws, regulations and regulatory policies in relation to anti-money laundering. It strengthened due-diligence checks on customers' identities and reporting of large transactions and suspicious transactions, and actively launched training and promotion programmes on anti-money laundering.

Reputation Risk Management

In the first half of 2012, the Bank attached great importance to reputation risk management. It amended its reputation risk management policies and established a coordinated quick response mechanism. The Group established emergency response and recovery plans in case of reputation risk events, and improved accountability management. Regional symposiums and training among branches and front desk staff on reputation risk management were conducted to strengthen reputation risk awareness. Efforts in reputation risk management for subsidiaries and overseas entities were also intensified. The Group adhered to its press spokesman policy. Methods of monitoring public opinions were upgraded to improve efficiency. In addition, simulation exercises were conducted to enhance the reputation risk management capabilities.

Consolidated Management

The Bank has adopted a consolidated management system, which indicates that the Bank implements a comprehensive and continuous management over the Group's capital, finance and risks based on a single legal person principle so as to identify, measure, monitor and assess the overall risks of the Group as a whole. The consolidated management system covers capital adequacy, significant risk exposure, internal transactions, liquidity risk, operational risk, market risk, reputation risk and cross-border risk.

In the first half of 2012, the Bank enhanced its overall planning for consolidated management. It studied and proposed the overall goals and key improvement measures for consolidated management. In light of the weak points identified, the Bank specified its annual target. All these measures raised the Bank's consolidated management standard.

- ***Strengthening the Group's large exposure risk management.***

  The Bank strengthened the monitoring and analysis of large exposures at the Group level, and specified the information reporting requirements related to large credit exposures. It also strengthened risk monitoring over and information communication with the subsidiaries. The Bank proactively pushed forward unified credit approval management at the Group level.

- ***Enhancing risk management in other fields at the Group level.***

  The Bank incorporated the liquidity position of subsidiaries into its liquidity risk management report. It periodically monitored indicators such as liquidity coverage ratio and net stable funding ratio on a consolidated basis, and conducted stress tests on liquidity risk at the Group level. The Bank improved its market risk policies at the Group level, and implemented monitoring and reporting on market risk limits of overseas banking subsidiaries.

- ***Proactively pushing forward the development of information system for consolidated management.***

  At the end of June 2012, the Bank launched the optimisation project for its statistics and management information system which covers the data of its subsidiaries, leading to centralised control and unified management of the Group level data.

Implementation of the New Basel Capital Accord

In the first half of 2012, the Bank continued to earnestly push forward the application for implementation of the new Basel Capital Accord. The building of the three pillars progressed smoothly. In implementing the first pillar, the Bank accelerated the development of an overseas customer ratings model, completed the optimisation and upgrade of the wholesale and retail trade customer ratings model, and started the development of anti-fraud, collection scorecards and micro-enterprise scorecards. It pushed forward the launch and promotion of loss given default ("LGD") and exposure at default ("EAD") models. These initiatives helped to support the implementation of the advanced internal ratings approach. In implementing the second pillar, the Group further improved the rules and methods related to Internal Capital Adequacy Assessment Process ("ICAAP"). In implementing the third pillar, the Group further optimised its information disclosure system, and basically met the information disclosure requirements during the transitional period of implementing the new Basel Capital Accord.

As the next step, the Bank will fully prepare for implementation of the "Measures for the Capital Management of Commercial Banks (Trial)" and the new Basel Capital Accord in a coordinated manner, and proactively apply for the implementation of the new Basel Capital Accord.

Internal Audit

The Bank adheres to an independent and vertically managed internal audit system. In order to promote the establishment of sound and effective risk management mechanism, internal control system and corporate governance procedures, the internal audit department evaluates the effectiveness of internal controls and risk management, the effect of governance procedures, the efficiency of business operations, and the economic responsibilities of key managers, and puts forward suggestions for improvement.

In the first half of 2012, the internal audit adhered to the principle of scientific auditing, conducted a series of audit projects across the Bank, including audit on small enterprise loans, audit on real estate loans, audit on management and use of seals, title deeds and payment password coders, audit on corporate deposits and settlement business, audit investigation on application control of corporate lending process management system, audit on operational risk management under the new Basel Capital Accord, and audit on economic responsibility during term of office. Audit offices conducted selected audit projects as appropriate based on actual situations of local branches, ensuring reasonable audit coverage. The internal audit department attached great importance to audit quality, enhanced follow-up rectifications, and ensured the effective use of audit findings. It launched the campaign of "Year of Improving Ability" in order to strengthen the internal audit capability, enhance specialised research, and improve the professional quality of the audit team.

Internal Control

The Bank's board is responsible for establishing and maintaining a comprehensive internal control system for financial reports. The internal control of financial reports aims to assure the authenticity, integrity and reliance of financial reports and to prevent significant misreporting risk. The Bank's board has evaluated the internal control relating to financial reports pursuant to the "Basic Standard for Enterprises Internal Control" and deemed that it was effective on 31 December 2011.

The Bank's internal control evaluation did not reveal any material or important internal control defects concerning the non-financial reports. Matters that require improvements did not constitute any material impact on the Bank's operation management. The Bank has paid keen attention to such matters and will take further action to make further improvements.

According to the regulatory requirements, the Bank thoroughly implemented the "Basic Standard for Enterprises Internal Control" and the guidelines ancillary thereto issued by the five ministries/commissions including the MOF. Directly led by the Bank's board, the board of Supervisors and the senior management, the Internal Control Management Committee office functions as the main body for organisation, promotion, coordination, instruction and training and all employees are involved in the process. The internal control work was implemented at all levels of the Bank beginning with the head office then all the branches and full implementation will follow after the pilot tests.

In 2011, the Bank established its internal control system and completed the following tasks, namely, clearing up of the internal control, establishment of the management system, self-evaluation of the effectiveness of the operation, rectification and refinement, promotion and training. Establishment of the internal control system was based on a holistic approach, which included the reorganisation and self-evaluation of the effectiveness of internal control relating to financial reports and non-financial reports.

The Bank also developed a set of unified reorganisation tools and methods suitable for the Bank, which focuses on the five elements framework which includes the internal environment, risk evaluation, control activity, information and communication and internal supervision. The Bank treated duty distribution between departments as the entry point and the process flow as the orientation. The Bank also reorganised, consolidated, improved and completed the internal control, prepared the handbook of internal control for the head office and branches, completed the chart for risk control of the main business processes and established the basic framework of internal control for the Bank. In addition, the Bank improved the internal control management system by formulating a series of documents, including the Basic Regulations for Internal Control and other regulations, which provided the management with appropriate mechanism and procedures for internal control.

In addition, the Bank formulated a proposal for the standardisation of evaluation of effectiveness of the operation of internal control based on the documents regarding evaluation system of internal control, and organised the test for evaluation of effectiveness of the operation of internal control throughout the Bank. By identifying and correcting problems, the Bank has established a management mechanism for self-correction, self-improvement and constant improvement.

The five-year development plan of internal control of the Bank identifies the goal and clearly allocates the tasks, responsibilities and timeline, ensuring the Bank's internal control system develops effectively and constantly with specific plans and steps.

In August 2011, the board resolved on the Measures on Accountability of Major Mistakes in Information Disclosure of Annual Report and established the system for the accountability of major mistakes.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

GENERAL

As of the date of this Offering Circular, the Bank's board of directors is comprised of 13 members. There are five independent non-executive directors, six non-executive directors and two executive directors. The Bank's directors are elected at shareholder general meetings for a term of three years, which is renewable upon re-election. The chairman and the vice chairman of the board of directors are elected by simple majority of the board of directors. Mr. Wang Hongzhang is the Bank's chairman, and responsible for the business strategy and overall development. Mr. Zhang Jianguo is the Bank's president, and responsible for overseeing the day-to-day management of the Bank's business and operations. The president is appointed by the board of directors, responsible for the board of directors, and performs duties pursuant to the Bank's articles of association and the board of directors' authorisation.

The following table sets forth information regarding the Bank's directors, supervisors and senior management. The Bank's directors, supervisors and members of senior management all meet the qualification requirements for their respective positions. Their qualifications have been reviewed and approved by the PRC banking regulatory authorities. Non-executive directors holding positions in the corporate shareholders do not receive compensation directly from the Bank.

Directors

The following table sets forth certain information concerning the Bank's directors as at the date of this Offering Circular.

Name	Position
Wang Hongzhang	Chairman, executive director
Zhang Jianguo	Vice chairman, executive director, president
Wang Yong	Non-executive director
Zhu Zhenmin	Non-executive director
Li Xiaoling	Non-executive director
Lu Xiaoma	Non-executive director
Chen Yuanling	Non-executive director
Dong Shi	Non-executive director
Yam Chi-kwong, Joseph	Independent non-executive director
Rt Hon Dame Jenny Shipley	Independent non-executive director
Elaine La Roche	Independent non-executive director
Zhao Xijun	Independent non-executive director
Wong Kai-Man	Independent non-executive director

Wang Hongzhang
Chairman, executive director

Mr. Wang has served as chairman and executive director of the Bank since January 2012. From November 2003 to January 2012, he was chief disciplinary officer of the PBOC. From June 2000 to November 2003, he was president of Chengdu Branch of the PBOC and administrator of Sichuan Branch of the State Administration of Foreign Exchange. From April 1996 to June 2000, he was deputy director-general of the Supervision Bureau and director-general of the internal auditing department of the PBOC. From November 1989 to April 1996, he served on various positions including assistant president of Qingdao Branch, deputy director of the General Administration Office, deputy director of the Finance Planning Department and general manager of the banking business department of Industrial and Commercial Bank of China. From January 1984 to November 1989, he worked in the General Administration Office of the Industrial and Commercial Credit Department of ICBC. From September 1978 to January 1984, he worked in the Credit Bureau, Savings Bureau and Industrial and Commercial Credit Department of the PBOC. He is a senior economist and a certified public accountant. He obtained his bachelor's degree in finance from Liaoning Finance and Economics College in 1978 and received his master's degree in economics from Dongbei University of Finance Economics.

Zhang Jianguo
Vice chairman, executive director, president

Mr. Zhang has served as vice chairman and executive director of the Bank since October 2006, and as president of the Bank since July 2006. Mr. Zhang was vice chairman of the board of directors and president of Bank of Communications Co., Ltd. from May 2004 to July 2006, executive vice president of Bank of Communications Co., Ltd from September 2001 to May 2004. From September 1984 to September 2001, Mr. Zhang served several positions in Industrial and Commercial Bank of China, including deputy general manager and general manager of the international banking department, and deputy general manager of Tianjin Branch. From November 1987 to December 1988, Mr. Zhang studied international financial business in Canadian Imperial Bank of Commerce and Ryerson Institute of Technology. Mr. Zhang graduated from Tianjin College of Finance and Economics with a bachelor's degree in Finance in 1982 and a master's degree in economics in 1995.

Wang Yong
Non-executive director

Mr. Wang has served as a director since June 2007. Mr. Wang was an inspector of the Balance of Payments Department of the SAFE from August 2004 to March 2007, and served consecutively as deputy director-general of the Foreign Investment Administration Department, deputy director-general of the Capital Account Management Department and director general of the Balance of Payments Department of the SAFE from January 1997 to August 2004. Mr. Wang is a senior economist. He graduated from Jilin University with a bachelor's degree in world economics in 1984 and a master's degree in world economics in 1987. Mr. Wang is currently an employee of the Bank's substantial shareholder, Huijin.

Zhu Zhenmin
Non-executive director

Mr. Zhu has served as a director since August 2010. He was an inspector of the Tax Bureau of the MOF from October 2007 to October 2009, a director of the Bank from September 2004 to June 2007, director-general of the Tax Bureau of the MOF from December 2003 to September 2004, director-general of the Tax Bureau of the MOF and concurrently director of the General Office of Customs Tariff Commission under the State Council from September 2002 to December 2003, and deputy director-general of the Tax Bureau of the MOF from August 1997 to September 2002. Mr. Zhu graduated with a degree in finance from the Central Institute of Finance Administration in 1987. Mr. Zhu is currently an employee of the Bank's substantial shareholder, Huijin.

Li Xiaoling
Non-executive director

Ms. Li has served as a director since June 2007. Ms. Li was a deputy inspector of Budget Department of the MOF from January 2006 to June 2007, and an assistant inspector of Budget Department of the MOF from May 2001 to January 2006. Ms. Li is an economist and graduated from Beijing Normal University in 2003 with a master's degree in political economics. Ms. Li is currently an employee of the Bank's substantial shareholder, Huijin.

Lu Xiaoma
Non-executive director

Mr. Lu has served as a director since August 2010. Mr. Lu served several positions for the State Street Bank & Trust Company from May 1999 to August 2010 and he had been serving as the Chief Representative of the State Street Bank & Trust Company in China since August 2007. From March 1993 to December 1997, Mr. Lu was a lecturer of the Department of Thermal Engineering of Tsinghua University. In 1988, he graduated with a bachelor's degree from the Department of Thermal Engineering of Tsinghua University and a master's degree from the Department of Thermal Engineering of Tsinghua University in 1993. He received his MBA degree from Boston College in 1999. Mr. Lu is currently an employee of the Bank's substantial shareholder, Huijin.

Chen Yuanling
Non-executive director

Ms. Chen has served as a director since August 2010. She was a partner of Beijing Kang Da Law Firm from November 2007 to August 2010. Previously, she was a partner and lawyer of Beijing DeHeng Law Offices from May 2005 to November 2007, a lawyer of Beijing JunZeJun Law Offices from May 2002 to May 2005 and a senior manager of the Legal Department of China Securities Corporation from March 2001 to May 2002. Ms. Chen is a first-grade lawyer. She graduated with a bachelor's degree in law from the law faculty of Peking University in 1985 and graduated from post-graduate level class in accounting at the Business School of Jilin University in 2000. Ms. Chen is currently an employee of the Bank's substantial shareholder, Huijin.

Dong Shi
Non-executive director

Mr. Dong has served as a director since September 2011. He has been a director of both China Reinsurance (Group) Corporation and China Reinsurance Asset Management Co., Ltd. since October 2008. Mr. Dong served consecutively as Assistant Special Inspector of the State Council, Division-Chief of the Supervisory Committee of Central Enterprises Working Commission and Deputy Director-General of the Foreign Affairs Bureau under the State-owned Assets Supervision and Administration Commission from August 1998 to September 2008. Mr. Dong made a study visit to the Federal Reserve of the United States in 1994 and studied at RMIT University in Australia in 1996. Mr. Dong is a senior economist and accountant. Mr. Dong graduated from Zhengzhou University with a bachelor's degree in finance in 1988 and obtained a master's degree in economic law from the Renmin University of China in 2002. Mr. Dong is currently an employee of the Bank's substantial shareholder, Huijin.

Yam Chi-kwong, Joseph
Independent non-executive director

Mr. Yam has served as a director since August 2010. He was Chief Executive of the Hong Kong Monetary Authority from 1993 to September 2009 and Director of the Office of the Exchange Fund of Hong Kong from 1991 to 1993. Mr. Yam held a number of positions in the Hong Kong Government from 1971 to 1991. Mr. Yam is Executive Vice President of the China Society for Finance and Banking in the PRC, a Distinguished Research Fellow of the Institute of Global Economics and Finance at the Chinese University of Hong Kong and Chairman of Macroprudential Consultancy Limited. Mr. Yam is also a member of the advisory committees of a number of academic and private institutions focusing in finance. Mr. Yam graduated from the University of Hong Kong with first class honours in 1970, receiving a Bachelor of Social Sciences degree. He also received his post-graduate diploma in Statistics and National Accounting from the Institute of Social Studies of the Hague, the Netherlands in 1974. Over the years, he was conferred a number of honorary doctorate degrees and professorships from universities in Hong Kong and overseas. Mr. Yam was awarded the Commander of the Most Excellent Order of the British Empire in 1995, the Gold Bauhinia Star by the Hong Kong Special Administrative Region Government in 2001, and the highest honour of the Grand Bauhinia Medal by the Hong Kong Special Administrative Region Government in 2009.

Rt Hon Dame Jenny Shipley
Independent non-executive director

Rt Hon Dame Jenny Shipley has served as a director since November 2007. She is currently Chairman of Mainzeal Construction and Development, Senior Money International and Genesis Energy, a New Zealand state owned energy company. She is a director of Momentum Consulting, and a Director of ISI. Dame Jenny is Managing Director in her consultancy company Jenny Shipley New Zealand Limited. She had been a Director of Richina Pacific, a listed company from 2004 to 2009. She tracks economic, social and geo-political mega trends globally, as well as advising governments and corporations in many parts of the world. She was a Member of the New Zealand Parliament from 1987 to 2002 and held key positions in the New Zealand government from 1990 to the end of 1999. She was Prime Minister from 1997 to 1999 and was consecutively a Minister of Women's Affairs, Minister of Social Welfare, Minister of Health, Minister responsible for Radio New Zealand, Minister of Transport, Minister of Accident & Compensation, Minister of State Owned Enterprises, and Minister of State Services from 1990 to 1997.

Elaine La Roche
Independent non-executive director

Ms. La Roche was elected as a director in the 2011 annual general meeting on 7 June 2012 and CBRC has approved her qualification to hold office as an independent non-executive director of the Bank. She currently serves as a senior counsel in China International Capital Corporation Limited, and served as an independent non-executive director of the Bank from June 2005 to June 2011. Ms. La Roche had been the vice chairman of J.P. Morgan (China) Securities from 2008 to 2010. From 1978 to 2000, Ms. La Roche consecutively held several positions in Morgan Stanley. In 1998, she was seconded from Morgan Stanley to serve as the chief executive officer of China International Capital Corporation Limited. Thereafter, Ms. La Roche served as the chief executive officer of Salisbury Pharmacy Group, chief financial executive of Cantor Fitzgerald, and the chair of the board of Linktone, a NASDAQ listed company. Ms. La Roche graduated from Georgetown University School of Foreign Service with a bachelor's degree in international affairs and from the American University with a master's degree in business administration in finance.

Zhao Xijun
Independent non-executive director

Mr. Zhao has served as a director since August 2010. As a professor, he is currently Deputy Dean of the School of Finance of Renmin University of China. Mr. Zhao was Director of International Office of Renmin University of China from 2001 to 2005, Department Head of the Finance Department of the School of Finance of Renmin University of China from 1995 to 2001 and a research fellow of the International Department of China Securities Regulatory Commission from 1994 to 1995. Mr. Zhao currently serves as an external director of China Coal Technology & Engineering Group Corporation (an unlisted company), an independent director of Xuchang Bank Corporation (an unlisted company) and an independent director of Beijing Gate-guard Information Security Technology Stock Co., Ltd (an unlisted company). Mr. Zhao graduated from Wuhan University with a bachelor's degree in Scientific French in 1985, a master's degree in finance from the Finance Department of Renmin University of China in 1987 and a PhD in finance from the School of Finance of Renmin University of China in 1999. Mr. Zhao was a visiting scholar in University of Sherbrooke and McGill University, Canada from 1989 to 1990 and Nijenrode University, Netherlands from 1995 to 1996.

Wong Kai-Man
Independent non-executive director

Mr. Wong has served as a director since November 2007 and is currently a director of Victor and William Fung Foundation Limited and Li & Fung (1906) Foundation Ltd, an honorary associate professor of the School of Business of the University of Hong Kong, and an independent non-executive director of Shangri-la Asia Limited, SCMP Group Limited and SUNeVision Holdings Ltd., which are listed on the Hong Kong Stock Exchange. He is a non-executive director of the Securities and Futures Commission. In addition, he serves in a number of government committees and the boards of non-governmental organisations. Mr. Wong was a partner of PricewaterhouseCoopers Hong Kong and retired from that post in June 2005 with 32 years of experience in accounting. Mr. Wong was a member of the GEM Listing Committee of the Hong Kong Stock Exchange from 1999 to 2003. Mr. Wong received his bachelor degree in Physics from the University of Hong Kong and his master degree in Business Administration from the Chinese University of Hong Kong. Mr. Wong is a fellow of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants of the United Kingdom. Mr. Wong was appointed as a Justice of the Peace in 2002 and awarded Bronze Bauhinia Star in 2007 by the Government of the Hong Kong Special Administrative Region, and awarded an honorary fellow by Lingnan University, Hong Kong in 2007.

There are no potential conflicts of interest between any duties to the Bank of the directors listed above and their private interests or other duties. The business address of each of the directors is No. 25, Financial Street, Xicheng District, Beijing, China 100033.

Supervisors

Name	Position
Zhang Furong	Chairman of the board of supervisors
Liu Jin	Shareholder representative supervisor
Song Fengming	Shareholder representative supervisor
Zhang Huajian	Shareholder representative supervisor
Jin Panshi	Employee representative supervisor
Li Weiping	Employee representative supervisor
Huang Shuping	Employee representative supervisor
Guo Feng	External supervisor
Dai Deming	External supervisor

Zhang Furong
Chairman of the board of supervisors, Shareholder representative supervisor

Mr. Zhang has served as Chairman of the board of supervisors and the shareholder representative supervisor since September 2010. He served as executive director and vice president of Industrial and Commercial Bank of China Limited (ICBC) from October 2005 to July 2010. Mr. Zhang served as vice president of ICBC from 2000, assistant president of ICBC, general manager of Human Resources Department from 1997, vice president of ICBC Liaoning Branch and president of ICBC Dalian Branch from 1994, chief of the Accounting Division and vice president of ICBC Liaoning Branch from 1986. Mr. Zhang joined ICBC in 1984 and joined the PBC in 1971. Mr. Zhang is also vice chairman of the Banking Accounting Society of China and vice chairman of Financial Planning Standards Council of China. Mr. Zhang graduated from Liaoning Finance and Economics College and received a Master's degree in economics and a Doctorate degree in finance from Dongbei University of Finance and Economics.

Liu Jin
Shareholder representative supervisor

Ms. Liu has served as a supervisor since September 2004 and served concurrently as director of board of supervisors office since November 2004. Ms. Liu was a dedicated supervisor of deputy director-general level at the board of supervisors of China Construction Bank from July 2003 to September 2004, dedicated supervisor of deputy director general level at the board of supervisors of the People's Insurance Company of China and China Reinsurance Company from November 2001 to July 2003. Ms. Liu is a senior economist and graduated from Hunan Finance and Economics College with a bachelor's degree in finance in 1984. She graduated from postgraduate finance program of Shaanxi Finance and Economics College in 1999 and from the Research Institute for Fiscal Science of the MOF with a doctorate degree in public finance in 2008.

Song Fengming
Shareholder representative supervisor

Mr. Song has served as a supervisor since June 2010. He served as an independent non-executive director of the Bank from September 2004 to June 2010. Mr. Song is an experienced academic in banking and finance in China, a professor and supervisor for doctorate students and co-chairman of China Centre for Financial Research at Tsinghua University. Mr. Song has been the dean of the department of finance and international trade of School of Economics and Management at Tsinghua University from 1995 to 2006. He was an associate professor and director of the Division of International Trade and Finance of the same school from 1988 to 1992, and served as a lecturer and the dean of the management department of Jiangsu University of Science and Technology from 1982 to 1988. Mr. Song received his bachelor's degree in mathematics from Peking University in 1970, his master's degree in management from Shanghai Jiaotong University in 1982, and his Ph.D. degree in systems engineering from Tsinghua University in 1988. He pursued his post-doctorate research at the University of California, Riverside, from 1992 to 1995.

Zhang Huajian
Shareholder representative supervisor

Mr. Zhang commenced his position as supervisor of the Bank from August 2011. He has served as general manager of the Bank's Disciplinary Inspection and Supervision department since March 2007, deputy general manager (headquarter general manager level) of the Bank's human resources department between June 2005 and March 2007, deputy general manager of the Bank's human resources department between February 2001 and June 2005; deputy general manager of the Bank's staff education department between December 1996 and February 2001. Mr. Zhang is a senior economist and graduated from Hubei College of Finance and Economics with a bachelor's degree in infrastructure finance and credit in July 1984.

Jin Panshi
Employee representative supervisor

Mr. Jin has served as an employee representative supervisor since June 2010. He served as a shareholder representative supervisor from September 2004 to June 2010. He has been general manager of the information technology management department of the Bank since January 2010. Mr. Jin was general manager of the audit department of the Bank from December 2007 to January 2010. Mr. Jin was deputy general manager of the audit department of the Bank from June 2001 to September 2004. Mr. Jin is a senior engineer and a Certified Information Systems Auditor and graduated from Jilin University of Technology with a bachelor's degree in computer application in 1986, and a master's degree in computer application from the same university in 1989. Mr. Jin graduated from Tsinghua University with an EMBA degree in 2010.

Li Weiping
Employee representative supervisor

Mr. Li has served as a supervisor since June 2010. He served as general manager of the human resources department of the Bank from August 2008. Mr. Li was acting general manager of the human resources department of the Bank from May 2008 to August 2008, the deputy general manager of Beijing Branch from August 2005 to May 2008, deputy general manager of Guangdong Branch from July 2001 to August 2005, and deputy general manager of Shenzhen Branch from February 1995 to July 2001.Mr. Li is a senior economist and graduated from Zhongnan University of Economics and Law with a bachelor's degree in finance.

Huang Shuping
Employee representative supervisor

Ms. Huang has served as a supervisor since June 2010. She has serviced as director of Chengdu Audit Sub-Bureau of the Bank since December 2010. Ms. Huang served as general manager of Chongqing Branch from September 2001 to December 2010. Ms. Huang was deputy general manager of Sichuan Branch from March 1993 to September 2001. Ms. Huang is a senior economist. Ms. Huang graduated from Sichuan Provincial Fiscal School majoring in Finance and Accounting in 1975, and graduated from Harbin Advanced Investment Specialized School majoring in Infrastructure Finance and Credit in 1991, and graduated from Wuhan University with a bachelor's degree in International Finance in 1997.

Guo Feng
External supervisor

Mr. Guo has served as an external supervisor since March 2005. Mr. Guo has been dean of the law school of Central University of Finance and Economics since January 2007. Mr. Guo has been a professor at the law school of Central University of Finance and Economics and director of the Research Institute of Financial and Economic Law of the same university since December 2004. He was an associate professor at the law school of Renmin University of China from June 1993 to December 2004, and deputy director of the Institute of Financial Law of the same university from February 1993 to December 2004. Mr. Guo was a visiting scholar at the law school of the City Polytechnic of Hong Kong from January 1993 to June 1993. He received his master's degree in civil and commercial law from Renmin University of China in 1986 and his Ph.D. degree in civil and commercial law from the same university in 1995.

Dai Deming
External supervisor

Mr. Dai has served as an external supervisor since June 2007. Mr. Dai has served as a professor of accounting department of Renmin University of China since June 1996, dean of accounting department of Business School at Renmin University of China from October 2001 to September 2010. Mr. Dai pursued his post-doctorate research at Hitotsubashi University from October 1997 to September 1999, and served as deputy director of accounting department of Renmin University of China from May 1996 to October 1997, and associate professor of accounting department of the same University from June 1993 to May 1996. At present, Mr. Dai serves as an independent director of China South Locomotive & Rolling Stock Corporation Limited. Mr. Dai received his bachelor's degree in industry accounting from Hunan College of Finance and Economics in 1983, master's degree in accounting from Zhongnan University of Economics in 1986 and Ph.D. degree in accounting from Renmin University of China in 1991.

There are no potential conflicts of interest between any duties to the Bank of the supervisors listed above and their private interests or other duties. The business address of each of the supervisors is No. 25, Financial Street, Xicheng District, Beijing, China 100033.

Senior Management

Name	Position
Zhang Jianguo	Vice chairman; Executive director; President
Zhu Hongbo	Executive vice president
Hu Zheyi	Executive vice president
Pang Xiusheng	Executive vice president
Zhao Huan	Executive vice president
Zhang Gengsheng	Member of senior management
Zeng Jianhua	Chief financial officer
Huang Zhiling	Chief risk officer
Yu Jingbo	Chief audit officer
Chen Caihong	Secretary to the board
Xu Huibin	Controller of wholesale banking
Tian Huiyu	Controller of retail banking
Wang Guiya	Controller of investment and wealth management banking

Zhang Jianguo
Vice chairman, executive director, president

See "Directors".

Zhu Hongbo
Executive vice president

Mr. Zhu has served as executive vice president since February 2012. He has served as executive vice president and chief disciplinary officer of Agricultural Bank of China Limited since February 2010. He was the chief disciplinary officer of Agricultural Bank of China from April 2008 to February 2010. Mr. Zhu joined the senior management of Agricultural Bank of China and served as general manager of Beijing Branch of Agricultural Bank of China from June 2006 to April 2008. Mr. Zhu previously served successively as deputy director and director of the general office of Agricultural Bank of China, general manager of Hainan Branch, Jiangsu Branch and Beijing Branch of Agricultural Bank of China from November 1995 to June 2006. Mr. Zhu is a senior economist. He obtained a bachelor's degree in finance from Central University of Finance and Economics in 1983 and received a Ph.D. degree in management science and engineering from Nanjing University in 2008.

Hu Zheyi
Executive vice president

Mr. Hu has served as executive vice president since March 2009. Mr. Hu was director general of the macro-economy research department of the Research Office of the State Council from September 2004 to December 2008. He worked at macro-economy research department of the Research Office of the State Council as division chief and deputy director general successively from October 1998 to September 2004. From March 1992 to September 1998, Mr. Hu worked at the head office of the PBOC as deputy division chief and division chief successively. Mr. Hu graduated from South China University of Technology in 1982 with a bachelor's degree in chemical automation and instruments. He then obtained his master's degree in technological economics and system engineering from the Management School of Tianjin University in 1988. Mr. Hu graduated from School of Economics and Management of Tsinghua University with a Ph. D. degree in technological economics in 1992.

Pang Xiusheng
Executive vice president

Mr. Pang has served as executive vice president since February 2010, and chief financial officer from April 2006 to March 2011. Mr. Pang was executive vice chairman of the Bank's asset and liability committee from March 2006 to April 2006; director of the Bank's restructuring office from April 2005 to March 2006; general manager of Zhejiang Branch of the Bank from June 2003 to April 2005, and acting general manager of Zhejiang Branch of the Bank from April 2003 to June 2003. Mr. Pang served consecutively as deputy general manager of treasury and planning department, deputy general manager of planning and finance department, and general manager of planning and finance department of the Bank from September 1995 to April 2003. Mr. Pang is a senior economist, and a recipient of a special grant by PRC government. He graduated from postgraduate programme in technological economics from Harbin Industrial University in 1995.

Zhao Huan
Executive vice president

Mr. Zhao commenced his position as executive vice president of the Bank from May 2011. He has also served as member of senior management of the Bank from December 2010. He was general manager of Shanghai Branch of the Bank from September 2007, head of Shanghai Branch of the Bank from July to September 2007, general manger of the Bank's corporate banking department from June 2006 to July 2007, deputy general manger of the Bank's corporate banking department from April 2004 to June 2006, deputy general manger of the Bank's Xiamen Branch from July 2003 to April 2004, and deputy general manger of the Bank's corporate banking department from March 2001 to May 2003. Mr. Zhao is a senior economist. He received his bachelor's degree in industrial management engineering from Xi'an Jiaotong University in 1986.

Zhang Gengsheng
Member of senior management

Mr. Zhang has served as member of senior management of the Bank from December 2010. Mr. Zhang was general manager of the group clients department and deputy general manger of Beijing Branch of the Bank from October 2006, general manager of the banking business department and the group clients department from March 2004 to October 2006, deputy general manger of the banking business department from June 2000 to March 2004 (in charge of overall management from March 2003), general manager of the Three Gorges Branch from September 1998 to June 2000, and deputy general manger of Three Gorges Branch from December 1996 to September 1998. Mr. Zhang is a senior economist. He received his bachelor's degree in infrastructure finance and credit from Liaoning Finance and Economics College in 1984 and an Executive MBA degree from Peking University in 2010.

Zeng Jianhua
Chief financial officer

Mr. Zeng has served as the Bank's Chief Financial Officer from March 2011. He served as general manager of Guangdong Branch of the Bank from September 2007. Mr. Zeng was consecutively the chief officer in charge of Guangdong Branch from July 2007 to September 2007, general manager of Shenzhen Branch of the Bank from October 2004 to July 2007, deputy general manager of the asset and liability management department of the Bank from July 2003 to October 2004, and deputy general manager of Hunan Branch of the Bank from February 1996 to July 2003. Mr. Zeng is a senior economist and received his Ph.D. degree in enterprise management from Hunan University in 2005.

Huang Zhiling
Chief risk officer

Mr. Huang has served as the Bank's Chief Risk Officer since February 2011. He served as general manager of the risk management department of the Bank from April 2006. Mr. Huang was consecutively the director of the asset disposal review committee of China Cinda Asset Management Corporation from

December 2000 to April 2006, director of asset disposal decision-making committee office of China Cinda Asset Management Corporation from November 2000 to December 2000, director of president office and director of the party committee office of China Cinda Asset Management Corporation from August 1999 to November 2000, deputy general manager of administrative office and secretary to the party team of the Bank from June 1997 to August 1999. Mr. Huang is a researcher, and a recipient of a special grant by PRC government. He received his Ph.D. degree in finance from Shaanxi Institute of Finance and Economics in 1991.

Yu Jingbo
Chief audit officer

Mr. Yu has served as the Bank's Chief Audit Officer from March 2011. He was general manager of Zhejiang Branch of the Bank from March 2005. Mr. Yu was consecutively deputy general manager (principal-in-charge) of Zhejiang Branch of the Bank from July 2004 to March 2005, deputy general manager of Zhejiang Branch of the Bank from August 1999 to July 2004, and general manager of Hangzhou Branch from April 1997 to August 1999. Mr. Yu is a senior engineer. Mr. Yu received his bachelor's degree in industrial and civil architecture from Tongji University in 1985 and his master's degree in enterprise management from Hangzhou University in 1998.

Chen Caihong
Secretary to the board

Mr. Chen has served as secretary to the board since August 2007. Mr. Chen was general manager of Seoul Branch of the Bank from December 2003 to July 2007. Mr. Chen served consecutively as deputy director, director of administrative office, deputy general manager of Fujian Branch, and head of preparation team for Seoul Branch of the Bank from March 1997 to December 2003. Mr. Chen is a senior economist. He graduated from Hubei Finance and Economics College with a bachelor's degree in infrastructure economics in 1982 and received his master's degree in public finance from the Research Institute for Fiscal Science of the MOF in 1986.

Xu Huibin
Controller of wholesale banking

Mr. Xu has served as the controller of wholesale banking of the Bank since March 2011. Mr. Xu was president of the Henan branch of the Bank from May 2006 to March 2011, deputy director of the personal banking committee of the Bank and general manager of the personal finance department of the Bank from June 2005 to May 2006, deputy director of the personal banking committee of the Bank and general manager of the personal banking department of the Bank from October 2004 to June 2005, general manager of the personal banking department of the Bank from February 2003 to October 2004 and general manager of the sales department of the Bank from September 2001 to February 2003. Mr. Xu is a senior economist. He graduated from Liaoning Institute of Finance and Economics with a bachelor's degree in infrastructure finance and credit in 1983.

Tian Huiyu
Controller of retail banking

Mr. Tian has served as the controller of retail banking of the Bank since March 2011, has concurrently served as president of the Beijing branch of the Bank since April 2011, and was in charge of the Beijing branch of the Bank from March 2011 to April 2011. Mr. Tian was president of the Shenzhen branch of the Bank from September 2007 to March 2011, in charge of the Shenzhen branch of the Bank from July 2007 to September 2007, vice president of the Shanghai branch of the Bank from December 2006 to July 2007, vice president of the Bank of Shanghai from July 2003 to December 2006 and vice president of the trust and investment company under China Cinda Asset Management Corporation from July 1998 to July 2003. Mr. Tian is a senior economist. He graduated from Shanghai University of Finance and Economics with a bachelor's degree in infrastructure finance and credit in 1987 and received a master's degree in public administration from Columbia University in 2002.

Wang Guiya
Controller of investment and wealth management banking

Mr. Wang has served as the controller of investment and wealth management banking of the Bank and concurrently general manager of the investment banking department of the Bank since March 2011. Mr. Wang was general manager of the investment banking department of the Bank from August 2006 to March 2011 and concurrently chairman of the board of CCB International from January 2007 to August 2010, general manager of the planning and finance department of the Bank from March 2004 to August 2006 and deputy general manager of the planning and finance department of the Bank from July 2000 to March 2004. Mr. Wang is a senior economist. He graduated from Anhui University with a bachelor's degree in applied mathematics in 1984 and received a master's degree in business administration for senior management personnel from Peking University in 2005.

Company Secretary and Qualified Accountant

Cheng Pui Ling, Cathy
Company secretary

Ms. Cheng has served as the Bank's company secretary since June 2012. She currently serves as the company secretary of China Construction Bank (Asia) Corporation Limited. She has over 20 years of legal and company secretarial experience, serving various corporations, including Industrial and Commercial Bank of China Limited, Industrial and Commercial Bank of China (Asia) Limited, PCCW Limited and Hang Lung Group Limited. She obtained her bachelor's degree in law from The University of Hong Kong in 1989 and the qualification of solicitor from the High Court of Hong Kong Special Administrative Region in 1992.

Yuen Yiu Leung
Qualified Accountant

Mr. Yuen has served as the Bank's qualified accountant since August 2005. Mr. Yuen has been head of finance department of Hong Kong Branch of the Bank since September 2004, and has also been head of finance department of CCB International since January 2006. Prior to that, Mr. Yuen held the same position in the Hong Kong Branch of China Construction Bank from October 1995 to September 2004 and he served in several capacities at the internal control, finance and accounting functions of Standard Chartered Bank. Mr. Yuen is a fellow of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, UK and the Chartered Institute of Management Accountants, UK and an associate of the Institute of Chartered Accountants in England & Wales. Mr. Yuen graduated from Hong Kong Polytechnic University with a professional diploma in management accountancy in 1988 and received a master's degree in business administration from University of Wales in cooperation with Manchester Business School in 1998.

There are no potential conflicts of interest between any duties to the Bank of the senior management listed above and their private interests or other duties. The business address of each of the senior management is No. 25, Financial Street, Xicheng District, Beijing, China 100033.

BOARD COMMITTEES

The board of directors delegates certain responsibilities to various committees. The board of directors has established a strategic development committee, audit committee, risk management committee, nomination and compensation committee, and related party transactions committee. These committees are constituted by certain directors and report to the board of directors. Each committee meets at least four times a year.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, the Bank had a total of 878,965 shareholders, of which 54,140 were holders of H-shares and 824,825 were holders of A-shares.

Huijin

Huijin is the controlling shareholder of the Bank. Huijin is a wholly state-owned investment company established in accordance with the "Company Law of the PRC" on 16 December 2003 with the approval of the State Council. Its registered capital and paid-in capital are both RMB828,209 million. Its legal representative is Mr. Lou Jiwei. Huijin makes equity investment in key state-owned financial institutions as authorised by the State Council, and exercises the contributor's rights and obligations in the Bank up to its contribution on behalf of the state to achieve preservation and appreciation of state-owned financial assets.

As at 30 June 2012, Huijin held approximately 57.14% of the shares of the Bank, and it intends to continue to increase, in its own capacity, its shareholding in the Bank from the secondary market within six months commencing from 10 October 2012[1].

There were no other institutional shareholders holding 10% or more of the shares of the Bank (excluding HKSCC Nominees Limited). There were no internal staff shares.

Note:

1. Huijin stated in the notice received by the Bank on 10 October 2012 that it intended to continue to increase, in its own capacity, its shareholding in the Bank from the secondary market within 12 months commencing from 10 October 2011 ("This Round Of Share Acquisition"). By 9 October 2012, Huijin has completed This Round Of Share Acquisition and increased its shareholding of the Bank by 144,178,262 A-shares in total through trading system of the Shanghai Stock Exchange, representing approximately 0.058% of the total issued share capital of the Bank. Immediately following This Round Of Share Acquisition, Huijin held 142,889,552,690 shares of the Bank (comprising 299,058,039 A-shares and 142,590,494,651 H-shares), representing approximately 57.15% of the total issued share capital of the Bank. On 10 October 2012, Huijin increased its shareholding of the Bank by 2,814,057 A-shares through trading system of the Shanghai Stock Exchange and it intends to continue to increase, in its own capacity, its shareholding in the Bank from the secondary market within six months commencing from 10 October 2012.

THE GUARANTEE

The Bank will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Bonds. Its obligations in that respect will be contained in a deed of guarantee dated on or around 29 November 2012.

Any guarantee of foreign indebtedness under any bond issuance by a PRC-incorporated financial institution is subject to approval by the PBOC and the SAFE. The Bank obtained approval from the PBOC and SAFE on 31 July 2012 and 29 September 2012, respectively, to guarantee indebtedness of the Issuer incurred outside the PRC under an offshore bond issuance with an issue size of not more than CNY2.5 billion, for a guarantee period of up to three years. The PBOC approval was granted pursuant to the PBOC Notice and the SAFE approval was granted pursuant to the Foreign Security Measures and SAFE Notice.

The Bank understands from the approval and its discussion with SAFE that:

(i) the Guarantee will only be valid, binding and enforceable against the Bank under the PRC law upon execution and completion of the approval and registration procedures with SAFE or its local branch; and

(ii) the Guarantee will cover all sums due under the Bonds and under the Trust Deed (including any Renminbi principal, interest and relevant expenses) so long as the principal amount of the Bonds does not exceed CNY2.5 billion on the Issue Date.

Pursuant to the SAFE Notice, all proceeds raised by the Issuer under the Bonds outside the PRC (and guaranteed by the Bank) may not be remitted into the PRC for any use directly or indirectly through any means, including without limitation, any loan, equity investment or securities investment. In addition, the Bank is responsible for ensuring that the proceeds obtained by the Issuer will be used in the operating activities of the Issuer outside the PRC.

The Bank is required by the Foreign Security Measures and the SAFE Notice to register the Guarantee with SAFE as soon as possible and in any event before the Registration Deadline (being 30 days after the Issue Date). The Guarantee may not be enforceable until the registration of the Guarantee is completed in accordance with the provisions of the Foreign Security Measures. The Bank intends to register the Guarantee within the above timeframe, and in the opinion of the Bank's PRC legal advisers, there is no legal impediment to complete such registration. If the registration is not completed on or before the Issue Date, each Bondholder will have the right to request the Issuer to redeem all but not some of that Bondholder's Bonds and will need to rely on the Issuer to source sufficient Renminbi to fully discharge its obligations under the Bonds. See "Risk Factors – Risks relating to the Guarantee and the Bonds – The Guarantee is not enforceable before registration with SAFE, is subject to a maximum Renminbi amount approved by SAFE under a recent regulation, and there may be uncertainty relating to the coverage and enforceability of the Guarantee". Prior to the performance or discharge of its obligations under the Guarantee, the Bank is also required to complete a verification process with SAFE for each remittance under the Guarantee.

TAXATION

The following summary of certain taxation provisions under the United Kingdom, the PRC, Hong Kong and EU laws is based on current law and practice. It does not purport to be comprehensive and does not constitute legal or tax advice. Prospective investors should consult their own tax advisers regarding the tax consequences of an investment in the bonds.

United Kingdom Taxation

The comments below are of a general nature based on current United Kingdom tax law as applied in England and Wales and HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs) and are not intended to be exhaustive. They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who are the absolute beneficial owners of their Bonds and Coupons and may not apply to certain classes of persons such as dealers, certain professional investors, or persons connected with the Issuer. Any Bondholders who are in doubt as to their own tax position, or who may be subject to tax in a jurisdiction other than the United Kingdom, should consult their professional advisers.

Withholding Tax

While the Bonds continue to be listed on a recognised stock exchange within the meaning of Section 1005 Income Tax Act 2007, payments of interest by the Issuer may be made without withholding or deduction for or on account of United Kingdom income tax. The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List by the United Kingdom Listing Authority and are admitted to trading on the London Stock Exchange. HM Revenue & Customs have confirmed that securities that are admitted to trading on the Professional Securities Markets satisfy the condition of being admitted to trading on the London Stock Exchange.

If the Bonds cease to be listed interest will generally be paid by the Issuer under deduction of income tax at the basic rate unless:

(i) when that interest is paid the Issuer which makes the payment reasonably believes that the person beneficially entitled to the interest is:

   (a) a company resident in the United Kingdom; or

   (b) a company not resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account the interest in computing its United Kingdom taxable profits; or

   (c) a partnership each member of which is a company referred to in (a) or (b) above or a combination of companies referred to in (a) or (b) above,

   and HM Revenue & Customs has not given a direction that the interest should be paid under deduction of tax; or

(ii) the Issuer has received a direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

If interest were paid under deduction of United Kingdom income tax (e.g. if the Bonds lost their listing), Bondholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.

The United Kingdom withholding tax treatment of payments by the Guarantor under the terms of the Guarantee in respect of interest on the Bonds is uncertain. In particular, such payments by the Guarantor may not be eligible for the exemptions in respect of bonds listed on a recognised stock exchange described above in relation to payments of interest by the Issuer. Accordingly, if the Guarantor makes any such payments, these may be subject to United Kingdom withholding tax at the basic rate.

If any amount must be withheld on account of United Kingdom tax from payments of interest in respect of the Bonds or under the Guarantee then (subject to the provisions of Condition 7) the Issuer or, as the case may be, the Guarantor, will pay such additional amounts as will result in the receipt by the Bondholders of such amounts as would have been received by them if no such withholding had been required.

Information Reporting

Persons in the United Kingdom paying interest to or receiving interest on behalf of another person who is an individual may be required to provide certain information to HM Revenue & Customs regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries.

Taxation of Disposal (including Redemption) and Return

Corporate Bondholders

Bondholders within the charge to United Kingdom corporation tax (including non-resident bondholders whose Bonds are used, held or acquired for the purposes of a trade carried on in the United Kingdom through a permanent establishment) will be subject to tax as income on all profits and gains from the Bonds broadly in accordance with their statutory accounting treatment. Such Bondholders will generally be charged in each accounting period by reference to interest and other amounts which, in accordance with generally accepted accounting practice, are recognised in determining the Bondholder's profit or loss for that period. Fluctuations in value relating to foreign exchange gains and losses in respect of the Bonds will be brought into account as income.

Other Bondholders

Bondholders who are either individuals or trustees and are resident or ordinarily resident for tax purposes in the United Kingdom or who carry on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Bonds are attributable will generally be liable to United Kingdom tax on the amount of any interest received in respect of the Bonds.

A disposal of a Bond by a Bondholder resident or ordinarily resident for tax purposes in the United Kingdom or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Bond is attributable may give rise to a chargeable gain or allowable loss for the purposes of taxation of capital gains. In calculating any gain or loss on disposal of a Bond, sterling values are compared at acquisition and transfer. Accordingly, a taxable profit can arise even where the foreign currency amount received on a disposal is less than or the same as the amount paid for the Bond. Any accrued interest at the date of disposal will be taxed under the provisions of Chapter 2 of Part 12 of the Income Tax Act 2007 (Accrued Income Profits and Losses).

A transfer of a Bond by a Bondholder resident or ordinarily resident for tax purposes in the United Kingdom or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Bond is attributable may give rise to a charge to tax on income in respect of an amount representing interest on the Bond which has accrued since the preceding interest payment date.

Interest

The interest has a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment irrespective of the residence of the Bondholder. However, where the interest is paid without withholding or deduction on account of United Kingdom tax, the interest will not generally be assessed to United Kingdom tax in the hands of Bondholders who are not resident in the United Kingdom, except where the Bondholder carries on a trade, profession or vocation through a branch or agency, or in the case of a corporate holder, carries on a trade through a permanent establishment in the United Kingdom, in connection with which the interest is received or to which the Bonds are attributable, in which case (subject to exemptions for interest received by certain categories of agent) tax may be levied on the United Kingdom branch or agency, or permanent establishment.

Bondholders should note that the provisions relating to additional amounts referred to in "Terms and conditions of the Bonds – Taxation and Withholding" above would not apply if HM Revenue & Customs sought to assess directly the person entitled to the relevant interest to United Kingdom tax. However exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double taxation treaty.

Inheritance Tax

Provided that the relevant Bonds are physically held outside the United Kingdom at the time of death or gift no Inheritance Tax is charged on such death or gift if the Bondholder is neither domiciled, nor deemed to be domiciled, in the United Kingdom. Where the Bonds are held in a clearing system HM Revenue & Customs is known to consider that the situs of the relevant assets is not necessarily determined by the place where the Bonds are physically held.

Prospective Bondholders to whom this may be of significance are asked to consult their own professional advisers.

United Kingdom Stamp Duty and Stamp Duty Reserve Tax

No United Kingdom stamp duty or stamp duty reserve tax should be payable on the issue or transfer by delivery of a Bond or on its redemption.

PRC Taxation

In accordance with the "PRC Enterprise Income Tax Law", its implementation regulations and the Notice of the State Administration of Taxation on Issues about the Determination of Chinese-controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of Their Body of Actual Management (國家稅務總局關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知), all of which took effect on 1 January 2008, Chinese-controlled enterprises established outside the PRC whose "actual management bodies" are within China are considered as "PRC tax resident enterprises".

As at the date of the Offering Circular, the Issuer is not considered to be a PRC tax resident enterprise by the PRC tax authorities. However, pursuant to the provisions of the "PRC Enterprise Income Tax Law" and the "PRC Individual Income Tax Law" as well as their respective implementation rules, if the Issuer is considered a PRC tax resident enterprise, an income tax will be levied on the payment of interest to Bondholders. The current rates of such income tax are 20 per cent. (for non-resident individuals) and 10 per cent. (for non-resident enterprises) of the gross amount of the interest unless there is an applicable tax treaty between the PRC and the jurisdiction in which the holders reside that reduces or exempts such PRC income tax. However, the tax so charged on interest paid on the bonds to non-PRC holders which, or who, are residents of Hong Kong (including enterprises and individuals) for purposes of the avoidance of double taxation arrangement between China and Hong Kong will be 7 per cent. of the gross amount of the interest pursuant to the arrangement between China and Hong Kong. Under the Interim Measures for the Administration of Remittance of Income Tax for Non-Resident Enterprise Withheld at Source (非居民企業所得稅源泉扣繳管理暫行辦法), if the Bank is required to perform its obligations under the

Guarantee to repay principal and interest on the Bonds, the interest paid by the Bank to non-resident Bondholders on the Bonds may be regarded as income received by non-resident Bondholders from sources within the PRC and as a consequence the Bank may be obliged to withhold income tax of 10 per cent. for non-resident enterprise Bondholders and 20 per cent. for non-resident individual Bondholders on payments of such interest to non-resident Bondholders. To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to Bondholders who qualify for such treaty benefits. The Issuer and the Bank have undertaken to pay additional amounts to the investors of the Bonds so that the Bondholders receive the full amount of the scheduled payment, as further set out in, and subject to, the terms and conditions of the bonds.

According to the "PRC Enterprise Income Tax Law" and the "PRC Individual Income Tax Law" and their implementation rules, it is unclear whether the capital gains of non-resident enterprises and non-resident individuals derived from a sale or exchange of the Bonds will be subject to PRC income tax. If such capital gains are determined as income sourced in China by PRC tax authority, those non-resident holders may be subject to enterprise income tax at a rate of 10 per cent. or individual income tax at a rate of 20 per cent. of the gross proceeds unless there is an applicable tax treaty between the PRC and the jurisdiction in which the relevant non-resident holders reside which reduces or exempts such income tax. According to the double taxation arrangement between China and Hong Kong, residents of Hong Kong (including enterprise and individual) will not be subject to PRC tax on any capital gains derived from a sale or exchange of the Bonds.

Hong Kong Taxation

Withholding Tax

Under existing Hong Kong law, payments of principal and interest in respect of the Bonds may be made without withholding for or on account of any Hong Kong taxes. In addition, no tax is withheld in Hong Kong in respect of any gains arising from resale of the Bonds.

Stamp Duty

The Bonds are not subject to Hong Kong stamp duty either upon issue or on any subsequent transfer.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "Inland Revenue Ordinance") as it is currently applied by the Inland Revenue Department, interest on the Bonds may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(a) interest on the Bonds is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(b) interest on the Bonds is derived from Hong Kong and is received by or accrues to a company (other than a financial institution) carrying on a trade, profession or business in Hong Kong; or

(c) interest on the Bonds is derived from Hong Kong and is received by or accrues to a person other than a company (such as a partnership) carrying on a trade, profession or business in Hong Kong and is in respect of the funds of the trade, profession or business.

Sums derived from the sale, disposal or redemption of the Bonds will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Bonds are acquired and disposed of.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of the Bonds will be subject to profits tax.

EU Directive on the Taxation of Savings Income

The Savings Directive requires EU Member States to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual or certain other persons in that other EU Member State, except that Austria and Luxembourg will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise. The European Commission has proposed certain amendments to the Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

SUBSCRIPTION AND SALE

The Issuer and the Bank have entered into a subscription agreement dated 21 November 2012 with CCB International Capital Limited, BNP Paribas, The Hongkong and Shanghai Banking Corporation Limited, Industrial and Commercial Bank of China (Asia) Limited, Bank of Communications Co., Ltd. Hong Kong Branch, China International Capital Corporation Hong Kong Securities Limited and Standard Chartered Bank (Hong Kong) Limited (collectively, the "Joint Lead Managers") and Banco Santander, S.A., Barclays Bank PLC, Goldman Sachs International and Morgan Stanley & Co. International plc (collectively, the "Co-Lead Managers" and, together with the Joint Lead Managers, the "Managers") (the "Subscription Agreement"), pursuant to which and subject to certain conditions contained in the Subscription Agreement, the Issuer agreed to sell to the Managers, and the Managers severally and not jointly agreed, in the case of the Joint Lead Managers, to subscribe or procure purchasers or subscribers to subscribe for the Bonds in the proportions indicated in the following table and, in the case of the Co-Lead Managers, to facilitate an orderly marketing and distribution of the Bonds:

	Principal amount of Bonds to be subscribed
	(CNY)
CCB International Capital Limited	131,716,000
BNP Paribas	169,714,000
The Hongkong and Shanghai Banking Corporation Limited	169,714,000
Industrial and Commercial Bank of China (Asia) Limited	169,714,000
Bank of Communications Co., Ltd. Hong Kong Branch	119,714,000
China International Capital Corporation Hong Kong Securities Limited	119,714,000
Standard Chartered Bank (Hong Kong) Limited	119,714,000
Total	**1,000,000,000**

The Issuer and the Bank have jointly and severally agreed to indemnify the Managers against certain liabilities in connection with the offer and sale of the Bonds. The Subscription Agreement provides that the obligations of the Managers are subject to certain conditions precedent, and entitles the Managers to terminate the Subscription Agreement in certain circumstances at any time up to the time when subscription moneys have been received and the Bonds issued.

The Managers and certain of their respective affiliates may have performed certain investment banking and advisory services for the Bank, the Issuer and/or their respective affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Bank, the Issuer and/or their respective affiliates in the ordinary course of their business. The Managers or certain of their affiliates may purchase the Bonds and be allocated the Bonds for asset management and/or proprietary purposes but not with a view to distribution.

The Managers and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. In the ordinary course of their various business activities, the Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities activities may involve securities and instruments of the Issuer or the Bank.

In connection with the offering of the Bonds (the "Offering"), each Manager and/or its affiliate(s) may act as an investor for its own account and may take up Bonds in the Offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Issuer or related investments and may offer or sell such securities or other investments otherwise than in connection with the Offering. Accordingly, references herein to the Bonds being offered should be read as including any Offering of the Bonds to the Managers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

General

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Bonds, or possession or distribution of this Offering Circular or any amendment or supplement thereto or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required.

People's Republic of China

Each Manager has represented, warranted and agreed that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including Hong Kong and Macau Special Administrative Regions or Taiwan) except as permitted by the securities laws of the People's Republic of China.

Hong Kong

Each Manager has represented, warranted and agreed that, (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

United States

The Bonds and the Guarantee have not been and will not be registered under the Securities Act and the Bonds are subject to U.S. tax law requirements. Subject to certain exceptions, the Bonds and the Guarantee may not be offered, sold or delivered within the United States or to U.S. persons. Each Manager has agreed that it will not offer, sell or deliver any Bonds or Guarantee within the United States or to U.S. persons, except as permitted by the Subscription Agreement.

In addition, until 40 days after the commencement of the offering of the Bonds and the Guarantee, an offer or sale of Bonds or Guarantee within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Singapore

Each Manager has acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager has represented, warranted and agreed that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Bonds or cause such Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, not will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Bonds may not be circulated or distributed, nor may any Bonds be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, the persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA, except:

1. to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

2. where no consideration is or will be given for the transfer;

3. where the transfer is by operation of law; or

4. as specified in Section 276(7) of the SFA.

United Kingdom

Each Manager has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "FSMA") received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Bank; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

Switzerland

This Offering Circular is not intended to constitute an offer or solicitation to purchase or invest in the Bonds described herein. The Bonds may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Bonds constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations, or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland, and neither this Offering Circular nor any other offering or marketing material relating to the Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Offering Circular nor any other offering or marketing material relating to the offering, nor the Issuer or the Guarantor, nor the Bonds have been or will be filed with or approved by any Swiss regulatory authority. The Bonds are not subject to the supervision by any Swiss regulatory authority, e.g. the Swiss Financial Markets Supervisory Authority FINMA, and investors in the Bonds will not benefit from protection or supervision by such authority.

Taiwan

Each Manager has represented, warranted and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, at any time, directly or indirectly, any Bonds acquired by it as part of the offering in Taiwan or to, or for the account or benefit of, any resident of Taiwan except as permitted by the securities laws of Taiwan.

GENERAL INFORMATION

1 **Clearing Systems:** The Bonds have been accepted for clearance through Euroclear and Clearstream (which are the entities in charge of keeping the records) with a Common Code of 085877127. The International Securities Identification Number (ISIN) for the Bonds is XS0858771271.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream is 42 Avenue JF Kennedy L-1855 Luxembourg.

2 **Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by resolutions of the board of directors of the Issuer on 15 November 2012. Save for the registration with SAFE, the Bank has obtained all necessary consents, approvals and authorisations in connection with the giving and performance of the Guarantee. The giving of the Guarantee was approved by the credit committee of the Bank on 19 October 2012.

3 **Listing:** Application has been made for the Bonds to be admitted to the Official List of the UK Listing Authority and application has been made to the London Stock Exchange for the Bonds to be admitted to trading on the PSM. It is expected that the official listing will be granted on or about 27 November 2012, subject only to the issue of the Bonds.

The Bank estimates that the amount of expenses related to the admission to trading of the Bonds will be approximately CNY80,150.

4 **No Material Adverse Change or Significant Change:** There has been no material adverse change in the prospects of the Issuer, the Bank or the Group since 31 December 2011 and there has been no significant change in the financial or trading position of the Issuer or the Bank or the Group since 30 September 2012.

5 **Litigation:** None of the Issuer, the Guarantor or any of its subsidiaries has been involved in any governmental, litigation or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or the Guarantor is aware) during the 12 months preceding the date of this Offering Circular which may have or has had in the recent past significant effects on the financial position or profitability of the Issuer, the Guarantor or the Group.

6 **Reliance on Certificates:** Pursuant to the Terms and Conditions of the Bonds and the Trust Deed, the Trustee may rely without liability to Bondholders on any report, confirmation or certificate or any advice of any accountants, lawyers, financial advisors, financial institution or other expert, whether or not addressed to it and whether or not their liability in relation thereto is limited (by its terms or by any engagement letter entered into in relation thereto by the Trustee or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, certificate or advice and such report, confirmation, certificate or advice shall be binding on the Issuer, the Bank and the Bondholders.

7 **Available Documents:** Copies of the annual report of the Bank for the year ended 31 December 2011 and the articles of association of each of the Issuer and the Bank, as well as the Trust Deed, the Agency Agreement and the Deed of Guarantee, will be available for inspection from the Issue Date at the specified office of the Bank at 12/F, AIA Central, 1 Connaught Road Central, Central, Hong Kong, during normal business hours, so long as any of the Bonds is outstanding.

8 **Financial Statements:** PricewaterhouseCoopers, Certified Public Accountants, Hong Kong of 22nd Floor, Prince's Building, Central, Hong Kong, have audited, and rendered unqualified audit opinions on the audited consolidated financial statements of the Group as at and for the year ended 31 December 2011, which are included elsewhere in this Offering Circular. The unaudited consolidated financial statements of the Group as at and for the six months ended 30 June 2012, which are included elsewhere in this Offering Circular, have been reviewed by PricewaterhouseCoopers, Certified Public Accountants, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA, but have not been audited by them. The unaudited consolidated financial

statements of the Group as at and for the nine months ended 30 September 2012, which are included elsewhere in this Offering Circular, have not been audited or reviewed by PricewaterhouseCoopers, Certified Public Accountants. The audited consolidated financial statements as at and for the year ended 31 December 2010, which are included elsewhere in this Offering Circular, have been audited by the Group's previous auditor, KPMG, Certified Public Accountants, as stated in their report appearing elsewhere in this Offering Circular.

9 **Yield for investors in the Bonds:** The issue price of the Bonds is 100 per cent. and the yield of the Bonds is 3.2 per cent., calculated on an annualised basis.

10 **Legend:** Each Bond and Coupon will bear the following legend: "*Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code*".

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Note:

(1) The independent auditor's reports on the Group's consolidated financial statements for the years ended 31 December 2010 and 2011 and the independent auditor's review report on the Group's interim condensed consolidated financial information for the six months ended 30 June 2012 set out herein is reproduced from the Group's annual reports for the years ended 31 December 2010 and 2011 respectively and the Group's interim report for the six months ended 30 June 2012 respectively. Page references referred to in the abovenamed reports refer to pages set out in such annual reports and interim report.

KPMG

Independent auditor's report to the shareholders of China Construction Bank Corporation
(a joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of China Construction Bank Corporation (the "Bank") and its subsidiaries (collectively the "Group") set out on pages 134 to 238, which comprise the consolidated and Bank statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated and Bank statements of changes in equity, 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 issued by the International Accounting Standards Board 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 misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the 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 2010, 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.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

25 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010
(Expressed in millions of RMB, unless otherwise stated)

	Note	2010	2009
Interest income		377,783	339,463
Interest expense		(126,283)	(127,578)
Net interest income	6	251,500	211,885
Fee and commission income		68,156	49,839
Fee and commission expense		(2,024)	(1,780)
Net fee and commission income	7	66,132	48,059
Net trading gain	8	3,509	2,233
Dividend income	9	228	100
Net gain arising from investment securities	10	1,903	4,471
Other operating income, net	11	2,508	2,566
Operating income		325,780	269,314
Operating expenses	12	(121,366)	(105,146)
		204,414	164,168
Impairment losses on:			
– Loans and advances to customers		(25,641)	(24,256)
– Others		(3,651)	(1,204)
Impairment losses	13	(29,292)	(25,460)
Share of profits less losses of associates and jointly controlled entities		34	17
Profit before tax		175,156	138,725
Income tax expense	16	(40,125)	(31,889)
Net profit		135,031	106,836
Other comprehensive income:			
(Loss)/gain of available-for-sale financial assets arising during the year		(8,183)	2,174
Less: Income tax relating to available-for-sale financial assets		1,995	(544)
Reclassification adjustments for losses included in profit or loss		(288)	386
		(6,476)	2,016
Exchange difference on translating foreign operations		(1,057)	281
Others		33	25
Other comprehensive income for the year, net of tax		(7,500)	2,322
Total comprehensive income for the year		127,531	109,158
Net profit attributable to:			
Equity shareholders of the Bank		134,844	106,756
Non-controlling interests		187	80
		135,031	106,836
Total comprehensive income attributable to:			
Equity shareholders of the Bank		127,363	109,069
Non-controlling interests		168	89
		127,531	109,158
Basic and diluted earnings per share (in RMB)	17	0.56	0.45

The notes on pages 141 to 238 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2010
(Expressed in millions of RMB, unless otherwise stated)

	Note	2010	2009
Assets:			
Cash and deposits with central banks	18	**1,848,029**	1,458,648
Deposits with banks and non-bank financial institutions	19	**78,318**	101,163
Precious metals		**14,495**	9,229
Placements with banks and non-bank financial institutions	20	**63,962**	22,217
Financial assets at fair value through profit or loss	21	**17,344**	18,871
Positive fair value of derivatives	22	**11,224**	9,456
Financial assets held under resale agreements	23	**181,075**	589,606
Interest receivable	24	**44,088**	40,345
Loans and advances to customers	25	**5,526,026**	4,692,947
Available-for-sale financial assets	26	**696,848**	651,480
Held-to-maturity investments	27	**1,884,057**	1,408,873
Debt securities classified as receivables	28	**306,748**	499,575
Interests in associates and jointly controlled entities	30	**1,777**	1,791
Fixed assets	31	**83,434**	74,693
Land use rights	32	**16,922**	17,122
Intangible assets	33	**1,310**	1,270
Goodwill	34	**1,534**	1,590
Deferred tax assets	35	**17,825**	10,790
Other assets	36	**15,301**	13,689
Total assets		**10,810,317**	9,623,355
Liabilities:			
Borrowings from central banks		**1,781**	6
Deposits from banks and non-bank financial institutions	39	**683,537**	774,785
Placements from banks and non-bank financial institutions	40	**66,272**	38,120
Financial liabilities at fair value through profit or loss	41	**15,287**	7,992
Negative fair value of derivatives	22	**9,358**	8,575
Financial assets sold under repurchase agreements	42	**4,922**	–
Deposits from customers	43	**9,075,369**	8,001,323
Accrued staff costs	44	**31,369**	27,425
Taxes payable	45	**34,241**	25,840
Interest payable	46	**65,659**	59,487
Provisions	47	**3,399**	1,344
Debt securities issued	48	**93,315**	98,644
Deferred tax liabilities	35	**243**	216
Other liabilities	49	**24,660**	20,578
Total liabilities		**10,109,412**	9,064,335
Equity:			
Share capital	50	**250,011**	233,689
Capital reserve	51	**135,136**	90,266
Investment revaluation reserve	52	**6,706**	13,163
Surplus reserve	53	**50,681**	37,421
General reserve	54	**61,347**	46,806
Retained earnings	55	**195,950**	136,112
Exchange reserve		**(3,039)**	(1,982)
Total equity attributable to equity shareholders of the Bank		**696,792**	555,475
Non-controlling interests		**4,113**	3,545
Total equity		**700,905**	559,020
Total liabilities and equity		**10,810,317**	9,623,355

Approved and authorised for issue by the board of directors on 25 March 2011.

Zhang Jianguo	**Wong Kai-Man**	**Sue Yang**
Vice chairman, executive director and president	*Independent non-executive director*	*Non-executive director*

The notes on pages 141 to 238 form part of these financial statements.

Statement of Financial Position

As at 31 December 2010
(Expressed in millions of RMB, unless otherwise stated)

	Note	2010	2009
Assets:			
Cash and deposits with central banks	18	1,841,867	1,455,370
Deposits with banks and non-bank financial institutions	19	78,198	100,679
Precious metals		14,495	9,229
Placements with banks and non-bank financial institutions	20	68,528	23,143
Financial assets at fair value through profit or loss	21	3,044	10,251
Positive fair value of derivatives	22	10,153	7,730
Financial assets held under resale agreements	23	181,075	588,706
Interest receivable	24	43,861	40,129
Loans and advances to customers	25	5,428,279	4,626,024
Available-for-sale financial assets	26	693,031	649,979
Held-to-maturity investments	27	1,883,927	1,408,465
Debt securities classified as receivables	28	306,748	499,575
Investments in subsidiaries	29	9,869	8,816
Fixed assets	31	82,696	74,098
Land use rights	32	16,865	17,062
Intangible assets	33	1,273	1,242
Deferred tax assets	35	18,774	11,323
Other assets	36	32,122	33,310
Total assets		10,714,805	9,565,131
Liabilities:			
Borrowings from central banks		1,781	6
Deposits from banks and non-bank financial institutions	39	685,238	776,582
Placements from banks and non-bank financial institutions	40	41,664	31,968
Financial liabilities at fair value through profit or loss	41	12,940	7,992
Negative fair value of derivatives	22	8,734	7,894
Financial assets sold under repurchase agreements	42	11,089	2,625
Deposits from customers	43	9,014,646	7,955,240
Accrued staff costs	44	30,522	26,708
Taxes payable	45	33,945	25,549
Interest payable	46	65,592	59,442
Provisions	47	3,399	1,344
Debt securities issued	48	91,431	98,383
Deferred tax liabilities	35	4	22
Other liabilities	49	22,455	20,057
Total liabilities		10,023,440	9,013,812
Equity:			
Share capital	50	250,011	233,689
Capital reserve	51	135,136	90,266
Investment revaluation reserve	52	6,743	13,213
Surplus reserve	53	50,681	37,421
General reserve	54	60,608	46,209
Retained earnings	55	188,525	130,785
Exchange reserve		(339)	(264)
Total equity		691,365	551,319
Total liabilities and equity		10,714,805	9,565,131

Approved and authorised for issue by the board of directors on 25 March 2011.

Zhang Jianguo
Vice chairman, executive director and president

Wong Kai-Man
Independent non-executive director

Sue Yang
Non-executive director

The notes on pages 141 to 238 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010
(Expressed in millions of RMB, unless otherwise stated)

	Attributable to equity shareholders of the Bank								
	Share capital	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Exchange reserve	Non-controlling interests	Total equity
As at 1 January 2010	233,689	90,266	13,163	37,421	46,806	136,112	(1,982)	3,545	559,020
Movements during the year	16,322	44,870	(6,457)	13,260	14,541	59,838	(1,057)	568	141,885
(1) Total comprehensive income for the year	–	33	(6,457)	–	–	134,844	(1,057)	168	127,531
(2) Changes in share capital	16,322	44,837	–	–	–	–	–	440	61,599
i Rights issue	16,322	44,837	–	–	–	–	–	–	61,159
ii Capital injection by non-controlling interests	–	–	–	–	–	–	–	106	106
iii Non-controlling interests of new subsidiaries	–	–	–	–	–	–	–	334	334
(3) Profit distribution	–	–	–	13,260	14,541	(75,006)	–	(40)	(47,245)
i Appropriation to surplus reserve	–	–	–	13,260	–	(13,260)	–	–	–
ii Appropriation to general reserve	–	–	–	–	14,541	(14,541)	–	–	–
iii Appropriation to equity shareholders	–	–	–	–	–	(47,205)	–	(40)	(47,245)
As at 31 December 2010	250,011	135,136	6,706	50,681	61,347	195,950	(3,039)	4,113	700,905
As at 1 January 2009	233,689	90,241	11,156	26,922	46,628	59,593	(2,263)	1,596	467,562
Movements during the year	–	25	2,007	10,499	178	76,519	281	1,949	91,458
(1) Total comprehensive income for the year	–	25	2,007	–	–	106,756	281	89	109,158
(2) Changes in share capital	–	–	–	–	–	–	–	1,878	1,878
i Disposal of shares of subsidiaries to non-controlling interests	–	–	–	–	–	–	–	100	100
ii Non-controlling interests of new subsidiaries	–	–	–	–	–	–	–	130	130
iii Non-controlling interests of acquisition of a subsidiary	–	–	–	–	–	–	–	1,648	1,648
(3) Profit distribution	–	–	–	10,499	178	(30,237)	–	(18)	(19,578)
i Appropriation to surplus reserve	–	–	–	10,499	–	(10,499)	–	–	–
ii Appropriation to general reserve	–	–	–	–	178	(178)	–	–	–
iii Appropriation to equity shareholders	–	–	–	–	–	(19,560)	–	(18)	(19,578)
As at 31 December 2009	233,689	90,266	13,163	37,421	46,806	136,112	(1,982)	3,545	559,020

The notes on pages 141 to 238 form part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2010
(Expressed in millions of RMB, unless otherwise stated)

	Share capital	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Exchange reserve	Total equity
As at 1 January 2010	233,689	90,266	13,213	37,421	46,209	130,785	(264)	551,319
Movements during the year	16,322	44,870	(6,470)	13,260	14,399	57,740	(75)	140,046
(1) Total comprehensive income for the year	–	33	(6,470)	–	–	132,604	(75)	126,092
(2) Changes in share capital	16,322	44,837	–	–	–	–	–	61,159
i Rights issue	16,322	44,837	–	–	–	–	–	61,159
(3) Profit distribution	–	–	–	13,260	14,399	(74,864)	–	(47,205)
i Appropriation to surplus reserve	–	–	–	13,260	–	(13,260)	–	–
ii Appropriation to general reserve	–	–	–	–	14,399	(14,399)	–	–
iii Appropriation to equity shareholders	–	–	–	–	–	(47,205)	–	(47,205)
As at 31 December 2010	250,011	135,136	6,743	50,681	60,608	188,525	(339)	691,365
As at 1 January 2009	233,689	90,241	11,138	26,922	46,200	55,867	(501)	463,556
Movements during the year	–	25	2,075	10,499	9	74,918	237	87,763
(1) Total comprehensive income for the year	–	25	2,075	–	–	104,986	237	107,323
(2) Profit distribution	–	–	–	10,499	9	(30,068)	–	(19,560)
i Appropriation to surplus reserve	–	–	–	10,499	–	(10,499)	–	–
ii Appropriation to general reserve	–	–	–	–	9	(9)	–	–
iii Appropriation to equity shareholders	–	–	–	–	–	(19,560)	–	(19,560)
As at 31 December 2009	233,689	90,266	13,213	37,421	46,209	130,785	(264)	551,319

The notes on pages 141 to 238 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010
(Expressed in millions of RMB, unless otherwise stated)

	Note	2010	2009
Cash flows from operating activities			
Profit before tax		**175,156**	138,725
Adjustments for:			
– Impairment losses	13	**29,292**	25,460
– Depreciation and amortisation	12	**11,827**	10,876
– Unwinding of discount		**(799)**	(1,270)
– Revaluation gain on financial instruments at fair value through profit or loss		**(1,659)**	(924)
– Share of profit less losses of associates and jointly controlled entities		**(34)**	(17)
– Dividend income	9	**(228)**	(100)
– Unrealised foreign exchange loss/(gain)		**1,847**	(3,628)
– Interest expense on bonds issued		**3,282**	3,211
– Net gain on disposal of investment securities	10	**(1,903)**	(4,471)
– Net gain on disposal of fixed assets and other long-term assets		**(455)**	(110)
		216,326	167,752
Changes in operating assets:			
Net increase in deposits with central banks and with banks and non-bank financial institutions		**(485,985)**	(258,955)
Net increase in placements with banks and non-bank financial institutions		**(2,490)**	(1,243)
Net increase in loans and advances to customers		**(869,732)**	(1,030,197)
Net decrease/(increase) in financial assets held under resale agreements		**408,498**	(381,058)
(Increase)/decrease in other operating assets		**(19,954)**	18,705
		(969,663)	(1,652,748)
Changes in operating liabilities:			
Net increase in borrowings from central banks		**1,806**	–
Net increase/(decrease) in placements from banks and non-bank financial institutions		**29,407**	(6,947)
Net increase in deposits from customers and from banks and non-bank financial institutions		**992,829**	1,948,273
Net increase/(decrease) in financial assets sold under repurchase agreements		**4,899**	(864)
Net (decrease)/increase in certificates of deposit issued		**(1,967)**	4,107
Income tax paid		**(37,921)**	(44,567)
Increase in other operating liabilities		**23,645**	8,573
		1,012,698	1,908,575
Net cash from operating activities		**259,361**	423,579
Cash flows from investing activities			
Proceeds from sale and redemption of investments		**1,371,120**	1,168,724
Dividends received		**229**	106
Proceeds from disposal of fixed assets and other long-term assets		**713**	727
Cash received from other investing activities		**–**	3,962
Purchase of investment securities		**(1,696,728)**	(1,568,911)
Purchase of fixed assets and other long-term assets		**(20,452)**	(22,045)
Acquisition of associates and jointly controlled entities		**(18)**	(54)
Net cash used in investing activities		**(345,136)**	(417,491)
Cash flows from financing activities			
Rights issue		**61,159**	–
Issue of subordinated bonds		**–**	79,880
Capital contribution by non-controlling interests		**440**	–
Dividends paid		**(47,232)**	(19,576)
Repayments of debt securities issued		**(2,870)**	(40,000)
Interest paid on bonds issued		**(3,298)**	(1,972)
Net cash from financing activities		**8,199**	18,332

The notes on pages 141 to 238 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010
(Expressed in millions of RMB, unless otherwise stated)

	Note	2010	2009
Effect of exchange rate changes on cash and cash equivalents		**(1,374)**	18
Net (decrease)/increase in cash and cash equivalents		**(78,950)**	24,438
Cash and cash equivalents as at 1 January	56(1)	**380,249**	355,811
Cash and cash equivalents as at 31 December	56(1)	**301,299**	380,249
Cash flows from operating activities include:			
Interest received		**362,523**	327,930
Interest paid, excluding interest expense on bonds issued		**(116,793)**	(125,785)

The notes on pages 141 to 238 form part of these financial statements.

1 Company information

China Construction Bank Corporation (the "Bank") is a joint-stock company with limited liability incorporated in the People's Republic of China (the "PRC") on 17 September 2004, as a result of a separation procedure undertaken by the predecessor of the Bank, China Construction Bank ("CCB"). Under the terms of the separation, the Bank succeeded to the commercial banking business and related assets and liabilities of CCB as at 31 December 2003.

The registered office of the Bank is located at No. 25, Finance Street, Xicheng District, Beijing, the PRC. The Bank obtained the financial service certificate on 15 September 2004, as approved by the China Banking Regulatory Commission (the "CBRC") and the business license on 17 September 2004, as approved by the State Administration for Industry and Commerce of the PRC.

In October 2005 and September 2007, the Bank publicly offered H shares on the Main Board of the Stock Exchange of Hong Kong Limited and A shares on the Shanghai Stock Exchange respectively. All H and A shares rank pari passu with the same rights and benefits.

In 2010, on the basis of 0.7 rights shares for every 10 existing shares, the Bank completed both A and H Share Rights Issue ("Rights Issue"). A total of 16,322 million shares with a par value of RMB1 each were issued, the total gross proceeds raised were RMB61,273 million and the net subscription capital after deducting the costs directly associated with the Rights Issue of RMB114 million, were RMB61,159 million. 594 million A shares and 15,728 million H shares issued on the subscription price of RMB3.77 and HKD4.38 per share respectively. The total proceeds raised for A and H Share Rights Issue were RMB2,238 million and RMB59,035 million respectively.

For the purpose of these financial statements, Mainland China refers to the PRC excluding the Hong Kong Special Administrative Region of the PRC ("Hong Kong"), the Macau Special Administrative Region of the PRC and Taiwan. Overseas refers to countries and regions other than Mainland China.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management, trustee, finance leasing, investment banking and other financial services. The Group mainly operates in Mainland China and also has several overseas branches and subsidiaries.

The Bank is under the supervision of the banking regulatory bodies empowered by the State Council of the PRC (the "State Council"). The overseas financial operations of the Bank are under the supervision of their respective local jurisdictions. Central Huijin Investments Limited ("Huijin"), a wholly owned subsidiary of China Investment Corporation ("CIC"), exercises the rights and obligations as an investor on behalf of the PRC Government.

These financial statements were authorised for issue by the board of directors of the Bank on 25 March 2011.

2 Basis of preparation

These financial statements for the year ended 31 December 2010 comprise the Bank and its subsidiaries and the Group's interests in associates and jointly controlled entities.

(1) Basis of measurement

These financial statements have been prepared on the historical cost basis except that: (i) financial instruments designated at fair value through profit or loss are measured at fair value; (ii) derivative financial instruments are measured at fair value; (iii) available-for-sale financial assets are measured at fair value; and (iv) certain non-financial assets are measured at deemed cost. The measurement basis of major assets and liabilities are further explained in Note 4.

(2) Functional and presentation currency

These financial statements are presented in RMB, unless otherwise stated, rounded to the nearest million, which is the functional currency of domestic branches and subsidiaries of the Group. The functional currencies of overseas branches and subsidiaries are determined in accordance with the primary economic environment in which they operate, and are translated into RMB for the preparation of these financial statements according to Note 4(2)(b).

(3) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 4(22).

3 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Group has adopted new IFRSs effective for the current year. There is no early adoption of any new IFRSs not yet effective for the year ended 31 December 2010. The following new IFRSs adopted are relevant to these financial statements:

IFRS 3 (revised 2008), *Business Combinations*, includes the following main changes: (i) transaction costs incurred by the acquirer in connection with the business combination do not form part of the business combination transaction, and are expensed as incurred; (ii) the acquirer can elect to measure any non-controlling interest at fair value at the acquisition date, or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree.

IAS 27 (revised 2008), *Consolidated and Separate Financial Statements*, mainly changes the accounting for non-controlling interests (previously minority interests). Significant changes include: (i) changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for within shareholders' equity as transactions with owners acting in their capacity as owners; (ii) transactions resulting in a loss of control would cause a gain or loss to be recognised in profit or loss; and (iii) losses applicable to the non-controlling interests, including other negative comprehensive income, are allocated to non-controlling interests even if doing so causes the non-controlling interests to have a negative balance.

The adoption of these amendments of IFRSs has no significant impact on the accounting policies of the Group. The accounting policies set out below have been applied consistently by the Group to all periods presented in these financial statements.

4 Significant accounting policies and accounting estimates

(1) Consolidated financial statements

(a) Business combinations

The Group, at the acquisition date, allocates the cost of a business combination by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair value at that day. Where the cost of a business combination exceeds the Group's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill in accordance with the accounting policies set out in Note 4(9); where the cost of a business combination is less than the Group's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss.

Acquisition date mentioned above is the date that the Group effectively obtains control of the acquiree.

(b) Subsidiaries and non-controlling interests

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its operating activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

For the separate financial statements of the Bank, investments in subsidiaries are accounted for at cost. At initial recognition, investment in subsidiaries is measured at: the cost of acquisition determined at the acquisition date when the subsidiaries are acquired through business combination; or the cost of capital injected into the subsidiaries set up by the Group. Impairment losses on investments in subsidiaries are accounted for in accordance with the accounting policies as set out in Note 4(11).

The results and affairs of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. When preparing the consolidated financial statements, the Bank shall make necessary adjustments on the accounting period and accounting policies of subsidiaries to comply with those of the Bank.

Intragroup balances and transactions, and any profits or losses arising from intragroup transactions are eliminated in full in preparing the consolidated financial statements.

The portion of a subsidiary's net assets that is attributable to equity interests that are not owned by the Bank, whether directly or indirectly through subsidiaries, is treated as non-controlling interests and presented as "non-controlling interests" in the consolidated statement of financial position within total equity. The portion of net profit or loss and other comprehensive income of subsidiaries for the year attributable to non-controlling interests is separately presented in the consolidated statement of comprehensive income as a component of the Group's net profit.

(c) Special purpose entities

The Group has established a number of Special Purpose Entities ("SPEs") for investment and securitisation purposes. The Group evaluates the substance of its relationship with the SPEs as well as the SPEs' risks and rewards to determine whether the Group controls the SPEs. The following circumstances, which may indicate a relationship in which the Group controls a SPE are taken into account: (i) in substance, the activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operations; (ii) in substance, the Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE; (iii) in substance, the Group 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 (iv) in substance, the Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities. Where the evaluation result indicates that control exists, the Group will consolidate the SPE.

4 Significant accounting policies and accounting estimates (continued)

(1) Consolidated financial statements (continued)

(d) Associates and jointly controlled entities

An associate is an enterprise in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policy decisions.

A jointly controlled entity is an enterprise which operates under joint control between the Group and other parties. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control.

Investments in associate or jointly controlled entity are accounted for using the equity method in the consolidated financial statements and are initially recorded at acquisition cost, and adjusted thereafter for the post acquisition change in the Group's share of net assets of the associate or jointly controlled entity. The Group's share of the post-acquisition, post-tax results of the associate or jointly controlled entity for the year is recognised in the consolidated statement of comprehensive income. The Group's interest in associate or jointly controlled entity is included from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

Profits and losses resulting from transactions between the Group and its associate or jointly controlled entity are eliminated to the extent of the Group's interest in the associate or jointly controlled entity.

The Group discontinues recognising its share of net losses of the associate or jointly controlled entity after the carrying amount of investments in associate and jointly controlled entity together with any long-term interests that in substance form part of the Group's net investment in the associate or jointly controlled entity are reduced to zero, except to the extent that the Group has incurred legal or constructive obligations to assume additional losses. Where the associate or jointly controlled entity makes net profits subsequently, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

(2) Translation of foreign currencies

(a) Translation of foreign currency transactions

Foreign currency transactions are, on initial recognition, translated into the functional currency at the spot exchange rates at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated into the functional currency at the spot exchange rates at that date. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currency using the spot exchange rates at the transaction dates. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the spot exchange rates at the dates the fair values are determined; exchange differences are recognised in profit or loss, except for the differences arising from the translation of available-for-sale equity instruments, which are recognised in other comprehensive income.

(b) Translation of financial statements denominated in foreign currencies

Foreign currency financial statements of overseas branches and subsidiaries are translated into RMB for the preparation of consolidated financial statements. At the end of each reporting period, the assets and liabilities in the financial statements denominated in foreign currencies are translated into RMB at the spot exchange rates ruling at that date. The income and expenses of foreign operations are translated into RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the transaction dates. Foreign exchange differences arising from foreign operations are recognised as "exchange reserve" in the shareholder's equity in the statement of financial position.

(3) Financial instruments

(a) Categorisation

The Group classifies financial instruments into different categories at inception, depending on the purposes for which the assets were acquired or the liabilities were incurred. The categories are: financial assets and financial liabilities at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities.

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

Financial assets and financial liabilities at fair value through profit or loss include those classified as held for trading, and those designated as at fair value through profit or loss.

A financial asset or financial liability is classified as held for trading if it is: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) 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) a derivative (except for a derivative that is a designated and effective hedging instrument or a financial guarantee contract).

Financial assets or financial liabilities are designated at fair value through profit or loss upon initial recognition when: (i) the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis; (ii) the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in measurement basis of the financial assets or financial liabilities; or (iii) if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss unless: the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited.

4 Significant accounting policies and accounting estimates (continued)

(3) Financial instruments (continued)

(a) Categorisation (continued)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than: (i) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (ii) those that meet the definition of loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (i) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (ii) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (iii) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise deposits with central banks, deposits and placements with banks and non-bank financial institutions, financial assets held under resale agreements, loans and advances to customers, and debt securities classified as receivables.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as: (i) financial assets at fair value through profit or loss; (ii) held-to-maturity investments; or (iii) loans and receivables.

Other financial liabilities

Other financial liabilities are financial liabilities other than those designated as at fair value through profit or loss and mainly comprise borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

Investment securities in the financial statements comprise the securities classified as held-to-maturity investments, available-for-sale financial assets and debt securities classified as receivables.

(b) Derivatives and embedded derivatives

The Group uses derivatives to hedge its exposure to foreign exchange and interest rate risks. Derivatives are recognised at fair value upon initial recognition. The positive fair value is recognised as an asset while the negative fair value is recognised as a liability. The gain or loss on re-measurement to fair value is recognised in profit or loss.

Certain derivatives are embedded into non-derivative hybrid instruments (the host contracts). The embedded derivatives are separated from the host contract and accounted for as a separate derivative when (i) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (iii) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss. When the embedded derivative is separated, the host contract is accounted for as a financial instrument in accordance with the accounting policies as set out in Note 4(3).

(c) Recognition and derecognition

All financial assets and financial liabilities are recognised in the statement of financial position, when and only when, the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of transfer of cash flows and transfers substantially all the risks and rewards of ownership of the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. If the Group has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

The financial liability is derecognised only when: (i) the underlying present obligation specified in the contracts is discharged, cancelled or expired, or (ii) an agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

4 Significant accounting policies and accounting estimates (continued)

(3) Financial instruments (continued)

(d) Measurement

Financial instruments are measured initially at fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument. Transaction costs for financial instruments at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortised cost, while other categories of financial instruments are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal. Investments in available-for-sale equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment losses, if any.

Gains and losses from changes in the fair value of financial instruments at fair value through profit or loss are recognised in profit or loss.

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated separately in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in profit or loss.

When the available-for-sale financial assets are sold, gains or losses on disposal are recognised in profit or loss. Gains or losses on disposal include those previously recognised in other comprehensive income and reclassified into the profit or loss.

For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or financial liability is derecognised, impaired, or through the amortisation process.

(e) Impairment

At the end of each reporting period, the Group assesses the carrying amount of financial assets (except for those at fair value through profit or loss). If there is any objective evidence that a financial asset is impaired, the Group will recognise the impairment loss in profit or loss. Losses expected as a result of future events, no matter how likely, are not recognised as impairment losses.

Objective evidence that a financial asset is impaired includes one or more events that occurred after the initial recognition of the asset where the event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence includes the following loss event:

- significant financial difficulty of the borrower or issuer;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- disappearance of an active market for financial assets because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: adverse changes in the payment status of borrowers in the group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the group;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the issuer of an equity instrument;
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; and
- other objective evidence indicating there is an impairment of the financial asset.

4 Significant accounting policies and accounting estimates (continued)

(3) Financial instruments (continued)

(e) Impairment (continued)

Loans and receivables and held-to-maturity investments

Individual assessment

Loans and receivables and held-to-maturity investments, which are considered individually significant, are assessed individually for impairment. If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost 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, and recognised in profit or loss.

Cash flows relating to short-term loans and receivables and held-to-maturity investments are not discounted if the effect of discounting is immaterial. The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Collective assessment

Homogeneous groups of loans and advances to customers not considered individually significant and individually assessed loans and receivables and held-to-maturity investments with no objective evidence of impairment on an individual basis are assessed for impairment losses on a collective basis. If there is observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those financial assets, the impairment is recognised and recorded in profit or loss.

For homogeneous groups of loans and advances that are not considered individually significant, the Group adopts a flow rate methodology to assess impairment losses on a collective basis. This methodology utilises a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions.

Loans and receivables and held-to-maturity investments which are individually significant and therefore have been individually assessed but for which no impairment can be identified, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. The collective impairment loss is assessed after taking into account: (i) historical loss experience in portfolios of similar risk characteristics; (ii) the emergence period between a loss occurring and that loss being identified; and (iii) the current economic and credit environments and whether in management's experience these indicate that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the markets where the Group operates.

Impairment losses recognised on a collective basis represent an interim step pending the identification of impairment losses on individual assets (which are subject to individual assessment) in the pool of financial assets that are collectively assessed for impairment.

At the end of each reporting period, collective assessment covers those loans and receivables and held-to-maturity investments that were impaired but was not individually identified as such until some time in the future. As soon as information is available to specifically identify objective evidence of impairment on individual assets in a pool, those assets are removed from the pool of collectively assessed financial assets.

Impairment reversal and loan write-off

If, in a subsequent period, the amount of the impairment loss on loans and receivables and held-to-maturity investments decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

When the Group determines that a loan has no reasonable prospect of recovery after the Group has completed all the necessary legal or other proceedings, the loan is written off against its allowance for impairment losses. If in a subsequent period the loan written off is recovered, the amount recovered will be recognised in profit or loss through impairment losses.

Rescheduled loans

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Group has made concessions that it would not otherwise consider under normal circumstances. Rescheduled loans are assessed individually and classified as impaired loans and advances upon restructuring. Rescheduled loans are subject to ongoing monitoring. Once a rescheduled loan has met specific conditions by the end of the observation period of normally 6 months, with the approval from management, they would no longer be considered as impaired.

4 Significant accounting policies and accounting estimates (continued)

(3) Financial instruments (continued)

(e) Impairment (continued)

Available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognised in other comprehensive income is reclassified to the profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. For available-for-sale investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss.

If, in a subsequent period, the fair value of available-for-sale financial assets increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss shall be treated in accordance with the following principles: (i) the impairment loss on debt instruments classified as available-for-sale shall be reversed, with the amount of the reversal recognised in profit or loss; (ii) the impairment loss on equity instruments classified as available-for-sale shall not be reversed through the profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income; or (iii) the impairment loss in respect of available-for-sale equity investments carried at cost shall not be reversed.

(f) Fair value measurement

If there is an active market for financial instruments, the fair value of financial instruments is based on quoted market prices without any deduction for transaction costs that may occur on sales or disposals. The appropriate quoted price in an active market for financial assets held or liabilities to be issued is usually the current bid price and for financial assets to be acquired or liabilities held, the asking price. A quoted price is from an active market where price information is readily and regularly available from an exchange, dealer, industry group or pricing service agency and that price information represents actual and regularly occurring market transactions on an arm's length basis.

If a quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include recent arm's length market transactions between knowledgeable and willing parties, reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The Group selects valuation techniques that are commonly accepted by market participants for pricing the instruments and these techniques have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. Periodically, the Group reviews the valuation techniques and tests them for validity.

(g) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(h) Securitisations

The Group securitises certain loans, which generally involves the sale of these assets to SPEs, which in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of credit enhancement or subordinated tranches, or other residual interests ("retained interests"). Retained interests are carried at fair value on inception date on the Group's statement of financial position. Gains or losses on securitisation are the difference between the carrying amount of the transferred financial assets and the consideration received (including retained interest) which is recognised in profit or loss.

(i) Financial assets held under resale agreements and financial assets sold under repurchase agreements

Financial assets held under resale agreements are transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Financial assets sold under repurchase agreements are transactions where the Group sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the statement of financial position. Assets held under resale agreements are not recognised. Assets sold under repurchase agreements continue to be recognised in the statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

(4) Precious metals

Precious metals comprise gold and other precious metals. Precious metals that are acquired by the Group principally for trading purpose are initially recognised at fair value and re-measured at fair value less cost to sell with changes in fair value less cost to sell included in "net trading gain" in the statement of comprehensive income. Precious metals that are not acquired by the Group principally for trading purpose are carried at lower of cost and net realisable value.

(Expressed in millions of RMB, unless otherwise stated)

4 Significant accounting policies and accounting estimates (continued)

(5) Fixed assets

Fixed assets are assets held by the Group for the conduct of business and are expected to be used for more than one year. Construction in progress is the property and equipment under construction, which is transferred to fixed assets when ready for its intended use.

(a) Cost

Fixed assets are initially recognised at cost, except for the fixed assets and construction in progress obtained from CCB by the Bank which were recognised at the revalued amount as deemed cost on the Restructuring Date. The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditures for bringing the asset to working condition for its intended use. The cost of a self-constructed fixed asset comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use.

Where the individual components of an item of fixed asset have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognised as separate fixed assets.

Subsequent costs, including the cost of replacing part of an item of fixed assets, are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. Expenditures relating to ordinary maintenance of fixed assets are recognised in profit or loss.

(b) Depreciation and impairment

Depreciation is calculated to write off to the profit or loss the cost of items of fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives. Impaired fixed assets are depreciated net of accumulated impairment losses. No depreciation is provided on construction in progress.

The estimated useful lives, residual values and depreciation rates of respective fixed assets are as follows:

Types of assets	Estimated useful lives	Estimated net residual values	Depreciation rates
Bank premises	30 – 35 years	3%	2.8%-3.2%
Equipment	3 – 8 years	3%	12.1%-32.3%
Others	4 – 11 years	3%	8.8%-24.3%

The Group reviews the estimated useful life and estimated residual value of a fixed asset and the depreciation method applied at least once a financial year.

Impairment losses on fixed assets are accounted for in accordance with the accounting policies as set out in Note 4(11).

(c) Disposal

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the fixed asset and are recognised in profit or loss on the date of retirement or disposal.

(6) Lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

(a) Finance lease

Where the Group is a lessor under finance leases, an amount representing the sum of the minimum lease payments and initial direct costs at the commencement of the lease term, is included in “loans and advances to customers” on statement of financial position as a lease receivable. Unrecognised finance income under finance leases is amortised using the effective interest rate method over the lease term. Finance income implicit in the lease payment is recognised as “interest income” over the period of the leases in proportion to the funds invested. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases.

Impairment losses on lease receivables are accounted for in accordance with the accounting policies as set out in Note 4(3)(e).

(b) Operating lease

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the profit or loss, using the straight-line method, over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the profit or loss in the accounting period in which they are incurred.

4 Significant accounting policies and accounting estimates (continued)

(7) Land use rights

Land use rights are initially recognised at cost. The land use rights obtained from CCB by the Bank on the date of Restructuring were recorded at the revalued amount. The cost of the land use rights is amortised on a straight-line basis over their authorised useful lives which range from 30 to 50 years, and charged to the profit or loss. Impaired land use rights are amortised net of accumulated impairment losses.

Impairment losses on land use rights are accounted for in accordance with the accounting policies as set out in Note 4(11).

(8) Intangible assets

Software and other intangible assets are initially recognised at cost. The cost less estimated residual values (if any) of the intangible assets is amortised on a straight-line basis over their useful lives, and charged to the profit or loss. Impaired intangible assets are amortised net of accumulated impairment losses.

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 4(11).

(9) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the fair value of the acquiree's identifiable net assets. Goodwill is not amortised. Goodwill arising on a business combination is allocated to each cash-generating unit ("CGU") or group of CGUs, that is expected to benefit from the synergies of the combination. The Group performs impairment test on goodwill semi-annually.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable net assets over the cost of a business combination is recognised immediately in profit or loss.

On disposal of the related CGU or group of CGUs, any attributable amount of goodwill net of allowances for impairment losses, if any, is included in the calculation of the profit or loss on disposal.

Impairment loss on goodwill is accounted for in accordance with the accounting policies as set out in Note 4(11).

(10) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Repossessed assets are recognised and reported in "other assets" in the statement of financial position when the Group intends to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower.

When the Group seizes assets to compensate for the losses of loans and advances and interest receivable, the repossessed assets are initially recognised at fair value, plus any taxes paid for the seizure of the assets, litigation fees and other expenses incurred for collecting the repossessed assets. Repossessed assets are recognised at the carrying value, net of allowances for impairment losses (Note 4(11)).

(11) Allowances for impairment losses on non-financial assets

At the end of each reporting period, the Group assesses whether there is any indication that a non-financial asset may be impaired. If any indication exists that an asset may be impaired, the Group estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired and it is not possible to estimate the recoverable amount of an individual asset, the Group determines the recoverable amount of the CGU to which the asset belongs.

CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or groups of assets.

The recoverable amount of an asset (or CGU, group of CGUs) is the higher of its fair value less costs to sell and the present value of the expected future cash flows. The Group considers all relevant factors in estimating the present value of future cash flows, such as the expected future cash flows, the useful life and the discount rate.

(a) Testing CGU with goodwill for impairment

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the CGU or group of CGUs that is expected to benefit from the synergies of the combination.

A CGU or group of CGUs to which goodwill has been allocated is tested for impairment by the Group semi-annually, or whenever there is an indication that the CGU or group of CGUs are impaired, by comparing the carrying amount of the CGU or group of CGUs, including the goodwill, with the recoverable amount of the CGU or group of CGUs. The recoverable amount of the CGU or group of CGUs are the estimated future cash flows, which are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU or group of CGUs with allocated goodwill.

At the time of impairment testing of a CGU or group of CGUs to which goodwill has been allocated, there may be an indication of an impairment of an asset within the CGU containing the goodwill. In such circumstances, the Group tests the asset for impairment first, and recognises any impairment loss for that asset before testing for impairment on the CGU or group of CGUs containing the goodwill. Similarly, there may be an indication of an impairment of a CGU within a group of CGUs containing the goodwill. In such circumstances, the entity tests the CGU for impairment first, and recognises any impairment loss for that CGU, before testing for impairment the group of CGUs to which the goodwill is allocated.

4 Significant accounting policies and accounting estimates (continued)

(11) Allowances for impairment losses on non-financial assets (continued)

(b) Impairment loss

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to the profit or loss.

For a CGU or a group of CGUs, the amount of impairment loss firstly reduces the carrying amount of any goodwill allocated to the CGU or group of CGUs, and then reduces the carrying amount of other assets (other than goodwill) within the CGU or group of CGUs, pro rata on the basis of the carrying amount of each asset.

(c) Reversing an impairment loss

If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

An impairment loss in respect of goodwill is not reversed.

(12) Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditures incurred by the Group in exchange for services rendered by employees. Except for termination benefits, employee benefits are recognised as a liability in the period in which the associated services are rendered by its employees, with a corresponding increase in cost of relevant assets or the expenses in profit or loss. Where payment or settlement is deferred and the effect of discount would be material, these amounts are stated at their present values in the statement of financial position.

(a) Staff incentive plan

As approved by the board of directors, for the purposes of providing incentives and rewards to eligible employees for their past services, the Group awards a specified amount of staff compensation to the staff incentive plan independently managed by a designated staff committee for those eligible participating employees. The Group recognises its contribution to the plan when it has a present legal or constructive obligation to make such payment and a reliable estimate of the obligation can be made.

(b) Defined contribution retirement schemes

Pursuant to the relevant laws and regulations in the PRC, the Group has joined defined contribution retirement schemes for the employees arranged by local government labor and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the local government organizations. The contributions are charged to the profit or loss on an accrual basis. When employees retire, the local government labor and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

In addition to the statutory provision schemes, the Bank's employees have joined the annuity scheme set up by the Bank under "CCBC Annuity Scheme" (the "scheme") in accordance with state enterprise annuity regulations. The Bank has made annuity contributions in proportion to its employees' gross wages, which are expensed in profit or loss when the contributions are made.

(c) Supplementary retirement benefits

The Group pays supplementary retirement benefits for its employees in Mainland China who retired on or before 31 December 2003 in addition to the contributions made to statutory insurance schemes. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future obligations that the Group is committed to pay to the employees after their retirement using actuarial techniques. At the end of each reporting period, such obligations are discounted with interest yield of government bonds with similar duration. In calculating the Group's obligations, to the extent that any cumulative unrecognised gains or losses exceed 10% of the present value of the obligation at the end of each reporting period, that portion is recognised in profit or loss. Otherwise, the gain or loss is not recognised.

(d) Housing fund and other social insurance

In accordance with the related laws, regulations and policies of the PRC, the Group participates in mandatory social insurance programmes, including housing fund, basic medical insurance, unemployment insurance, work injury insurance and maternity insurance etc. The Group makes housing fund and social insurance contributions to government agencies in proportion to each employees' salary and expenses monthly and recognises them in profit or loss on an accrual basis.

(e) Termination benefits

Where the Group terminates the employment relationship with employees before the end of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision is recognised for the compensation arising from termination of employment relationship, with a corresponding charge to the profit or loss for the current period, when both of the following conditions are satisfied: (i) the Group has a formal plan for termination of employment relationship or has made an offer for voluntary redundancy, which will be implemented immediately; (ii) the Group cannot unilaterally withdraw from the termination plan or the redundancy offer.

Early retirement expenses

The Group recognises the present value of all its liabilities to employees who agreed to retire early in return for certain future payments as expenses in profit or loss when the relevant staff accepts the early retirement arrangement and ceases to provide any services to the Group. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when incurred.

4 Significant accounting policies and accounting estimates (continued)

(13) Provisions and contingent liabilities

A provision is recognised in the statement of financial position if, as the result of a past event, the Group has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows.

A potential obligation arising from a past transaction or event whose existence can only be confirmed by the occurrence or non-occurrence of future uncertain events; or a present obligation that arises from past transactions or events where it is not probable that an outflow of economic benefits is required to settle the obligation or the amount of the obligation cannot be measured reliably, is disclosed as a contingent liability unless the probability of outflow of economic benefit is remote.

(14) Financial guarantees

Financial guarantees are contracts that require the guarantor (the "issuer") to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs when a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in "other liabilities". The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognised in the statement of financial position if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

(15) Fiduciary activities

The Group's fiduciary business refers to the management of assets for customers in accordance with custody agreements signed by the Group and securities investment funds, insurance companies, annuity plans and other organisations. The Group fulfils its fiduciary duty and receives relevant fees in accordance with these agreements, and does not take up any risks and rewards related to the assets under custody, which are recorded as off-balance sheet items.

The Group conducts entrusted lending business, whereby it enters into entrusted loan agreements with customers. Under the terms of these agreements, the customers provide funding (the "entrusted funds") to the Group, and the Group grants loans to third parties (the "entrusted loans") according to the instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, entrusted loans and funds are recorded as off-balance sheet items at their principal amounts and no impairment assessments are made for these entrusted loans.

(16) Income recognition

Provided it is probable that economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(a) Interest income

Interest income for interest bearing financial instruments is recognised in profit or loss based on effective interest method. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis.

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

Interest on the impaired financial assets is recognised using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

(b) Fee and commission income

Fee and commission income is recognised in profit or loss when the corresponding service is provided. Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Group making a loan, the fee is recognised as revenue on expiry.

(c) Finance income from finance leases and hire purchase contracts

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

(d) Dividend income

Dividend income from unlisted equity investments is recognised in profit or loss on the date when the Group's right to receive payment is established. Dividend income from a listed equity investment is recognised when the share price of the investment goes ex-dividend.

4 Significant accounting policies and accounting estimates (continued)

(17) Income tax

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods. Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax also arises from unused tax losses and unused tax credits. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Current income tax and movements in deferred tax balances are recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

At the end of each reporting period, deferred tax assets and deferred 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 according to the requirements of tax laws. The Group also considers the possibility of realisation and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. Otherwise, the balances of deferred tax assets and deferred tax liabilities, and movements therein, are presented separately from each other and are not offset.

(18) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(19) Profit distribution

Proposed dividends which are declared and approved after the end of each reporting period are not recognised as a liability in the statement of financial position and are instead disclosed as a subsequent event after the end of each reporting period in the note to the financial statements. Dividends payable are recognised as liabilities in the period in which they are approved.

(20) Related parties

If the Group has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. The Group's related parties include but are not limited to the following:

(a) the Bank's parents;
(b) the Bank's subsidiaries;
(c) other entities which are controlled by the Bank's parents;
(d) an investor who has joint control over the Group;
(e) an investor who can exercise significant influence over the Group;
(f) an associate of the Group;
(g) a jointly controlled entity of the Group;
(h) principal individual investors of the Group, and close family members of such individuals (principal individual investors are the individual investors who have the power, directly or indirectly, to control, jointly control or exercise significant influence over another party);
(i) key management personnel of the Group and close family members of such individuals (key management personnel represent those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of that entity);
(j) key management personnel of the Bank's parents and close family members of such individuals;
(k) other entities that are controlled, jointly controlled, or significantly influenced by the Group's principal individual investors, key management personnel, or close family members of such individuals; and
(l) a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(21) Operating segments

The identification of operating segments of the Group is on the basis of internal reports that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segment and assess its performance. On the basis of the operating segments, the Group identifies the reportable segments, using a combination of factors including products and services, geographical areas, regulatory environments and etc., which the management has chosen for organization. The operating segments that meet the specified criteria have been aggregated, and the operating segments that meet quantitative thresholds have been reported separately.

The amount reported for each operating segment item is the measure reported to the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

4 Significant accounting policies and accounting estimates (continued)

(22) Significant accounting estimates and judgements

(a) Impairment losses on loans and advances, and available-for-sale and held-to-maturity debt investments

The Group reviews the portfolios of loans and advances, and available-for-sale and held-to-maturity debt investments periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows identified with an individual loan and advance, an available-for-sale or a held-to-maturity debt investment. It also includes observable data indicating adverse changes in the repayment status of borrowers or issuers in the assets portfolio or national or local economic conditions that correlate with defaults on the assets in the portfolio.

The impairment loss for a loan that is individually assessed for impairment is the decrease in the estimated discounted future cash flows. Same principle is adopted for impairment loss on a held-to-maturity debt investment which is individually assessed, except that as a practical expedient, the Group may measure the impairment loss on the basis of the instrument's fair value using an observable market price at the measurement date. The impairment loss for an available-for-sale debt investment is the difference between the acquisition cost (net off any principal repayments and amortisation) and the fair value, less any impairment loss previously recognised in profit or loss at the measurement date.

When loans and advances and held-to-maturity debt investments are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances and held-to-maturity debt investments that are being assessed. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual losses.

(b) Impairment of available-for-sale equity instruments

For available-for-sale equity instruments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the Group considers historical market volatility and share price data of the specific equity instrument as well as other factors, such as sector performance, and financial information regarding the investee.

(c) Fair value of financial instruments

The fair value of financial instruments that are traded in an active market is based on their quoted market prices in an active market at the valuation date. A quoted market price is a price from an active market where price information is readily and regularly available from an exchange or from a dealer quotation and where this price information represents actual and recurring market transactions on an arm's length basis.

For all other financial instruments, the Group determines fair values using valuation techniques which include discounted cash flow models, as well as other types of valuation model. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign currency exchange rates. Where discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and the discount rate used is a market rate at the end of each reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on observable market data at the end of each reporting period.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

(d) Classification of held-to-maturity investments

In evaluating whether the requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements. Change of the Group in sustaining the intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

(e) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(f) Employee retirement benefit obligations

The Group has established liabilities in connection with benefits paid to certain retired employees. The amounts of employee benefit expense and these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, pension benefit inflation rates, medical benefit inflation rates, and other factors. Actual results that differ from the assumptions are recognised to the extent that any cumulative unrecognised gains or losses exceed 10% of the present value of the obligation at the end of each reporting period. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect the Group's expense related to its employee retirement benefit obligations.

(Expressed in millions of RMB, unless otherwise stated)

5 Taxation

The Group's main applicable taxes and tax rates are as follows:

Business tax

Business tax is charged at 5% on taxable income.

City construction tax

City construction tax is calculated as 1% – 7% of business tax.

Education surcharge

Education surcharge is calculated as 3% of business tax.

Income tax

The income tax rate that is applicable to the Bank and its subsidiaries in Mainland China is 25%. Taxation on overseas operations is charged at the relevant local rates. Tax paid on overseas operations is set off to the extent it is allowed under the relevant income tax laws of the PRC. All tax exemptions are determined upon approval from the relevant tax authorities.

Current liabilities arising from the above taxes are presented as "taxes payable" in the statement of financial position.

6 Net interest income

	2010	2009
Interest income arising from:		
Deposits with central banks	23,226	18,511
Deposits with banks and non-bank financial institutions	1,360	430
Placements with banks and non-bank financial institutions	450	310
Financial assets at fair value through profit or loss	706	1,178
Financial assets held under resale agreements	6,424	8,493
Investment securities	78,611	70,488
Loans and advances to customers		
– Corporate loans and advances	199,623	186,649
– Personal loans and advances	60,848	48,255
– Discounted bills	6,535	5,149
Total	377,783	339,463
Interest expense arising from:		
Borrowings from central banks	(14)	–
Deposits from banks and non-bank financial institutions	(13,626)	(12,737)
Placements from banks and non-bank financial institutions	(741)	(386)
Financial liabilities at fair value through profit or loss	(1)	(27)
Financial assets sold under repurchase agreements	(176)	(11)
Debt securities issued	(3,526)	(3,441)
Deposits from customers		
– Corporate deposits	(52,524)	(50,651)
– Personal deposits	(55,675)	(60,325)
Total	(126,283)	(127,578)
Net interest income	251,500	211,885

Notes:

(1) Interest income from impaired financial assets is listed as follows:

	2010	2009
Impaired loans	799	1,270
Other impaired financial assets	446	1,022
Total	1,245	2,292

(2) Interest expense on financial liabilities with maturity over five years mainly represented the interest expense on debt securities issued.

(Expressed in millions of RMB, unless otherwise stated)

7 Net fee and commission income

	2010	2009
Fee and commission income:		
Consultancy and advisory fees	12,816	10,962
Bank card fees	12,344	9,186
Agency service fees	12,115	9,840
Settlement and clearing fees	9,614	6,308
Commission on trust and fiduciary activities	6,720	5,522
Wealth management service fees	5,611	2,078
Electronic banking service fees	2,879	1,889
Guarantee fees	1,857	1,519
Credit commitment fees	1,605	1,256
Others	2,595	1,279
Total	68,156	49,839
Fee and commission expense:		
Bank card transaction fees	(1,302)	(963)
Inter-bank transaction fees	(341)	(347)
Others	(381)	(470)
Total	(2,024)	(1,780)
Net fee and commission income	66,132	48,059

8 Net trading gain

	2010	2009
Debt securities	(11)	(518)
Derivatives	1,587	1,043
Equity investments	1,232	1,495
Others	701	213
Total	3,509	2,233

For the year ended 31 December 2010, trading gain related to financial assets designated at fair value through profit or loss of the Group amounted to RMB1,017 million (2009: RMB1,013 million). Trading loss related to financial liabilities designated at fair value through profit or loss of the Group amounted to RMB807 million (2009: RMB70 million).

9 Dividend income

	2010	2009
Dividend income from listed trading equity investments	29	6
Dividend income from available-for-sale equity investments		
– Listed	83	38
– Unlisted	116	56
Total	228	100

10 Net gain arising from investment securities

	2010	2009
Net gain on sale of available-for-sale financial assets	1,103	1,960
Net revaluation gain reclassified from other comprehensive income on disposal	735	925
Net gain on sale of held-to-maturity investments	65	1,575
Net gain on sale of debt securities classified as receivables	–	11
Total	1,903	4,471

(Expressed in millions of RMB, unless otherwise stated)

11 Other operating income, net

	2010	2009
Net foreign exchange loss	(611)	(250)
Net gain on disposal of fixed assets	455	110
Net gain on disposal of repossessed assets	140	356
Gain on acquisition	–	473
Others	2,524	1,877
Total	2,508	2,566

Net foreign exchange gain or loss includes gains and losses in connection with the translation of foreign currency denominated monetary assets and liabilities, and net realised and unrealised gains and losses on foreign exchange derivatives (including those foreign exchange swaps, foreign exchange options and cross currency swaps entered into in order to economically hedge long positions in foreign currency assets).

12 Operating expenses

	2010	2009
Staff costs		
– Salaries, bonuses and allowances	42,652	35,422
– Defined contribution retirement schemes	7,206	5,941
– Other social insurance and welfare	5,311	4,362
– Housing funds	3,409	2,941
– Union running costs and employee education costs	1,695	1,238
– Supplementary retirement benefits	432	537
– Early retirement expenses	685	679
– Compensation to employees for termination of employment relationship	19	18
	61,409	51,138
Premises and equipment expenses		
– Depreciation charges	9,855	9,005
– Rent and property management expenses	4,578	4,048
– Maintenance	1,673	1,480
– Utilities	1,545	1,423
– Others	879	799
	18,530	16,755
Amortisation expenses	1,972	1,871
Business tax and surcharges	18,364	15,972
Audit fees	148	157
Other general and administrative expenses	20,943	19,253
Total	121,366	105,146

13 Impairment losses

	2010	2009
Loans and advances to customers		
– Additions	38,425	40,415
– Releases	(12,784)	(16,159)
Available-for-sale debt securities	139	999
Available-for-sale equity investments	1,678	5
Held-to-maturity investments	(381)	76
Debt securities classified as receivables	24	32
Fixed assets	2	2
Others	2,189	90
Total	29,292	25,460

(Expressed in millions of RMB, unless otherwise stated)

14 Directors' and supervisors' emoluments

The aggregate of the emoluments before individual income tax in respect of the directors and supervisors who held office during the year is as follows:

	2010				
	Fees RMB'000	Remuneration paid RMB'000	Contributions to defined contribution retirement schemes RMB'000	Other benefits in kind (note (vi)) RMB'000	Total (note (i)) RMB'000
Executive directors					
Guo Shuqing (note (vii))	–	672	29	290	991
Zhang Jianguo (note (vii))	–	648	29	290	967
Chen Zuofu (note (ii)&(vii))	–	564	29	247	840
Zhu Xiaohuang(note (ii)&(vii))	–	564	29	246	839
Non-executive directors					
Wang Yong (note (iii))	–	–	–	–	–
Wang Shumin (note (iii))	–	–	–	–	–
Zhu Zhenmin (note (ii)&(iii))	–	–	–	–	–
Li Xiaoling (note (iii))	–	–	–	–	–
Sue Yang (note (ii)&(iv))	163	–	–	–	163
Lu Xiaoma (note (ii)&(iii))	–	–	–	–	–
Chen Yuanling (note (ii)&(iii))	–	–	–	–	–
Independent non-executive directors					
Lord Peter Levene	360	–	–	–	360
Yam Chi Kwong, Joseph (note (ii))	158	–	–	–	158
Dame Jenny Shipley	390	–	–	–	390
Elaine La Roche	425	–	–	–	425
Zhao Xijun (note (ii))	171	–	–	–	171
Wong Kai-Man	415	–	–	–	415
Supervisors					
Zhang Furong (note (ii))&(vii))	–	265	12	127	404
Liu Jin (note (vii))	–	402	29	208	639
Song Fengming (note (ii))	135	–	–	–	135
Jin Panshi (note (ii)&(vii))	13	201	14	100	328
Li Weiping (note (ii)&(v))	13	–	–	–	13
Huang Shuping (note (ii)&(v))	13	–	–	–	13
Guo Feng	250	–	–	–	250
Dai Deming	270	–	–	–	270
Former non-executive directors					
Wang Yonggang (note(ii)&(iii))	–	–	–	–	–
Liu Xianghui (note(ii)&(iii))	–	–	–	–	–
Zhang Xiangdong (note(ii)&(iii))	–	–	–	–	–
Gregory L. Curl (note(ii)&(iv))	195	–	–	–	195
Former independent non-executive directors					
Song Fengming (note(ii))	220	–	–	–	220
Tse Hau Yin, Aloysius (note(ii))	220	–	–	–	220
Former supervisors					
Xie Duyang (note(ii)&(vii))	–	477	21	215	713
Cheng Meifen (note(ii)&(v))	13	–	–	–	13
Sun Zhixin (note(ii)&(v))	13	–	–	–	13
Shuai Jinkun (note(ii)&(v))	13	–	–	–	13
	3,450	3,793	192	1,723	9,158

(Expressed in millions of RMB, unless otherwise stated)

14 Directors' and supervisors' emoluments (continued)

	2009						
	Basic annual salaries RMB'000	Annual performance bonus RMB'000	Allowance RMB'000	Welfare RMB'000	Total (before tax) (note (viii)) RMB'000	Including: deferral payment RMB'000	The actual payment in 2009 (before tax) RMB'000
Executive directors							
Guo Shuqing	377	997	–	306	1,680	498	1,182
Zhang Jianguo	358	944	–	306	1,608	472	1,136
Xin Shusen	338	892	–	264	1,494	446	1,048
Chen Zuofu (note (ii))	338	892	–	264	1,494	446	1,048
Non-executive directors							
Wang Yonggang (note (iii))	–	–	–	–	–	–	–
Wang Yong (note (iii))	–	–	–	–	–	–	–
Wang Shumin (note (iii))	–	–	–	–	–	–	–
Liu Xianghui (note (iii))	–	–	–	–	–	–	–
Zhang Xiangdong (note (iii))	–	–	–	–	–	–	–
Li Xiaoling (note (iii))	–	–	–	–	–	–	–
Gregory L. Curl (note (iv))	–	–	390	–	390	–	390
Independent non-executive directors							
Lord Peter Levene	–	–	360	–	360	–	360
Song Fengming	–	–	440	–	440	–	440
Jenny Shipley	–	–	360	–	360	–	360
Elaine La Roche	–	–	410	–	410	–	410
Wong Kai-Man	–	–	390	–	390	–	390
Tse Hau Yin, Aloysius	–	–	440	–	440	–	440
Supervisors							
Xie Duyang	350	923	–	304	1,577	462	1,115
Liu Jin	258	681	–	224	1,163	341	822
Jin Panshi	258	681	–	224	1,163	341	822
Cheng Meifen (note (v))	–	–	26	–	26	–	26
Sun Zhixin (note (v))	–	–	26	–	26	–	26
Shuai Jinkun (note (v))	–	–	26	–	26	–	26
Guo Feng	–	–	250	–	250	–	250
Dai Deming	–	–	270	–	270	–	270
	2,277	6,010	3,388	1,892	13,567	3,006	10,561

Notes:

(i) The amounts of emoluments for the year ended 31 December 2010 in respect of the services rendered by the directors and supervisors are subject to the approval of the Bank's shareholders in 2010 Annual General Meeting.

(ii) Upon the election at the 2009 Annual General Meeting of the Bank and the approval of the CBRC, Mr. Zhu Xiaohuang commenced his position as an executive director of the Bank from July 2010; Mr. Zhu Zhenmin, Ms. Sue Yang, Mr. Lu Xiaoma and Ms. Chen Yuanling commenced their positions as non-executive directors of the Bank from August 2010; and Mr. Yam Chi Kwong, Joseph and Mr. Zhao Xijun commenced their positions as independent non-executive directors of the Bank from August 2010.

Upon the appointment by the 2008 Annual General Meeting of the Bank and the approval of the CBRC, Mr. Chen Zuofu commenced his position as an executive director of the Bank from July 2009.

Upon the conclusion of the 2009 Annual General Meeting of the Bank, Mr. Wang Yonggang, Mr. Liu Xianghui, Mr. Zhang Xiangdong, Mr. Gregory L. Curl., Mr. Song Fengming and Mr. Tse Hau Yin, Aloysius ceased to serve as directors of the Bank.

Upon the election at the first Extraordinary General Meeting in 2010, Mr. Zhang Furong commenced his position as a shareholder representative supervisor. Upon election at the sixth meeting of the board of supervisors in 2010, Mr. Zhang Furong was elected the chairman of the board of supervisors.

Upon the election at the 2009 Annual General Meeting of the Bank, Mr. Song Fengming commenced his position as a shareholder representative supervisor of the Bank; and at the second joint session of the second staff representative conference of the Bank, Mr. Jin Panshi, Mr. Li Weiping and Ms. Huang Shuping were elected as the employee representative supervisors the Bank.

In accordance with relevant regulations and due to his age, Mr. Xie Duyang resigned on 15 September 2010 from the positions of supervisor and chairman of the board of supervisors of the Bank.

Upon the conclusion of the 2009 Annual General Meeting of the Bank, Ms. Cheng Meifen, Mr. Sun Zhixin and Mr. Shuai Jinkun ceased to serve as supervisors of the Bank; Mr. Jin Panshi ceased to serve as the shareholder representative supervisor of the Bank.

(Expressed in millions of RMB, unless otherwise stated)

14 Directors' and supervisors' emoluments (continued)

Notes: (continued)

(iii) The Bank does not need to pay the emoluments of non-executive directors appointed by Huijin for the services rendered in 2010 and 2009.

(iv) The amount will be payable to Bank of America Corporation ("BOA") for their services as director after the approval of the Bank's shareholders as mentioned in note (i).

(v) The amounts only included fees for their services as supervisors.

(vi) Other benefits in kind included the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included the Bank's contribution to its own corporate annuity plan (which was set up in accordance with the relevant policies issued by the government authorities) and supplementary medical insurance.

None of the directors and supervisors received any inducements or compensation for loss of office, or waived any emoluments during the years ended 31 December 2010 and 2009.

(vii) The total compensation package for these directors and supervisors for the year ended 31 December 2010 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's and the Bank's financial statements for the year ended 31 December 2010. The final compensation will be disclosed in a separate announcement when determined.

(viii) The total compensation package for certain directors and supervisors for the year ended 31 December 2009 had not been finalised in accordance with regulations of the PRC relevant authorities till the date that the 2009 financial statements were announced. The aforesaid total compensation package for the directors and supervisors for the year ended 31 December 2009 was the final amount and the Bank made the relevant supplementary announcement on 29 April 2010.

15 Individuals with highest emoluments

None of the five individuals with the highest emoluments are directors or supervisors whose emoluments are disclosed in Note 14. The aggregate of the emoluments before individual income tax in respect of the five highest paid individuals during the year is as follows:

	2010 RMB'000	2009 RMB'000
Salaries and allowance	5,137	11,176
Variable compensation	43,149	22,639
Contributions to defined contribution retirement schemes	425	540
Other benefits in kind	85	96
	48,796	34,451

The number of these individuals whose emoluments before individual income tax are within the following bands is set out below.

	2010	2009
RMB5,500,001 – RMB6,000,000	–	3
RMB6,000,001 – RMB6,500,000	–	1
RMB7,000,001 – RMB7,500,000	1	–
RMB7,500,001 – RMB8,000,000	1	–
RMB8,000,001 – RMB8,500,000	1	–
RMB9,000,001 – RMB9,500,000	1	–
RMB11,000,001 – RMB11,500,000	–	1
RMB16,000,001 – RMB16,500,000	1	–

None of these individuals received any inducements, or compensation for loss of office, or waived any emoluments during the years ended 31 December 2010 and 2009.

16 Income tax expense

(1) Income tax expense

	2010	2009
Current tax	44,846	35,764
– Mainland China	44,386	35,240
– Hong Kong	374	421
– Other countries and regions	86	103
Adjustments for prior years	196	(359)
Deferred tax	(4,917)	(3,516)
Total	40,125	31,889

The provisions of income taxes for Mainland China and Hong Kong are calculated at 25% and 16.5% of the estimated taxable income from Mainland and Hong Kong operations for the period respectively. Taxation for other overseas operations is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

(Expressed in millions of RMB, unless otherwise stated)

16 Income tax expense (continued)

(2) Reconciliation between income tax expense and accounting profit

	2010	2009
Profit before tax	**175,156**	138,725
Income tax calculated at statutory tax rate	**43,789**	34,681
Non-deductible expenses		
– Staff costs	**365**	376
– Impairment losses and bad debt write-off	**–**	1
– Others	**632**	780
	997	1,157
Non-taxable income		
– Interest income from PRC government bonds	**(4,701)**	(3,777)
– Others	**(156)**	(303)
	(4,857)	(4,080)
Total	**39,929**	31,758
Adjustments on income tax for prior years which affect profit or loss	**196**	131
Income tax expense	**40,125**	31,889

17 Earnings per share

Basic earnings per share for the year ended 31 December 2010 and 2009 have been computed by dividing the net profit attributable to equity shareholders of the Bank by the weighted average number of ordinary shares outstanding during the years. As described in Note 1, the Bank completed the Rights Issue in 2010. In the calculation of earnings per share, the weighted average number of shares outstanding during 2010 and 2009 were calculated on the assumption that the bonus elements without consideration included in the Rights Issue had been existed from the beginning of the comparative year. There was no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the years ended 31 December 2010 and 2009.

	Note	2010	2009
Net profit attributable to shareholders of the Bank		**134,844**	106,756
Weighted average number of shares as originally reported (in million shares)			233,689
Basic and diluted earnings per share attributable to shareholders of the Bank as originally reported (in RMB)			0.46
Weighted average number of shares after Rights Issue (in million shares)	(a)	**240,977**	237,236
Basic and diluted earnings per share attributable to shareholders of the Bank after Rights Issue (in RMB)		**0.56**	0.45

(a) Weighted average number of ordinary shares after Rights Issue (in million shares)

	2010	2009
Issued ordinary shares	**233,689**	233,689
Weighted average number of shares for Rights Issue	**7,288**	3,547
Weighted average number of shares in issue	**240,977**	237,236

(Expressed in millions of RMB, unless otherwise stated)

18 Cash and deposits with central banks

	Note	Group 2010	Group 2009	Bank 2010	Bank 2009
Cash		**48,201**	40,396	**47,960**	40,198
Deposits with central banks					
– Statutory deposit reserves	(1)	**1,611,442**	1,144,675	**1,610,924**	1,144,470
– Surplus deposit reserves	(2)	**170,938**	265,453	**165,535**	262,578
– Fiscal deposits		**17,448**	8,124	**17,448**	8,124
		1,799,828	1,418,252	**1,793,907**	1,415,172
Total		**1,848,029**	1,458,648	**1,841,867**	1,455,370

Notes:

(1) The Group places statutory deposit reserves with the People's Bank of China ("PBOC") and overseas central banks where it has operations. The statutory deposit reserves are not available for use in the Group's daily business.

As at the end of the reporting period, the statutory deposit reserve rates applicable to domestic branches of the Bank were as follows:

	2010	2009
Reserve rate for RMB deposits	**19.0%**	15.5%
Reserve rate for foreign currency deposits	**5.0%**	5.0%

The statutory RMB deposit reserve rates applicable to domestic subsidiaries of the Group are determined by PBOC.

The amounts of statutory deposit reserves placed with the central banks of overseas countries are determined by local jurisdictions.

(2) The surplus deposit reserve maintained with the PBOC is mainly for the purpose of clearing.

19 Deposits with banks and non-bank financial institutions

(1) Analysed by type of counterparties

	Group 2010	Group 2009	Bank 2010	Bank 2009
Banks	**77,838**	89,955	**77,772**	89,571
Non-bank financial institutions	**491**	11,226	**437**	11,126
Gross balances	**78,329**	101,181	**78,209**	100,697
Allowances for impairment losses (Note 37)	**(11)**	(18)	**(11)**	(18)
Net balances	**78,318**	101,163	**78,198**	100,679

(2) Analysed by geographic sectors

	Group 2010	Group 2009	Bank 2010	Bank 2009
Mainland China	**62,660**	85,743	**66,033**	86,125
Overseas	**15,669**	15,438	**12,176**	14,572
Gross balances	**78,329**	101,181	**78,209**	100,697
Allowances for impairment losses (Note 37)	**(11)**	(18)	**(11)**	(18)
Net balances	**78,318**	101,163	**78,198**	100,679

Deposits with bank and non-bank financial institutions mainly include the following balances with restrictions on use: (i) Pledged deposits with overseas counterparties for the purpose of derivative transactions (Note 59(1)); and (ii) Subsidiary's deposits in a special account required by the supervisory authority. As at 31 December 2010, the balances of the aforesaid deposits with restrictions on use are not significant, and have been excluded from the cash and cash equivalents of the Group and the Bank.

(Expressed in millions of RMB, unless otherwise stated)

20 Placements with banks and non-bank financial institutions

(1) Analysed by type of counterparties

	Group		Bank	
	2010	2009	**2010**	2009
Banks	**61,039**	21,160	**63,219**	21,161
Non-bank financial institutions	**3,007**	1,188	**5,393**	2,113
Gross balances	**64,046**	22,348	**68,612**	23,274
Allowances for impairment losses (Note 37)	**(84)**	(131)	**(84)**	(131)
Net balances	**63,962**	22,217	**68,528**	23,143

(2) Analysed by geographic sectors

	Group		Bank	
	2010	2009	**2010**	2009
Mainland China	**14,600**	8,113	**14,600**	8,113
Overseas	**49,446**	14,235	**54,012**	15,161
Gross balances	**64,046**	22,348	**68,612**	23,274
Allowances for impairment losses (Note 37)	**(84)**	(131)	**(84)**	(131)
Net balances	**63,962**	22,217	**68,528**	23,143

21 Financial assets at fair value through profit or loss

		Group		Bank	
	Note	**2010**	2009	**2010**	2009
Held for trading purpose	(1)				
– Debt securities		**3,044**	10,606	**3,044**	10,251
– Equity instruments		**1,191**	867	**–**	–
– Funds		**350**	–	**–**	–
		4,585	11,473	**3,044**	10,251
Designated at fair value through profit or loss	(2)				
– Debt securities		**4,816**	3,911	**–**	–
– Equity instruments		**7,943**	3,487	**–**	–
		12,759	7,398	**–**	–
Total		**17,344**	18,871	**3,044**	10,251

(Expressed in millions of RMB, unless otherwise stated)

21 Financial assets at fair value through profit or loss (continued)

(1) Held for trading purpose

(a) Debt securities

	Group		Bank	
	2010	2009	**2010**	2009
Government	**618**	622	**618**	622
Central banks	**1,093**	3,781	**1,093**	3,781
Policy banks	**110**	1,762	**110**	1,761
Banks and other financial institutions	**1,064**	3,910	**1,064**	3,556
Others	**159**	531	**159**	531
Total	**3,044**	10,606	**3,044**	10,251
Listed	**51**	93	**51**	93
– of which in Hong Kong	**–**	–	**–**	–
Unlisted	**2,993**	10,513	**2,993**	10,158
Total	**3,044**	10,606	**3,044**	10,251

(b) Equity instruments & Funds

	Group	
	2010	2009
Banks and non-bank financial institutions	**4**	–
Others	**1,537**	867
Total	**1,541**	867
Listed	**1,541**	867
– of which in Hong Kong	**1,151**	853

(2) Designated at fair value through profit or loss

(a) Debt securities

	Group	
	2010	2009
Policy banks	**281**	281
Banks and non-bank financial institutions	**1,184**	749
Others	**3,351**	2,881
Total	**4,816**	3,911
Listed	**535**	559
– of which in Hong Kong	**411**	436
Unlisted	**4,281**	3,352
Total	**4,816**	3,911

(b) Equity instruments

	Group	
	2010	2009
Banks and non-bank financial institutions	**–**	6
Others	**7,943**	3,481
Total	**7,943**	3,487
Listed	**2,379**	978
– of which in Hong Kong	**2,003**	944
Unlisted	**5,564**	2,509
Total	**7,943**	3,487

There was no significant limitation on the ability of the Group and the Bank to dispose of financial assets at fair value through profit or loss.

(Expressed in millions of RMB, unless otherwise stated)

22 Derivatives

(1) Analysed by type of contract

Group

	2010			2009		
	Notional amounts	**Assets**	**Liabilities**	Notional amounts	Assets	Liabilities
Interest rate contracts	**181,130**	**3,493**	**3,706**	173,170	3,826	4,015
Exchange rate contracts	**619,449**	**7,054**	**5,414**	510,831	4,614	4,531
Other contracts	**3,875**	**677**	**238**	2,784	1,016	29
Total	**804,454**	**11,224**	**9,358**	686,785	9,456	8,575

Bank

	2010			2009		
	Notional amounts	**Assets**	**Liabilities**	Notional amounts	Assets	Liabilities
Interest rate contracts	**172,667**	**3,512**	**3,682**	170,398	3,815	3,997
Exchange rate contracts	**550,524**	**6,631**	**5,042**	424,815	3,870	3,897
Other contracts	**1,625**	**10**	**10**	1,278	45	–
Total	**724,816**	**10,153**	**8,734**	596,491	7,730	7,894

(2) Analysed by credit risk-weighted amount

	Group		Bank	
	2010	2009	**2010**	2009
Interest rate contracts	**3,491**	4,030	**3,485**	4,015
Exchange rate contracts	**7,868**	6,277	**7,195**	5,430
Other contracts	**830**	767	**22**	38
Total	**12,189**	11,074	**10,702**	9,483

The notional amounts of derivatives only represent the unsettled transaction volume as at the end of the reporting period. They do not represent the amounts at risk. The credit risk-weighted amount was computed in accordance with the rules set out by the CBRC and depended on the status of the counterparty and the maturity characteristics, it included customer driven transactions, which were hedged back to back.

23 Financial assets held under resale agreements

	Group		Bank	
	2010	2009	**2010**	2009
Securities				
– Government bonds	**98,288**	474,557	**98,288**	474,557
– Bills issued by the PBOC	**2,490**	3,502	**2,490**	3,502
– Debt securities issued by banks and non-bank financial institutions	**13,541**	15,030	**13,541**	15,030
– Others	**–**	315	**–**	315
	114,319	493,404	**114,319**	493,404
Discounted bills	**44,689**	86,185	**44,689**	86,185
Loans	**22,067**	10,017	**22,067**	9,117
Gross and net balances	**181,075**	589,606	**181,075**	588,706

(Expressed in millions of RMB, unless otherwise stated)

24 Interest receivable

	Group		Bank	
	2010	2009	**2010**	2009
Deposits with central banks	**757**	555	**757**	555
Deposits with banks and non-bank financial institutions	**176**	112	**176**	112
Financial assets held under resale agreements	**704**	1,833	**704**	1,833
Loans and advances to customers	**11,575**	8,423	**11,442**	8,315
Investment securities	**30,703**	29,346	**30,609**	29,228
Others	**174**	77	**174**	87
Gross balances	**44,089**	40,346	**43,862**	40,130
Allowances for impairment losses (Note 37)	**(1)**	(1)	**(1)**	(1)
Net balances	**44,088**	40,345	**43,861**	40,129

25 Loans and advances to customers

(1) Analysed by nature

	Group		Bank	
	2010	2009	**2010**	2009
Corporate loans and advances				
– Loans	**4,111,613**	3,471,337	**4,061,698**	3,436,206
– Finance leases	**23,382**	8,254	**–**	–
	4,134,995	3,479,591	**4,061,698**	3,436,206
Personal loans and advances				
– Residential mortgages	**1,105,431**	869,075	**1,088,603**	851,397
– Personal consumer loans	**81,118**	80,377	**78,844**	78,645
– Credit cards	**59,562**	39,547	**55,440**	36,401
– Others	**144,846**	122,436	**142,797**	120,739
	1,390,957	1,111,435	**1,365,684**	1,087,182
Discounted bills	**143,176**	228,747	**143,158**	228,747
Gross loans and advances to customers	**5,669,128**	4,819,773	**5,570,540**	4,752,135
Allowances for impairment losses (Note 37)	**(143,102)**	(126,826)	**(142,261)**	(126,111)
– Individual assessment	**(37,352)**	(46,360)	**(37,278)**	(46,308)
– Collective assessment	**(105,750)**	(80,466)	**(104,983)**	(79,803)
Net loans and advances to customers	**5,526,026**	4,692,947	**5,428,279**	4,626,024

(Expressed in millions of RMB, unless otherwise stated)

25 Loans and advances to customers (continued)

(2) Analysed by assessment method of allowances for impairment losses

	Loans and advances for which allowances are collectively assessed (note (a))	Impaired loans and advances (note (b))		Total
		for which allowances are collectively assessed	for which allowances are individually assessed	
Group				
As at 31 December 2010				
Gross loans and advances to customers	5,604,416	6,054	58,658	5,669,128
Allowances for impairment losses	(102,093)	(3,657)	(37,352)	(143,102)
Net loans and advances to customers	5,502,323	2,397	21,306	5,526,026
As at 31 December 2009				
Gross loans and advances to customers	4,747,617	7,362	64,794	4,819,773
Allowances for impairment losses	(75,628)	(4,838)	(46,360)	(126,826)
Net loans and advances to customers	4,671,989	2,524	18,434	4,692,947
Bank				
As at 31 December 2010				
Gross loans and advances to customers	5,506,036	5,920	58,584	5,570,540
Allowances for impairment losses	(101,335)	(3,648)	(37,278)	(142,261)
Net loans and advances to customers	5,404,701	2,272	21,306	5,428,279
As at 31 December 2009				
Gross loans and advances to customers	4,680,210	7,208	64,717	4,752,135
Allowances for impairment losses	(74,971)	(4,832)	(46,308)	(126,111)
Net loans and advances to customers	4,605,239	2,376	18,409	4,626,024

(a) Loans and advances assessed on a collective basis for impairment bear relatively insignificant impairment losses as a proportion of the total portfolio. These loans and advances are those graded normal or special mention.

(b) Impaired loans and advances include loans for which objective evidence of impairment exists and assessed:

– individually (including corporate loans and advances which are graded substandard, doubtful or loss); or

– collectively; these are portfolios of homogeneous loans (including personal loans and advances which are graded substandard, doubtful or loss).

The proportion of impaired loans and advances of the Group to gross loans and advances as at 31 December 2010 is 1.14% (2009: 1.50%).

The proportion of impaired loans and advances of the Bank to gross loans and advances as at 31 December 2010 is 1.16% (2009: 1.51%).

(c) The definitions of the loan classifications stated in notes (a) and (b) above are set out in Note 62(1).

(d) As at 31 December 2010, the loans and advances of the Group for which the impairment allowances were individually assessed amounted to RMB58,658 million (2009: RMB64,794 million). The covered portion and uncovered portion of these loans and advances were RMB14,948 million (2009: RMB11,613 million) and RMB43,710 million (2009: RMB53,181 million) respectively. The fair value of collateral held against these loans and advances amounted to RMB16,026 million (2009: RMB12,461 million). The individual impairment allowances made against these loans and advances were RMB37,352 million (2009: RMB46,360 million).

As at 31 December 2010, the loans and advances of the Bank for which the impairment allowances were individually assessed amounted to RMB58,584 million (2009: RMB64,717 million). The covered portion and uncovered portion of these loans and advances were RMB14,946 million (2009: RMB11,598 million) and RMB43,638 million (2009: RMB53,119 million) respectively. The fair value of collateral held against these loans and advances amounted to RMB16,023 million (2009: RMB12,440 million). The individual impairment allowances made against these loans and advances were RMB37,278 million (2009: RMB46,308 million).

The above collateral includes land, buildings and equipment, etc. The fair value of collateral was estimated by the Group with reference to the latest available external valuations adjusted after taking into account the current realisation experience as well as the market situation.

(Expressed in millions of RMB, unless otherwise stated)

25 Loans and advances to customers (continued)

(3) Movements of allowances for impairment losses

Group

	Note	2010			
		Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances		Total
			which are collectively assessed	which are individually assessed	
As at 1 January		75,628	4,838	46,360	126,826
Charge for the year		26,465	103	11,857	38,425
Release during the year		–	(261)	(12,523)	(12,784)
Unwinding of discount		–	–	(799)	(799)
Transfers out	(a)	–	(18)	(383)	(401)
Write-offs		–	(1,084)	(8,193)	(9,277)
Recoveries		–	79	1,033	1,112
As at 31 December		102,093	3,657	37,352	143,102

	Note	2009			
		Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances		Total
			which are collectively assessed	which are individually assessed	
As at 1 January		54,122	5,698	50,548	110,368
Charge for the year		21,094	25	19,296	40,415
Release during the year		–	(134)	(16,025)	(16,159)
Unwinding of discount		–	–	(1,270)	(1,270)
Transfers out	(a)	–	(77)	(360)	(437)
Acquisition of the subsidiaries	(b)	412	4	–	416
Write-offs		–	(724)	(6,121)	(6,845)
Recoveries		–	46	292	338
As at 31 December		75,628	4,838	46,360	126,826

Bank

	Note	2010			
		Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances		Total
			which are collectively assessed	which are individually assessed	
As at 1 January		74,971	4,832	46,308	126,111
Charge for the year		26,364	–	11,817	38,181
Release during the year		–	(261)	(12,520)	(12,781)
Unwinding of discount		–	–	(799)	(799)
Transfers out	(a)	–	(14)	(366)	(380)
Write-offs		–	(966)	(8,193)	(9,159)
Recoveries		–	57	1,031	1,088
As at 31 December		101,335	3,648	37,278	142,261

(Expressed in millions of RMB, unless otherwise stated)

25 Loans and advances to customers (continued)

(3) Movements of allowances for impairment losses (continued)

Bank (continued)

	Note	2009 Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances: which are collectively assessed	Allowances for impaired loans and advances: which are individually assessed	Total
As at 1 January		54,026	5,698	50,478	110,202
Charge for the year		20,945	–	19,272	40,217
Release during the year		–	(134)	(16,019)	(16,153)
Unwinding of discount		–	–	(1,270)	(1,270)
Transfers out	(a)	–	(78)	(383)	(461)
Write-offs		–	(693)	(6,061)	(6,754)
Recoveries		–	39	291	330
As at 31 December		74,971	4,832	46,308	126,111

(a) Transfers out include the transfer of allowances for impairment losses to repossessed assets and on the disposal of non-performing loans.

(b) Acquisition of the subsidiaries include the transfer-in of allowances for impairment losses from the acquisition of the subsidiaries during the year.

(4) Overdue loans analysed by overdue period

Group

	2010 Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	**2,141**	**529**	**1,486**	**1,081**	**5,237**
Guaranteed loans	**943**	**833**	**5,275**	**4,243**	**11,294**
Loans secured by tangible assets other than monetary assets	**15,095**	**3,926**	**11,141**	**5,842**	**36,004**
Loans secured by monetary assets	**428**	**1,307**	**1,164**	**821**	**3,720**
Total	**18,607**	**6,595**	**19,066**	**11,987**	**56,255**
As a percentage of gross loans and advances to customers	**0.33%**	**0.12%**	**0.34%**	**0.20%**	**0.99%**

	2009 Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	440	1,332	1,298	1,304	4,374
Guaranteed loans	1,794	4,247	6,113	5,761	17,915
Loans secured by tangible assets other than monetary assets	15,888	10,496	11,978	8,508	46,870
Loans secured by monetary assets	443	1,221	2,321	1,117	5,102
Total	18,565	17,296	21,710	16,690	74,261
As a percentage of gross loans and advances to customers	0.39%	0.35%	0.45%	0.35%	1.54%

(Expressed in millions of RMB, unless otherwise stated)

25 Loans and advances to customers (continued)

(4) Overdue loans analysed by overdue period (continued)

Bank

	2010				
	Overdue within three months	**Overdue between three months and one year**	**Overdue between one year and three years**	**Overdue over three years**	**Total**
Unsecured loans	**2,068**	**520**	**1,436**	**1,080**	**5,104**
Guaranteed loans	**942**	**833**	**5,275**	**4,243**	**11,293**
Loans secured by tangible assets other than monetary assets	**14,889**	**3,925**	**11,141**	**5,840**	**35,795**
Loans secured by monetary assets	**428**	**1,307**	**1,164**	**821**	**3,720**
Total	**18,327**	**6,585**	**19,016**	**11,984**	**55,912**
As a percentage of gross loans and advances to customers	**0.33%**	**0.11%**	**0.34%**	**0.22%**	**1.00%**

	2009				
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	325	1,270	1,291	1,303	4,189
Guaranteed loans	1,792	4,247	6,113	5,761	17,913
Loans secured by tangible assets other than monetary assets	15,793	10,495	11,976	8,508	46,772
Loans secured by monetary assets	443	1,221	2,321	1,117	5,102
Total	18,353	17,233	21,701	16,689	73,976
As a percentage of gross loans and advances to customers	0.39%	0.36%	0.46%	0.35%	1.56%

Overdue loans represent loans of which the whole or part of the principal or interest are overdue for 1 day or more.

26 Available-for-sale financial assets

		Group		Bank	
	Note	**2010**	2009	**2010**	2009
Debt securities	(1)	**676,840**	626,763	**675,277**	627,598
Equity instruments	(2)	**19,837**	24,402	**17,754**	22,381
Funds	(2)	**171**	315	**–**	–
Total		**696,848**	651,480	**693,031**	649,979

(Expressed in millions of RMB, unless otherwise stated)

26 Available-for-sale financial assets (continued)

(1) Debt securities

	Group		Bank	
	2010	2009	**2010**	2009
Government	**87,556**	92,616	**87,226**	92,616
Central banks	**284,706**	269,431	**284,029**	269,133
Policy banks	**31,770**	22,495	**31,760**	22,495
Banks and non-bank financial institutions	**110,678**	100,075	**110,552**	101,440
Public sector entities	**1,458**	1,937	**1,458**	1,937
Other enterprises	**160,672**	140,209	**160,252**	139,977
Total	**676,840**	626,763	**675,277**	627,598
Listed	**23,012**	26,564	**22,576**	25,664
– of which in Hong Kong	**2,287**	3,705	**2,254**	2,839
Unlisted	**653,828**	600,199	**652,701**	601,934
Total	**676,840**	626,763	**675,277**	627,598

(2) Equity instruments and funds

	Group		Bank	
	2010	2009	**2010**	2009
Debt equity swap ("DES") investments	**16,467**	20,734	**16,467**	20,734
Other equity instruments	**3,370**	3,668	**1,287**	1,647
Funds	**171**	315	**–**	–
Total	**20,008**	24,717	**17,754**	22,381
Listed	**16,550**	19,021	**15,953**	18,390
– of which in Hong Kong	**1,011**	1,283	**740**	984
Unlisted	**3,458**	5,696	**1,801**	3,991
Total	**20,008**	24,717	**17,754**	22,381

Pursuant to the DES arrangement by the PRC government in 1999, the Group obtained equity interests of certain entities in lieu of repayments of loans granted to them. According to relevant requirements, the Group is prohibited from being involved in management of the operations of these entities. In substance, the Group does not have any control or significant influence over these entities.

(Expressed in millions of RMB, unless otherwise stated)

27 Held-to-maturity investments

	Group		Bank	
	2010	2009	2010	2009
Government	673,620	467,499	673,490	467,399
Central banks	668,407	508,396	668,407	508,088
Policy banks	151,743	114,193	151,743	114,193
Banks and non-bank financial institutions	385,708	314,115	385,708	314,115
Public sector entities	198	1,363	198	1,363
Other enterprises	9,384	9,393	9,384	9,393
Gross balances	1,889,060	1,414,959	1,888,930	1,414,551
Allowance for impairment losses (Note 37)	(5,003)	(6,086)	(5,003)	(6,086)
Net balances	1,884,057	1,408,873	1,883,927	1,408,465
Listed	4,684	5,740	4,684	5,432
– of which in Hong Kong	–	308	–	–
Unlisted	1,879,373	1,403,133	1,879,243	1,403,033
Total	1,884,057	1,408,873	1,883,927	1,408,465
Market value of listed securities	5,341	6,439	5,341	6,131

28 Debt securities classified as receivables

All debt securities classified as receivables are unlisted and issued by the following entities in Mainland China:

		Group and Bank	
	Note	2010	2009
Government			
– Special government bond	(1) (3)	49,200	49,200
– Others		530	530
The PBOC	(2) (3)	593	143,386
Policy banks		–	1,123
China Cinda Assets Management Co., Ltd. ("Cinda")	(4)	206,261	247,000
Banks and non-bank financial institutions		48,925	57,063
Joint-stock enterprises		1,359	1,369
Gross balances		306,868	499,671
Allowance for impairment losses (Note 37)		(120)	(96)
Net balances		306,748	499,575

(1) This represents a non-negotiable bond with a nominal value of RMB49,200 million issued by the Ministry of Finance ("MOF") in 1998 to strengthen the capital base of CCB. The bond matures in 2028 and bears a fixed interest rate of 2.25% per annum.

(2) Debt securities issued by the PBOC mainly refer to PBOC bills issued specifically to the Bank.

(3) The PBOC approved the Bank's use of the special government bond and the bills with nominal values of RMB593 million issued by the PBOC as eligible assets equivalent to the surplus deposit reserve at PBOC for clearing purpose.

(4) China Cinda Assets Management Co., Ltd. (formerly known as China Cinda Asset Management Corporation) ("Cinda") issued a bond ("Cinda Bond") with a nominal value of RMB247 billion specifically to CCB in 1999 for the acquisition of CCB's impaired loans and advances at their original book value. Cinda Bond has a maturity of 10 years, with a fixed coupon rate of 2.25%. In September 2009, MOF issued a notice that Cinda Bond would be extended for ten years upon its expiration and the interest rate would remain unchanged. In July 2010, the Bank received a notice from MOF that MOF and Cinda have established a jointly managed fund to secure the payment of the principal of Cinda Bond. MOF continues to provide support for the repayment of the interest of Cinda Bond.

(Expressed in millions of RMB, unless otherwise stated)

29 Investments in subsidiaries

(1) Investment cost

	2010	2009
Sing Jian Development Company Limited	383	383
Sino-German Bausparkasse Corporation Limited ("Sino-German")	751	751
CCB Principal Asset Management Corporation Limited ("CCB Principal")	130	130
CCB International Group Holdings Limited ("CCBIG")	–	–
CCB Financial Leasing Corporation Limited ("CCBFLCL")	3,380	3,380
Jianxin Taojiang Rural Bank ("Taojiang Rural")	26	26
China Construction Bank (London) Limited ("CCB London")	1,361	684
Jianxin Zhejiang Cangnan Rural Bank Corporation Limited ("Cangnan Rural")	53	53
Jianxin Trust Corporation Limited ("Jianxin Trust")	3,409	3,409
Jianxin Qingtian Oversea-Chinese Rural Bank ("Qingtian Rural")	51	–
Jianxing Wuyi Rural Bank ("Wuyi Rural")	51	–
Jianxin Anhui Fanchang Rural Bank Corporation Limited ("Anhui Rural")	51	–
Jianxin Ansai Rural Bank Corporation Limited ("Ansai Rural")	16	–
Hebei Fengning Jianxin Rural Bank Company Limited ("Fengning Rural")	15	–
Shanghai Pudong Jianxin Rural Bank Company Limited ("Pudong Rural")	90	–
Suzhou Changshu Jianxin Rural Bank Company Limited ("Changshu Rural")	102	–
Total	9,869	8,816

(2) Major subsidiaries of the Group are unlisted enterprises; details of the investments in subsidiaries are as follows:

Name of company	Place of incorporation	Particulars of the issued and paid up capital	Principal activities	% of ownership directly held by the Bank	% of ownership indirectly held by the Bank	% of voting rights held by the Bank
Sing Jian Development Company Limited	Hong Kong, the PRC	300 million shares of HK$1 each	Investment	100%	–	100%
Sino-German	Tianjin, the PRC	RMB 1,000 million	Loan and deposit taking business	75.1%	–	75.1%
CCB Principal	Beijing, the PRC	RMB 200 million	Fund management services	65%	–	65%
CCBIG	Hong Kong, the PRC	1 share of HK$1 each	Investment	100%	–	100%
CCBFLCL	Beijing, the PRC	4,500 million shares of RMB1 each	Financial leasing	75.1%	–	75.1%
Taojiang Rural	Hunan, the PRC RMB1 each	50 million shares of business	Loan and deposit taking	51%	–	51%
CCB London	London, United Kingdom	200 million shares of US$1 each	Commercial banking and related financial services	100%	–	100%
Cangnan Rural	Zhejiang, the PRC	150 million shares of RMB1 each	Loan and deposit taking business	35%	–	51%

(Expressed in millions of RMB, unless otherwise stated)

29 Investments in subsidiaries (continued)

(2) Major subsidiaries of the Group are unlisted enterprises; details of the investments in subsidiaries are as follows: (continued)

Name of company	Place of incorporation	Particulars of the issued and paid up capital	Principal activities	% of ownership directly held by the Bank	% of ownership indirectly held by the Bank	% of voting rights held by the Bank
Jianxin Trust	Anhui, the PRC	1,527 million shares of RMB1 each	Trust business	67%	–	67%
Qingtian Rural	Zhejiang, the PRC	RMB 100 million	Loan and deposit taking business	51%	–	51%
Wuyi Rural	Zhejiang, the PRC	RMB 100 million	Loan and deposit taking business	51%	–	51%
Fanchang Rural	Anhui, the PRC	RMB 100 million	Loan and deposit taking business	51%	–	51%
Ansai Rural	Shaanxi, the PRC	RMB 30 million	Loan and deposit taking business	52%	–	52%
Fengning Rural	Hebei, the PRC	RMB 30 million	Loan and deposit taking business	51%	–	51%
Pudong Rural	Shanghai, the PRC	RMB 150 million	Loan and deposit taking business	60%	–	60%
Changshu Rural	Jiangsu, the PRC	RMB 200 million	Loan and deposit taking business	51%	–	51%
Lanhye Investment Holdings Limited	British Virgin Islands	1 share of US$1 each	Investment	–	100%	100%
CCB International (Holdings) Limited ("CCBI")	Hong Kong, the PRC	601 million shares of US$1 each	Investment	–	100%	100%
China Construction Bank (Asia) Corporation Limited ("CCB Asia")	Hong Kong, the PRC	163 million shares of HK$40 each	Commercial banking and related financial services	–	100%	100%

30 Interests in associates and jointly controlled entities

(1) The movement of the Group's interests in associates and jointly controlled entities is as follows:

	2010	2009
As at 1 January	1,791	1,728
Acquisition during the year	18	54
Share of profits less losses	34	17
Cash dividend receivable	–	(7)
Effect of exchange difference and others	(66)	(1)
Total	1,777	1,791

(Expressed in millions of RMB, unless otherwise stated)

30 Interests in associates and jointly controlled entities (continued)

(2) Details of the interests in major associates and jointly controlled entities are as follows:

Name of company	Place of incorporation	Particulars of issued and paid up capital	Principal activity	% of ownership held	% of voting held	Total assets at year end	Total liabilities at year end	Revenue for the year	Net profit/ (loss) for the year
QBE Hong Kong and Shanghai Insurance Limited	Hong Kong, the PRC	78,192,220 ordinary shares of HK$1 each	Insurance	25.5%	25.5%	1,393	857	632	85
Diamond String Limited ("DSL")	Hong Kong, the PRC	10,000 ordinary shares of HK$1 each	Property investment	50%	50%	1,099	1,097	–	(1)

31 Fixed assets

Group

	Bank premises	Construction in progress	Equipment	Others	Total
Cost/deemed cost					
As at 1 January 2010	51,305	11,349	24,030	16,351	103,035
Additions	3,506	8,940	3,928	2,505	18,879
Transfer in/(out)	3,174	(4,546)	29	1,343	–
Disposals	(137)	(104)	(1,263)	(824)	(2,328)
As at 31 December 2010	57,848	15,639	26,724	19,375	119,586
Accumulated depreciation					
As at 1 January 2010	(9,701)	–	(13,286)	(4,852)	(27,839)
Charge for the year	(2,009)	–	(4,285)	(3,561)	(9,855)
Disposals	64	–	1,211	752	2,027
As at 31 December 2010	(11,646)	–	(16,360)	(7,661)	(35,667)
Allowances for impairment losses (Note 37)					
As at 1 January 2010	(489)	(5)	(3)	(6)	(503)
Charge for the year	(2)	–	–	–	(2)
Disposals	15	5	–	–	20
As at 31 December 2010	(476)	–	(3)	(6)	(485)
Net carrying value					
As at 1 January 2010	41,115	11,344	10,741	11,493	74,693
As at 31 December 2010	45,726	15,639	10,361	11,708	83,434

(Expressed in millions of RMB, unless otherwise stated)

31 Fixed assets (continued)

Group (continued)

	Bank premises	Construction in progress	Equipment	Others	Total
Cost/deemed cost					
As at 1 January 2009	46,536	4,618	21,481	12,921	85,556
Additions through acquisitions	197	–	1	89	287
Additions	2,832	10,387	3,867	2,812	19,898
Transfer in/(out)	2,019	(3,590)	9	1,562	–
Disposals	(279)	(66)	(1,328)	(1,033)	(2,706)
As at 31 December 2009	51,305	11,349	24,030	16,351	103,035
Accumulated depreciation					
As at 1 January 2009	(7,926)	–	(10,450)	(2,700)	(21,076)
Additions through acquisitions	(29)	–	(1)	(82)	(112)
Charge for the year	(1,837)	–	(4,122)	(3,046)	(9,005)
Disposals	91	–	1,287	976	2,354
As at 31 December 2009	(9,701)	–	(13,286)	(4,852)	(27,839)
Allowances for impairment losses (Note 37)					
As at 1 January 2009	(507)	(5)	(3)	(8)	(523)
Charge for the year	(2)	–	–	–	(2)
Disposals	20	–	–	2	22
As at 31 December 2009	(489)	(5)	(3)	(6)	(503)
Net carrying value					
As at 1 January 2009	38,103	4,613	11,028	10,213	63,957
As at 31 December 2009	41,115	11,344	10,741	11,493	74,693

(Expressed in millions of RMB, unless otherwise stated)

31 Fixed assets (continued)

Bank

	Bank premises	Construction in progress	Equipment	Others	Total
Cost/deemed cost					
As at 1 January 2010	**51,072**	**11,139**	**23,818**	**16,109**	**102,138**
Additions	**3,462**	**8,838**	**3,877**	**2,442**	**18,619**
Transfer in/(out)	**2,894**	**(4,237)**	**15**	**1,328**	**–**
Disposals	**(132)**	**(104)**	**(1,252)**	**(796)**	**(2,284)**
As at 31 December 2010	**57,296**	**15,636**	**26,458**	**19,083**	**118,473**
Accumulated depreciation					
As at 1 January 2010	**(9,648)**	**–**	**(13,157)**	**(4,732)**	**(27,537)**
Charge for the year	**(1,998)**	**–**	**(4,245)**	**(3,510)**	**(9,753)**
Disposals	**61**	**–**	**1,201**	**736**	**1,998**
As at 31 December 2010	**(11,585)**	**–**	**(16,201)**	**(7,506)**	**(35,292)**
Allowances for impairment losses (Note 37)					
As at 1 January 2010	**(489)**	**(5)**	**(3)**	**(6)**	**(503)**
Charge for the year	**(2)**	**–**	**–**	**–**	**(2)**
Disposals	**15**	**5**	**–**	**–**	**20**
As at 31 December 2010	**(476)**	**–**	**(3)**	**(6)**	**(485)**
Net carrying value					
As at 1 January 2010	**40,935**	**11,134**	**10,658**	**11,371**	**74,098**
As at 31 December 2010	**45,235**	**15,636**	**10,254**	**11,571**	**82,696**

	Bank premises	Construction in progress	Equipment	Others	Total
Cost/deemed cost					
As at 1 January 2009	46,468	4,585	21,314	12,747	85,114
Additions	2,831	10,210	3,820	2,743	19,604
Transfer in/(out)	2,019	(3,590)	9	1,562	–
Disposals	(246)	(66)	(1,325)	(943)	(2,580)
As at 31 December 2009	51,072	11,139	23,818	16,109	102,138
Accumulated depreciation					
As at 1 January 2009	(7,901)	–	(10,348)	(2,619)	(20,868)
Charge for the year	(1,832)	–	(4,091)	(3,007)	(8,930)
Disposals	85	–	1,282	894	2,261
As at 31 December 2009	(9,648)	–	(13,157)	(4,732)	(27,537)
Allowances for impairment losses (Note 37)					
As at 1 January 2009	(507)	(5)	(3)	(8)	(523)
Charge for the year	(2)	–	–	–	(2)
Disposals	20	–	–	2	22
As at 31 December 2009	(489)	(5)	(3)	(6)	(503)
Net carrying value					
As at 1 January 2009	38,060	4,580	10,963	10,120	63,723
As at 31 December 2009	40,935	11,134	10,658	11,371	74,098

(Expressed in millions of RMB, unless otherwise stated)

31 Fixed assets (continued)

Bank (continued)

Notes:

(1) As at 31 December 2010, ownership documentation for the Group's and the Bank's bank premises with a net carrying value of RMB9,790 million (2009: RMB6,636 million) was being finalised.

(2) Analysed by remaining terms of the leases

The net carrying values of bank premises of the Group and the Bank as at the end of the reporting period are analysed by the remaining terms of the leases as follows:

	Group		Bank	
	2010	2009	**2010**	2009
Long term leases (over 50 years) held overseas	**72**	–	**38**	–
Medium term leases (10-50 years) held overseas	**169**	195	**148**	180
Medium term leases (10-50 years) held in Mainland China	**43,745**	39,576	**43,309**	39,411
Short term leases (less than 10 years) held in Mainland China	**1,740**	1,344	**1,740**	1,344
Total	**45,726**	41,115	**45,235**	40,935

32 Land use rights

Group

	2010	2009
Cost/deemed cost		
As at 1 January	**20,173**	19,874
Additions	**375**	416
Disposals	**(90)**	(117)
As at 31 December	**20,458**	20,173
Amortisation		
As at 1 January	**(2,900)**	(2,418)
Charge for the year	**(503)**	(496)
Disposals	**16**	14
As at 31 December	**(3,387)**	(2,900)
Allowances for impairment losses (Note 37)		
As at 1 January	**(151)**	(161)
Disposals	**2**	10
As at 31 December	**(149)**	(151)
Net carrying value		
As at 1 January	**17,122**	17,295
As at 31 December	**16,922**	17,122

(Expressed in millions of RMB, unless otherwise stated)

32 Land use rights (continued)

Bank

	2010	2009
Cost/deemed cost		
As at 1 January	20,110	19,807
Additions	375	392
Disposals	(88)	(89)
As at 31 December	20,397	20,110
Amortisation		
As at 1 January	(2,897)	(2,417)
Charge for the year	(502)	(493)
Disposals	16	13
As at 31 December	(3,383)	(2,897)
Allowances for impairment losses (Note 37)		
As at 1 January	(151)	(161)
Disposals	2	10
As at 31 December	(149)	(151)
Net carrying value		
As at 1 January	17,062	17,229
As at 31 December	16,865	17,062

33 Intangible assets

Group

	Software	Others	Total
Cost/deemed cost			
As at 1 January 2010	3,433	58	3,491
Additions	502	14	516
Disposals	(29)	(23)	(52)
As at 31 December 2010	3,906	49	3,955
Amortisation			
As at 1 January 2010	(2,183)	(30)	(2,213)
Charge for the year	(467)	(1)	(468)
Disposals	24	20	44
As at 31 December 2010	(2,626)	(11)	(2,637)
Allowances for impairment losses (Note 37)			
As at 1 January 2010	(1)	(7)	(8)
As at 31 December 2010	(1)	(7)	(8)
Net carrying value			
As at 1 January 2010	1,249	21	1,270
As at 31 December 2010	1,279	31	1,310

(Expressed in millions of RMB, unless otherwise stated)

33 Intangible assets (continued)

Group (continued)

	Software	Others	Total
Cost/deemed cost			
As at 1 January 2009	2,967	54	3,021
Additions	492	11	503
Disposals	(26)	(7)	(33)
As at 31 December 2009	3,433	58	3,491
Amortisation			
As at 1 January 2009	(1,728)	(32)	(1,760)
Charge for the year	(481)	(4)	(485)
Disposals	26	6	32
As at 31 December 2009	(2,183)	(30)	(2,213)
Allowances for impairment losses (Note 37)			
As at 1 January 2009	(1)	(7)	(8)
As at 31 December 2009	(1)	(7)	(8)
Net carrying value			
As at 1 January 2009	1,238	15	1,253
As at 31 December 2009	1,249	21	1,270

Bank

	Software	**Others**	**Total**
Cost/deemed cost			
As at 1 January 2010	**3,400**	**49**	**3,449**
Additions	**482**	**10**	**492**
Disposals	**(24)**	**(21)**	**(45)**
As at 31 December 2010	**3,858**	**38**	**3,896**
Amortisation			
As at 1 January 2010	**(2,170)**	**(29)**	**(2,199)**
Charge for the year	**(458)**	**(1)**	**(459)**
Disposals	**24**	**19**	**43**
As at 31 December 2010	**(2,604)**	**(11)**	**(2,615)**
Allowances for impairment losses (Note 37)			
As at 1 January 2010	**(1)**	**(7)**	**(8)**
As at 31 December 2010	**(1)**	**(7)**	**(8)**
Net carrying value			
As at 1 January 2010	**1,229**	**13**	**1,242**
As at 31 December 2010	**1,253**	**20**	**1,273**

(Expressed in millions of RMB, unless otherwise stated)

33 Intangible assets (continued)

Bank (continued)

	Software	Others	Total
Cost/deemed cost			
As at 1 January 2009	2,943	52	2,995
Additions	483	3	486
Disposals	(26)	(6)	(32)
As at 31 December 2009	3,400	49	3,449
Amortisation			
As at 1 January 2009	(1,722)	(32)	(1,754)
Charge for the year	(474)	(3)	(477)
Disposals	26	6	32
As at 31 December 2009	(2,170)	(29)	(2,199)
Allowances for impairment losses (Note 37)			
As at 1 January 2009	(1)	(7)	(8)
As at 31 December 2009	(1)	(7)	(8)
Net carrying value			
As at 1 January 2009	1,220	13	1,233
As at 31 December 2009	1,229	13	1,242

34 Goodwill

(1) The goodwill is attributable to the expected synergies arising from the acquisition of CCB Asia on 29 December 2006 and Jianxin Trust on 29 July 2009. Movement of the goodwill during the year is as follows:

	2010	2009
As at 1 January	1,590	1,527
Additions through acquisitions	–	63
Effect of exchange difference	(56)	–
As at 31 December	1,534	1,590

(2) Impairment test for cash-generating unit containing goodwill

The Group calculated the recoverable amount of the CGU using cash flow projections based on financial forecasts approved by management covering a ten-year period. The average growth rate used by the Group is consistent with the forecasts included in industry reports. The discount rate used reflects specific risks relating to the relevant segments.

Based on the result of the impairment test, no impairment losses on goodwill were recognised for the year ended 31 December 2010 (2009: nil).

35 Deferred tax

	Group		Bank	
	2010	2009	2010	2009
Deferred tax assets	17,825	10,790	18,774	11,323
Deferred tax liabilities	(243)	(216)	(4)	(22)
Total	17,582	10,574	18,770	11,301

(Expressed in millions of RMB, unless otherwise stated)

35 Deferred tax (continued)

(1) Analysed by nature

Group

	2010		2009	
	Deductible/ (taxable) temporary differences	**Deferred tax assets/ (liabilities)**	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets				
– Fair value adjustments	**(10,685)**	**(2,683)**	(17,462)	(4,361)
– Allowances for impairment losses	**63,559**	**15,736**	45,365	11,243
– Early retirement benefits and accrued salaries	**18,772**	**4,694**	15,238	3,809
– Others	**469**	**78**	601	99
Total	**72,115**	**17,825**	43,742	10,790
Deferred tax liabilities				
– Fair value adjustments	**(1,034)**	**(236)**	(819)	(204)
– Allowances for impairment losses	**73**	**24**	24	6
– Accrued salaries	**(34)**	**(6)**	–	–
– Others	**(77)**	**(25)**	(81)	(18)
Total	**(1,072)**	**(243)**	(876)	(216)

Bank

	2010		2009	
	Deductible/ (taxable) temporary differences	**Deferred tax assets/ (liabilities)**	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets				
– Fair value adjustments	**(10,752)**	**(2,692)**	(17,514)	(4,377)
– Allowances for impairment losses	**63,143**	**15,665**	44,868	11,160
– Early retirement benefits and accrued salaries	**18,627**	**4,657**	15,210	3,802
– Others	**7,840**	**1,144**	5,925	738
Total	**78,858**	**18,774**	48,489	11,323
Deferred tax liabilities				
– Fair value adjustments	**(7)**	**(2)**	(113)	(28)
– Allowances for impairment losses	**73**	**24**	18	4
– Others	**(80)**	**(26)**	6	2
Total	**(14)**	**(4)**	(89)	(22)

(2) Movements of deferred tax

Group

	Early retirement benefits and accrued salaries	**Fair value adjustments**	**Allowances for impairment losses**	**Others**	**Total**
As at 1 January 2010	**3,809**	**(4,565)**	**11,249**	**81**	**10,574**
Recognised in profit or loss	**879**	**(445)**	**4,511**	**(28)**	**4,917**
Recognised in other comprehensive income	**–**	**2,091**	**–**	**–**	**2,091**
As at 31 December 2010	**4,688**	**(2,919)**	**15,760**	**53**	**17,582**
As at 1 January 2009	1,815	(4,394)	10,385	44	7,850
Recognised in profit or loss	1,994	700	785	37	3,516
Recognised in other comprehensive income	–	(672)	–	–	(672)
Additions through acquisitions	–	(199)	79	–	(120)
As at 31 December 2009	3,809	(4,565)	11,249	81	10,574

(Expressed in millions of RMB, unless otherwise stated)

35 Deferred tax (continued)

(2) Movements of deferred tax (continued)

Bank

	Early retirement benefits and accrued salaries	Fair value adjustments	Allowances for impairment losses	Others	Total
As at 1 January 2010	**3,802**	**(4,405)**	**11,164**	**740**	**11,301**
Recognised in profit or loss	**855**	**(409)**	**4,525**	**378**	**5,349**
Recognised in other comprehensive income	**–**	**2,120**	**–**	**–**	**2,120**
As at 31 December 2010	**4,657**	**(2,694)**	**15,689**	**1,118**	**18,770**
As at 1 January 2009	1,815	(4,408)	10,385	267	8,059
Recognised in profit or loss	1,987	695	779	473	3,934
Recognised in other comprehensive income	–	(692)	–	–	(692)
As at 31 December 2009	3,802	(4,405)	11,164	740	11,301

The Group and the Bank did not have significant unrecognised deferred taxation as at the end of the reporting period.

36 Other assets

	Note	Group		Bank	
		2010	2009	**2010**	2009
Repossessed assets	(1)				
– Buildings		**1,373**	2,211	**1,373**	2,211
– Land use rights		**243**	412	**243**	412
– Others		**230**	462	**230**	462
		1,846	3,085	**1,846**	3,085
Long-term deferred expenses		**351**	372	**344**	368
Receivables from CCBIG	(2)	**–**	–	**19,055**	19,746
Other receivables		**13,478**	10,910	**11,260**	10,792
Leasehold improvements		**2,607**	2,610	**2,595**	2,602
Subtotal		**18,282**	16,977	**35,100**	36,593
Allowances for impairment losses (Note 37)		**(2,981)**	(3,288)	**(2,978)**	(3,283)
Total		**15,301**	13,689	**32,122**	33,310

(1) During the year ended 31 December 2010, the original cost of repossessed assets disposed of by the Group amounted to RMB1,764 million (2009: RMB1,535 million). The Group intends to dispose of repossessed assets through various methods including auction, competitive bidding and disposal.

(2) Receivables from CCBIG represent lending to CCBIG, a wholly owned subsidiary, for acquisition of equity investments and capital injection to other subsidiaries. The receivables are unsecured, non-interest bearing and without fixed repayment term.

(Expressed in millions of RMB, unless otherwise stated)

37 Movements of allowances for impairment losses

Group

	Note	2010 As at 1 January	Charge for the year/(Write-back)	Transfer out	Write-offs	As at 31 December
Deposits with banks and non-bank financial institutions	19	**18**	**(3)**	**–**	**(4)**	**11**
Placements with banks and non-bank financial institutions	20	**131**	**(30)**	**–**	**(17)**	**84**
Interest receivable	24	**1**	**14**	**–**	**(14)**	**1**
Loans and advances to customers	25(3)	**126,826**	**25,641**	**(88)**	**(9,277)**	**143,102**
Held-to-maturity investments	27	**6,086**	**(381)**	**(173)**	**(529)**	**5,003**
Debt securities classified as receivables	28	**96**	**24**	**–**	**–**	**120**
Fixed assets	31	**503**	**2**	**–**	**(20)**	**485**
Land use rights	32	**151**	**–**	**–**	**(2)**	**149**
Intangible assets	33	**8**	**–**	**–**	**–**	**8**
Other assets	36	**3,288**	**226**	**–**	**(533)**	**2,981**
Total		**137,108**	**25,493**	**(261)**	**(10,396)**	**151,944**

Transfer in/(out) includes the exchange difference. Write-offs include disposals.

	Note	2009 As at 1 January	Charge for the year/(Write-back)	Transfer in/(out)	Write-offs	As at 31 December
Deposits with banks and non-bank financial institutions	19	21	(3)	–	–	18
Placements with banks and non-bank financial institutions	20	252	(86)	–	(35)	131
Financial assets held under resale agreements	23	11	(11)	–	–	–
Interest receivable	24	1	–	–	–	1
Loans and advances to customers	25(3)	110,368	24,256	(953)	(6,845)	126,826
Held-to-maturity investments	27	7,552	76	5	(1,547)	6,086
Debt securities classified as receivables	28	64	32	–	–	96
Fixed assets	31	523	2	–	(22)	503
Land use rights	32	161	–	–	(10)	151
Intangible assets	33	8	–	–	–	8
Other assets	36	3,686	178	–	(576)	3,288
Total		122,647	24,444	(948)	(9,035)	137,108

Bank

	Note	2010 As at 1 January	Charge for the year/ (Write-back)	Transfer out	Write-offs	As at 31 December
Deposits with banks and non-bank financial institutions	19	**18**	**(3)**	**–**	**(4)**	**11**
Placements with banks and non-bank financial institutions	20	**131**	**(30)**	**–**	**(17)**	**84**
Interest receivable	24	**1**	**14**	**–**	**(14)**	**1**
Loans and advances to customers	25(3)	**126,111**	**25,400**	**(91)**	**(9,159)**	**142,261**
Held-to-maturity investments	27	**6,086**	**(381)**	**(173)**	**(529)**	**5,003**
Debt securities classified as receivables	28	**96**	**24**	**–**	**–**	**120**
Fixed assets	31	**503**	**2**	**–**	**(20)**	**485**
Land use rights	32	**151**	**–**	**–**	**(2)**	**149**
Intangible assets	33	**8**	**–**	**–**	**–**	**8**
Other assets	36	**3,283**	**228**	**–**	**(533)**	**2,978**
Total		**136,388**	**25,254**	**(264)**	**(10,278)**	**151,100**

(Expressed in millions of RMB, unless otherwise stated)

37 Movements of allowances for impairment losses (continued)

Bank (continued)

		2009				
	Note	As at 1 January	Charge for the year/ (Write-back)	Transfer in/(out)	Write-offs	As at 31 December
Deposits with banks and non-bank financial institutions	19	21	(3)	–	–	18
Placements with banks and non-bank financial institutions	20	252	(86)	–	(35)	131
Financial assets held under resale agreements	23	11	(11)	–	–	–
Interest receivable	24	1	–	–	–	1
Loans and advances to customers	25(3)	110,202	24,064	(1,401)	(6,754)	126,111
Held-to-maturity investments	27	7,552	76	5	(1,547)	6,086
Debt securities classified as receivables	28	64	32	–	–	96
Fixed assets	31	523	2	–	(22)	503
Land use rights	32	161	–	–	(10)	151
Intangible assets	33	8	–	–	–	8
Other assets	36	3,686	173	–	(576)	3,283
Total		122,481	24,247	(1,396)	(8,944)	136,388

38 Amounts due from/to subsidiaries

Amounts due from subsidiaries of the Bank are analysed by assets category as follows:

	2010	2009
Deposits with banks and non-bank financial institutions	4,771	828
Placements with banks and non-bank financial institutions	6,187	2,153
Positive fair value of Derivatives	35	–
Interest receivable	20	13
Loans and advances to customers	–	634
Available-for-sale financial assets	3,955	3,081
Other assets	19,158	21,060
Total	34,126	27,769

Amounts due to subsidiaries of the Bank are analysed by liabilities category as follows:

	2010	2009
Deposits from banks and non-bank financial institutions	2,232	2,218
Placements from banks and non-bank financial institutions	2,563	2,700
Negative fair value of derivatives	–	2
Financial assets sold under repurchase agreements	6,222	2,625
Deposits from customers	2,716	1,686
Interest payable	97	8
Debt securities issued	848	1,451
Other liabilities	–	453
Total	14,678	11,143

(Expressed in millions of RMB, unless otherwise stated)

39 Deposits from banks and non-bank financial institutions

(1) Analysed by type of counterparties

	Group		Bank	
	2010	2009	**2010**	2009
Banks	**187,548**	183,327	**188,229**	183,448
Non-bank financial institutions	**495,989**	591,458	**497,009**	593,134
Total	**683,537**	774,785	**685,238**	776,582

(2) Analysed by geographic sectors

	Group		Bank	
	2010	2009	**2010**	2009
Mainland China	**682,885**	774,295	**683,783**	776,093
Overseas	**652**	490	**1,455**	489
Total	**683,537**	774,785	**685,238**	776,582

40 Placements from banks and non-bank financial institutions

(1) Analysed by type of counterparties

	Group		Bank	
	2010	2009	**2010**	2009
Banks	**65,895**	36,472	**41,334**	30,369
Non-bank financial institutions	**377**	1,648	**330**	1,599
Total	**66,272**	38,120	**41,664**	31,968

(2) Analysed by geographic sectors

	Group		Bank	
	2010	2009	**2010**	2009
Mainland China	**24,952**	11,157	**6,292**	7,524
Overseas	**41,320**	26,963	**35,372**	24,444
Total	**66,272**	38,120	**41,664**	31,968

41 Financial liabilities at fair value through profit or loss

	Group		Bank	
	2010	2009	**2010**	2009
Structured financial instruments	**2,422**	53	**75**	53
Financial liabilities related to precious metals	**12,865**	7,939	**12,865**	7,939
Total	**15,287**	7,992	**12,940**	7,992

The Group's and the Bank's financial liabilities at fair value through profit or loss are all financial liabilities designated at fair value through profit or loss. As at the end of reporting period, the difference between the fair value of these financial liabilities and the contractual payables at maturity is not material. The amounts of changes in the fair value of these financial liabilities that are attributable to changes in credit risk are considered not significant during the year presented and cumulatively as at 31 December 2010 and 2009.

(Expressed in millions of RMB, unless otherwise stated)

42 Financial assets sold under repurchase agreements

	Group 2010	Group 2009	Bank 2010	Bank 2009
Securities				
– PBOC bills	**2,867**	–	**2,867**	–
– Other securities	**55**	–	**–**	–
	2,922	–	**2,867**	–
Loans	**2,000**	–	**8,222**	2,625
Total	**4,922**	–	**11,089**	2,625

43 Deposits from customers

	Group 2010	Group 2009	Bank 2010	Bank 2009
Demand deposits				
– Corporate customers	**3,412,050**	2,968,733	**3,408,265**	2,965,825
– Personal customers	**1,726,159**	1,445,304	**1,714,764**	1,435,266
	5,138,209	4,414,037	**5,123,029**	4,401,091
Time deposits (including call deposits)				
– Corporate customers	**1,608,186**	1,421,678	**1,585,294**	1,405,735
– Personal customers	**2,328,974**	2,165,608	**2,306,323**	2,148,414
	3,937,160	3,587,286	**3,891,617**	3,554,149
Total	**9,075,369**	8,001,323	**9,014,646**	7,955,240

Deposits from customers include:

		Group 2010	Group 2009	Bank 2010	Bank 2009
(1)	Pledged deposits				
	– Deposits for acceptance	**118,172**	118,121	**118,172**	118,121
	– Deposits for guarantee	**34,103**	23,984	**34,103**	23,984
	– Deposits for letter of credit	**39,692**	19,974	**39,692**	19,974
	– Others	**104,779**	72,021	**104,747**	72,017
	Total	**296,746**	234,100	**296,714**	234,096
(2)	Outward remittance and remittance payables	**15,895**	19,073	**15,864**	18,988

(Expressed in millions of RMB, unless otherwise stated)

44 Accrued staff costs

Group

	Note	2010 As at 1 January	Accrued during the year	Payments made	As at 31 December
Salaries, bonuses, allowances and subsidies		**10,835**	**42,652**	**(38,614)**	**14,873**
Defined contribution retirement schemes		**459**	**7,206**	**(7,173)**	**492**
Other social insurance and welfare		**1,105**	**5,311**	**(5,151)**	**1,265**
Housing funds		**82**	**3,409**	**(3,379)**	**112**
Union running costs and employee education costs		**797**	**1,695**	**(1,538)**	**954**
Supplementary retirement benefits	(1)	**6,786**	**651**	**(536)**	**6,901**
Early retirement benefits		**7,353**	**841**	**(1,429)**	**6,765**
Compensation to employees for termination of employment relationship		**8**	**19**	**(20)**	**7**
Total		**27,425**	**61,784**	**(57,840)**	**31,369**

	Note	2009 As at 1 January	Accrued during the year	Payments made	As at 31 December
Salaries, bonuses, allowances and subsidies		8,628	35,422	(33,215)	10,835
Defined contribution retirement schemes		444	5,941	(5,926)	459
Other social insurance and welfare		783	4,362	(4,040)	1,105
Housing funds		72	2,941	(2,931)	82
Union running costs and employee education costs		735	1,238	(1,176)	797
Supplementary retirement benefits	(1)	6,556	743	(513)	6,786
Early retirement benefits		7,926	819	(1,392)	7,353
Compensation to employees for termination of employment relationship		9	18	(19)	8
Total		25,153	51,484	(49,212)	27,425

Bank

	Note	2010 As at 1 January	Accrued during the year	Payments made	As at 31 December
Salaries, bonuses, allowances and subsidies		**10,217**	**41,218**	**(37,302)**	**14,133**
Defined contribution retirement schemes		**458**	**7,142**	**(7,109)**	**491**
Other social insurance and welfare		**1,013**	**5,236**	**(5,080)**	**1,169**
Housing funds		**81**	**3,397**	**(3,367)**	**111**
Union running costs and employee education costs		**792**	**1,684**	**(1,531)**	**945**
Supplementary retirement benefits	(1)	**6,786**	**651**	**(536)**	**6,901**
Early retirement benefits		**7,353**	**841**	**(1,429)**	**6,765**
Compensation to employees for termination of employment relationship		**8**	**19**	**(20)**	**7**
Total		**26,708**	**60,188**	**(56,374)**	**30,522**

	Note	2009 As at 1 January	Accrued during the year	Payments made	As at 31 December
Salaries, bonuses, allowances and subsidies		8,327	34,299	(32,409)	10,217
Defined contribution retirement schemes		444	5,902	(5,888)	458
Other social insurance and welfare		742	4,292	(4,021)	1,013
Housing funds		71	2,931	(2,921)	81
Union running costs and employee education costs		732	1,232	(1,172)	792
Supplementary retirement benefits	(1)	6,556	743	(513)	6,786
Early retirement benefits		7,926	819	(1,392)	7,353
Compensation to employees for termination of employment relationship		9	18	(19)	8
Total		24,807	50,236	(48,335)	26,708

(Expressed in millions of RMB, unless otherwise stated)

44 Accrued staff costs (continued)

(1) Supplementary retirement benefits

The Group's obligations in respect of the supplementary retirement benefits as at the end of the reporting period were calculated using the projected unit credit actuarial cost method and reviewed by qualified staff (a member of Society of Actuaries of the United States of America) of an external independent actuary: Towers, Perrin, Forster & Crosby, Inc., Hong Kong.

(a) Breakdowns of supplementary retirement benefits of the Group and the Bank are as follows:

	2010	2009
Present value of supplementary retirement benefit obligations	6,646	6,766
Unrecognised actuarial gains	255	20
As at 31 December	6,901	6,786

(b) Movements of supplementary retirement benefits of the Group and the Bank are as follows:

	2010	2009
As at 1 January	6,786	6,556
Payments made	(536)	(513)
Expenses recognised in profit or loss		
– Interest cost	219	206
– Past service costs	432	537
As at 31 December	6,901	6,786

Interest cost was recognised in other general and administrative expenses. Past service costs were recognised in staff costs.

(c) Principal actuarial assumptions of the Group and the Bank as at the end of the reporting period:

	2010	2009
Discount rate	4.00%	3.50%
Health care cost increases	7.00%	7.00%
Average expected future lifetime of eligible employees	14.1 years	14.7 years

(2) The Group and the Bank had no overdue balance of accrued staff costs as at the end of the reporting period.

45 Taxes payable

	Group		Bank	
	2010	2009	2010	2009
Income tax	27,748	20,627	27,554	20,362
Business tax and surcharges	5,739	4,562	5,704	4,545
Others	754	651	687	642
Total	34,241	25,840	33,945	25,549

(Expressed in millions of RMB, unless otherwise stated)

46 Interest payable

	Group		Bank	
	2010	2009	2010	2009
Deposits from banks and non-bank financial institutions	1,002	961	982	959
Deposits from customers	62,966	56,738	62,906	56,708
Debt securities issued	1,575	1,650	1,575	1,651
Others	116	138	129	124
Total	65,659	59,487	65,592	59,442

47 Provisions

	Group and Bank	
	2010	2009
Litigation provisions	691	894
Others	2,708	450
Total	3,399	1,344

48 Debt securities issued

		Group		Bank	
	Note	2010	2009	2010	2009
Certificates of deposit issued	(1)	13,414	15,893	11,530	15,502
Bonds issued	(2)	–	2,863	–	2,993
Subordinated bonds issued	(3)	79,901	79,888	79,901	79,888
Total		93,315	98,644	91,431	98,383

(1) Certificates of deposit were mainly issued by Hong Kong branch, New York branch of the Bank and CCB Asia in Hong Kong and recognised at amortised cost.

(2) The Group repaid the fixed rate RMB bonds issued in Hong Kong on the maturity date of September 2010.

(3) Subordinated bonds issued

The carrying value of the Group and the Bank's subordinated bonds issued upon the approval of the PBOC and the CBRC is as follows:

		Group and Bank	
	Note	2010	2009
3.20% subordinated fixed rate bonds maturing in February 2019	(a)	12,000	12,000
4.00% subordinated fixed rate bonds maturing in February 2024	(b)	28,000	28,000
3.32% subordinated fixed rate bonds maturing in August 2019	(c)	10,000	10,000
4.04% subordinated fixed rate bonds maturing in August 2024	(d)	10,000	10,000
4.80% subordinated fixed rate bonds maturing in December 2024	(e)	20,000	20,000
Total nominal value		80,000	80,000
Less: Unamortised issuance cost		(99)	(112)
Carrying value as at 31 December		79,901	79,888

(a) The interest rate per annum on the subordinated fixed rate bonds issued in February 2009 is 3.20%. The Group has an option to redeem the bonds on 26 February 2014. If they are not redeemed by the Group, the interest rate will increase to 6.20% per annum from 26 February 2014 for the next five years.

(b) The interest rate per annum on the subordinated fixed rate bonds issued in February 2009 is 4.00%. The Group has an option to redeem the bonds on 26 February 2019. If they are not redeemed by the Group, the interest rate will increase to 7.00% per annum from 26 February 2019 for the next five years.

(c) The interest rate per annum on the subordinated fixed rate bonds issued in August 2009 is 3.32%. The Group has an option to redeem the bonds on 11 August 2014. If they are not redeemed by the Group, the interest rate will increase to 6.32% per annum from 11 August 2014 for the next five years.

(d) The interest rate per annum on the subordinated fixed rate bonds issued in August 2009 is 4.04%. The Group has an option to redeem the bonds on 11 August 2019. If they are not redeemed by the Group, the interest rate will increase to 7.04% per annum from 11 August 2019 for the next five years.

(e) The interest rate per annum on the subordinated fixed rate bonds issued in December 2009 is 4.80%. The Group has an option to redeem the bonds on 22 December 2019. If they are not redeemed by the Group, the interest rate will increase to 7.80% per annum from 22 December 2019 for the next five years.

(Expressed in millions of RMB, unless otherwise stated)

49 Other liabilities

	Group		Bank	
	2010	2009	**2010**	2009
Dormant accounts	**3,388**	4,290	**3,388**	4,290
Securities underwriting and redemption payable	**1,977**	1,813	**1,977**	1,813
Payment and collection clearance account	**491**	454	**487**	450
Payables to China Jianyin Investment Limited ("Jianyin")	**150**	372	**150**	372
Settlement accounts	**555**	135	**555**	135
Others	**18,099**	13,514	**15,898**	12,997
Total	**24,660**	20,578	**22,455**	20,057

50 Share capital

(a) Structure of share capital

	2010	2009
Listed in Hong Kong (H share)	**240,417**	224,689
Listed in Mainland China (A share)	**9,594**	9,000
Total	**250,011**	233,689

All H and A shares are ordinary shares and rank pari passu with the same rights and benefits.

(b) Movement of share capital

	2010	2009
As at 1 January	**233,689**	233,689
Rights Issue	**16,322**	–
Of which: H share	**15,728**	–
A share	**594**	–
Total	**250,011**	233,689

As described in Note 1, the Bank issued 594 million A shares and 15,728 million H shares with a par value of RMB1 each as a result of Rights Issue in 2010. KPMG Huazhen issued verification reports KPMG-A(2010)CR No.0027 and KPMG-A(2010)CR No.0026 on 15 November and 13 December 2010 respectively whereby the received capital were verified.

51 Capital reserve

	2010	2009
Share premium	**135,047**	90,210
Others	**89**	56
Total	**135,136**	90,266

Share premium arises from the issuance of share of prices in excess of their par value.

The Bank issued a total of 16,322 million shares of RMB1 each at a total consideration of RMB61,273 million as a result of Rights Issue in 2010. After accounting for costs directly associated with the Rights Issue, the Bank credited the share premium of RMB44,837 million to capital reserve.

(Expressed in millions of RMB, unless otherwise stated)

51 Capital reserve (continued)

Movements of capital reserve during the year were as follows:

	A share	H share	Total
As at 1 January	48,119	42,091	90,210
Rights Issue	2,238	59,035	61,273
Less: Gross proceeds upon issue of shares	(594)	(15,728)	(16,322)
Costs of issuing shares	(12)	(102)	(114)
Total share premium credited during the year	1,632	43,205	44,837
As at 31 December	49,751	85,296	135,047

52 Investment revaluation reserve

The changes in fair value of available-for-sale financial assets were recognised in "investment revaluation reserve". Movements of investment revaluation reserve are as follows:

Group

	2010		
	Before-tax amount	**Tax (expense)/benefit**	**Net-of-tax amount**
As at 1 January	**17,566**	**(4,403)**	**13,163**
Losses during the year			
– Debt securities	**(6,140)**	**1,485**	**(4,655)**
– Equity instruments	**(2,018)**	**504**	**(1,514)**
	(8,158)	**1,989**	**(6,169)**
Reclassification adjustments			
– Impairment	**295**	**(74)**	**221**
– Disposals	**(735)**	**184**	**(551)**
– Others	**56**	**(14)**	**42**
	(384)	**96**	**(288)**
As at 31 December	**9,024**	**(2,318)**	**6,706**

	2009		
	Before-tax amount	Tax (expense)/benefit	Net-of-tax amount
As at 1 January	14,890	(3,734)	11,156
(Losses)/gains during the year			
– Debt securities	(6,050)	1,511	(4,539)
– Equity instruments	8,212	(2,052)	6,160
	2,162	(541)	1,621
Reclassification adjustments			
– Impairment	999	(250)	749
– Disposals	(925)	232	(693)
– Others	440	(110)	330
	514	(128)	386
As at 31 December	17,566	(4,403)	13,163

(Expressed in millions of RMB, unless otherwise stated)

52 Investment revaluation reserve (continued)

Bank

	2010		
	Before-tax amount	**Tax (expense)/benefit**	**Net-of-tax amount**
As at 1 January	**17,629**	**(4,416)**	**13,213**
Losses during the year			
– Debt securities	**(6,017)**	**1,477**	**(4,540)**
– Equity instruments	**(2,056)**	**513**	**(1,543)**
	(8,073)	**1,990**	**(6,083)**
Reclassification adjustments			
– Impairment	**139**	**(34)**	**105**
– Disposals	**(712)**	**178**	**(534)**
– Others	**56**	**(14)**	**42**
	(517)	**130**	**(387)**
As at 31 December	**9,039**	**(2,296)**	**6,743**

	2009		
	Before-tax amount	Tax (expense)/benefit	Net-of-tax amount
As at 1 January	14,862	(3,724)	11,138
(Losses)/gains during the year			
– Debt securities	(5,947)	1,487	(4,460)
– Equity instruments	8,200	(2,051)	6,149
	2,253	(564)	1,689
Reclassification adjustments			
– Impairment	999	(250)	749
– Disposals	(925)	232	(693)
– Others	440	(110)	330
	514	(128)	386
As at 31 December	17,629	(4,416)	13,213

Others refer to the amortisation of accumulated losses previously recognised in revaluation reserve for the year. These accumulated losses were related to certain debt securities reclassified from available-for-sale financial assets to held-to-maturity investments in prior years.

53 Surplus reserve

Surplus reserves consist of statutory surplus reserve fund and discretionary surplus reserve fund.

The Bank is required to allocate 10% of its net profit, as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the MOF ("PRC GAAP"), to the statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital. After making appropriations to the statutory surplus reserve fund, the Bank may also allocate its net profit to the discretionary surplus reserve fund upon approval by shareholders in general meeting.

(Expressed in millions of RMB, unless otherwise stated)

54 General reserve

The general reserve of the Group and the Bank is set up based upon the requirements of:

	Note	Group 2010	Group 2009	Bank 2010	Bank 2009
MOF	(1)	**60,475**	46,093	**60,475**	46,093
Hong Kong Banking Ordinance	(2)	**692**	592	**105**	105
Other regulatory bodies in Mainland China	(3)	**151**	109	**–**	–
Other overseas regulatory bodies		**29**	12	**28**	11
As at 31 December		**61,347**	46,806	**60,608**	46,209

(1) Pursuant to relevant regulations issued by MOF, the Bank is required to set aside a general reserve through appropriations of profit after tax according to a certain provision ratio of the ending balance of gross risk-bearing assets to cover potential losses against their assets. In principle, the general reserve balance should not be lower than 1% of the ending balance of gross risk-bearing assets.

(2) Pursuant to requirements of the Hong Kong Banking Ordinance, the Group's banking operations in Hong Kong are required to set aside amounts in a regulatory reserve in respect of losses which it will, or may, incur on loans and advances to customers, in addition to impairment losses recognised in accordance with the accounting policies of the Group. Transfers to and from the regulatory reserve are made through retained earnings.

(3) Pursuant to the relevant regulatory requirements in Mainland China, the Bank's subsidiary is required to appropriate a certain amount of its net profit as general reserve.

55 Profit distribution

On the Annual General Meeting held on 24 June 2010, the shareholders approved the profit distribution for the year ended 31 December 2009. The Bank appropriated cash dividend for the year ended 31 December 2009 in an aggregate amount of RMB47,205 million.

On 25 March 2011, Board of Directors proposed the following profit distribution scheme for the year ended 31 December 2010:

(1) Appropriate statutory surplus reserve amounted to RMB13,260 million, based on 10% of the net profit of the Bank amounted to RMB132,604 million. It has been recorded in "Surplus reserve" as at the end of the reporting period.

(2) Appropriate general reserve amounted to RMB5,983 million, pursuant to relevant regulations issued by MOF.

(3) Appropriate cash dividend RMB0.2122 per share before tax and in aggregation amount of RMB53,052 million to all shareholders. Proposed dividends after the end of the reporting period are not recognised as a liability.

Above proposed profit distribution scheme is subject to the approval of Shareholders Meeting. Cash dividends will be distributed to all shareholders registered at the relevant date upon approval.

56 Cash and cash equivalents

	2010	2009
Cash	**48,201**	40,396
Surplus deposit reserves with central banks	**170,938**	265,453
Demand deposits with banks and non-bank financial institutions	**17,910**	20,280
Deposits with banks and non-bank financial institutions with original maturity with or within three months	**7,000**	36,226
Placements with banks and non-bank financial institutions with original maturity with or within three months	**57,250**	17,894
Total	**301,299**	380,249

57 Operating segments

As mentioned in Note 4(21), the Group has presented the operating segments in a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment. Measurement of segment assets and liabilities and segment income and results is based on the Group's accounting policies.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense". Interest income and expense earned from third parties are referred to as "external net interest income/expense".

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, results, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the period to acquire fixed assets, intangible assets and other long-term assets.

(1) Geographical segments

The Group operates principally in Mainland China with branches covering all provinces, autonomous regions and municipalities directly under the central government, and several subsidiaries located in Mainland China. The Group also has bank branch operations in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo, Seoul, New York, Sydney and Ho Chi Minh City and certain subsidiaries operating in Hong Kong and London.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches and subsidiaries that generate the income. Segment assets, liabilities and capital expenditure are allocated based on their geographical location.

Geographical segments of the Group, as defined for management reporting purposes, are defined as follows:

- "Yangtze River Delta" refers to the following areas serviced by the subsidiary and tier-1 branches of the Bank: Shanghai Municipality, Jiangsu Province, Zhejiang Province, City of Ningbo and City of Suzhou;
- "Pearl River Delta" refers to the following areas serviced by the tier-1 branches of the Bank: Guangdong Province, City of Shenzhen, Fujian Province and City of Xiamen;
- "Bohai Rim" refers to the following areas serviced by the subsidiaries and tier-1 branches of the Bank: Beijing Municipality, Shandong Province, Tianjin Municipality, Hebei Province and City of Qingdao;
- the "Central" region refers to the following areas serviced by the subsidiaries and tier-1 branches of the Bank: Shanxi Province, Guangxi Autonomous Region, Hubei Province, Henan Province, Hunan Province, Jiangxi Province, Hainan Province, Anhui Province and the Three Gorges Area;
- the "Western" region refers to the following areas serviced by the tier-1 branches of the Bank: Sichuan Province, Chongqing Municipality, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Inner Mongolia Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region; and
- the "Northeastern" region refers to the following areas serviced by the tier-1 branches of the Bank: Liaoning Province, Jilin Province, Heilongjiang Province and City of Dalian.

(Expressed in millions of RMB, unless otherwise stated)

57 Operating segments (continued)

(1) Geographical segments (continued)

	2010								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	North Eastern	Head Office	Overseas	Total
External net interest income	36,485	19,546	23,000	25,777	30,198	8,368	104,896	3,230	251,500
Internal net interest income/(expense)	8,994	12,488	14,741	11,886	9,638	6,282	(63,899)	(130)	–
Net interest income	45,479	32,034	37,741	37,663	39,836	14,650	40,997	3,100	251,500
Net fee and commission income	16,101	12,173	10,097	9,770	8,799	3,752	4,091	1,349	66,132
Net trading gain	313	362	209	59	143	90	1,124	1,209	3,509
Dividend income	2	–	25	51	64	–	34	52	228
Net gain arising from investment securities	41	8	69	463	102	258	845	117	1,903
Other operating income/(loss), net	487	457	494	451	897	174	(1,601)	1,149	2,508
Operating income	62,423	45,034	48,635	48,457	49,841	18,924	45,490	6,976	325,780
Operating expenses	(21,601)	(16,109)	(18,330)	(20,617)	(20,204)	(8,821)	(12,864)	(2,820)	(121,366)
Impairment losses	(7,596)	(4,289)	(3,119)	(5,547)	(5,580)	(1,689)	(495)	(977)	(29,292)
Share of profits less losses of associates-and jointly controlled entities	–	–	–	–	–	–	–	34	34
Profit before tax	33,226	24,636	27,186	22,293	24,057	8,414	32,131	3,213	175,156
Capital expenditure	3,204	1,876	2,563	3,424	3,483	1,962	3,573	74	20,159
Depreciation and amortisation	1,966	1,409	1,736	2,098	1,845	915	1,752	106	11,827
Segment assets	2,054,133	1,663,001	1,913,481	1,672,191	1,717,538	694,294	4,781,069	271,052	14,766,759
Interests in associates and jointly controlled entities	–	–	–	–	–	–	–	1,777	1,777
	2,054,133	1,663,001	1,913,481	1,672,191	1,717,538	694,294	4,781,069	272,829	14,768,536
Deferred tax assets									17,825
Elimination									(3,976,044)
Total assets									10,810,317
Segment liabilities	2,050,953	1,659,607	1,907,041	1,669,392	1,715,699	692,888	4,142,555	247,078	14,085,213
Deferred tax liabilities									243
Elimination									(3,976,044)
Total liabilities									10,109,412
Off-balance sheet credit commitments	559,761	322,547	430,258	270,124	265,379	126,394	12,002	49,355	2,035,820

(Expressed in millions of RMB, unless otherwise stated)

57 Operating segments (continued)

(1) Geographical segments (continued)

	2009								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	North Eastern	Head Office	Overseas	Total
External net interest income	31,201	15,457	17,347	20,601	25,352	5,684	93,325	2,918	211,885
Internal net interest income/(expense)	12,109	13,386	17,594	13,764	11,003	7,391	(75,106)	(141)	–
Net interest income	43,310	28,843	34,941	34,365	36,355	13,075	18,219	2,777	211,885
Net fee and commission income	11,848	8,506	7,770	7,496	6,638	2,679	2,625	497	48,059
Net trading gain/(loss)	121	238	105	23	92	41	(290)	1,903	2,233
Dividend income	9	–	8	12	13	–	36	22	100
Net gain arising from investment securities	5	–	11	416	348	305	3,296	90	4,471
Other operating income/(loss), net	478	306	279	307	741	171	(435)	719	2,566
Operating income	55,771	37,893	43,114	42,619	44,187	16,271	23,451	6,008	269,314
Operating expenses	(19,352)	(13,947)	(16,342)	(17,847)	(17,587)	(7,605)	(10,398)	(2,068)	(105,146)
Impairment losses	(7,384)	(3,880)	(3,867)	(4,364)	(711)	(1,584)	(996)	(2,674)	(25,460)
Share of profits less losses of associates-and jointly controlled entities	–	–	–	–	–	–	–	17	17
Profit before tax	29,035	20,066	22,905	20,408	25,889	7,082	12,057	1,283	138,725
Capital expenditure	3,229	1,794	2,990	3,361	3,138	1,636	5,447	179	21,774
Depreciation and amortisation	1,846	1,331	1,590	1,900	1,659	800	1,660	90	10,876
Segment assets	1,890,649	1,462,959	1,675,219	1,500,338	1,508,896	642,640	4,418,463	232,669	13,331,833
Interests in associates and jointly controlled entities	–	–	–	–	–	–	–	1,791	1,791
	1,890,649	1,462,959	1,675,219	1,500,338	1,508,896	642,640	4,418,463	234,460	13,333,624
Deferred tax assets									10,790
Elimination									(3,721,059)
Total assets									9,623,355
Segment liabilities	1,888,969	1,460,261	1,670,431	1,497,353	1,505,890	641,924	3,910,613	209,737	12,785,178
Deferred tax liabilities									216
Elimination									(3,721,059)
Total liabilities									9,064,335
Off-balance sheet credit commitments	475,571	318,201	431,592	240,055	223,893	115,788	14,956	41,417	1,861,473

(2) Business segments

Business segments, as defined for management reporting purposes, are as follows:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit taking activities, agency services, financial consulting and advisory services, cash management services, remittance and settlement services, custody services and guarantee services, etc.

(Expressed in millions of RMB, unless otherwise stated)

57 Operating segments (continued)

(2) Business segments (continued)

Personal banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans, deposit taking activities, card business, personal wealth management services, remittance services and securities agency services, etc.

Treasury business

This segment covers the Group's treasury operations. The treasury enters into inter-bank money market transactions, repurchase and resale transactions, and invests in debt securities. It also trades in derivatives and foreign currency for its own account. The treasury carries out customer-driven derivatives, foreign currency and precious metal trading. Its function also includes the management of the Group's overall liquidity position, including the issuance of debt securities.

Others

These represent equity investments and the revenues, results, assets and liabilities of overseas branches and subsidiaries.

	2010				
	Corporate banking	Personal banking	Treasury business	Others	Total
External net interest income/(expense)	150,070	(3,659)	101,116	3,973	251,500
Internal net interest (expense)/income	(14,511)	74,156	(58,441)	(1,204)	–
Net interest income	135,559	70,497	42,675	2,769	251,500
Net fee and commission income	28,563	23,919	11,898	1,752	66,132
Net trading (loss)/gain	(1)	350	1,940	1,220	3,509
Dividend income	–	–	–	228	228
Net gain arising from investment securities	–	–	504	1,399	1,903
Other operating income/(loss), net	754	278	(1,591)	3,067	2,508
Operating income	164,875	95,044	55,426	10,435	325,780
Operating expenses	(50,151)	(62,278)	(3,573)	(5,364)	(121,366)
Impairment losses	(23,557)	(2,176)	(655)	(2,904)	(29,292)
Share of profits less losses of associates and jointly controlled entities	–	–	–	34	34
Profit before tax	91,167	30,590	51,198	2,201	175,156
Capital expenditure	6,065	13,048	777	269	20,159
Depreciation and amortisation	3,558	7,655	456	158	11,827
Segment assets	4,343,277	1,361,904	4,684,227	487,968	10,877,376
Interests in associates and jointly controlled entities	–	–	–	1,777	1,777
	4,343,277	1,361,904	4,684,227	489,745	10,879,153
Deferred tax assets					17,825
Elimination					(86,661)
Total assets					10,810,317
Segment liabilities	5,238,032	4,489,333	110,697	357,768	10,195,830
Deferred tax liabilities					243
Elimination					(86,661)
Total liabilities					10,109,412
Off-balance sheet credit commitments	1,781,695	205,092	–	49,033	2,035,820

(Expressed in millions of RMB, unless otherwise stated)

57 Operating segments (continued)

(2) Business segments (continued)

	2009				
	Corporate banking	Personal banking	Treasury business	Others	Total
External net interest income/(expense)	142,914	(21,796)	87,633	3,134	211,885
Internal net interest (expense)/income	(18,525)	84,613	(65,434)	(654)	–
Net interest income	124,389	62,817	22,199	2,480	211,885
Net fee and commission income	19,884	17,882	9,518	775	48,059
Net trading (loss)/gain	(169)	36	459	1,907	2,233
Dividend income	–	–	–	100	100
Net gain arising from investment securities	–	–	3,242	1,229	4,471
Other operating income/(loss), net	558	232	(378)	2,154	2,566
Operating income	144,662	80,967	35,040	8,645	269,314
Operating expenses	(43,029)	(53,492)	(3,802)	(4,823)	(105,146)
Impairment losses	(17,476)	(4,164)	(944)	(2,876)	(25,460)
Share of profits less losses of associates and jointly controlled entities	–	–	–	17	17
Profit before tax	84,157	23,311	30,294	963	138,725
Capital expenditure	6,567	13,964	987	256	21,774
Depreciation and amortisation	3,280	6,975	493	128	10,876
Segment assets	3,879,101	1,073,608	4,449,759	256,060	9,658,528
Interests in associates and jointly controlled entities	–	–	–	1,791	1,791
	3,879,101	1,073,608	4,449,759	257,851	9,660,319
Deferred tax assets					10,790
Elimination					(47,754)
Total assets					9,623,355
Segment liabilities	4,723,263	4,002,153	101,545	284,912	9,111,873
Deferred tax liabilities					216
Elimination					(47,754)
Total liabilities					9,064,335
Off-balance sheet credit commitments	1,573,849	249,504	–	38,120	1,861,473

58 Entrusted lending business

As at the end of the reporting period, the entrusted loans and funds were as follows:

	Group		Bank	
	2010	2009	**2010**	2009
Entrusted loans	**778,349**	609,565	**776,418**	609,565
Entrusted funds	**778,349**	609,565	**776,418**	609,565

(Expressed in millions of RMB, unless otherwise stated)

59 Pledged assets

(1) Assets pledged as security

(a) Carrying value of pledged assets analysed by asset type

	Group		Bank	
	2010	2009	**2010**	2009
Pledged deposits	**559**	342	**559**	342
Loans	**2,000**	–	**8,222**	2,625
PBOC bills	**2,860**	–	**2,860**	–
Equity instruments	**43**	–	**–**	–
Financial institution bonds	**543**	579	**543**	579
Total	**6,005**	921	**12,184**	3,546

(b) Carrying value of pledged assets analysed by classification

	Group		Bank	
	2010	2009	**2010**	2009
Deposits with banks and non-bank financial institutions	**559**	342	**559**	342
Loans and advances to customers	**2,000**	–	**8,222**	2,625
Available-for-sale financial assets	**543**	579	**543**	579
Financial assets at fair value through profit or loss	**43**	–	**–**	–
Held-to-maturity investments	**2,860**	–	**2,860**	–
Total	**6,005**	921	**12,184**	3,546

(2) Collateral accepted as securities for assets

The Group conducts resale agreements under usual and customary terms of placements, and holds collateral for these transactions. As at 31 December 2010 and 2009, the Group did not hold for resale agreements any collateral which it was permitted to sell or repledge in the absence of default for the transactions.

60 Commitments and contingent liabilities

(1) Credit commitments

Credit commitments take the form of approved loans with signed contracts, credit card limits, financial guarantees and letters of credit. The Group assesses and makes allowance for any probable losses accordingly.

The contractual amounts of loans and credit card commitments represent the cash outflows should the contracts be fully drawn upon. The amounts of guarantees and letters of credit represent the maximum potential loss that would be recognised if counterparties failed completely to perform as contracted. 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.

As the facilities may expire without being drawn upon, the total of the contractual amounts set out in the following table is not representative of expected future cash outflows.

	Group		Bank	
	2010	2009	**2010**	2009
Loan commitments				
– with an original maturity under one year	**123,092**	84,261	**120,071**	80,050
– with an original maturity of one year or over	**461,785**	443,366	**461,636**	443,138
Credit card commitments	**227,478**	260,656	**205,092**	240,391
	812,355	788,283	**786,799**	763,579
Bank acceptances	**393,671**	339,354	**393,522**	339,240
Financing guarantees	**162,824**	149,750	**162,410**	153,468
Non-financing guarantees	**446,010**	415,342	**445,936**	415,277
Sight letters of credit	**58,135**	47,091	**58,135**	47,091
Usance letters of credit	**131,045**	72,373	**130,710**	72,480
Others	**31,780**	49,280	**31,881**	49,604
Total	**2,035,820**	1,861,473	**2,009,393**	1,840,739

(Expressed in millions of RMB, unless otherwise stated)

60 Commitments and contingent liabilities (continued)

(2) Credit risk-weighted amount

The credit risk-weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% of contingent liabilities and commitments.

	Group		Bank	
	2010	2009	**2010**	2009
Credit risk-weighted amount of contingent liabilities and commitments	**954,706**	898,284	**953,856**	897,511

(3) Operating lease commitments

The Group and the Bank lease certain property and equipment under operating leases, which typically run for an initial period of one to five years and may include an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals. As at the end of the reporting period, the future minimum lease payments under non-cancellable operating leases for property and equipment were as follows:

	Group		Bank	
	2010	2009	**2010**	2009
Within one year	**3,002**	3,012	**2,742**	2,760
After one year but within two years	**2,319**	2,293	**2,243**	2,112
After two years but within three years	**1,766**	1,822	**1,727**	1,706
After three years but within five years	**2,171**	2,319	**1,968**	2,249
After five years	**1,388**	1,767	**1,359**	1,442
Total	**10,646**	11,213	**10,039**	10,269

(4) Capital commitments

As at the end of the reporting period, the Group and the Bank had capital commitments as follows:

		Group		Bank	
	Note	**2010**	2009	**2010**	2009
Contracted for	(a)	**3,815**	5,511	**3,726**	5,394
Authorised but not contracted for		**1,619**	1,652	**1,603**	1,635
Total		**5,434**	7,163	**5,329**	7,029

(a) As at 31 December 2010, the Group's and the Bank's capital commitments contracted for include the consideration for the acquisition of 51% equity interests of Pacific-Antai Life Insurance Co. Ltd., amounting to RMB816 million.

(5) Underwriting obligations

As at 31 December 2010, the unexpired underwriting commitments of the Group and the Bank were RMB51,846 million (2009: RMB3,890 million).

(6) Redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations, which represent the nominal value of government bonds underwritten and sold by the Group and the Bank, but not yet matured as at 31 December 2010, were RMB91,578 million (2009: RMB81,424 million).

(Expressed in millions of RMB, unless otherwise stated)

60 Commitments and contingent liabilities (continued)

(7) Outstanding litigation and disputes

As at 31 December 2010, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB1,976 million (2009: RMB2,418 million). Provisions have been made for the estimated losses arising from such litigations based upon the opinions of the Group's internal and external legal counsels (Note 47). The Group considers that the provisions made are reasonable and adequate.

(8) Provision against commitments and contingent liabilities

The Group and the Bank assessed and made provisions for any probable outflow of economic benefits in relation to the above commitments and contingent liabilities in accordance with their accounting policies (Note 4(13)).

61 Related party relationships and transactions

(1) Transactions with parent companies and their affiliates

The parent companies of the Group are CIC and Huijin.

Approved by the State Council, CIC was established on 29 September 2007 with a registered capital of USD200 billion. As a wholly owned subsidiary of CIC, Huijin exercises its rights and obligations as an investor on behalf of PRC government.

Huijin was incorporated on 16 December 2003 as a wholly state-owned investment company with the approval of the State Council. It was registered in Beijing with a registered capital of RMB552,117 million. Its principal activities are equity investments as authorised by the State Council, without engaging in other commercial operations. As at 31 December 2010, Huijin directly held 57.10% shares of the Bank.

The related companies under parent companies include the subsidiaries under parent companies and other associates and jointly controlled entities.

The Group's transactions with parent companies and their affiliates mainly include deposit taking, entrusted asset management, operating leases, lending, purchase and sale of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts with a nominal value of RMB80 billion (2009: RMB80 billion). These are bearer bonds and tradable in secondary market. Accordingly, the Group has no information in respect of the amount of the bonds held by the affiliates of parent companies as at the end of the reporting period.

(a) Transactions with parent companies

In the ordinary course of the business, transactions that the Group and the Bank entered into with parent companies are as follows:

Amounts

	2010		2009	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest income	**185**	**0.05%**	–	–
Interest expense	**68**	**0.05%**	394	0.31%
Fee and commission income	**2**	**0.00%**	–	–

Balances outstanding as at the end of the reporting period

	2010		2009	
	Balance	**Ratio to similar transactions**	Balance	Ratio to similar transactions
Interest receivable	**185**	**0.42%**	–	–
Held-to-maturity investments	**16,680**	**0.89%**	–	–
Deposits from banks and non-bank financial institutions	**–**	**–**	688	0.09%
Deposits from customers	**4,934**	**0.05%**	2,508	0.03%
Interest payable	**1**	**0.00%**	21	0.04%

(Expressed in millions of RMB, unless otherwise stated)

61 Related party relationships and transactions (continued)

(1) Transactions with parent companies and their affiliates (continued)

(b) *Transactions with the affiliates of parent companies*

In the ordinary course of the business, transactions that the Group and the Bank entered into with the affiliates of parent companies are as follows:

Amounts

	Note	2010 Amount	2010 Ratio to similar transactions	2009 Amount	2009 Ratio to similar transactions
Interest income		15,123	4.00%	12,916	3.80%
Interest expense		1,670	1.32%	1,529	1.20%
Fee and commission income		201	0.29%	136	0.27%
Fee and commission expense		113	5.58%	94	5.28%
Other operating income, net		10	0.40%	10	0.39%
Operating expenses	(i)	967	0.80%	854	0.81%

Balances outstanding as at the end of the reporting period

	Note	2010 Balance	2010 Ratio to similar transactions	2009 Balance	2009 Ratio to similar transactions
Deposits with banks and non-bank financial institutions		9,436	12.05%	33,245	32.86%
Placements with banks and non-bank financial institutions		19,478	30.45%	8,165	36.75%
Financial assets at fair value through profit or loss		1,353	7.80%	3,795	20.11%
Positive fair value of derivatives		830	7.39%	213	2.25%
Financial assets held under resale agreements		1,401	0.77%	2,005	0.34%
Interest receivable		5,875	13.33%	4,860	12.05%
Loans and advances to customers		15,306	0.28%	1,586	0.03%
Available for sale financial assets		85,682	12.30%	69,457	10.66%
Held-to-maturity investments		372,605	19.78%	297,382	21.11%
Debt securities classified as receivables		34,049	11.10%	43,103	8.63%
Other assets	(ii)	157	1.03%	157	1.15%
Deposits from banks and non-bank financial institutions	(iii)	53,529	7.83%	99,152	12.80%
Placements from banks and non-bank financial institutions		14,018	21.15%	12,338	32.37%
Negative fair value of derivatives		628	6.71%	132	1.54%
Deposits from customers		13,597	0.15%	5,989	0.07%
Interest payable		69	0.11%	170	0.29%
Other liabilities		150	0.61%	372	1.81%

(i) Operating expenses mainly represent rental expenses paid by the Group for leased assets, including properties and motor vehicles, owned by parent companies and its affiliates, and fees for related services provided by parent companies and its affiliates.

(ii) Other assets mainly represent other receivables from the affiliates of parent companies.

(iii) Deposits from the affiliates of parent companies are unsecured and are repayable under normal commercial terms.

(Expressed in millions of RMB, unless otherwise stated)

61 Related party relationships and transactions (continued)

(2) Transactions with associates and jointly controlled entities of the Group

Transactions between the Group and its associates and jointly controlled entities are conducted in the normal and ordinary course of the business and under normal commercial terms. In the ordinary course of the business, transactions that the Group entered into with associates and jointly controlled entities are as follows:

Amounts

	2010	2009
Interest income	3	5
Interest expense	–	1

Balances outstanding as at the end of the reporting period

	2010	2009
Loans and advances to customers	567	211
Deposits from customers	–	442

(3) Transactions between the Bank and its subsidiaries

Transactions between the Bank and its subsidiaries are conducted in the normal and ordinary course of the business and under normal commercial terms. All the inter-group transactions and inter-group balances are eliminated when preparing the consolidated financial statements as mentioned in Note 4(1)(b).

In the ordinary course of the business, transactions that the Bank entered into with its subsidiaries are as follows:

Amounts

	2010	2009
Interest income	128	82
Interest expense	169	135
Fee and commission income	260	124
Fee and commission expense	28	11
Dividend income	65	33
Net trading gain/(loss)	60	(3)
Other operating income, net	13	23
Operating expenses	–	13

Balances outstanding as at the end of the reporting period are presented in Note 38.

For the year ended 31 December 2010, the total maximum guarantee limit of guarantee letters issued by the Bank with its subsidiaries as beneficiary is RMB4,262 million (2009: RMB4,282 million).

For the year ended 31 December 2010, the transactions between subsidiaries of the Group are mainly deposit taking and ordinary receivables and payables. As at 31 December 2010, the balances of the above transactions were RMB737 million and RMB220 million respectively.

(4) Transactions with other PRC state-owned entities

State-owned entities refer to those entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organizations. Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; sale, purchase, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group's pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(Expressed in millions of RMB, unless otherwise stated)

61 Related party relationships and transactions (continued)

(5) Key management personnel

Key management personnel are those persons having authorities and responsibilities for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and senior executives.

The compensation of directors and supervisors is disclosed in Note 14. The senior executives' annual compensation before individual income tax during the year is as follows:

	2010			
	Remuneration paid RMB'000	Contributions to defined contribution retirement schemes RMB'000	Other benefits in kind (note (i)) RMB'000	Total RMB'000
Executive vice president				
Hu Zheyi (note (ii))	564	29	246	839
Executive vice president				
Pang Xiusheng (note (ii))	564	29	241	834
Executive vice president				
Zhao Huan				N/A
Member of senior management				
Zhang Gengsheng				N/A
Chief Financial Officer				
Zeng Jianhua				N/A
Chief Risk Officer				
Huang Zhiling				N/A
Chief Audit Officer				
Yu Jingbo				N/A
Secretary to the board of directors				
Chen Caihong (note (ii))	498	29	211	738
Controller of wholesale banking				
Gu Jingpu (note (ii))	498	29	211	738
Controller of retail banking				
Du Yajun (note (ii))	498	29	211	738
Controller of investment and wealth management banking				
Mao Yumin	4,576	10	21	4,607
Former vice president				
Fan Yifei (note (ii))	235	12	100	347
Former chief audit officer				
Yu Yongshun (note (ii))	498	29	211	738
	7,931	196	1,452	9,579

(Expressed in millions of RMB, unless otherwise stated)

61 Related party relationships and transactions (continued)

(5) Key management personnel (continued)

	2010				
	Salaries and allowance RMB'000	Variable compensation RMB'000	Contributions to defined contribution retirement schemes RMB'000	Other benefits in kind (note(i)) RMB'000	Total RMB'000
Company secretary					
Chan Mei Sheung	2,289	2,348	183	16	4,836
Qualified accountant					
Yuen Yiu Leung	2,116	1,185	148	19	3,468
	4,405	3,533	331	35	8,304

	2009						
	Basic annual salaries RMB'000	Annual performance bonus RMB'000	Allowance RMB'000	Welfare RMB'000	Total (before tax) (note (iii)) RMB'000	Including: deferral payment RMB'000	The actual payment in 2009 (before tax) RMB'000
Vice president							
Fan Yifei	338	891	–	264	1,493	445	1,048
Vice president and chief risk officer							
Zhu Xiaohuang	338	892	–	261	1,491	446	1,045
Vice president							
Hu Zheyi	338	891	–	261	1,490	445	1,045
Vice president and chief financial officer							
Pang Xiusheng	310	818	–	230	1,358	409	949
Chief audit officer							
Yu Yongshun	310	817	–	230	1,357	409	948
Secretary to the board of directors							
Chen Caihong	310	817	–	230	1,357	409	948
Controller of wholesale banking							
Gu Jingpu	310	817	–	230	1,357	409	948
Controller of retail banking							
Du Yajun	310	817	–	230	1,357	409	948
Controller of investment and wealth management banking							
Mao Yumin	4,330	400	–	36	4,766	–	4,766
	6,894	7,160	–	1,972	16,026	3,381	12,645

(Expressed in millions of RMB, unless otherwise stated)

61 Related party relationships and transactions (continued)

(5) Key management personnel (continued)

	2009				
	Salaries and allowance RMB'000	Variable compensation RMB'000	Contributions to defined contribution retirement schemes RMB'000	Other benefits in kind (note(i)) RMB'000	Total RMB'000
Company secretary					
Chan Mei Sheung	2,180	1,638	174	16	4,008
Qualified accountant					
Yuen Yiu Leung	2,064	731	150	20	2,965
	4,244	2,369	324	36	6,973

Notes:

(i) Other benefits in kind included the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included the Bank's contribution to its own corporate annuity plan (which was set up in accordance with the relevant policies issued by the government authorities) and supplementary medical insurance.

(ii) The total compensation package for these key management personnel for the year ended 31 December 2010 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's and the Bank's financial statements for the year ended 31 December 2010. The final compensation will be disclosed in a separate announcement when determined.

(iii) The total compensation package for certain key management personnel for the year ended 31 December 2009 had not been finalised in accordance with regulations of the PRC relevant authorities till the date that the 2009 financial statements were announced. The aforesaid total compensation package for the key management personnel for the year ended 31 December 2009 was the final amount and the Bank made the relevant supplementary announcement on 29 April 2010.

(6) Loans and advances to directors, supervisors and senior executives

The Group had no material balance of loans and advances to directors, supervisors and senior executives as at the end of the reporting period. Those loans and advances to directors, supervisors and senior executives were conducted in the normal and ordinary course of the business and under normal commercial terms or on the same terms and conditions that are available to other employees, based on terms and conditions granted to third parties adjusted for reduced risk.

(7) Contributions to defined contribution retirement schemes

The Group participates in various defined contribution retirement schemes organised by municipal and provincial governments for its employees in Mainland China. For its overseas employees, the Group participates in various defined contribution retirement schemes at funding rates determined in accordance with the local practices and regulations. The details of the Group's defined contribution retirement schemes are described in Note 4(12)(b).

62 Risk Management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- market risk
- liquidity risk
- operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk strategy and risk management policies and evaluating the Group's risk exposures regularly.

To identify, evaluate, monitor and manage risk, the Group has designed a comprehensive governance framework, internal control policies and procedures. The Chief Risk Officer, who reports directly to the President, is responsible for the Group's overall risk management. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and standardised and procedural management, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

62 Risk Management (continued)

Risk management framework (continued)

The Group Audit Committee is responsible for monitoring and evaluating internal controls, and monitoring the compliance of core businesses sectors and their management procedures. The Group Audit Committee is assisted in these functions by Audit Department. Audit Department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit Committee.

(1) Credit risk

Credit risk management

Credit risk represents the financial loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Group.

Credit business

The Risk Management Department, under the supervision of the Chief Risk Officer, is responsible for establishing credit risk management policies and performing credit risk measurement and analysis. The Credit Management Department is responsible for monitoring the implementation of credit risk management policies and coordinating credit approval and credit ratings activities. The Credit Management Department works together with the Corporate Banking Department, the Institutional Banking Department, the International Business Department, the Housing Finance & Personal Lending Department, the Credit Card Center, the Special Assets Resolution Department and the Legal and Compliance Department to implement credit risk management policies and procedures.

With respect to the credit risk management of corporate and institutional business, the Group has sped up the adjustment of its credit portfolio structure, enhanced post-lending monitoring, and refined the industry-specific guideline and policy baseline for credit approval. Management also fine-tuned the credit acceptance and exit policies, and optimised its economic capital and credit risk limit management. All these policies have implemented to improve the overall asset quality. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring. The Group performs pre-lending evaluations by assessing the entity's credit ratings based on internal rating criteria and assessing the risk and rewards with respect to the proposed project. Credit approvals are granted by designated Credit Approval Officers. The Group continually monitors loans, particularly those related to targeted industries, geographical segments, products and clients. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately and measures are implemented to prevent and control risks. In 2010, the Bank has further emphasised the importance of segregation of duties as well as enhancing the operating mechanism as a whole. During the process of optimizing the parallel operation, the Bank has also begun to escalate its business focus from parallel operation to post-lending management. The centralized risk management was also expedited in the cities' where the first-tier branches are located, and the Bank will continue to explore the ways of specifying the operating characteristic for those branches, in addition to develop an intensive management for risk, reallocation of resource, improving the quality and efficiency.

With respect to the personal credit business, the Group relies on credit assessment of applicants as the basis for loan approval. Customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and recommendations to the loan-approval departments for consent. The Group monitors borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the recovery process according to standard personal loan recovery procedures.

To mitigate risks, the Group requests the customers to provide collateral and guarantees where there are appropriate. A fine management system and operating workflow for collateral have already developed, and there is a guideline to specify the suitability of accepting specific types of collateral, as well as determining evaluation parameters. Collateral structures and legal covenants are regularly reviewed to ensure that they still serve their intended purposes and conform to market practices.

Loan grading classification

The Group adopts a loan risk classification approach to manage the loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their level of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances when one or more events demonstrate there is objective evidence of a loss event which triggers impairment. The allowance for impairment loss on impaired loans and advances is collectively or individually assessed as appropriate.

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(1) Credit risk (continued)

Loan grading classification (continued)

The core definitions of the five categories of loans and advances are set out below:

Normal: Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.

Special mention: Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.

Substandard: Borrowers' abilities to service their loans are in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.

Doubtful: Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.

Loss: Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

Treasury business

For risk management purposes, credit risk arising on debt securities and exposures relating to the Group's derivatives portfolio is managed independently and information thereon is disclosed in notes (1)(h) and (1)(i) below. The Group sets credit limits for treasury activities and monitors them regularly with reference to the fair values of the relevant financial instruments.

(a) Maximum credit risk exposure

The maximum exposure to credit risk as at the end of the reporting period without taking into consideration any collateral held or other credit enhancement is represented by the carrying amount of each type of financial assets in the statement of financial position after deducting any impairment allowance. A summary of the maximum exposure is as follows:

	Group		Bank	
	2010	2009	**2010**	2009
Deposits with central banks	**1,799,828**	1,418,252	**1,793,907**	1,415,172
Deposits with banks and non-bank financial institutions	**78,318**	101,163	**78,198**	100,679
Placements with banks and non-bank financial institutions	**63,962**	22,217	**68,528**	23,143
Financial liabilities at fair value through profit or loss	**7,860**	14,517	**3,044**	10,251
Positive fair value of derivatives	**11,224**	9,456	**10,153**	7,730
Financial assets held under resale agreements	**181,075**	589,606	**181,075**	588,706
Interest receivable	**44,088**	40,345	**43,861**	40,129
Loans and advances to customers	**5,526,026**	4,692,947	**5,428,279**	4,626,024
Available-for-sale debt securities	**676,840**	626,763	**675,277**	627,598
Held-to-maturity investments	**1,884,057**	1,408,873	**1,883,927**	1,408,465
Debt securities classified as receivables	**306,748**	499,575	**306,748**	499,575
Other financial assets	**10,994**	8,436	**27,835**	28,068
Total	**10,591,020**	9,432,150	**10,500,832**	9,375,540
Off-balance sheet credit commitments	**2,035,820**	1,861,473	**2,009,393**	1,840,739
Maximum credit risk exposure	**12,626,840**	11,293,623	**12,510,225**	11,216,279

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(1) Credit risk (continued)

(b) Distribution of loans and advances to customers in terms of credit quality is analysed as follows:

	Note	Group 2010	Group 2009	Bank 2010	Bank 2009
Individually assessed and impaired gross amount		**58,658**	64,794	**58,584**	64,717
Allowances for impairment losses		**(37,352)**	(46,360)	**(37,278)**	(46,308)
Subtotal		**21,306**	18,434	**21,306**	18,409
Collectively assessed and impaired gross amount		**6,054**	7,362	**5,920**	7,208
Allowances for impairment losses		**(3,657)**	(4,838)	**(3,648)**	(4,832)
Subtotal		**2,397**	2,524	**2,272**	2,376
Overdue but not impaired	(i)				
– less than 90 days		**15,971**	15,183	**15,707**	14,981
– 90-180 days		**–**	2,289	**–**	2,289
Gross amount		**15,971**	17,472	**15,707**	17,270
Allowances for impairment losses	(ii)	**(916)**	(1,328)	**(912)**	(1,328)
Subtotal		**15,055**	16,144	**14,795**	15,942
Neither overdue nor impaired					
– Unsecured loans		**1,513,872**	1,287,097	**1,492,970**	1,273,397
– Guaranteed loans		**1,161,167**	970,460	**1,130,549**	956,733
– Loans secured by tangible assets other than monetary assets		**2,364,592**	2,011,662	**2,322,350**	1,974,642
– Loans secured by monetary assets		**548,814**	460,926	**544,460**	458,168
Gross amount		**5,588,445**	4,730,145	**5,490,329**	4,662,940
Allowances for impairment losses	(ii)	**(101,177)**	(74,300)	**(100,423)**	(73,643)
Subtotal		**5,487,268**	4,655,845	**5,389,906**	4,589,297
Total		**5,526,026**	4,692,947	**5,428,279**	4,626,024

Notes:

(i) As at 31 December 2010, the gross amount of loans and advances of the Group, which were overdue but not impaired and were subject to individual assessment, was RMB2,464 million (2009: RMB1,440 million). The covered portion and uncovered portion of these loans and advances were RMB462 million (2009: RMB601 million) and RMB2,001 million (2009: RMB839 million) respectively. The fair value of collateral held against these loans and advances amounted to RMB536 million (2009: RMB1,015 million).

As at 31 December 2010, the gross amount of loans and advances of the Bank, which were overdue but not impaired and were subject to individual assessment, was RMB2,385 million (2009: RMB1,417 million). The covered portion and uncovered portion of these loans and advances were RMB387 million (2009: RMB583 million) and RMB1,998 million (2009: RMB834 million) respectively. The fair value of collateral held against these loans and advances amounted to RMB454 million (2009: RMB996 million).

The fair value of collateral was estimated by the Group based on the latest available external valuations adjusted by taking into account the current realisation experience as well as the market situation.

(ii) The balances represent collectively assessed allowances of impairment losses.

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(1) Credit risk (continued)

(c) Loans and advances to customers analysed by economic sector concentrations

Group

	2010			2009		
	Gross loan balance	**Percentage**	**Balance secured by collateral**	Gross loan balance	Percentage	Balance secured by collateral
Corporate loans and advances						
– Manufacturing	**1,010,527**	**17.83%**	**357,152**	826,282	17.14%	310,105
– Transportation, storage and postal services	**660,308**	**11.65%**	**267,123**	540,606	11.22%	229,723
– Production and supply of electric power, gas and water	**528,279**	**9.32%**	**129,473**	494,354	10.26%	123,504
– Real estate	**435,234**	**7.68%**	**354,485**	388,872	8.07%	327,265
– Leasing and commercial services	**361,713**	**6.38%**	**146,145**	308,362	6.40%	119,977
– Wholesale and retail trade	**243,738**	**4.30%**	**91,752**	164,744	3.42%	78,825
– Water, environment and public utility management	**216,328**	**3.82%**	**95,955**	206,206	4.28%	94,620
– Construction	**150,736**	**2.66%**	**53,883**	118,875	2.47%	43,868
– Mining	**148,261**	**2.62%**	**23,731**	106,977	2.22%	18,495
– Education	**100,193**	**1.77%**	**38,738**	93,446	1.94%	35,043
– Telecommunications, computer services and software	**28,498**	**0.50%**	**7,085**	28,592	0.59%	7,715
– Others	**251,180**	**4.40%**	**107,221**	202,275	4.18%	97,725
Total corporate loans and advances	**4,134,995**	**72.93%**	**1,672,743**	3,479,591	72.19%	1,486,865
Personal loans and advances	**1,390,957**	**24.54%**	**1,295,659**	1,111,435	23.06%	1,043,794
Discounted bills	**143,176**	**2.53%**	**–**	228,747	4.75%	15
Total loans and advances to customers	**5,669,128**	**100.00%**	**2,968,402**	4,819,773	100.00%	2,530,674

Details of impaired loans, impairment allowances, charges, and amounts written off in respect of economic sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

	2010				
	Gross impaired loans	**Individually assessed impairment allowances**	**Collectively assessed impairment allowances**	**Charged to profit or loss during the year**	**Written off during the year**
Manufacturing	**22,538**	**(14,627)**	**(22,345)**	**10,316**	**3,637**
Transportation, storage and postal services	**6,646**	**(3,194)**	**(12,541)**	**1,839**	**82**

	2009				
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances	Charged to profit or loss during the year	Written off during the year
Manufacturing	21,522	(15,861)	(14,548)	5,615	2,083
Transportation, storage and postal services	10,168	(4,679)	(9,335)	4,516	236
Production and supply of electric power, gas and water	3,991	(2,882)	(9,313)	(249)	109

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(1) Credit risk (continued)

(c) Loans and advances to customers analysed by economic sector concentrations (continued)

Bank

	2010			2009		
	Gross loan balance	Percentage	Balance secured by collateral	Gross loan balance	Percentage	Balance secured by collateral
Corporate loans and advances						
– Manufacturing	994,814	17.86%	355,803	817,326	17.20%	309,361
– Transportation, storage and postal services	653,718	11.74%	264,290	538,229	11.33%	228,330
– Production and supply of electric power, gas and water	522,734	9.38%	128,549	491,211	10.34%	123,229
– Real estate	413,977	7.43%	337,168	371,676	7.82%	312,629
– Leasing and commercial services	361,451	6.49%	145,918	308,285	6.49%	119,971
– Wholesale and retail trade	230,543	4.14%	88,661	159,030	3.35%	77,484
– Water, environment and public utility management	216,163	3.88%	95,924	206,175	4.34%	94,603
– Construction	149,348	2.68%	53,632	118,240	2.49%	43,817
– Mining	145,810	2.62%	23,731	106,535	2.24%	18,495
– Education	100,045	1.80%	38,620	93,351	1.96%	35,035
– Telecommunications, computer services and software	27,572	0.49%	6,900	28,389	0.60%	7,699
– Others	245,523	4.40%	105,837	197,759	4.15%	94,826
Total corporate loans and advances	4,061,698	72.91%	1,645,033	3,436,206	72.31%	1,465,479
Personal loans and advances	1,365,684	24.52%	1,276,534	1,087,182	22.88%	1,025,289
Discounted bills	143,158	2.57%	–	228,747	4.81%	15
Total loans and advances to customers	5,570,540	100.00%	2,921,567	4,752,135	100.00%	2,490,783

Details of impaired loans, impairment allowances, charges, and amounts written off in respect of economic sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

	2010				
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances	Charged to profit or loss during the year	Written off during the year
Manufacturing	22,465	(14,554)	(22,181)	10,210	3,637
Transportation, storage and postal services	6,646	(3,194)	(12,479)	1,791	82

	2009				
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances	Charged to profit or loss during the year	Written off during the year
Manufacturing	21,446	(15,810)	(14,441)	5,519	2,038
Transportation, storage and postal services	10,168	(4,679)	(9,320)	4,502	235
Production and supply of electric power, gas and water	3,991	(2,882)	(9,284)	(256)	109

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(1) Credit risk (continued)

(d) Loans and advances to customers analysed by geographical sector concentrations

Group

	2010			2009		
	Gross loan balance	Percentage	Balance secured by collateral	Gross loan balance	Percentage	Balance secured by collateral
Yangtze River Delta	1,321,708	23.31%	765,533	1,136,447	23.58%	660,273
Bohai Rim	1,008,340	17.79%	456,068	859,885	17.84%	379,304
Western	963,636	17.00%	532,143	819,337	17.00%	454,429
Central	922,185	16.27%	477,127	782,763	16.24%	391,903
Pearl River Delta	858,420	15.14%	515,678	728,639	15.12%	446,513
Northeastern	350,584	6.18%	163,249	299,385	6.21%	139,419
Head office	63,638	1.12%	494	41,679	0.86%	497
Overseas	180,617	3.19%	58,110	151,638	3.15%	58,336
Gross loans and advances to customers	5,669,128	100.00%	2,968,402	4,819,773	100.00%	2,530,674

Details of impaired loans and impairment allowances in respect of geographic sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

	2010		
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances
Yangtze River Delta	13,830	(8,106)	(24,260)
Central	12,222	(6,290)	(17,403)
Western	10,340	(6,138)	(19,073)
Bohai Rim	9,400	(6,618)	(18,816)
Pearl River Delta	8,491	(5,133)	(16,507)

	2009		
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances
Bohai Rim	14,488	(11,174)	(14,623)
Yangtze River Delta	13,653	(8,321)	(17,981)
Central	10,706	(7,302)	(13,482)
Western	9,478	(6,636)	(14,717)
Pearl River Delta	9,058	(5,825)	(12,301)

The definitions of geographical segments are set out in Note 57(1).

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(1) Credit risk (continued)

(d) Loans and advances to customers analysed by geographical sector concentrations (continued)

Bank

	2010			2009		
	Gross loan balance	Percentage	Balance secured by collateral	Gross loan balance	Percentage	Balance secured by collateral
Yangtze River Delta	1,320,810	23.71%	765,222	1,136,301	23.91%	660,244
Bohai Rim	978,095	17.56%	448,493	849,067	17.87%	377,063
Western	963,592	17.30%	532,117	819,337	17.24%	454,429
Central	920,626	16.53%	476,579	780,564	16.43%	391,238
Pearl River Delta	858,420	15.41%	515,678	728,639	15.33%	446,513
Northeastern	350,584	6.29%	163,249	299,385	6.30%	139,419
Head office	63,638	1.14%	494	41,679	0.88%	497
Overseas	114,775	2.06%	19,735	97,163	2.04%	21,380
Gross loans and advances to customers	5,570,540	100.00%	2,921,567	4,752,135	100.00%	2,490,783

Details of impaired loans and impairment allowances in respect of geographic sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

	2010		
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances
Yangtze River Delta	13,830	(8,106)	(24,251)
Central	12,222	(6,290)	(17,387)
Western	10,340	(6,138)	(19,073)
Bohai Rim	9,400	(6,618)	(18,461)
Pearl River Delta	8,491	(5,133)	(16,507)

	2009		
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances
Bohai Rim	14,488	(11,174)	(14,482)
Yangtze River Delta	13,653	(8,321)	(17,980)
Central	10,706	(7,302)	(13,459)
Western	9,478	(6,636)	(14,717)
Pearl River Delta	9,058	(5,825)	(12,301)

The definitions of geographical segments are set out in Note 57(1).

(e) Loans and advances to customers analysed by types of collateral

	Group		Bank	
	2010	2009	2010	2009
Unsecured loans	1,520,613	1,291,942	1,499,484	1,277,924
Guaranteed loans	1,180,113	997,157	1,149,489	983,428
Loans secured by tangible assets other than monetary assets	2,412,285	2,062,981	2,369,804	2,025,848
Loans secured by monetary assets	556,117	467,693	551,763	464,935
Gross loans and advances to customers	5,669,128	4,819,773	5,570,540	4,752,135

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(1) Credit risk (continued)

(f) Rescheduled loans and advances to customers

Group

	2010		2009	
	Total	% of gross loans and advances to customers	Total	% of gross loans and advances to customers
Rescheduled loans and advances to customers	2,070	0.04%	3,739	0.08%
Less:				
Rescheduled loans and advances overdue for more than 90 days	668	0.01%	1,855	0.04%
Rescheduled loans and advances overdue for not more than 90 days	1,402	0.03%	1,884	0.04%

Bank

	2010		2009	
	Total	% of gross loans and advances to customers	Total	% of gross loans and advances to customers
Rescheduled loans and advances to customers	1,926	0.03%	3,589	0.08%
Less:				
Rescheduled loans and advances overdue for more than 90 days	666	0.01%	1,853	0.04%
Rescheduled loans and advances overdue for not more than 90 days	1,260	0.02%	1,736	0.04%

(g) Distribution of amounts due from banks and non-bank financial institutions in terms of credit quality is as follows:

Amount due from banks and non-bank financial institutions includes deposits with banks and non-bank financial institutions, placements with banks and non-bank financial institutions and financial assets held under resale agreements of which counterparties are banks and non-bank financial institutions.

	Group		Bank	
	2010	2009	2010	2009
Individually assessed and impaired gross amount	105	163	105	163
Allowances for impairment losses	(95)	(149)	(95)	(149)
Subtotal	10	14	10	14
Neither overdue nor impaired				
– grade A to AAA	186,796	227,903	186,957	224,543
– grade B to BBB	90	125	90	59
– unrated	136,459	23,444	140,744	26,411
Subtotal	323,345	251,472	327,791	251,013
Total	323,355	251,486	327,801	251,027

Amounts neither overdue nor impaired are analysed above according to the Group and the Bank's internal credit rating. Unrated amounts due from banks and non-bank financial institutions include amounts due from a number of domestic banks and non-bank financial institutions for which the Group and the Bank have not assigned an internal credit rating.

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(1) Credit risk (continued)

(h) Distribution of debt securities investments analysed by rating

The Group adopts a credit rating approach to manage the credit risk of the debt securities portfolio held by its operations in Mainland China. Debt securities are rated with reference to Bloomberg Composite, or major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at the end of the reporting period are as follows:

	Group		Bank	
	2010	2009	**2010**	2009
Individually assessed and impaired gross amount	**19,784**	23,063	**19,784**	23,063
Allowances for impairment losses	**(10,462)**	(12,295)	**(10,462)**	(12,295)
Subtotal	**9,322**	10,768	**9,322**	10,768
Neither overdue nor impaired				
Bloomberg Composite				
– AAA	**3,381**	6,480	**3,381**	6,480
– AA- to AA+	**2,811**	3,715	**2,811**	3,715
– A- to A+	**7,142**	8,177	**7,142**	8,177
– lower than A-	**702**	815	**702**	815
Subtotal	**14,036**	19,187	**14,036**	19,187
Other agency ratings				
– AAA	**194,574**	155,962	**194,574**	155,962
– AA- to AA+	**13,352**	12,798	**13,352**	12,798
– A- to A+	**2,609,336**	2,322,456	**2,609,206**	2,322,356
– lower than A-	**2,212**	1,343	**–**	973
Subtotal	**2,819,474**	2,492,559	**2,817,132**	2,492,089
Subtotal of debt securities held by operations in Mainland China	**2,842,832**	2,522,514	**2,840,490**	2,522,044
Debt securities held by overseas operations	**32,673**	27,213	**28,506**	23,844
Total	**2,875,505**	2,549,727	**2,868,996**	2,545,888

Amounts of debts securities rated from A- to A+ include those issued by the PRC government, PBOC and PRC policy banks which for the Group amounted to RMB1,909,104 million (2009: RMB1,624,007 million) and for the Bank amounted to RMB1,908,974 million (2009: RMB1,623,907 million).

(i) Credit risk arising from the Group's derivatives exposures

The majority of the Group's derivatives transactions with domestic customers are hedged back-to-back with overseas banks and non-bank financial institutions. The Group is exposed to credit risk both in respect of the domestic customers and the overseas banks and non-bank financial institutions. The Group manages this risk by monitoring this exposure on a regular basis.

(j) Settlement risk

The Group's activities may give rise to settlement risk at the time of the settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement or clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(2) 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, stock prices and other prices. Market risk arises from both the Group's trading and non-trading business.

The Risk Management Department is responsible for formulating a standardised market risk management policies and rules and supervising the implementation of market risk management policies and rules of the Bank. The Asset and Liability Management Department (the "ALM") is responsible for managing the size and structure of the assets and liabilities in response to non-trading market risk. The Financial Market Department manages the Head Office's RMB and foreign currency investment portfolios, conducts proprietary and customer-driven transactions, as well as implementing market risk management policies and rules. The Audit Department is responsible for regularly performing independent audits of the reliability and effectiveness of the processes constituting the risk management system.

The Group is primarily exposed to structural interest rate risk arising from interest generating commercial banking assets and interest bearing commercial banking liabilities. Interest rate risk is inherent in many of its businesses and largely arises from mismatches between the re-pricing dates of assets and liabilities. The Group manages this risk through regular interest rate gap analysis.

The Group's foreign exchange exposure mainly comprises exposures from foreign currency portfolios within treasury proprietary investments in debt securities and money market placements, and currency exposures from its overseas business. The Group manages its foreign exchange exposure by entering into cross currency interest rate swaps to hedge these exposures on a portfolio basis.

The Group is also exposed to market risk in respect of its customer driven derivatives portfolio and manages this risk by entering into back-to-back hedging transactions on a trade-by-trade basis with overseas banks and non-bank financial institutions.

The Group considers that the market risk arising from commodity or stock prices in respect of its investment portfolios is minimal.

The Group monitors market risk separately in respect of trading portfolios and non-trading portfolios. Trading portfolios include exchange rate and interest rate derivatives as well as trading securities. The historical simulation model for the Value-at-risk ("VaR") analysis is a major tool used by the Bank to measure and monitor the market risk of its trading portfolio and available-for-sale debt securities. Net interest income sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major tools used by the Group to monitor the market risk of its overall businesses.

(a) VaR analysis

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to movements in market interest rates, foreign exchange rates and other market prices over a specified time horizon and at a given level of confidence. The Risk Management Department calculates interest rate VaR for the Bank's debt investments as well as interest rate and exchange rate VaR for the Bank's derivatives. By reference to historical movements in market rates and prices, the Risk Management Department calculates VaR on a daily basis for foreign currency portfolio and at least on a weekly basis for RMB portfolios. VaR is calculated at a confidence level of 99% and with a holding period of one day.

A summary of the VaR of the Bank's trading portfolio and available-for-sale debt securities as at the end of the reporting period and during the respective year is as follows:

	2010			
	As at 31 December	Average	Maximum	Minimum
RMB trading portfolio				
Interest rate risk	2	18	56	2
RMB available-for-sale debt securities				
Interest rate risk	1,146	765	1,147	394
Foreign currency trading portfolio				
Interest rate risk	29	19	21	19
Foreign currency risk	163	67	163	28
Diversification	(27)	(14)	(19)	(10)
	165	72	165	37
Foreign currency available- for-sale debt securities				
Interest rate risk	100	112	145	82

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(2) Market risk (continued)

(a) *VaR analysis (continued)*

	2009			
	As at 31 December	Average	Maximum	Minimum
RMB trading portfolio				
Interest rate risk	13	16	24	8
RMB available-for-sale debt securities				
Interest rate risk	1,137	734	1,163	301
Foreign currency trading portfolio				
Interest rate risk	30	82	141	30
Foreign currency risk	63	455	1,123	63
Diversification	(30)	(58)	(115)	(30)
	63	479	1,149	63
Foreign currency available- for-sale debt securities				
Interest rate risk	143	168	330	106

The above average, maximum and minimum VaR for interest rate risk, foreign currency risk and diversification of the trading portfolio represent a breakdown of the average, maximum and minimum VaR for the whole portfolio and not the individual average, maximum and minimum VaR for each risk within the portfolio.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

— A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;

— A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is one percent probability that losses could exceed the VaR;

— VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;

— The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and

— The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

(b) *Net interest income sensitivity analysis*

In monitoring interest rate risk on its overall non-derivative financial assets and liabilities, the Bank regularly measures its future net interest income sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant financial position). An incremental 100 basis points parallel fall or rise in all yield curves, other than that applicable to balances with central banks, would increase or decrease planned net interest income for the next twelve months from the reporting date by RMB34,771 million (2009: RMB30,230 million). Had the impact of yield curves movement for demand deposits from customers been excluded, the planned net interest income for the next twelve months from the reporting date would decrease or increase by RMB21,214 million (2009: RMB17,285 million).

The above interest rate sensitivity is for illustration purposes only and is assessed based on simplified assumptions. The figures here indicate estimated net interest income movements under various predicted yield curve scenarios and subject to the Bank's current interest rate exposures. However, account has not been taken of the possible risk management measures that can be undertaken by the Risk Management Department or related business departments to mitigate interest rate risk. In practice, the Risk Management Department strives to reduce loss arising from interest rate risk while increasing its net income. These figures are estimated on the assumption that the interest rates on various maturities will move within similar ranges, and therefore do not reflect the potential net interest income changes in the event that interest rates on some maturities may change and others remain unchanged. Moreover, the above estimations are based on other simplified assumptions, including that all positions will be held to maturity and rolled over upon maturity.

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(2) Market risk (continued)

(c) *Interest rate repricing gap analysis*

Interest rate risk is inherent in many of the Group's businesses. It mainly arises from mismatches between the repricing dates of assets and liabilities.

The ALM regularly monitors such interest rate risk positions. In terms of measuring and managing the interest rate risk, the Group regularly measures interest rate repricing gaps. The primary objective of interest rate repricing gaps is to analyse potential adverse effects on net interest income due to interest rate movements.

The following tables indicate the effective interest rates for the respective year, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities as at the end of the reporting period.

Group

		2010						
	Note	Effective interest rate Note (i)	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks		1.52%	65,649	1,782,380	–	–	–	1,848,029
Deposits and placements with banks and non-bank financial institutions		1.51%	–	138,366	3,864	50	–	142,280
Financial assets held under resale agreements		1.68%	–	160,915	20,160	–	–	181,075
Loans and advances to customers	(ii)	5.07%	–	2,753,781	2,682,962	21,099	68,184	5,526,026
Investments	(iii)	2.83%	31,269	595,367	660,904	886,509	732,725	2,906,774
Other assets		–	206,133	–	–	–	–	206,133
Total assets		3.74%	303,051	5,430,809	3,367,890	907,658	800,909	10,810,317
Liabilities								
Borrowings from central banks		2.34%	–	1,781	–	–	–	1,781
Deposits and placements from banks and non-bank financial institutions		1.73%	–	679,934	31,497	38,378	–	749,809
Financial liabilities at fair value through profit or loss		1.32%	2,926	9,963	51	2,347	–	15,287
Financial assets sold under repurchase agreements		1.82%	–	4,868	54	–	–	4,922
Deposits from customers		1.73%	41,602	6,708,141	1,951,209	367,097	7,320	9,075,369
Debt securities issued		3.78%	–	7,563	3,401	2,446	79,905	93,315
Other liabilities		–	168,929	–	–	–	–	168,929
Total liabilities		1.34%	213,457	7,412,250	1,986,212	410,268	87,225	10,109,412
Asset-liability gap		2.40%	89,594	(1,981,441)	1,381,678	497,390	713,684	700,905

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(2) Market risk (continued)

(c) Interest rate repricing gap analysis (continued)

Group (continued)

		2009						
	Note	Effective interest rate Note (i)	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks		1.48%	48,520	1,410,128	–	–	–	1,458,648
Deposits and placements with banks and non-bank financial institutions		1.05%	136	78,661	33,241	11,342	–	123,380
Financial assets held under resale agreements		1.18%	–	453,686	135,920	–	–	589,606
Loans and advances to customers	(ii)	5.37%	–	2,258,105	2,378,007	21,726	35,109	4,692,947
Investments	(iii)	3.11%	30,862	277,299	985,178	613,303	673,948	2,580,590
Other assets		–	178,184	–	–	–	–	178,184
Total assets		3.85%	257,702	4,477,879	3,532,346	646,371	709,057	9,623,355
Liabilities								
Borrowings from central banks		1.89%	–	6	–	–	–	6
Deposits and placements from banks and non-bank financial institutions		1.73%	–	673,617	29,937	109,351	–	812,905
Financial liabilities at fair value through profit or loss		3.62%	2,359	5,633	–	–	–	7,992
Deposits from customers		1.51%	41,763	5,824,497	1,710,949	415,971	8,143	8,001,323
Debt securities issued		3.81%	–	11,394	4,616	24,719	57,915	98,644
Other liabilities		–	143,465	–	–	–	–	143,465
Total liabilities		1.55%	187,587	6,515,147	1,745,502	550,041	66,058	9,064,335
Asset-liability gap		2.30%	70,115	(2,037,268)	1,786,844	96,330	642,999	559,020

Notes:

(i) Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.

(ii) For loans and advances to customers, the "less than three months" category includes overdue amounts (net of allowances for impairment losses) of RMB23,433 million as at 31 December 2010 (2009: RMB27,518 million).

(iii) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investment, debt securities classified as receivables and investments in associate and jointly controlled entity.

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(2) Market risk (continued)

(c) Interest rate repricing gap analysis (continued)

Bank

	Note	2010						
		Effective interest rate Note (i)	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks		1.52%	65,408	1,776,459	–	–	–	1,841,867
Deposits and placements with banks and non-bank financial institutions		1.46%	–	137,516	9,210	–	–	146,726
Financial assets held under resale agreements		1.68%	–	160,915	20,160	–	–	181,075
Loans and advances to customers	(ii)	5.07%	–	2,693,227	2,648,564	18,464	68,024	5,428,279
Investments	(iii)	2.83%	27,623	593,104	660,150	883,051	732,691	2,896,619
Other assets		–	220,239	–	–	–	–	220,239
Total assets		3.73%	313,270	5,361,221	3,338,084	901,515	800,715	10,714,805
Liabilities								
Borrowings from central banks		2.34%	–	1,781	–	–	–	1,781
Deposits and placements from banks and non-bank financial institutions		1.69%	–	660,043	29,463	37,396	–	726,902
Financial liabilities at fair value through profit or loss		1.32%	2,926	9,963	51	–	–	12,940
Financial assets sold under repurchase agreements		1.29%	–	6,774	4,315	–	–	11,089
Deposits from customers		1.28%	41,602	6,656,114	1,943,158	366,508	7,264	9,014,646
Debt securities issued		3.70%	–	6,203	3,145	2,182	79,901	91,431
Other liabilities		–	164,651	–	–	–	–	164,651
Total liabilities		1.34%	209,179	7,340,878	1,980,132	406,086	87,165	10,023,440
Asset-liability gap		2.39%	104,091	(1,979,657)	1,357,952	495,429	713,550	691,365

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(2) Market risk (continued)

(c) Interest rate repricing gap analysis (continued)

Bank (continued)

	Note	2009 Effective interest rate Note (i)	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks		1.48%	48,322	1,407,048	–	–	–	1,455,370
Deposits and placements with banks and non-bank financial institutions		1.14%	123	77,087	35,270	11,342	–	123,822
Financial assets held under resale agreements		1.18%	–	452,786	135,920	–	–	588,706
Loans and advances to customers	(ii)	5.41%	–	2,205,339	2,365,034	20,703	34,948	4,626,024
Investments	(iii)	3.10%	31,197	277,392	984,008	610,609	673,880	2,577,086
Other assets		–	194,123	–	–	–	–	194,123
Total assets		3.86%	273,765	4,419,652	3,520,232	642,654	708,828	9,565,131
Liabilities								
Borrowings from central banks		1.89%	–	6	–	–	–	6
Deposits and placements from banks and non-bank financial institutions		1.74%	–	672,665	26,534	109,351	–	808,550
Financial liabilities at fair value through profit or loss		3.62%	2,359	5,633	–	–	–	7,992
Financial assets sold under repurchase agreements		1.80%	–	1,778	847	–	–	2,625
Deposits from customers		1.51%	41,677	5,779,323	1,710,669	415,486	8,085	7,955,240
Debt securities issued		3.82%	–	11,621	4,445	24,402	57,915	98,383
Other liabilities		–	141,016	–	–	–	–	141,016
Total liabilities		1.56%	185,052	6,471,026	1,742,495	549,239	66,000	9,013,812
Asset-liability gap		2.30%	88,713	(2,051,374)	1,777,737	93,415	642,828	551,319

Notes:

(i) Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.

(ii) For loans and advances to customers, the "less than three months" category includes overdue amounts (net of allowances for impairment losses) of RMB23,092 million as at 31 December 2010 (2009: RMB27,304 million).

(iii) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, debt securities classified as receivables and investments in subsidiaries.

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(2) Market risk (continued)

(d) Currency risk

The Group's foreign exchange exposure mainly comprises exposures that arise from the foreign currency portfolio within the treasury's proprietary investments, and currency exposures originated by the Group's overseas businesses.

The Group manages other currency risk by spot and forward foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives (principally foreign exchange swaps and cross currency swaps) in the management of its own foreign currency asset and liability portfolios and structural positions.

The currency exposures of the Group's and the Bank's assets and liabilities as at the end of the reporting period are as follows:

Group

		2010			
	Note	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and deposits with central banks		1,815,825	5,960	26,244	1,848,029
Deposits and placements with banks and non-bank financial institutions	(i)	254,409	26,068	42,878	323,355
Loans and advances to customers		5,194,760	223,264	108,002	5,526,026
Investments		2,834,022	35,416	37,336	2,906,774
Other assets		198,160	1,769	6,204	206,133
Total assets		10,297,176	292,477	220,664	10,810,317
Liabilities					
Borrowings from central banks		6	1,054	721	1,781
Deposits and placements from banks and non-bank financial institutions	(ii)	619,166	68,882	66,683	754,731
Financial liabilities at fair value through profit or loss		12,865	75	2,347	15,287
Deposits from customers		8,833,230	126,643	115,496	9,075,369
Debt securities issued		79,910	3,610	9,795	93,315
Other liabilities		146,955	9,392	12,582	168,929
Total liabilities		9,692,132	209,656	207,624	10,109,412
Net position		605,044	82,821	13,040	700,905
Net notional amount of derivatives		56,482	(65,331)	10,622	1,773

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(2) Market risk (continued)

(d) Currency risk (continued)

Group (continued)

		2009			
	Note	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and deposits with central banks		1,429,270	5,001	24,377	1,458,648
Deposits and placements with banks and non-bank financial institutions	(i)	674,002	31,229	7,755	712,986
Loans and advances to customers		4,420,375	163,925	108,647	4,692,947
Investments		2,516,653	41,228	22,709	2,580,590
Other assets		169,692	1,857	6,635	178,184
Total assets		9,209,992	243,240	170,123	9,623,355
Liabilities					
Borrowings from central banks		6	–	–	6
Deposits and placements from banks and non-bank financial institutions	(ii)	737,888	54,571	20,446	812,905
Financial liabilities at fair value through profit or loss		7,939	27	26	7,992
Deposits from customers		7,767,928	116,533	116,862	8,001,323
Debt securities issued		82,760	5,206	10,678	98,644
Other liabilities		127,626	11,402	4,437	143,465
Total liabilities		8,724,147	187,739	152,449	9,064,335
Net position		485,845	55,501	17,674	559,020
Net notional amount of derivatives		54,182	(53,884)	(154)	144

Notes:

(i) Including financial assets held under resale agreements

(ii) Including financial assets sold under repurchase agreements

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(2) Market risk (continued)

(d) Currency risk (continued)

Bank

	Note	2010 RMB	2010 USD (RMB equivalent)	2010 Others (RMB equivalent)	2010 Total
Assets					
Cash and deposits with central banks		1,815,109	5,960	20,798	1,841,867
Deposits and placements with banks and non-bank financial institutions	(i)	258,007	28,914	40,880	327,801
Loans and advances to customers		5,162,066	209,412	56,801	5,428,279
Investments		2,837,047	33,378	26,194	2,896,619
Other assets		217,396	2,025	818	220,239
Total assets		10,289,625	279,689	145,491	10,714,805
Liabilities					
Borrowings from central banks		6	1,054	721	1,781
Deposits and placements from banks and non-bank financial institutions	(ii)	601,454	74,872	61,665	737,991
Financial liabilities at fair value through profit or loss		12,865	75	–	12,940
Deposits from customers		8,827,457	116,157	71,032	9,014,646
Debt securities issued		79,909	2,435	9,087	91,431
Other liabilities		152,348	8,913	3,390	164,651
Total liabilities		9,674,039	203,506	145,895	10,023,440
Net position		615,586	76,183	(404)	691,365
Net notional amount of derivatives		60,175	(61,683)	3,033	1,525

	Note	2009 RMB	2009 USD (RMB equivalent)	2009 Others (RMB equivalent)	2009 Total
Assets					
Cash and deposits with central banks		1,428,959	4,979	21,432	1,455,370
Deposits and placements with banks and non-bank financial institutions	(i)	673,226	32,010	7,292	712,528
Loans and advances to customers		4,407,375	156,665	61,984	4,626,024
Investments		2,521,148	38,227	17,711	2,577,086
Other assets		188,935	825	4,363	194,123
Total assets		9,219,643	232,706	112,782	9,565,131
Liabilities					
Borrowings from central banks		6	–	–	6
Deposits and placements from banks and non-bank financial institutions	(ii)	736,756	55,778	18,641	811,175
Financial liabilities at fair value through profit or loss		7,939	27	26	7,992
Deposits from customers		7,766,173	108,134	80,933	7,955,240
Debt securities issued		82,890	5,035	10,458	98,383
Other liabilities		126,244	11,291	3,481	141,016
Total liabilities		8,720,008	180,265	113,539	9,013,812
Net position		499,635	52,441	(757)	551,319
Net notional amount of derivatives		54,152	(54,349)	107	(90)

Notes:

(i) Including financial assets held under resale agreements

(ii) Including financial assets sold under repurchase agreements

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(3) Liquidity risk

Liquidity risk is the risk that funds will not be available at reasonable price to meet liabilities as they fall due. It is caused by mismatches of assets and liabilities in terms of their amounts and maturity dates. In accordance with liquidity policies, the Group monitors the future cash flows to ensure that an appropriate level of highly liquid assets is maintained.

At the Group level, liquidity is managed and coordinated through the ALM. The ALM is responsible for formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

– adopting a prudent strategy and ensuring sufficient funds are available at any moment to satisfy any payment request;

– optimising the Group's asset and liability structure, diversifying and stabilising the source of funds, and reserving an appropriate proportion of highly credit-rated and liquid asset portfolio; and

– managing and utilising centrally the Bank's liquid funds.

The Group principally uses liquidity analysis and gap analysis to measure the liquidity risk. Gap analysis is used to predict the cash flow within one year. Scenario analyses are then applied to assess the impact of liquidity risk.

(a) Maturity analysis

The following tables provide an analysis of the assets and liabilities of the Group and the Bank based on the remaining periods to repayment as at the end of the reporting period:

Group

	2010							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks	1,628,890	219,139	–	–	–	–	–	1,848,029
Deposits and placements with banks and non-bank financial institutions	–	53,210	74,247	9,638	5,135	50	–	142,280
Financial assets held under resale agreements	–	–	99,961	60,954	20,160	–	–	181,075
Loans and advances to customers	28,796	68,102	182,745	395,284	1,278,290	1,504,855	2,067,954	5,526,026
Investments								
– Financial assets at fair value through profit or loss	9,484	–	796	1,239	1,576	3,945	304	17,344
– Available-for-sale financial assets	28,437	–	30,095	130,872	143,758	238,283	125,403	696,848
– Held-to-maturity investments	2,035	–	52,824	198,229	355,341	761,587	514,041	1,884,057
– Debt securities classified as receivables	–	–	–	–	16,494	3,628	286,626	306,748
– Investments in associate and jointly controlled entity	1,777	–	–	–	–	–	–	1,777
Other assets	124,387	47,792	3,613	5,664	9,779	5,520	9,378	206,133
Total assets	1,823,806	388,243	444,281	801,880	1,830,533	2,517,868	3,003,706	10,810,317
Liabilities								
Borrowings from central banks	–	1,781	–	–	–	–	–	1,781
Deposits and placements from banks and non-bank financial institutions	–	518,773	77,774	16,846	61,039	75,377	–	749,809
Financial liabilities at fair value through profit or loss	–	2,926	3,043	6,896	24	2,347	51	15,287
Financial assets sold under repurchase agreements	–	–	2,868	2,000	54	–	–	4,922
Deposits from customers	–	5,162,475	809,818	775,614	1,949,539	367,799	10,124	9,075,369
Debt securities issued								
– Certificates of deposit issued	–	–	794	898	6,569	5,149	4	13,414
– Subordinated bonds issued	–	–	–	–	–	–	79,901	79,901
Other liabilities	243	76,817	8,056	15,598	58,579	3,946	5,690	168,929
Total liabilities	243	5,762,772	902,353	817,852	2,075,804	454,618	95,770	10,109,412
Long/(short) position	1,823,563	(5,374,529)	(458,072)	(15,972)	(245,271)	2,063,250	2,907,936	700,905
Notional amount of derivatives								
– Interest rate contracts	–	–	3,475	24,497	49,557	70,726	32,875	181,130
– Exchange rate contracts	–	–	159,043	146,726	275,359	27,309	11,012	619,449
– Other contracts	–	–	1,576	331	731	1,237	–	3,875
Total	–	–	164,094	171,554	325,647	99,272	43,887	804,454

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

Group (continued)

	2009							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks	1,152,799	305,849	–	–	–	–	–	1,458,648
Deposits and placements with banks and non-bank financial institutions	83	34,450	23,651	20,613	33,241	11,342	–	123,380
Financial assets held under resale agreements	–	–	194,531	259,155	135,920	–	–	589,606
Loans and advances to customers	27,877	34,097	181,801	346,437	1,172,502	1,447,143	1,483,090	4,692,947
Investments								
– Financial assets at fair value through profit or loss	4,354	–	123	1,323	2,166	8,140	2,765	18,871
– Available-for-sale financial assets	34,786	–	16,523	58,777	285,746	148,149	107,499	651,480
– Held-to-maturity investments	2,926	–	17,305	58,048	425,461	546,935	358,198	1,408,873
– Debt securities classified as receivables	–	–	–	19,639	132,152	22,103	325,681	499,575
– Investments in associate and jointly controlled entity	1,791	–	–	–	–	–	–	1,791
Other assets	111,606	37,405	2,731	10,432	7,195	2,968	5,847	178,184
Total assets	1,336,222	411,801	436,665	774,424	2,194,383	2,186,780	2,283,080	9,623,355
Liabilities								
Borrowings from central banks	–	6	–	–	–	–	–	6
Deposits and placements from banks and non-bank financial institutions	–	622,129	39,231	12,257	29,937	109,351	–	812,905
Financial liabilities at fair value through profit or loss	–	2,359	–	5,580	–	–	53	7,992
Deposits from customers	–	4,806,603	374,168	684,135	1,708,954	416,806	10,657	8,001,323
Debt securities issued								
– Certificates of deposit issued	–	–	1,241	3,774	4,760	6,113	5	15,893
– Bonds issued	–	–	–	–	2,863	–	–	2,863
– Subordinated bonds issued	–	–	–	–	–	–	79,888	79,888
Other liabilities	216	32,487	8,308	17,186	58,795	16,446	10,027	143,465
Total liabilities	216	5,463,584	422,948	722,932	1,805,309	548,716	100,630	9,064,335
Long/(short) position	1,336,006	(5,051,783)	13,717	51,492	389,074	1,638,064	2,182,450	559,020
Notional amount of derivatives								
– Interest rate contracts	–	–	2,219	1,761	35,061	92,522	41,607	173,170
– Exchange rate contracts	–	–	84,519	73,773	337,413	3,464	11,662	510,831
– Other contracts	–	–	1,244	–	1,040	391	109	2,784
Total	–	–	87,982	75,534	373,514	96,377	53,378	686,785

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

Bank

	2010							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks	1,628,372	213,495	–	–	–	–	–	1,841,867
Deposits and placements with banks and non-bank financial institutions	–	49,494	72,580	14,172	10,480	–	–	146,726
Financial assets held under resale agreements	–	–	99,961	60,954	20,160	–	–	181,075
Loans and advances to customers	27,826	68,098	178,306	389,016	1,259,594	1,468,371	2,037,068	5,428,279
Investments								
– Financial assets at fair value through profit or loss	–	–	599	1,007	653	515	270	3,044
– Available-for-sale financial assets	26,182	–	29,844	130,722	144,408	236,504	125,371	693,031
– Held-to-maturity investments	2,035	–	52,824	198,209	355,231	761,587	514,041	1,883,927
– Debt securities classified as receivables	–	–	–	–	16,494	3,628	286,626	306,748
– Investments in subsidiaries	9,869	–	–	–	–	–	–	9,869
Other assets	142,005	47,456	3,093	5,209	8,012	5,081	9,383	220,239
Total assets	1,836,289	378,543	437,207	799,289	1,815,032	2,475,686	2,972,759	10,714,805
Liabilities								
Borrowings from central banks	–	1,781	–	–	–	–	–	1,781
Deposits and placements from banks and non-bank financial institutions	–	520,782	77,870	14,111	40,889	73,250	–	726,902
Financial liabilities at fair value through profit or loss	–	2,926	3,043	6,896	24	–	51	12,940
Financial assets sold under repurchase agreements	–	–	3,446	3,328	4,315	–	–	11,089
Deposits from customers	–	5,163,478	772,509	759,893	1,941,488	367,210	10,068	9,014,646
Debt securities issued								
– Certificates of deposit issued	–	–	487	1,481	5,657	3,905	–	11,530
– Subordinated bonds issued	–	–	–	–	–	–	79,901	79,901
Other liabilities	4	76,101	7,453	15,053	56,523	3,807	5,710	164,651
Total liabilities	4	5,765,068	864,808	800,762	2,048,896	448,172	95,730	10,023,440
Long/(short) position	1,836,285	(5,386,525)	(427,601)	(1,473)	(233,864)	2,027,514	2,877,029	691,365
Notional amount of derivatives								
– Interest rate contracts	–	–	3,475	23,719	43,435	69,163	32,875	172,667
– Exchange rate contracts	–	–	129,103	132,548	250,552	27,309	11,012	550,524
– Other contracts	–	–	1,502	–	90	33	–	1,625
Total	–	–	134,080	156,267	294,077	96,505	43,887	724,816

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(3) Liquidity risk (continued)

(a) *Maturity analysis (continued)*

Bank (continued)

	2009							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks	1,152,594	302,776	–	–	–	–	–	1,455,370
Deposits and placements with banks and non-bank financial institutions	83	27,723	26,009	23,395	35,270	11,342	–	123,822
Financial assets held under resale agreements	–	–	193,631	259,155	135,920	–	–	588,706
Loans and advances to customers	27,447	33,520	176,277	345,682	1,160,784	1,423,558	1,458,756	4,626,024
Investments								
– Financial assets at fair value through profit or loss	–	–	–	864	1,452	5,238	2,697	10,251
– Available-for-sale financial assets	32,450	–	16,734	58,606	284,946	149,772	107,471	649,979
– Held-to-maturity investments	2,926	–	16,997	58,048	425,361	546,935	358,198	1,408,465
– Debt securities classified as receivables	–	–	–	19,639	132,152	22,103	325,681	499,575
– Investments in subsidiaries	8,816	–	–	–	–	–	–	8,816
Other assets	129,659	38,453	2,374	10,109	5,145	2,609	5,774	194,123
Total assets	1,353,975	402,472	432,022	775,498	2,181,030	2,161,557	2,258,577	9,565,131
Liabilities								
Borrowings from central banks	–	6	–	–	–	–	–	6
Deposits and placements from banks and non-bank financial institutions	–	624,126	39,652	8,887	26,534	109,351	–	808,550
Financial liabilities at fair value through profit or loss	–	2,359	–	5,580	–	–	53	7,992
Financial assets sold under repurchase agreements	–	–	1,694	84	847	–	–	2,625
Deposits from customers	–	4,793,194	352,547	673,906	1,708,673	416,321	10,599	7,955,240
Debt securities issued								
– Certificates of deposit issued	–	–	1,195	4,567	4,076	5,664	–	15,502
– Bonds issued	–	–	–	–	2,993	–	–	2,993
– Subordinated bonds issued	–	–	–	–	–	–	79,888	79,888
Other liabilities	22	31,319	8,429	17,107	57,871	16,267	10,001	141,016
Total liabilities	22	5,451,004	403,517	710,131	1,800,994	547,603	100,541	9,013,812
Long/(short) position	1,353,953	(5,048,532)	28,505	65,367	380,036	1,613,954	2,158,036	551,319
Notional amount of derivatives								
– Interest rate contracts	–	–	2,108	1,701	34,227	90,789	41,573	170,398
– Exchange rate contracts	–	–	70,253	66,540	272,910	3,450	11,662	424,815
– Other contracts	–	–	1,244	–	–	34	–	1,278
Total	–	–	73,605	68,241	307,137	94,273	53,235	596,491

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(3) Liquidity risk (continued)

(b) *Contractual undiscounted cash flow*

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and off balance sheet loan commitments and credit card commitments of the Group and the Bank as at the end of the reporting period. The Group's and the Bank's expected cash flows on these instruments may vary significantly from this analysis.

Group

	2010							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	1,781	1,781	1,781	–	–	–	–	–
Deposits and placements from banks and non-bank financial institutions	749,809	773,294	518,852	78,010	16,966	67,208	92,258	–
Financial liabilities at fair value through profit or loss	15,287	15,503	2,926	3,052	6,915	24	2,535	51
Financial assets sold under repurchase agreements	4,922	4,956	–	2,872	2,027	57	–	–
Deposits from customers	9,075,369	9,206,516	5,163,295	816,968	790,309	2,008,784	415,469	11,691
Debt securities issued								
– Certificates of deposit issued	13,414	13,628	–	827	915	6,653	5,228	5
– Subordinated bonds issued	79,901	121,121	–	–	1,504	1,696	12,800	105,121
Other financial liabilities	38,970	38,970	37,630	227	55	86	460	512
Total	9,979,453	10,175,769	5,724,484	901,956	818,691	2,084,508	528,750	117,380
Off balance sheet loan commitments and credit card commitments (Note)		812,355	481,802	52,753	49,993	117,755	68,140	41,912
Financial guarantees issued maximum amount guaranteed (Note)		798,014	–	235,130	92,683	200,576	237,075	32,550

	2009							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	6	6	6	–	–	–	–	–
Deposits and placements from banks and non-bank financial institutions	812,905	835,834	622,149	39,300	12,488	30,329	131,568	–
Financial liabilities at fair value through profit or loss	7,992	8,009	2,359	–	5,580	1	8	61
Deposits from customers	8,001,323	8,139,908	4,809,129	377,963	695,661	1,755,130	482,243	19,782
Debt securities issued								
– Certificates of deposit issued	15,893	16,055	–	1,255	3,786	4,838	6,171	5
– Bonds issued	2,863	2,939	–	–	23	2,916	–	–
– Subordinated bonds issued	79,888	136,420	–	–	1,504	1,696	12,800	120,420
Other financial liabilities	31,006	31,006	23,498	1,452	673	1,489	3,377	517
Total	8,951,876	9,170,177	5,457,141	419,970	719,715	1,796,399	636,167	140,785
Off balance sheet loan commitments and credit card commitments (Note)		788,283	648,295	41,554	16,680	40,256	32,448	9,050
Financial guarantees issued maximum amount guaranteed (Note)		684,556	–	120,067	73,247	151,916	180,049	159,277

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(3) Liquidity risk (continued)

(b) *Contractual undiscounted cash flow (continued)*

Bank

	2010							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	1,781	1,781	1,781	–	–	–	–	–
Deposits and placements from banks and non-bank financial institutions	726,902	749,660	520,806	78,142	14,198	46,487	90,027	–
Financial liabilities at fair value through profit or loss	12,940	12,968	2,926	3,051	6,916	24	–	51
Financial assets sold under repurchase agreements	11,089	11,378	–	3,450	3,373	4,555	–	–
Deposits from customers	9,014,646	9,145,793	5,164,298	779,659	774,588	2,000,733	414,880	11,635
Debt securities issued								
– Certificates of deposit issued	11,530	11,743	–	520	1,498	5,741	3,984	–
– Subordinated bonds issued	79,901	121,121	–	–	1,504	1,696	12,800	105,121
Other financial liabilities	36,046	36,046	34,719	225	48	86	456	512
Total	9,894,835	10,090,490	5,724,530	865,047	802,125	2,059,322	522,147	117,319
Off balance sheet loan commitments and credit card commitments (Note)		786,799	481,802	30,098	49,139	115,964	67,884	41,912
Financial guarantees issued maximum amount guaranteed (Note)		797,191	–	235,164	92,315	200,576	236,586	32,550

	2009							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	6	6	6	–	–	–	–	–
Deposits and placements from banks and non-bank financial institutions	808,550	831,379	624,146	39,720	9,056	26,889	131,568	–
Financial liabilities at fair value through profit or loss	7,992	8,009	2,359	–	5,580	1	8	61
Financial assets sold under repurchase agreements	2,625	2,632	–	1,694	84	854	–	–
Deposits from customers	7,955,240	8,093,816	4,796,409	355,650	685,433	1,754,849	481,752	19,723
Debt securities issued								
– Certificates of deposit issued	15,502	15,656	–	1,209	4,578	4,151	5,718	–
– Bonds issued	2,993	3,073	–	–	24	3,049	–	–
– Subordinated bonds issued	79,888	136,420	–	–	1,504	1,696	12,800	120,420
Other financial liabilities	29,876	29,876	22,425	1,728	655	1,321	3,230	517
Total	8,902,672	9,120,867	5,445,345	400,001	706,914	1,792,810	635,076	140,721
Off balance sheet loan commitments and credit card commitments (Note)		763,579	648,295	21,289	15,664	37,227	32,054	9,050
Financial guarantees issued maximum amount guaranteed (Note)		688,316	–	119,925	73,376	151,465	180,019	163,531

Note: The off balance sheet loan commitments and credit card commitments may expire without being drawn upon. Financial guarantees issued do not represent the amount to be paid.

62 Risk Management (continued)

(4) Operational risk

Operational risk represents the risk of loss due to deficient and flawed internal processes, personnel and information system, or other external events.

The Group manages this risk through a control-based environment by establishing a framework of policies and procedures in order to identify, assess, report, manage and control risks. The framework covers all business functions ranging from finance, accounting, credit, settlement, savings, treasury, intermediary business, application and management of information system, assets safeguard and legal compliance. This has allowed the Group to comprehensively identify and address the operational risk inherent in all key products, activities, processes and systems. Major operational risk management measures adopted by the Group include:

— further improved the self-assessment of operational risk, increased the coverage of business, identified and assessed key risk area and measures of internal control; continuously improved and optimised the regulations, processes and services;

— enhanced the controls over operational risks arising from essential segments of business unit; continuously carried out key risk point monitoring inspection, re-inspection, adjustment and extension of the scope and content of control check; strengthened operational risk precaution measures of key business areas and key parts of operations;

— strengthen business operational checks and balance between departments and different positions, as well as the centralised appointment and rotation of key personnel; continue to strengthen the system construction and management of incompatible positions (responsibilities), highlight the rigid constraints on the position balances;

— constantly revise and improve the internal control system, standardize management and strict constraints on employee behaviours, enhance staff training and implement strict accountability system to ensure compliance of policies and procedures; formulate relevant policies and procedures so that managers need to be responsible for violations of subordinates staff, to prevent operational risk caused by human factors;

— establish internal reporting system for any staff misconduct which may adversely affect the Group's business. Under the system, statistics for staff misconduct are reported regularly to the head office while significant incidents shall be reported to the head office within 24 hours after such incidents are uncovered;

— developed a systematic authorisation management and business operational policies;

— continue to improve operational risk management tools, and promote operational risk management information system; build up a standard platform for operational risk management throughout the Bank to achieve self-evaluation of operational risk and internal controls, and enhance the interaction and application of management tools of historical loss database and key risk indicators so as to support the operational risk management and decision-making;

— continue to boost business continuity management, set up emergency recovery plans for major production systems, conduct contingent drills, so as to enhance emergency recovery ability of the Bank;

— to minimize the operational risk caused by system failure, data backup mechanism for important data processing system is set up by the Group. A disaster recovery centre is under development to automatically backup operational data; strengthen construction of information systems and security checks, carry out information security risk assessment checks, as well as evaluate security technology of critical information systems; for the potential risks of information systems, organize emergency response drills to ensure network and information systems operate normally; and

— set up an anti-money laundering team within the Legal and Compliance Department to coordinate and monitor anti-money laundering activities, ensure the regulatory requirements of anti-money laundering are properly satisfied by verifying clients' identities, preserving clients' identity documents and transactions records, reporting money laundering transactions, suspicious transactions and transactions which potentially related to financial criminal activities, as well as conducting anti-money laundering training and publicity activities.

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(5) Fair value

(a) *Financial assets*

The Group's financial assets mainly include cash and deposits with central banks, deposits and placements with banks and non-bank financial institutions, financial assets at fair value through profit or loss, financial assets held under resale agreements, loans and advances to customers, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements are mainly priced at market interest rates and mature within one year. Accordingly, the carrying values approximate the fair values.

Loans and advances to customers

Majority of the loans and advances to customers are repriced at least annually to the market rate. Accordingly, their carrying values approximate the fair values.

Investments

Available-for-sale financial assets and financial assets at fair value through profit or loss are stated at fair value in the financial statements. The following table shows the carrying values and the fair values of the debt securities classified as receivables and held-to-maturity investments which are not presented in the statement of financial position at their fair values.

Group

	Carrying value		Fair value	
	2010	2009	**2010**	2009
Debt securities classified as receivables	**306,748**	499,575	**282,996**	473,719
Held-to-maturity investments	**1,884,057**	1,408,873	**1,864,881**	1,420,608
Total	**2,190,805**	1,908,448	**2,147,877**	1,894,327

Bank

	Carrying value		Fair value	
	2010	2009	**2010**	2009
Debt securities classified as receivables	**306,748**	499,575	**282,996**	473,719
Held-to-maturity investments	**1,883,927**	1,408,465	**1,864,751**	1,420,200
Total	**2,190,675**	1,908,040	**2,147,747**	1,893,919

(b) *Financial liabilities*

The Group's financial liabilities mainly include borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial liabilities at fair value through profit or loss, financial assets sold under repurchase agreements, deposits from customers, and debt securities issued. The carrying values of financial liabilities approximated their fair values as at the end of the reporting period, except that the fair value of subordinated bonds issued as at 31 December 2010 was RMB75,779 million (2009: RMB75,816 million), which was lower than their carrying value of RMB79,901 million (2009: RMB79,888 million).

(6) Valuation of financial instruments

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(6) Valuation of financial instruments (continued)

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

Group

	2010			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading purpose				
– Debt securities	51	2,993	–	3,044
– Equity instruments and funds	1,541	–	–	1,541
Financial assets designated as at fair value through profit or loss				
– Debt securities	1,309	508	2,999	4,816
– Equity instruments	4,372	–	3,571	7,943
Positive fair value of derivatives	–	8,763	2,461	11,224
Available-for-sale financial assets				
– Debt securities	15,594	657,106	4,140	676,840
– Equity instruments and funds	16,666	400	374	17,440
Total	39,533	669,770	13,545	722,848
Liabilities				
Financial liabilities at fair value through profit or loss				
Financial liabilities designated as at fair value through profit or loss	–	12,916	2,371	15,287
Negative fair value of derivatives	–	7,212	2,146	9,358
Total	–	20,128	4,517	24,645

	2009			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading purpose				
– Debt securities	93	10,513	–	10,606
– Equity instruments and funds	867	–	–	867
Financial assets designated as at fair value through profit or loss				
– Debt securities	526	905	2,480	3,911
– Equity instruments	977	–	2,510	3,487
Positive fair value of derivatives	–	5,422	4,034	9,456
Available-for-sale financial assets				
– Debt securities	23,531	600,398	2,834	626,763
– Equity instruments and funds	16,552	2,228	704	19,484
Total	42,546	619,466	12,562	674,574
Liabilities				
Financial liabilities at fair value through profit or loss				
Financial liabilities designated as at fair value through profit or loss	–	7,963	29	7,992
Negative fair value of derivatives	–	5,490	3,085	8,575
Total	–	13,453	3,114	16,567

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(6) Valuation of financial instruments (continued)

Bank

	2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading purpose				
– Debt securities	**51**	**2,993**	**–**	**3,044**
Positive fair value of derivatives	**–**	**8,033**	**2,120**	**10,153**
Available-for-sale financial assets				
– Debt securities	**15,100**	**658,183**	**1,994**	**675,277**
– Equity instruments	**15,952**	**–**	**–**	**15,952**
Total	**31,103**	**669,209**	**4,114**	**704,426**
Liabilities				
Financial liabilities at fair value through profit or loss				
Financial liabilities designated as at fair value through profit or loss	**–**	**12,916**	**24**	**12,940**
Negative fair value of derivatives	**–**	**6,617**	**2,117**	**8,734**
Total	**–**	**19,533**	**2,141**	**21,674**

	2009			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading purpose				
– Debt securities	93	10,158	–	10,251
Positive fair value of derivatives	–	4,666	3,064	7,730
Available-for-sale financial assets				
– Debt securities	23,265	601,499	2,834	627,598
– Equity instruments	16,234	2,157	–	18,391
Total	39,592	618,480	5,898	663,970
Liabilities				
Financial liabilities at fair value through profit or loss				
Financial liabilities designated as at fair value through profit or loss	–	7,963	29	7,992
Negative fair value of derivatives	–	4,838	3,056	7,894
Total	–	12,801	3,085	15,886

For the year ended 31 December 2010 and 2009, there were no significant transfer between level 1 and level 2 of the fair value hierarchy.

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(6) Valuation of financial instruments (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in level 3 of the fair value hierarchy:

Group

	2010								
	Financial assets designated as at fair value through profit or loss			Available-for-sale financial assets					
	Debt securities	Equity instruments and funds	Positive fair value of derivatives	Debt securities	Equity instruments and funds	Total assets	Financial liabilities designated as at fair value through profit or loss	Negative fair value of derivatives	Total liabilities
As at 1 January 2010	2,480	2,510	4,034	2,834	704	12,562	(29)	(3,085)	(3,114)
Total gains or losses:									
In profit or loss	143	(1,449)	(603)	244	–	(1,665)	(31)	386	355
In other comprehensive income	–	–	–	193	60	253	–	–	–
Purchases	3,236	2,510	–	2,146	140	8,032	(2,311)	–	(2,311)
Sales and settlements	(2,860)	–	(829)	(1,212)	(530)	(5,431)	–	547	547
Transfer out	–	–	(141)	(65)	–	(206)	–	6	6
As at 31 December 2010	2,999	3,571	2,461	4,140	374	13,545	(2,371)	(2,146)	(4,517)
Total gains or losses for the period included in profit or loss for assets and liabilities held at the end of the reporting period	(61)	(1,449)	(152)	244	–	(1,418)	(31)	(64)	(95)

	2009								
	Financial assets designated as at fair value through profit or loss			Available-for-sale financial assets					
	Debt securities	Equity instruments and funds	Positive fair value of derivatives	Debt securities	Equity instruments and funds	Total assets	Financial liabilities designated as at fair value through profit or loss	Negative fair value of derivatives	Total liabilities
As at 1 January 2009	2,195	2,564	8,008	8,916	320	22,003	(27)	(7,590)	(7,617)
Total gains or losses:									
In profit or loss	189	211	(3,375)	68	23	(2,884)	(2)	4,001	3,999
In other comprehensive income	–	–	–	647	149	796	–	–	–
Purchases	1,131	–	–	–	1,915	3,046	–	–	–
Sales and settlements	(1,035)	(265)	(599)	(6,797)	(1,703)	(10,399)	–	504	504
As at 31 December 2009	2,480	2,510	4,034	2,834	704	12,562	(29)	(3,085)	(3,114)
Total gains or losses for the period included in profit or loss for assets and liabilities held at the end of the reporting period	(82)	170	(2,327)	(326)	–	(2,565)	(2)	2,953	2,951

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(6) Valuation of financial instruments (continued)

Bank

	2010					
	Positive fair value of derivatives	Available-for-sale debt securities	Total assets	Financial liabilities designated as at fair value through profit or loss	Negative fair value of derivatives	Total liabilities
As at 1 January 2010	**3,064**	**2,834**	**5,898**	**(29)**	**(3,056)**	**(3,085)**
Total gains or losses:						
In profit or loss	**(387)**	**244**	**(143)**	**5**	**394**	**399**
In other comprehensive income	**–**	**193**	**193**	**–**	**–**	**–**
Sales and settlements	**(549)**	**(1,212)**	**(1,761)**	**–**	**545**	**545**
Transfer out	**(8)**	**(65)**	**(73)**	**–**	**–**	**–**
As at 31 December 2010	**2,120**	**1,994**	**4,114**	**(24)**	**(2,117)**	**(2,141)**
Total gains or losses for the period included in profit or loss for assets and liabilities held at the end of the reporting period	**64**	**244**	**308**	**5**	**(57)**	**(52)**

	2009					
	Positive fair value of derivatives	Available-for-sale debt securities	Total assets	Financial liabilities designated as at fair value through profit or loss	Negative fair value of derivatives	Total liabilities
As at 1 January 2009	7,494	8,916	16,410	(27)	(7,590)	(7,617)
Total gains or losses:						
In profit or loss	(3,938)	68	(3,870)	(2)	4,030	4,028
In other comprehensive income	–	647	647	–	–	–
Sales and settlements	(492)	(6,797)	(7,289)	–	504	504
As at 31 December 2009	3,064	2,834	5,898	(29)	(3,056)	(3,085)
Total gains or losses for the period included in profit or loss for assets and liabilities held at the end of the reporting period	(2,890)	(326)	(3,216)	(2)	2,982	2,980

In Level 3 of the fair value hierarchy, total gains or losses included in profit or loss for the year in the above table are presented in net trading gain, net gain arising from investment securities and impairment losses of the statement of comprehensive income.

(Expressed in millions of RMB, unless otherwise stated)

62 Risk Management (continued)

(7) Capital management

The Group's capital management comprises the management of the capital adequacy ratio, capital financing, and economic capital, of which the prime focus is capital adequacy ratio management. The Group calculates capital adequacy ratio in accordance with the guidelines issued by the CBRC. The capital of the Group is analysed into core capital and supplementary capital.

The CBRC requires that the capital adequacy ratio and core capital adequacy ratio for commercial banks shall not fall below 8% and 4% respectively. For commercial banks, supplementary capital shall not exceed 100% of core capital while long-term subordinated liabilities included in the supplementary capital should not exceed 50% of the core capital. When total positions of trading accounts exceed 10% of the on- and off- balance sheet total assets, or RMB8.5 billion, commercial banks must provide for market risk capital. At present, the Group is fully compliant with legal and regulatory requirements.

Capital adequacy ratio management is a core issue of capital management. The capital adequacy ratio reflects the Group's quality of operations and risk management. The Group's capital adequacy ratio management objectives are to meet the legal and regulatory requirements, and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading global banks and the Group's operating situations.

The Group predicts, plans, and manages the capital adequacy ratio by using scenario models and stress tests based on its strategic development plans, business expansion needs, and risk exposure trends.

The Group's consolidated regulatory capital positions calculated in accordance with the guidance issued by the CBRC as at the balance sheet dates are as follows:

	Note	2010	2009
Core capital adequacy ratio	(a)	**10.40%**	9.31%
Capital adequacy ratio	(b)	**12.68%**	11.70%
Components of capital base			
Core capital:			
– Share capital		**250,011**	233,689
– Capital reserve, investment revaluation reserve and exchange reserve	(c)	**127,536**	82,427
– Surplus reserve and general reserve		**112,028**	84,227
– Retained earnings	(c),(d)	**140,995**	87,564
– Non-controlling interests		**4,113**	3,545
		634,683	491,452
Supplementary capital:			
– General provision for doubtful debts		**57,359**	48,463
– Positive changes in fair value of financial instruments at fair value through profit or loss		**7,547**	10,815
– Subordinated bonds issued		**80,000**	80,000
		144,906	139,278
Total capital base before deductions		**779,589**	630,730
Deductions:			
– Goodwill		**(1,534)**	(1,590)
– Unconsolidated equity investments		**(13,695)**	(8,903)
– Others	(e)	**(1,911)**	(12,004)
Net capital		**762,449**	608,233
Risk-weighted assets	(f)	**6,015,329**	5,197,545

62 Risk Management (continued)

(7) Capital management (continued)

Notes:

(a) Core capital adequacy ratio is calculated by dividing the net amount of core capital, which is after deductions of 100% of goodwill and 50% of unconsolidated equity investments, and other items, by risk-weighted assets.

(b) Capital adequacy ratio is calculated by dividing the net capital by risk-weighted assets.

(c) The investment revaluation reserve arising from the accumulated net positive changes in the fair value of available-for-sale financial assets is excluded from the core capital and 50% of the balance is included in the supplementary capital. In addition, the unrealised accumulated net positive changes in fair value of financial instruments at fair value through profit or loss, net of income tax, are excluded from the core capital and included in the supplementary capital.

(d) The dividend proposed after the reporting period has been deducted from retained earnings.

(e) Others mainly represent investments in those asset backed securities specified by CBRC which required reduction.

(f) The balances of risk-weighted assets include an amount equal to 12.5 times the Group's market risk capital.

63 Events after the reporting period

There are no significant events after the reporting period.

64 Comparative figures

Certain comparative figures have been adjusted to conform with changes in disclosures in current year.

65 Ultimate parent

As stated in Note 1, the immediate and ultimate parent of the Group is Huijin and CIC respectively.

66 Possible impact of amendments, new standards and interpretations issued but not yet effective

Up to the date of issue of the financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2010 and which have not been adopted in the these financial statements.

- Revised IAS 24, *Related party disclosures*
- IFRS 9, *Financial instruments*
- Improvements to IFRSs 2010
- Amendments to IAS 12, *Income taxes*

The Group is in the process of making assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position except for IFRS 9, *Financial instruments*, which may have an impact on the Group's results and financial position.

羅兵咸永道

To the shareholders of China Construction Bank Corporation
(a joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of China Construction Bank Corporation (the "Bank") and its subsidiaries (together, the "Group") set out on pages 114 to 229, which comprise the consolidated and Bank statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated and Bank statements 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 issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2012

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Note	2011	2010
Interest income		**482,247**	377,783
Interest expense		**(177,675)**	(126,283)
Net interest income	6	**304,572**	251,500
Fee and commission income		**89,494**	68,156
Fee and commission expense		**(2,500)**	(2,024)
Net fee and commission income	7	**86,994**	66,132
Net trading gain	8	**388**	3,509
Dividend income	9	**158**	228
Net gain arising from investment securities	10	**1,756**	1,903
Other operating income, net	11	**5,535**	2,508
Operating income		**399,403**	325,780
Operating expenses	12	**(144,537)**	(121,366)
		254,866	204,414
Impairment losses on:			
– Loans and advances to customers		**(32,403)**	(25,641)
– Others		**(3,380)**	(3,651)
Impairment losses	13	**(35,783)**	(29,292)
Share of profits less losses of associates and jointly controlled entities		**24**	34
Profit before tax		**219,107**	175,156
Income tax expense	16	**(49,668)**	(40,125)
Net profit		**169,439**	135,031
Other comprehensive income:			
Loss of available-for-sale financial assets arising during the year		**(966)**	(8,183)
Less: Income tax relating to available-for-sale financial assets		**318**	1,995
Reclassification adjustments for loss/(gain) included in profit or loss		**265**	(288)
		(383)	(6,476)
Exchange difference on translating foreign operations		**(1,577)**	(1,057)
Others		**42**	33
Other comprehensive income for the year, net of tax		**(1,918)**	(7,500)
Total comprehensive income for the year		**167,521**	127,531
Net profit attributable to:			
Equity shareholders of the Bank		**169,258**	134,844
Non-controlling interests		**181**	187
		169,439	135,031
Total comprehensive income attributable to:			
Equity shareholders of the Bank		**167,401**	127,363
Non-controlling interests		**120**	168
		167,521	127,531
Basic and diluted earnings per share (in RMB Yuan)	17	**0.68**	0.56

The notes on pages 121 to 229 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011
(Expressed in millions of RMB, unless otherwise stated)

	Note	2011	2010
Assets:			
Cash and deposits with central banks	18	**2,379,809**	1,848,029
Deposits with banks and non-bank financial institutions	19	**276,752**	78,318
Precious metals		**22,718**	14,495
Placements with banks and non-bank financial institutions	20	**109,040**	63,962
Financial assets at fair value through profit or loss	21	**23,096**	17,344
Positive fair value of derivatives	22	**14,127**	11,224
Financial assets held under resale agreements	23	**200,045**	181,075
Interest receivable	24	**56,776**	44,088
Loans and advances to customers	25	**6,325,194**	5,526,026
Available-for-sale financial assets	26	**675,058**	696,848
Held-to-maturity investments	27	**1,743,569**	1,884,057
Debt securities classified as receivables	28	**300,027**	306,748
Interests in associates and jointly controlled entities	30	**2,069**	1,777
Fixed assets	31	**94,222**	83,434
Land use rights	32	**16,457**	16,922
Intangible assets	33	**1,660**	1,310
Goodwill	34	**1,662**	1,534
Deferred tax assets	35	**21,410**	17,825
Other assets	36	**18,143**	15,301
Total assets		**12,281,834**	10,810,317
Liabilities:			
Borrowings from central banks		**2,220**	1,781
Deposits from banks and non-bank financial institutions	39	**966,229**	683,537
Placements from banks and non-bank financial institutions	40	**78,725**	66,272
Financial liabilities at fair value through profit or loss	41	**33,656**	15,287
Negative fair value of derivatives	22	**13,310**	9,358
Financial assets sold under repurchase agreements	42	**10,461**	4,922
Deposits from customers	43	**9,987,450**	9,075,369
Accrued staff costs	44	**35,931**	31,369
Taxes payable	45	**47,189**	34,241
Interest payable	46	**80,554**	65,659
Provisions	47	**5,180**	3,399
Debt securities issued	48	**168,312**	93,315
Deferred tax liabilities	35	**358**	243
Other liabilities	49	**35,598**	24,660
Total liabilities		**11,465,173**	10,109,412
Equity:			
Share capital	50	**250,011**	250,011
Capital reserve	51	**135,178**	135,136
Investment revaluation reserve	52	**6,383**	6,706
Surplus reserve	53	**67,576**	50,681
General reserve	54	**67,342**	61,347
Retained earnings	55	**289,266**	195,950
Exchange reserve		**(4,615)**	(3,039)
Total equity attributable to equity shareholders of the Bank		**811,141**	696,792
Non-controlling interests		**5,520**	4,113
Total equity		**816,661**	700,905
Total liabilities and equity		**12,281,834**	10,810,317

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

Zhang Jianguo	**Wong Kai-Man**	**Zhao Xijun**
Vice chairman, executive director and president	*Independent non-executive director*	*Independent non-executive director*

The notes on pages 121 to 229 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011
(Expressed in millions of RMB, unless otherwise stated)

	Note	2011	2010
Assets:			
Cash and deposits with central banks	18	**2,373,493**	1,841,867
Deposits with banks and non-bank financial institutions	19	**279,861**	78,198
Precious metals		**22,718**	14,495
Placements with banks and non-bank financial institutions	20	**110,533**	68,528
Financial assets at fair value through profit or loss	21	**8,715**	3,044
Positive fair value of derivatives	22	**13,073**	10,153
Financial assets held under resale agreements	23	**200,045**	181,075
Interest receivable	24	**56,420**	43,861
Loans and advances to customers	25	**6,189,363**	5,428,279
Available-for-sale financial assets	26	**663,583**	693,031
Held-to-maturity investments	27	**1,742,342**	1,883,927
Debt securities classified as receivables	28	**299,765**	306,748
Investments in subsidiaries	29	**11,950**	9,869
Fixed assets	31	**93,369**	82,696
Land use rights	32	**16,404**	16,865
Intangible assets	33	**1,176**	1,273
Deferred tax assets	35	**22,003**	18,774
Other assets	36	**34,077**	32,122
Total assets		**12,138,890**	10,714,805
Liabilities:			
Borrowings from central banks		**2,210**	1,781
Deposits from banks and non-bank financial institutions	39	**970,033**	685,238
Placements from banks and non-bank financial institutions	40	**45,654**	41,664
Financial liabilities at fair value through profit or loss	41	**30,966**	12,940
Negative fair value of derivatives	22	**12,354**	8,734
Financial assets sold under repurchase agreements	42	**11,594**	11,089
Deposits from customers	43	**9,906,093**	9,014,646
Accrued staff costs	44	**35,182**	30,522
Taxes payable	45	**46,950**	33,945
Interest payable	46	**80,312**	65,592
Provisions	47	**5,180**	3,399
Debt securities issued	48	**158,050**	91,431
Deferred tax liabilities	35	**23**	4
Other liabilities	49	**27,712**	22,455
Total liabilities		**11,332,313**	10,023,440
Equity:			
Share capital	50	**250,011**	250,011
Capital reserve	51	**135,178**	135,136
Investment revaluation reserve	52	**6,472**	6,743
Surplus reserve	53	**67,576**	50,681
General reserve	54	**66,645**	60,608
Retained earnings	55	**281,491**	188,525
Exchange reserve		**(796)**	(339)
Total equity		**806,577**	691,365
Total liabilities and equity		**12,138,890**	10,714,805

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

Zhang Jianguo	**Wong Kai-Man**	**Zhao Xijun**
Vice chairman, executive director and president	*Independent non-executive director*	*Independent non-executive director*

The notes on pages 121 to 229 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Attributable to equity shareholders of the Bank								
	Share capital	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Exchange reserve	Non-controlling interests	Total equity
As at 1 January 2011	**250,011**	**135,136**	**6,706**	**50,681**	**61,347**	**195,950**	**(3,039)**	**4,113**	**700,905**
Movements during the year	**–**	**42**	**(323)**	**16,895**	**5,995**	**93,316**	**(1,576)**	**1,407**	**115,756**
(1) Total comprehensive income for the year	**–**	**42**	**(323)**	**–**	**–**	**169,258**	**(1,576)**	**120**	**167,521**
(2) Changes in share capital	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,325**	**1,325**
i Acquisition of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**599**	**599**
ii Capital injection by non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**435**	**435**
iii Non-controlling interests of new subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**315**	**315**
iv Change in shareholdings in subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(24)**	**(24)**
(3) Profit distribution	**–**	**–**	**–**	**16,895**	**5,995**	**(75,942)**	**–**	**(38)**	**(53,090)**
i Appropriation to surplus reserve	**–**	**–**	**–**	**16,895**	**–**	**(16,895)**	**–**	**–**	**–**
ii Appropriation to general reserve	**–**	**–**	**–**	**–**	**5,995**	**(5,995)**	**–**	**–**	**–**
iii Appropriation to equity shareholders	**–**	**–**	**–**	**–**	**–**	**(53,052)**	**–**	**(38)**	**(53,090)**
As at 31 December 2011	**250,011**	**135,178**	**6,383**	**67,576**	**67,342**	**289,266**	**(4,615)**	**5,520**	**816,661**
As at 1 January 2010	233,689	90,266	13,163	37,421	46,806	136,112	(1,982)	3,545	559,020
Movements during the year	16,322	44,870	(6,457)	13,260	14,541	59,838	(1,057)	568	141,885
(1) Total comprehensive income for the year	–	33	(6,457)	–	–	134,844	(1,057)	168	127,531
(2) Changes in share capital	16,322	44,837	–	–	–	–	–	440	61,599
i Rights issue	16,322	44,837	–	–	–	–	–	–	61,159
ii Capital injection by non-controlling interests	–	–	–	–	–	–	–	106	106
iii Non-controlling interests of new subsidiaries	–	–	–	–	–	–	–	334	334
(3) Profit distribution	–	–	–	13,260	14,541	(75,006)	–	(40)	(47,245)
i Appropriation to surplus reserve	–	–	–	13,260	–	(13,260)	–	–	–
ii Appropriation to general reserve	–	–	–	–	14,541	(14,541)	–	–	–
iii Appropriation to equity shareholders	–	–	–	–	–	(47,205)	–	(40)	(47,245)
As at 31 December 2010	250,011	135,136	6,706	50,681	61,347	195,950	(3,039)	4,113	700,905

The notes on pages 121 to 229 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

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

	Share capital	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Exchange reserve	Total equity
As at 1 January 2011	**250,011**	**135,136**	**6,743**	**50,681**	**60,608**	**188,525**	**(339)**	**691,365**
Movements during the year	**–**	**42**	**(271)**	**16,895**	**6,037**	**92,966**	**(457)**	**115,212**
(1) Total comprehensive income for the year	**–**	**42**	**(271)**	**–**	**–**	**168,950**	**(457)**	**168,264**
(2) Profit distribution	**–**	**–**	**–**	**16,895**	**6,037**	**(75,984)**	**–**	**(53,052)**
i Appropriation to surplus reserve	**–**	**–**	**–**	**16,895**	**–**	**(16,895)**	**–**	**–**
ii Appropriation to general reserve	**–**	**–**	**–**	**–**	**6,037**	**(6,037)**	**–**	**–**
iii Appropriation to equity shareholders	**–**	**–**	**–**	**–**	**–**	**(53,052)**	**–**	**(53,052)**
As at 31 December 2011	**250,011**	**135,178**	**6,472**	**67,576**	**66,645**	**281,491**	**(796)**	**806,577**
As at 1 January 2010	233,689	90,266	13,213	37,421	46,209	130,785	(264)	551,319
Movements during the year	16,322	44,870	(6,470)	13,260	14,399	57,740	(75)	140,046
(1) Total comprehensive income for the year	–	33	(6,470)	–	–	132,604	(75)	126,092
(2) Changes in share capital	16,322	44,837	–	–	–	–	–	61,159
i Rights issue	16,322	44,837	–	–	–	–	–	61,159
(3) Profit distribution	–	–	–	13,260	14,399	(74,864)	–	(47,205)
i Appropriation to surplus reserve	–	–	–	13,260	–	(13,260)	–	–
ii Appropriation to general reserve	–	–	–	–	14,399	(14,399)	–	–
iii Appropriation to equity shareholders	–	–	–	–	–	(47,205)	–	(47,205)
As at 31 December 2010	250,011	135,136	6,743	50,681	60,608	188,525	(339)	691,365

The notes on pages 121 to 229 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Note	2011	2010
Cash flows from operating activities			
Profit before tax		**219,107**	175,156
Adjustments for:			
– Impairment losses	13	**35,783**	29,292
– Depreciation and amortisation	12	**12,497**	11,827
– Unwinding of discount		**(1,413)**	(799)
– Revaluation loss/(gain) on financial instruments at fair value through profit or loss		**1,396**	(1,659)
– Share of profit less losses of associates and jointly controlled entities		**(24)**	(34)
– Dividend income	9	**(158)**	(228)
– Unrealised foreign exchange loss		**3,013**	1,847
– Interest expense on subordinated bonds issued		**3,561**	3,282
– Net gain on disposal of investment securities	10	**(1,756)**	(1,903)
– Net gain on disposal of fixed assets and other long-term assets		**(489)**	(455)
		271,517	216,326
Changes in operating assets:			
Net increase in deposits with central banks and with banks and non-bank financial institutions		**(479,504)**	(485,985)
Net increase in placements with banks and non-bank financial institutions		**(39,399)**	(2,490)
Net increase in loans and advances to customers		**(849,238)**	(869,732)
Net (increase)/decrease in financial assets held under resale agreements		**(18,952)**	408,498
Increase in other operating assets		**(35,472)**	(19,954)
		(1,422,565)	(969,663)
Changes in operating liabilities:			
Net increase in borrowings from central banks		**530**	1,806
Net increase in placements from banks and non-bank financial institutions		**14,509**	29,407
Net increase in deposits from customers and from banks and non-bank financial institutions		**1,212,274**	992,829
Net increase in financial assets sold under repurchase agreements		**5,540**	4,899
Net increase/(decrease) in certificates of deposit issued		**36,447**	(1,967)
Income tax paid		**(41,897)**	(37,921)
Increase in other operating liabilities		**48,659**	23,645
		1,276,062	1,012,698
Net cash from operating activities		**125,014**	259,361

The notes on pages 121 to 229 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Note	2011	2010
Cash flows from investing activities			
Proceeds from sale and redemption of investments		**1,146,554**	1,371,120
Dividends received		**160**	229
Proceeds from disposal of fixed assets and other long-term assets		**1,409**	713
Purchase of investment securities		**(971,164)**	(1,696,728)
Purchase of fixed assets and other long-term assets		**(23,312)**	(20,452)
Acquisition of subsidiaries, associates and jointly controlled entities		**(1,063)**	(18)
Net cash from/(used in) investing activities		**152,584**	(345,136)
Cash flows from financing activities			
Rights issue		**–**	61,159
Issue of subordinated bonds		**39,945**	–
Capital contribution by non-controlling interests		**750**	440
Dividends paid		**(53,078)**	(47,232)
Repayments of debt securities issued		**–**	(2,870)
Interest paid on bonds issued		**(3,200)**	(3,298)
Cash paid relating to other financing activities		**(51)**	–
Net cash (used in)/from financing activities		**(15,634)**	8,199
Effect of exchange rate changes on cash and cash equivalents		**(4,800)**	(1,374)
Net increase/(decrease) in cash and cash equivalents		**257,164**	(78,950)
Cash and cash equivalents as at 1 January	56(1)	**301,299**	380,249
Cash and cash equivalents as at 31 December	56(1)	**558,463**	301,299
Cash flows from operating activities include:			
Interest received		**461,477**	362,523
Interest paid, excluding interest expense on bonds issued		**(159,565)**	(116,793)

The notes on pages 121 to 229 form part of these financial statements.

(Expressed in millions of RMB, unless otherwise stated)

1 COMPANY INFORMATION

The history of China Construction Bank Corporation (the "Bank") dates back to 1954, which was previously known as the People's Construction Bank of China when it was established. It administered and disbursed government funds for construction and infrastructure related projects under the state economic plan. The People's Construction Bank of China gradually became a full service commercial bank following the establishment of China Development Bank in 1994 to assume its policy lending functions. In 1996, the People's Construction Bank of China changed its name to China Construction Bank ("CCB"). On 17 September 2004, China Construction Bank Corporation was formed as a joint-stock commercial bank in the People's Republic of China (the "PRC") as a result of a separation procedure undertaken by our predecessor, China Construction Bank. In October 2005 and September 2007, the Bank's H-shares and A-shares were listed on Hong Kong Stock Exchange (Stock Code: 939) and Shanghai Stock Exchange (Stock Code: 601939) respectively.

The Bank obtained its finance permit No.B0004H111000001 from the China Banking Regulatory Commission (the "CBRC") of the PRC. The Bank obtained its business license No.100000000039122 from the State Administration for Industry and Commerce of the PRC. The registered office of the Bank is located at No.25, Finance Street, Xicheng District, Beijing, the PRC.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management, trustee, finance leasing, investment banking, insurance and other financial services. The Group mainly operates in Mainland China and also has several overseas branches and subsidiaries. For the purpose of these financial statements, Mainland China refers to the PRC excluding Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC and Taiwan. Overseas refers to countries and regions other than Mainland China.

The Bank is under the supervision of the banking regulatory bodies empowered by the State Council of the PRC (the "State Council"). The overseas financial operations of the Bank are under the supervision of their respective local jurisdictions. Central Huijin Investments Limited ("Huijin"), a wholly owned subsidiary of China Investment Corporation ("CIC"), exercises the rights and obligations as an investor on behalf of the PRC government.

These financial statements were authorised for issue by the board of directors of the Bank on 23 March 2012.

2 BASIS OF PREPARATION

The group used the calendar year as the accounting year, which is from 1 January to 31 December.

These financial statements for the year ended 31 December 2011 comprise the Bank and its subsidiaries and the Group's interests in associates and jointly controlled entities.

(1) Basis of measurement

These financial statements have been prepared on the historical cost basis except that: (i) financial instruments at fair value through profit or loss are measured at fair value; (ii) derivative financial instruments are measured at fair value; (iii) available-for-sale financial assets are measured at fair value; and (iv) certain non-financial assets are measured at deemed cost. The measurement basis of major assets and liabilities are further explained in Note 4.

(2) Functional and presentation currency

These financial statements are presented in RMB, unless otherwise stated, rounded to the nearest million, which is the functional currency of domestic operations of the Group. The functional currencies of overseas branches and subsidiaries are determined in accordance with the primary economic environment in which they operate, and are translated into RMB for the preparation of these financial statements according to Note 4(2)(b).

(3) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 4(22).

(Expressed in millions of RMB, unless otherwise stated)

3 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Group has adopted new or revised IFRSs effective for the current year. There is no early adoption of any new IFRSs not yet effective for the year ended 31 December 2011. The following revised IFRSs adopted are relevant to these financial statements:

- IAS 24 (revised), *Related Party Disclosures* – It introduces an exemption from all of the disclosure requirements of IAS 24 for transactions among government related entities and with the government. Those disclosures are replaced with a requirement to disclose:
  - The name of the government and the nature of their relationship;
  - The nature and amount of any individually significant transactions; and
  - The extent of any collectively-significant transactions qualitatively or quantitatively.

The adoption of new or revised IFRSs has no significant impact on the accounting policies of the Group. The accounting policies set out below have been applied consistently by the Group to all periods presented in these financial statements.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Consolidated financial statements

(a) Business combinations

The consideration transferred by the acquirer for the acquisition and the identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Where the cost of a business combination exceeds the Group's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill in accordance with the accounting policies set out in Note 4(9); where the cost of a business combination is less than the Group's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss.

Acquisition date mentioned above is the date that the Group effectively obtains control of the acquiree.

(b) Subsidiaries and non-controlling interests

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its operating activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

For the separate financial statements of the Bank, investments in subsidiaries are accounted for at cost. At initial recognition, investment in subsidiaries is measured at: the cost of acquisition determined at the acquisition date when the subsidiaries are acquired through business combination; or the capital injected into the subsidiaries set up by the Group. Impairment losses on investments in subsidiaries are accounted for in accordance with the accounting policies as set out in Note 4(11).

The results and affairs of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. When preparing the consolidated financial statements, the Bank makes necessary adjustments on the accounting period and accounting policies of subsidiaries to comply with those of the Bank.

Intragroup balances and transactions, and any profits or losses arising from intragroup transactions are eliminated in full in preparing the consolidated financial statements.

The portion of a subsidiary's net assets that is attributable to equity interests that are not owned by the Bank, whether directly or indirectly through subsidiaries, is treated as non-controlling interests and presented as "non-controlling interests" in the consolidated statement of financial position within total equity. The portion of net profit or loss and other comprehensive income of subsidiaries for the year attributable to non-controlling interests is separately presented in the consolidated statement of comprehensive income as a component of the Group's net profit.

(Expressed in millions of RMB, unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(1) Consolidated financial statements (continued)

(c) Special purpose entities

The Group has established a number of Special Purpose Entities ("SPEs") for investment and securitisation purposes. The Group evaluates the substance of its relationship with the SPEs as well as the SPEs' risks and rewards to determine whether the Group controls the SPEs. The following circumstances, which may indicate a relationship in which the Group controls a SPE are taken into account: (i) in substance, the activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operations; (ii) in substance, the Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE; (iii) in substance, the Group 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; and (iv) in substance, the Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities. Where the evaluation result indicates that control exists, the Group will consolidate the SPE.

(d) Associates and jointly controlled entities

An associate is an enterprise in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policy decisions.

A jointly controlled entity is an enterprise which operates under joint control between the Group and other parties. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control.

Investments in associate or jointly controlled entity are accounted for using the equity method in the consolidated financial statements and are initially recorded at acquisition cost, and adjusted thereafter for the post acquisition change in the Group's share of net assets of the associate or jointly controlled entity. The Group's share of the post-acquisition, post-tax results of the associate or jointly controlled entity for the year is recognised in the consolidated statement of comprehensive income. The Group's interest in associate or jointly controlled entity is included from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

Profits and losses resulting from transactions between the Group and its associate or jointly controlled entity are eliminated to the extent of the Group's interest in the associate or jointly controlled entity.

The Group discontinues recognising its share of net losses of the associate or jointly controlled entity after the carrying amount of investments in associate and jointly controlled entity together with any long-term interests that in substance form part of the Group's net investment in the associate or jointly controlled entity are reduced to zero, except to the extent that the Group has incurred legal or constructive obligations to assume additional losses. Where the associate or jointly controlled entity makes net profits subsequently, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

(2) Translation of foreign currencies

(a) Translation of foreign currency transactions

Foreign currency transactions are, on initial recognition, translated into the functional currency at the spot exchange rates at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated into the functional currency at the spot exchange rates at that date. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currency using the spot exchange rates at the transaction dates. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the spot exchange rates at the dates the fair values are determined; exchange differences are recognised in profit or loss, except for the differences arising from the translation of available-for-sale equity instruments, which are recognised in other comprehensive income.

(b) Translation of financial statements denominated in foreign currencies

Foreign currency financial statements of overseas branches and subsidiaries are translated into RMB for the preparation of consolidated financial statements. At the end of each reporting period, the assets and liabilities in the financial statements denominated in foreign currencies are translated into RMB at the spot exchange rates ruling at that date. The income and expenses of foreign operations are translated into RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the transaction dates. Foreign exchange differences arising from foreign operations are recognised as "exchange reserve" in the shareholder's equity in the statement of financial position. The effect of exchange rate changes on cash is presented separately in the statement of cash flows.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments

(a) Categorisation

The Group classifies financial instruments into different categories at inception, depending on the purposes for which the assets were acquired or the liabilities were incurred. The categories are: financial assets and financial liabilities at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities.

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

Financial assets and financial liabilities at fair value through profit or loss include those classified as held for trading, and those designated as at fair value through profit or loss.

A financial asset or financial liability is classified as held for trading if it is: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) 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) a derivative (except for a derivative that is a designated and effective hedging instrument or a financial guarantee contract).

Financial assets or financial liabilities are designated at fair value through profit or loss upon initial recognition when: (i) the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis; (ii) the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in measurement basis of the financial assets or financial liabilities; or (iii) if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss unless: the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than: (i) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (ii) those that meet the definition of loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (i) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (ii) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (iii) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise deposits with central banks, deposits and placements with banks and non-bank financial institutions, financial assets held under resale agreements, loans and advances to customers, and debt securities classified as receivables.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as: (i) financial assets at fair value through profit or loss; (ii) held-to-maturity investments; or (iii) loans and receivables.

Other financial liabilities

Other financial liabilities are financial liabilities other than those designated as at fair value through profit or loss and mainly comprise borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers and debt securities issued.

Investment securities in the financial statements comprise the securities classified as held-to-maturity investments, available-for-sale financial assets and debt securities classified as receivables.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(b) Derivatives and embedded derivatives

The Group uses derivatives to hedge its exposure to foreign exchange and interest rate risks. Derivatives are recognised at fair value upon initial recognition. The positive fair value is recognised as an asset while the negative fair value is recognized as a liability. The gain or loss on re-measurement to fair value is recognised in profit or loss.

Certain derivatives are embedded into non-derivative hybrid instruments (the host contracts). The embedded derivatives are separated from the host contract and accounted for as a separate derivative when (i) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (iii) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss. When the embedded derivative is separated, the host contract is accounted for as a financial instrument in accordance with the accounting policies as set out in Note 4(3).

(c) Recognition and derecognition

All financial assets and financial liabilities are recognised in the statement of financial position, when and only when, the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; (ii) the contractual rights to receive the cash flows of the financial asset have been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of transfer of cash flows and transfers substantially all the risks and rewards of ownership of the financial asset.

The difference between the carrying amount of the financial asset derecognised and the consideration received and the cumulative changes in fair value previously recognised in equity are recognised in profit or loss.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. If the Group has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

The financial liability is derecognised only when: (i) the underlying present obligation specified in the contracts is discharged, cancelled or expired, or (ii) an agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(d) Measurement

Financial instruments are measured initially at fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument. Transaction costs for financial instruments at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortised cost, while other categories of financial instruments are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal. Investments in available-for-sale equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment losses, if any.

Gains and losses from changes in the fair value of financial instruments at fair value through profit or loss are recognised in profit or loss.

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated separately in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in profit or loss.

When the available-for-sale financial assets are sold, gains or losses on disposal are recognised in profit or loss. Gains or losses on disposal include those previously recognised in other comprehensive income and reclassified into the profit or loss.

For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or financial liability is derecognised, impaired, or through the amortisation process.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(e) Impairment

At the end of each reporting period, the Group assesses the carrying amount of financial assets (except for those at fair value through profit or loss). If there is any objective evidence that a financial asset is impaired, the Group will recognise the impairment loss in profit or loss. Losses expected as a result of future events, no matter how likely, are not recognised as impairment losses.

Objective evidence that a financial asset is impaired includes one or more events that occurred after the initial recognition of the asset where the event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence includes the following loss event:

– significant financial difficulty of the borrower or issuer;

– a breach of contract, such as a default or delinquency in interest or principal payments;

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

– it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

– disappearance of an active market for financial assets because of financial difficulties;

– observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: adverse changes in the payment status of borrowers in the group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the group;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the issuer of an equity instrument;

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; and

– other objective evidence indicating there is an impairment of the financial asset.

Loans and receivables and held-to-maturity investments

Individual assessment

Loans and receivables and held-to-maturity investments, which are considered individually significant, are assessed individually for impairment. If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost 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, and recognised in profit or loss.

Cash flows relating to short-term loans and receivables and held-to-maturity investments are not discounted if the effect of discounting is immaterial. The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Collective assessment

Homogeneous groups of loans and advances to customers not considered individually significant and individually assessed loans and receivables and held-to-maturity investments with no objective evidence of impairment on an individual basis are assessed for impairment losses on a collective basis. If there is observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those financial assets, the impairment is recognised and recorded in profit or loss.

For homogeneous groups of loans and advances that are not considered individually significant, the Group adopts a flow rate methodology to assess impairment losses on a collective basis. This methodology utilises a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(e) Impairment (continued)

Loans and receivables and held-to-maturity investments (continued)

Collective assessment (continued)

Loans and receivables and held-to-maturity investments which are individually significant and therefore have been individually assessed but for which no impairment can be identified, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. The collective impairment loss is assessed after taking into account: (i) historical loss experience in portfolios of similar risk characteristics; (ii) the emergence period between a loss occurring and that loss being identified; and (iii) the current economic and credit environments and whether in management's experience these indicate that the actual losses level is likely to be greater or less than that suggested by historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the markets where the Group operates.

Impairment losses recognised on a collective basis represent an interim step pending the identification of impairment losses on individual assets (which are subject to individual assessment) in the pool of financial assets that are collectively assessed for impairment.

At the end of each reporting period, collective assessment covers those loans and receivables and held-to-maturity investments that were impaired but was not individually identified as such until some time in the future. As soon as information is available to specifically identify objective evidence of impairment on individual assets in a pool, those assets are removed from the pool of collectively assessed financial assets.

Impairment reversal and loan write-off

If, in a subsequent period, the amount of the impairment loss on loans and receivables and held-to-maturity investments decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

When the Group determines that a loan has no reasonable prospect of recovery after the Group has completed all the necessary legal or other proceedings, the loan is written off against its allowance for impairment losses. If in a subsequent period the loan written off is recovered, the amount recovered will be recognised in profit or loss through impairment losses.

Rescheduled loans

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Group has made concessions that it would not otherwise consider under normal circumstances. Rescheduled loans are assessed individually and classified as impaired loans and advances upon restructuring. Rescheduled loans are subject to ongoing monitoring. Once a rescheduled loan has met specific conditions by the end of the observation period of normally 6 months, with the approval from management, they would no longer be considered as impaired.

Available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognised in other comprehensive income is reclassified to the profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. For available-for-sale investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss.

If, in a subsequent period, the fair value of available-for-sale financial assets increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss shall be treated in accordance with the following principles: (i) the impairment loss on debt instruments classified as available-for-sale shall be reversed, with the amount of the reversal recognised in profit or loss; (ii) the impairment loss on equity instruments classified as available-for-sale shall not be reversed through the profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income; or (iii) the impairment loss in respect of available-for-sale equity investments carried at cost shall not be reversed.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(f) Fair value measurement

If there is an active market for financial instruments, the fair value of financial instruments is based on quoted market prices without any deduction for transaction costs that may occur on sales or disposals. The appropriate quoted price in an active market for financial assets held or liabilities to be issued is usually the current bid price and for financial assets to be acquired or liabilities held, the asking price. A quoted price is from an active market where price information is readily and regularly available from an exchange, dealer, industry group or pricing service agency and that price information represents actual and regularly occurring market transactions on an arm's length basis.

If a quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include recent arm's length market transactions between knowledgeable and willing parties, reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The Group selects valuation techniques that are commonly accepted by market participants for pricing the instruments and these techniques have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. Periodically, the Group reviews the valuation techniques and tests them for validity.

(g) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

(h) Securitisations

The Group securitises certain loans, which generally involves the sale of these assets to SPEs, which in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of credit enhancement or subordinated tranches, or other residual interests ("retained interests"). Retained interests are carried at fair value on inception date on the Group's statement of financial position. Gains or losses on securitisation are the difference between the carrying amount of the transferred financial assets and the consideration received (including retained interest) which is recognised in profit or loss.

(i) Financial assets held under resale agreements and financial assets sold under repurchase agreements

Financial assets held under resale agreements are transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Financial assets sold under repurchase agreements are transactions where the Group sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the statement of financial position. Assets held under resale agreements are not recognised. Assets sold under repurchase agreements continue to be recognised in the statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

(4) Precious metals

Precious metals comprise gold and other precious metals. Precious metals that are acquired by the Group principally for trading purpose are initially recognised at fair value and re-measured at fair value less cost to sell. The changes in fair value less cost to sell are included in the statement of comprehensive income. Precious metals that are not acquired by the Group principally for trading purpose are carried at lower of cost and net realisable value.

(Expressed in millions of RMB, unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(5) Fixed assets

Fixed assets are assets held by the Group for the conduct of business and are expected to be used for more than one year. Construction in progress is the property and equipment under construction, which is transferred to fixed assets when ready for its intended use.

(a) Cost

Fixed assets are initially recognised at cost, except for the fixed assets and construction in progress obtained from CCB by the Bank which were recognised at the revalued amount as deemed cost on the Restructuring Date. The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditures for bringing the asset to working condition for its intended use. The cost of a self-constructed fixed asset comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use.

Where the individual components of an item of fixed asset have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognised as separate fixed assets.

Subsequent costs, including the cost of replacing part of an item of fixed assets, are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. Expenditures relating to ordinary maintenance of fixed assets are recognised in profit or loss.

(b) Depreciation and impairment

Depreciation is calculated to write off to the profit or loss the cost of items of fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives. Impaired fixed assets are depreciated net of accumulated impairment losses. No depreciation is provided on construction in progress.

The estimated useful lives, residual values and annual depreciation rates of respective fixed assets are as follows:

Types of assets	Estimated useful lives	Estimated net residual values	Annual depreciation rates
Bank premises	30-35 years	3%	2.8%-3.2%
Equipment	3-8 years	3%	12.1%-32.3%
Others	4-11 years	3%	8.8%-24.3%

The Group reviews the estimated useful life and estimated residual value of a fixed asset and the depreciation method applied at least once a financial year.

Impairment losses on fixed assets are accounted for in accordance with the accounting policies as set out in Note 4(11).

(c) Disposal

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the fixed asset and are recognised in profit or loss on the date of retirement or disposal.

(6) Lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

(a) Finance lease

Where the Group is a lessor under finance leases, an amount representing the sum of the minimum lease receivables and initial direct costs at the commencement of the lease term, is included in "loans and advances to customers" on statement of financial position as a lease receivable. Unrecognised finance income under finance leases is amortised using the effective interest rate method over the lease term. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases.

Impairment losses on lease receivables are accounted for in accordance with the accounting policies as set out in Note 4(3)(e).

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(6) Lease (continued)

(b) Operating lease

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the profit or loss, using the straight-line method, over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the profit or loss in the accounting period in which they are incurred.

(7) Land use rights

Land use rights are initially recognised at cost. The land use rights obtained from CCB by the Bank on the date of Restructuring were recorded at the revalued amount. The cost of the land use rights is amortised on a straight-line basis over their authorized useful lives, and charged to the profit or loss. Impaired land use rights are amortised net of accumulated impairment losses.

Impairment losses on land use rights are accounted for in accordance with the accounting policies as set out in Note 4(11).

(8) Intangible assets

Software and other intangible assets are initially recognised at cost. The cost less estimated residual values, if any, of the intangible assets is amortised on a straight-line basis over their useful lives, and charged to the profit or loss. Impaired intangible assets are amortised net of accumulated impairment losses.

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 4(11).

(9) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the fair value of the acquiree's identifiable net assets. Goodwill is not amortised. Goodwill arising on a business combination is allocated to each cash-generating unit ("CGU") or group of CGUs, that is expected to benefit from the synergies of the combination. The Group performs impairment test on goodwill semi-annually.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable net assets over the cost of a business combination is recognised immediately in profit or loss.

On disposal of the related CGU or group of CGUs, any attributable amount of goodwill net of allowances for impairment losses, if any, is included in the calculation of the profit or loss on disposal.

Impairment loss on goodwill is accounted for in accordance with the accounting policies as set out in Note 4(11).

(10) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Repossessed assets are recognised and reported in "other assets" in the statement of financial position when the Group intends to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower.

When the Group seizes assets to compensate for the losses of loans and advances and interest receivable, the repossessed assets are initially recognised at fair value, plus any taxes paid for the seizure of the assets, litigation fees and other expenses incurred for collecting the repossessed assets. Repossessed assets are recognised at the carrying value, net of allowances for impairment losses (Note 4(11)).

(11) Allowances for impairment losses on non-financial assets

At the end of each reporting period, the Group assesses whether there is any indication that a non-financial asset may be impaired. If any indication exists that an asset may be impaired, the Group estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired and it is not possible to estimate the recoverable amount of an individual asset, the Group determines the recoverable amount of the CGU to which the asset belongs.

CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or groups of assets.

The recoverable amount of an asset (or CGU, group of CGUs) is the higher of its fair value less costs to sell and the present value of the expected future cash flows. The Group considers all relevant factors in estimating the present value of future cash flows, such as the expected future cash flows, the useful life and the discount rate.

(Expressed in millions of RMB, unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(11) Allowances for impairment losses on non-financial assets (continued)

(a) Testing CGU with goodwill for impairment

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the CGU or group of CGUs that is expected to benefit from the synergies of the combination.

A CGU or group of CGUs to which goodwill has been allocated is tested for impairment by the Group semi-annually, or whenever there is an indication that the CGU or group of CGUs are impaired, by comparing the carrying amount of the CGU or group of CGUs, including the goodwill, with the recoverable amount of the CGU or group of CGUs. The recoverable amount of the CGU or group of CGUs are the estimated future cash flows, which are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU or group of CGUs with allocated goodwill.

At the time of impairment testing of a CGU or group of CGUs to which goodwill has been allocated, there may be an indication of an impairment of an asset within the CGU containing the goodwill. In such circumstances, the Group tests the asset for impairment first, and recognises any impairment loss for that asset before testing for impairment on the CGU or group of CGUs containing the goodwill. Similarly, there may be an indication of an impairment of a CGU within a group of CGUs containing the goodwill. In such circumstances, the entity tests the CGU for impairment first, and recognises any impairment loss for that CGU, before testing for impairment the group of CGUs to which the goodwill is allocated.

(b) Impairment loss

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to the profit or loss.

For a CGU or a group of CGUs, the amount of impairment loss firstly reduces the carrying amount of any goodwill allocated to the CGU or group of CGUs, and then reduces the carrying amount of other assets (other than goodwill) within the CGU or group of CGUs, pro rata on the basis of the carrying amount of each asset.

(c) Reversing an impairment loss

If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after the impairment was recognised, the previously recognized impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

An impairment loss in respect of goodwill is not reversed.

(12) Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditures incurred by the Group in exchange for services rendered by employees. Except for termination benefits, employee benefits are recognised as a liability in the period in which the associated services are rendered by its employees, with a corresponding increase in cost of relevant assets or the expenses in profit or loss. Where payment or settlement is deferred and the effect of discount would be material, these amounts are stated at their present values in the statement of financial position.

(a) Defined contribution retirement schemes

Pursuant to the relevant laws and regulations in the PRC, the Group has joined defined contribution retirement schemes for the employees arranged by local government labor and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the local government organisations. The contributions are charged to the profit or loss on an accrual basis. When employees retire, the local government labor and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

In addition to the statutory provision schemes, the Bank's employees have joined the annuity scheme set up by the Bank under "CCBC Annuity Scheme" (the "scheme") in accordance with state enterprise annuity regulations. The Bank has made annuity contributions in proportion to its employees' gross wages, which are expensed in profit or loss when the contributions are made.

(b) Housing fund and other social insurance

In accordance with the related laws, regulations and policies of the PRC, the Group participates in mandatory social insurance programmes, including housing fund, basic medical insurance, unemployment insurance, work injury insurance and maternity insurance etc. The Group makes housing fund and social insurance contributions to government agencies in proportion to each employees' salary and expenses monthly and recognises them in profit or loss on an accrual basis.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(12) Employee benefits (continued)

(c) Supplementary retirement benefits

The Group pays supplementary retirement benefits for its employees in Mainland China who retired on or before 31 December 2003 in addition to the contributions made to statutory insurance schemes. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of obligations that the Group is committed to pay to the employees after their retirement using actuarial techniques. At the end of each reporting period, such obligations are discounted with interest yield of government bonds with similar duration. In calculating the Group's obligations, to the extent that any cumulative unrecognised gains or losses exceed 10% of the present value of the obligation at the end of each reporting period, that portion is recognised in profit or loss. Otherwise, the gain or loss is not recognised.

(d) Early retirement expenses

The Group recognises the present value of all its liabilities to employees who voluntarily agreed to retire early. The early retirement benefit payments are made by the Group from the date of early retirement to the normal retirement date. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when incurred.

(e) Termination benefits

Where the Group terminates the employment relationship with employees before the end of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision is recognised for the compensation arising from termination of employment relationship, with a corresponding charge to the profit or loss for the current period, when both of the following conditions are satisfied: (i) the Group has a formal plan for termination of employment relationship or has made an offer for voluntary redundancy, which will be implemented immediately; (ii) the Group cannot unilaterally withdraw from the termination plan or the redundancy offer.

(f) Staff incentive plan

As approved by the board of directors, for the purposes of providing incentives and rewards to eligible employees for their past services, the Group awards a specified amount of staff compensation to the staff incentive plan independently managed by a designated staff committee for those eligible participating employees. The Group recognises its contribution to the plan when it has a present legal or constructive obligation to make such payment and a reliable estimate of the obligation can be made.

(13) Provisions and contingent liabilities

A provision is recognised in the statement of financial position if, as the result of a past event, the Group has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows.

A potential obligation arising from a past transaction or event whose existence can only be confirmed by the occurrence or nonoccurrence of future uncertain events; or a present obligation that arises from past transactions or events where it is not probable that an outflow of economic benefits is required to settle the obligation or the amount of the obligation cannot be measured reliably, is disclosed as a contingent liability unless the probability of outflow of economic benefit is remote.

(14) Financial guarantees

Financial guarantees are contracts that require the Group as the guarantor (the "issuer") to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs when a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in "other liabilities". The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognised in the statement of financial position if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

(15) Fiduciary activities

The Group's fiduciary business refers to the management of assets for customers in accordance with custody agreements signed by the Group and securities investment funds, insurance companies, annuity plans and other organisations. The Group fulfils its fiduciary duty and receives relevant fees in accordance with these agreements, and does not take up any risks and rewards related to the assets under custody, which are recorded as off-balance sheet items.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(15) Fiduciary activities (continued)

The Group conducts entrusted lending business, whereby it enters into entrusted loan agreements with customers. Under the terms of these agreements, the customers provide funding (the "entrusted funds") to the Group, and the Group grants loans to third parties (the "entrusted loans") according to the instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, entrusted loans and funds are recorded as off-balance sheet items at their principal amounts and no impairment assessments are made for these entrusted loans.

(16) Income recognition

Provided it is probable that economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(a) Interest income

Interest income for interest bearing financial instruments is recognised in profit or loss based on effective interest method. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis.

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

Interest on the impaired financial assets is recognised using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

(b) Fee and commission income

Fee and commission income is recognised in profit or loss when the corresponding service is provided. Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Group making a loan, the fee is recognised as commission on expiry.

(c) Finance income from finance leases and hire purchase contracts

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

(d) Dividend income

Dividend income from unlisted equity investments is recognised in profit or loss on the date when the Group's right to receive payment is established. Dividend income from a listed equity investment is recognised when the share price of the investment goes ex-dividend.

(17) Income tax

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods. Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax also arises from unused tax losses and unused tax credits. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Current income tax and movements in deferred tax balances are recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

At the end of each reporting period, deferred tax assets and deferred 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 according to the requirements of tax laws. The Group also considers the possibility of realisation and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(17) Income tax (continued)

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. Otherwise, the balances of deferred tax assets and deferred tax liabilities, and movements therein, are presented separately from each other and are not offset.

(18) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(19) Profit distribution

Proposed dividends which are declared and approved after the end of each reporting period are not recognised as a liability in the statement of financial position and are instead disclosed as a subsequent event after the end of each reporting period in the note to the financial statements. Dividends payable are recognised as liabilities in the period in which they are approved.

(20) Related parties

If the Group has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. The Group's related parties include but are not limited to the following:

(a) the Bank's parents;

(b) the Bank's subsidiaries;

(c) other entities which are controlled by the Bank's parents;

(d) an investor who has joint control over the Group;

(e) an investor who can exercise significant influence over the Group;

(f) an associate of the Group;

(g) a jointly controlled entity of the Group;

(h) principal individual investors of the Group, and close family members of such individuals (principal individual investors are the individual investors who have the power, directly or indirectly, to control, jointly control or exercise significant influence over another party);

(i) key management personnel of the Group and close family members of such individuals (key management personnel represent those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of that entity);

(j) key management personnel of the Bank's parents and close family members of such individuals;

(k) other entities that are controlled or jointly controlled by the Group's principal individual investors, key management personnel, or close family members of such individuals; and

(l) a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(21) Operating segments

The identification of operating segments of the Group is on the basis of internal reports that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segment and assess its performance. On the basis of the operating segments, the Group identifies the reportable segments, using a combination of factors including products and services, geographical areas, regulatory environments etc., which the management has chosen for organisation. The operating segments that meet the specified criteria have been aggregated, and the operating segments that meet quantitative thresholds have been reported separately.

The amount reported for each operating segment item is the measure reported to the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(22) Significant accounting estimates and judgements

(a) Impairment losses on loans and advances, and available-for-sale and held-to-maturity debt investments

The Group reviews the portfolios of loans and advances, and available-for-sale and held-to-maturity debt investments periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows identified with an individual loan and advance, an available-for-sale or a held-to-maturity debt investment. It also includes observable data indicating adverse changes in the repayment status of borrowers or issuers in the assets portfolio or national or local economic conditions that correlate with defaults on the assets in the portfolio.

The impairment loss for a loan that is individually assessed for impairment is the decrease in the estimated discounted future cash flows. Same principle is adopted for impairment loss on a held-to-maturity debt investment which is individually assessed, except that as a practical expedient, the Group may measure the impairment loss on the basis of the instrument's fair value using an observable market price at the measurement date. The impairment loss for an available-for-sale debt investment is the difference between the acquisition cost (net off any principal repayments and amortisation) and the fair value, less any impairment loss previously recognised in profit or loss at the measurement date.

When loans and advances and held-to-maturity debt investments are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances and held-to-maturity debt investments that are being assessed. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual losses.

(b) Impairment of available-for-sale equity instruments

For available-for-sale equity instruments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the Group considers historical market volatility and share price data of the specific equity instrument as well as other factors, such as sector performance, and financial information regarding the investee.

(c) Fair value of financial instruments

The fair value of financial instruments that are traded in an active market is based on their quoted market prices in an active market at the valuation date. A quoted market price is a price from an active market where price information is readily and regularly available from an exchange or from a dealer quotation and where this price information represents actual and recurring market transactions on an arm's length basis.

For all other financial instruments, the Group determines fair values using valuation techniques which include discounted cash flow models, as well as other types of valuation model. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign currency exchange rates. Where discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and the discount rate used is a market rate at the end of each reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on maximised observable market data at the end of each reporting period. However, where market data are not available, the Group needs to make the best estimates on such unobservable market data.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

(d) Classification of held-to-maturity investments

In evaluating whether the requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements. Change of the Group in sustaining the intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

(e) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(f) Employee retirement benefit obligations

The Group has established liabilities in connection with benefits payable to certain retired employees. The amounts of employee benefit expense and these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, pension benefit inflation rates, medical benefit inflation rates, and other factors. Actual results that differ from the assumptions are recognised to the extent that any cumulative unrecognised gains or losses exceed 10% of the present value of the obligation at the end of each reporting period. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect the Group's expense and liability related to its employee retirement benefit obligations.

(Expressed in millions of RMB, unless otherwise stated)

5 TAXATION

The Group's main applicable taxes and tax rates are as follows:

Business tax

Business tax is charged at 5% on taxable income.

City construction tax

City construction tax is calculated as 1% – 7% of business tax.

Education surcharge

Education surcharge is calculated as 3% of business tax.

Income tax

The income tax rate that is applicable to the Bank and its subsidiaries in Mainland China is 25%. Taxation on overseas operations is charged at the relevant local rates. Tax paid on overseas operations is set off to the extent which is allowed under the relevant income tax laws of the PRC. All tax exemptions are determined upon approval from the relevant tax authorities.

Current liabilities arising from the above taxes are presented as "taxes payable" in the statement of financial position.

6 NET INTEREST INCOME

	2011	2010
Interest income arising from:		
Deposits with central banks	**31,282**	23,226
Deposits with banks and non-bank financial institutions	**4,302**	1,360
Placements with banks and non-bank financial institutions	**1,539**	450
Financial assets at fair value through profit or loss	**577**	706
Financial assets held under resale agreements	**7,888**	6,424
Investment securities	**89,139**	78,611
Loans and advances to customers		
– Corporate loans and advances	**255,718**	199,623
– Personal loans and advances	**84,302**	60,848
– Discounted bills	**7,500**	6,535
Total	**482,247**	377,783
Interest expense arising from:		
Borrowings from central banks	**(17)**	(14)
Deposits from banks and non-bank financial institutions	**(17,990)**	(13,626)
Placements from banks and non-bank financial institutions	**(2,474)**	(741)
Financial liabilities at fair value through profit or loss	**(2)**	(1)
Financial assets sold under repurchase agreements	**(1,233)**	(176)
Debt securities issued	**(3,987)**	(3,526)
Deposits from customers		
– Corporate deposits	**(77,086)**	(52,524)
– Personal deposits	**(74,886)**	(55,675)
Total	**(177,675)**	(126,283)
Net interest income	**304,572**	251,500

Notes:

(1) Interest income from impaired financial assets is listed as follows:

	2011	2010
Impaired loans and advances	**1,413**	799
Other impaired financial assets	**423**	446
Total	**1,836**	1,245

(2) Interest expense on financial liabilities with maturity over five years mainly represented the interest expense on debt securities issued.

(Expressed in millions of RMB, unless otherwise stated)

7 NET FEE AND COMMISSION INCOME

	2011	2010
Fee and commission income		
Consultancy and advisory fees	**17,488**	12,816
Bank card fees	**14,910**	12,344
Agency service fees	**14,210**	12,115
Settlement and clearing fees	**13,484**	9,614
Wealth management service fees	**7,907**	5,611
Commission on trust and fiduciary activities	**7,732**	6,720
Electronic banking service fees	**4,246**	2,879
Guarantee fees	**2,495**	1,857
Credit commitment fees	**2,369**	1,605
Others	**4,653**	2,595
Total	**89,494**	68,156
Fee and commission expense		
Bank card transaction fees	**(1,540)**	(1,302)
Inter-bank transaction fees	**(342)**	(341)
Others	**(618)**	(381)
Total	**(2,500)**	(2,024)
Net fee and commission income	**86,994**	66,132

8 NET TRADING GAIN

	2011	2010
Debt securities	**(89)**	(11)
Derivatives	**1,102**	1,587
Equity investments	**(2,019)**	1,232
Others	**1,394**	701
Total	**388**	3,509

For the year ended 31 December 2011, trading loss related to financial assets designated at fair value through profit or loss of the Group amounted to RMB1,547 million (2010: gain RMB1,017 million). Trading gain related to financial liabilities designated at fair value through profit or loss of the Group amounted to RMB2,011 million (2010: loss RMB807 million).

9 DIVIDEND INCOME

	2011	2010
Dividend income from listed trading equity investments	**46**	29
Dividend income from available-for-sale equity investments		
– Listed	**26**	83
– Unlisted	**86**	116
Total	**158**	228

(Expressed in millions of RMB, unless otherwise stated)

10 NET GAIN ARISING FROM INVESTMENT SECURITIES

	2011	2010
Net gain on sale of available-for-sale financial assets	**813**	1,103
Net revaluation gain reclassified from other comprehensive income on disposal	**810**	735
Net gain on sale of held-to-maturity investments	**133**	65
Total	**1,756**	1,903

11 OTHER OPERATING INCOME, NET

	2011	2010
Net foreign exchange gain/(loss)	**1,451**	(611)
Net gain on disposal of fixed assets	**489**	455
Net gain on disposal of repossessed assets	**172**	140
Others	**3,423**	2,524
Total	**5,535**	2,508

Net foreign exchange gain or loss includes gains and losses in connection with the translation of foreign currency denominated monetary assets and liabilities, and net realised and unrealised gains and losses on foreign exchange derivatives (including those foreign exchange swaps, foreign exchange options and cross currency swaps entered into in order to economically hedge long positions in foreign currency assets).

12 OPERATING EXPENSES

	2011	2010
Staff costs		
– Salaries, bonuses, allowances and subsidies	**49,703**	42,652
– Defined contribution retirement schemes	**8,495**	7,206
– Other social insurance and welfare	**6,581**	5,311
– Housing funds	**3,989**	3,409
– Union running costs and employee education costs	**2,013**	1,695
– Supplementary retirement benefits	**387**	432
– Early retirement expenses	**210**	685
– Compensation to employees for termination of employment relationship	**10**	19
	71,388	61,409
Premises and equipment expenses		
– Depreciation charges	**10,397**	9,855
– Rent and property management expenses	**5,177**	4,578
– Maintenance	**2,149**	1,673
– Utilities	**1,643**	1,545
– Others	**1,031**	879
	20,397	18,530
Business taxes and surcharges	**24,229**	18,364
Amortisation expenses	**2,100**	1,972
Audit fees	**153**	148
Other general and administrative expenses	**26,270**	20,943
Total	**144,537**	121,366

(Expressed in millions of RMB, unless otherwise stated)

13 IMPAIRMENT LOSSES

	2011	2010
Loans and advances to customers		
– Additions	**42,628**	38,425
– Releases	**(10,225)**	(12,784)
Available-for-sale debt securities	**1,106**	139
Available-for-sale equity investments	**24**	1,678
Held-to-maturity investments	**(15)**	(381)
Debt securities classified as receivables	**495**	24
Fixed assets	**1**	2
Others	**1,769**	2,189
Total	**35,783**	29,292

14 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The aggregate of the emoluments before individual income tax in respect of the directors and supervisors who held office during the year is as follows:

	2011				
	Fees RMB'000	Remuneration paid RMB'000	Contributions to defined contribution retirement schemes RMB'000	Other benefits in kind (note (vi)) RMB'000	Total (note (i)) RMB'000
Executive directors					
Wang Hongzhang (note (ii))	–	–	–	–	–
Zhang Jianguo (note (vii))	–	668	30	303	1,001
Chen Zuofu (note (vii))	–	589	30	257	876
Zhu Xiaohuang (note (ii)&(vii))	–	589	30	257	876
Non-executive directors					
Wang Yong (note (iii))	–	–	–	–	–
Zhu Zhenmin (note (ii)&(iii))	–	–	–	–	–
Li Xiaoling (note (iii))	–	–	–	–	–
Lu Xiaoma (note (ii)&(iii))	–	–	–	–	–
Chen Yuanling (note (ii)&(iii))	–	–	–	–	–
Dong Shi (note (ii)&(iii))	–	–	–	–	–
Independent non-executive directors					
Lord Peter Levene	360	–	–	–	360
Yam Chi Kwong, Joseph (note (ii))	380	–	–	–	380
Dame Jenny Shipley	432	–	–	–	432
Zhao Xijun (note (ii))	410	–	–	–	410
Wong Kai-Man	440	–	–	–	440
Supervisors					
Zhang Furong (note (ii)&(vii))	–	651	30	303	984
Liu Jin (note (vii))	–	432	30	219	681
Song Fengming (note (ii))	360	–	–	–	360
Zhang Huajian (note (ii), (v)&(vii))	–	158	10	72	240
Jin Panshi (note (ii))	50	–	–	–	50
Li Weiping (note (ii)&(v))	50	–	–	–	50
Huang Shuping (note (ii)&(v))	50	–	–	–	50
Guo Feng	330	–	–	–	330
Dai Deming	350	–	–	–	350

(Expressed in millions of RMB, unless otherwise stated)

14 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

	2011				
	Fees RMB'000	Remuneration paid RMB'000	Contributions to defined contribution retirement schemes RMB'000	Other benefits in kind (note (vi)) RMB'000	Total (note (i)) RMB'000
Former executive director					
Guo Shuqing (note (ii)&(vii))	–	575	25	253	853
Former non-executive directors					
Wang Shumin (note (ii)&(iii))	–	–	–	–	–
Sue Yang (note (ii)&(iv))	325	–	–	–	325
Former independent non-executive directors					
Elaine La Roche (note (ii))	220	–	–	–	220
	3,757	3,662	185	1,664	9,268

	2010						
	Basic annual salaries RMB'000	Annual performance bonus RMB'000	Allowance RMB'000	Welfare RMB'000	Total (before tax) (note (viii)) RMB'000	Including: deferral payment RMB'000	The actual payment in 2010 (before tax) RMB'000
Executive directors							
Guo Shuqing (note (ii))	427	1,080	–	319	1,826	540	1,286
Zhang Jianguo	385	1,062	–	319	1,766	531	1,235
Chen Zuofu	363	1,002	–	276	1,641	501	1,140
Zhu Xiaohuang (note (ii))	363	1,002	–	276	1,641	501	1,140
Non-executive directors							
Wang Yong (note (iii))	–	–	–	–	–	–	–
Wang Shumin (note (ii)&(iii))	–	–	–	–	–	–	–
Zhu Zhenmin (note (ii)&(iii))	–	–	–	–	–	–	–
Li Xiaoling (note (iii))	–	–	–	–	–	–	–
Sue Yang (note (ii)&(iv))	–	–	163	–	163	–	163
Lu Xiaoma (note (ii)&(iii))	–	–	–	–	–	–	–
Chen Yuanling (note (ii)&(iii))	–	–	–	–	–	–	–
Independent non-executive directors							
Lord Peter Levene	–	–	360	–	360	–	360
Yam Chi Kwong, Joseph (note (ii))	–	–	158	–	158	–	158
Dame Jenny Shipley	–	–	390	–	390	–	390
Elaine La Roche (note (ii))	–	–	425	–	425	–	425
Zhao Xijun (note (ii))	–	–	171	–	171	–	171
Wong Kai-Man	–	–	415	–	415	–	415

(Expressed in millions of RMB, unless otherwise stated)

14 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

	2010						
	Basic annual salaries	Annual performance bonus	Allowance	Welfare	Total (before tax) (note (viii))	Including: deferral payment	The actual payment in 2010 (before tax)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Supervisors							
Zhang Furong (note (ii))	157	432	–	139	728	216	512
Liu Jin	278	766	–	237	1,281	383	898
Song Fengming (note (ii))	–	–	135	–	135	–	135
Jin Panshi (note (ii))	139	383	13	114	649	191	458
Li Weiping (note (ii)&(v))	–	–	13	–	13	–	13
Huang Shuping (note (ii)&(v))	–	–	13	–	13	–	13
Guo Feng	–	–	250	–	250	–	250
Dai Deming	–	–	270	–	270	–	270
Former non-executive directors							
Wang Yonggang (note (ii)&(iii))	–	–	–	–	–	–	–
Liu Xianghui (note (ii)&(iii))	–	–	–	–	–	–	–
Zhang Xiangdong (note (ii)&(iii))	–	–	–	–	–	–	–
Gregory L. Curl (note (ii)&(iv))	–	–	195	–	195	–	195
Former independent non-executive directors							
Song Fengming (note (ii))	–	–	220	–	220	–	220
Tse Hau Yin, Aloysius (note (ii))	–	–	220	–	220	–	220
Former supervisors							
Xie Duyang (note (ii))	282	779	–	236	1,297	389	908
Cheng Meifen (note (ii)&(v))	–	–	13	–	13	–	13
Sun Zhixin (note (ii)&(v))	–	–	13	–	13	–	13
Shuai Jinkun (note (ii)&(v))	–	–	13	–	13	–	13
	2,394	6,506	3,450	1,916	14,266	3,252	11,014

Notes:

(i) The amounts of emoluments for the year ended 31 December 2011 in respect of the services rendered by the directors and supervisors are subject to the approval of the Bank's shareholders in 2011 Annual General Meeting.

(ii) Upon election at the first extraordinary general meeting and Board meeting of the Bank in 2012 and approval of the CBRC, Mr, Wang Hongzhang commenced his position as the chairman and executive director of the Bank since January 2012.

Upon the election at the 2009 Annual General Meeting of the Bank and the approval of the CBRC, Mr. Zhu Xiaohuang commenced his position as an executive director of the Bank from July 2010; Mr. Zhu Zhenmin, Ms. Sue Yang, Mr. Lu Xiaoma and Ms. Chen Yuanling commenced their positions as non-executive directors of the Bank from August 2010; and Mr. Yam Chi Kwong, Joseph and Mr. Zhao Xijun commenced their positions as independent non-executive directors of the Bank from August 2010.

Upon election at the 2010 Annual General Meeting and approval of the CBRC, Mr. Dong Shi commenced his position as non-executive director of the Bank since September 2011.

Mr. Guo Shuqing ceased to serve as the chairman and executive director of the Bank due to the arrangement of the national finance work since 28 October 2011.

Upon the next day of the conclusion of the 2010 Annual General Meeting of the Bank, Ms. Wang Shumin ceased to serve as non-executive director of the Bank due to her personal variation of work.

Ms. Sue Yang ceased to serve as non-executive director of the Bank due to personal reasons since 11 October 2011.

Upon the conclusion of the 2010 Annual General Meeting of the Bank, Ms. Elaine La Roche ceased to serve as independent non-executive director of the Bank due to the expiration of her term of office.

Upon the conclusion of the 2009 Annual General Meeting of the Bank, Mr. Wang Yonggang, Mr. Liu Xianghui, Mr. Zhang Xiangdong, Mr. Gregory L. Curl., Mr. Song Fengming and Mr. Tse Hau Yin, Aloysius ceased to serve as directors of the Bank.

Upon the election at the first Extraordinary General Meeting in 2010, Mr. Zhang Furong commenced his position as a shareholder representative supervisor. Upon election at the sixth meeting of the board of supervisors in 2010, Mr. Zhang Furong was elected the chairman of the board of supervisors.

Upon the election at the 2009 Annual General Meeting of the Bank, Mr. Song Fengming commenced his position as a shareholder representative supervisor of the Bank; and at the second joint session of the second staff representative conference of the Bank, Mr. Jin Panshi, Mr. Li Weiping and Ms. Huang Shuping were elected as the employee representative supervisors the Bank.

Upon election at the first extraordinary general meeting of the Bank in 2011, Mr. Zhang Huajian commenced his position as shareholder representative supervisor of the Bank.

In accordance with relevant regulations and due to his age, Mr. Xie Duyang resigned on 15 September 2010 from the positions of supervisor and chairman of the board of supervisors of the Bank.

Upon the conclusion of the 2009 Annual General Meeting of the Bank, Ms. Cheng Meifen, Mr. Sun Zhixin and Mr. Shuai Jinkun ceased to serve as supervisors of the Bank; Mr. Jin Panshi ceased to serve as the shareholder representative supervisor of the Bank.

(Expressed in millions of RMB, unless otherwise stated)

14 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

Notes: (continued)

(iii) The Bank does not need to pay the emoluments of non-executive directors appointed by Huijin for the services rendered in 2011 and 2010.

(iv) The amount will be payable to Bank of America Corporation ("BOA") for their services as director after the approval of the Bank's shareholders as mentioned in note (i).

(v) The amounts only included fees for their services as supervisors.

(vi) Other benefits in kind included the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included the Bank's contribution to its own corporate annuity plan (which was set up in accordance with the relevant policies issued by the government authorities) and supplementary medical insurance.

None of the directors and supervisors received any inducements or compensation for loss of office, or waived any emoluments during the years ended 31 December 2010 and 2011.

(vii) The total compensation package for these directors and supervisors for the year ended 31 December 2011 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's and the Bank's financial statements for the year ended 31 December 2011. The final compensation will be disclosed in a separate announcement when determined.

(viii) The total compensation package for certain directors and supervisors for the year ended 31 December 2010 had not been finalised in accordance with regulations of the PRC relevant authorities till the date that the 2010 financial statements were announced. The aforesaid total compensation package for the directors and supervisors for the year ended 31 December 2010 was the final amount and the Bank made the relevant supplementary announcement on 18 May 2011.

15 INDIVIDUALS WITH HIGHEST EMOLUMENTS

None of the five individuals with the highest emoluments are directors or supervisors whose emoluments are disclosed in Note 14. The aggregate of the emoluments before individual income tax in respect of the five highest paid individuals during the year is as follows:

	2011 RMB'000	2010 RMB'000
Salaries and allowance	**12,781**	5,137
Variable compensation	**32,452**	43,149
Contributions to defined contribution retirement schemes	**902**	425
Other benefit in kind	**186**	85
	46,321	48,796

The number of these individuals whose emoluments before individual income tax are within the following bands is set out below.

	2011	2010
RMB7,000,001 – RMB7,500,000	**–**	1
RMB7,500,001 – RMB8,000,000	**–**	1
RMB8,000,001 – RMB8,500,000	**1**	1
RMB8,500,001 – RMB9,000,000	**1**	–
RMB9,000,001 – RMB9,500,000	**1**	1
RMB9,500,001 – RMB10,000,000	**1**	–
RMB10,000,001 – RMB10,500,000	**1**	–
RMB16,000,001 – RMB16,500,000	**–**	1

None of these individuals received any inducements, or compensation for loss of office, or waived any emoluments during the year ended 31 December 2011 and 2010.

16 INCOME TAX EXPENSE

(1) Income tax expense

	2011	2010
Current tax	**55,325**	44,846
– Mainland China	**54,812**	44,386
– Hong Kong	**401**	374
– Other countries and regions	**112**	86
Adjustments for prior years	**(2,277)**	196
Deferred tax	**(3,380)**	(4,917)
Total	**49,668**	40,125

The provisions of income taxes for Mainland China and Hong Kong are calculated at 25% and 16.5% of the estimated taxable income from Mainland China and Hong Kong operations for the year respectively. Taxation for other overseas operations is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

(Expressed in millions of RMB, unless otherwise stated)

16 INCOME TAX EXPENSE (CONTINUED)

(2) Reconciliation between income tax expense and accounting profit

	2011	2010
Profit before tax	**219,107**	175,156
Income tax calculated at statutory tax rate	**54,777**	43,789
Non-deductible expenses		
– Staff costs	**586**	365
– Others	**678**	632
	1,264	997
Non-taxable income		
– Interest income from PRC government bonds	**(6,606)**	(4,701)
– Others	**(260)**	(156)
	(6,866)	(4,857)
Total	**49,175**	39,929
Adjustments on income tax for prior years which affect profit or loss	**493**	196
Income tax expense	**49,668**	40,125

17 EARNINGS PER SHARE

Basic earnings per share for the year ended 31 December 2011 and 2010 have been computed by dividing the net profit attributable to equity shareholders of the Bank by the weighted average number of ordinary shares outstanding during the years. There was no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the year ended 31 December 2011 and 2010.

	Note	2011	2010
Net profit attributable to shareholders of the Bank		**169,258**	134,844
Weighted average number of shares after Rights Issue (in million shares)	(a)	**250,011**	240,977
Basic and diluted earnings per share attributable to shareholders of the Bank after Rights Issue (in RMB Yuan)		**0.68**	0.56

(a) Weighted average number of ordinary shares after Rights Issue (in million shares)

	2011	2010
Issued ordinary shares	**250,011**	233,689
Weighted average number of shares for Rights Issue		7,288
Weighted average number of shares in issue	**250,011**	240,977

(Expressed in millions of RMB, unless otherwise stated)

18 CASH AND DEPOSITS WITH CENTRAL BANKS

		Group		Bank	
	Note	2011	2010	2011	2010
Cash		**58,308**	48,201	**58,061**	47,960
Deposits with central banks					
– Statutory deposit reserves	(1)	**1,982,150**	1,611,442	**1,980,915**	1,610,924
– Surplus deposit reserves	(2)	**324,568**	170,938	**319,734**	165,535
– Fiscal deposits		**14,783**	17,448	**14,783**	17,448
Subtotal		**2,321,501**	1,799,828	**2,315,432**	1,793,907
Total		**2,379,809**	1,848,029	**2,373,493**	1,841,867

Notes:

(1) The Group places statutory deposit reserves with the People's Bank of China ("PBOC") and overseas central banks where it has operations. The statutory deposit reserves are not available for use in the Group's daily business.

As at the end of the reporting period, the statutory deposit reserve rates in Mainland China of the Bank were as follows:

	2011	2010
Reserve rate for RMB deposits	**21.0%**	19.0%
Reserve rate for foreign currency deposits	**5.0%**	5.0%

The statutory RMB deposit reserve rates applicable to domestic subsidiaries of the Group are determined by the PBOC.

The amounts of statutory deposit reserves placed with the central banks of overseas countries are determined by local jurisdictions.

(2) The surplus deposit reserve maintained with the PBOC is mainly for the purpose of clearing.

19 DEPOSITS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	Group		Bank	
	2011	2010	2011	2010
Banks	**274,228**	77,838	**277,427**	77,772
Non-bank financial institutions	**2,533**	491	**2,443**	437
Gross balances	**276,761**	78,329	**279,870**	78,209
Allowances for impairment losses (Note 37)	**(9)**	(11)	**(9)**	(11)
Net balances	**276,752**	78,318	**279,861**	78,198

(2) Analysed by geographical sectors

	Group		Bank	
	2011	2010	2011	2010
Mainland China	**252,409**	62,660	**257,902**	66,033
Overseas	**24,352**	15,669	**21,968**	12,176
Gross balances	**276,761**	78,329	**279,870**	78,209
Allowances for impairment losses (Note 37)	**(9)**	(11)	**(9)**	(11)
Net balances	**276,752**	78,318	**279,861**	78,198

(Expressed in millions of RMB, unless otherwise stated)

20 PLACEMENTS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	Group		Bank	
	2011	2010	**2011**	2010
Banks	**77,946**	61,039	**76,380**	63,219
Non-bank financial institutions	**31,159**	3,007	**34,218**	5,393
Gross balances	**109,105**	64,046	**110,598**	68,612
Allowances for impairment losses (Note 37)	**(65)**	(84)	**(65)**	(84)
Net balances	**109,040**	63,962	**110,533**	68,528

(2) Analysed by geographical sectors

	Group		Bank	
	2011	2010	**2011**	2010
Mainland China	**86,244**	14,600	**87,844**	14,600
Overseas	**22,861**	49,446	**22,754**	54,012
Gross balances	**109,105**	64,046	**110,598**	68,612
Allowances for impairment losses (Note 37)	**(65)**	(84)	**(65)**	(84)
Net balances	**109,040**	63,962	**110,533**	68,528

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

		Group		Bank	
	Note	**2011**	2010	**2011**	2010
Held for trading purpose	(1)				
– Debt securities		**8,715**	3,044	**8,715**	3,044
– Equity instruments		**515**	1,191	**–**	–
– Funds		**34**	350	**–**	–
		9,264	4,585	**8,715**	3,044
Designated at fair value through profit or loss	(2)				
– Debt securities		**5,660**	4,816	**–**	–
– Equity instruments		**8,172**	7,943	**–**	–
		13,832	12,759	**–**	–
Total		**23,096**	17,344	**8,715**	3,044

(Expressed in millions of RMB, unless otherwise stated)

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(1) Held for trading purpose

(a) Debt securities

	Group		Bank	
	2011	2010	**2011**	2010
Government	**950**	618	**950**	618
Central banks	**2,830**	1,093	**2,830**	1,093
Policy banks	**752**	110	**752**	110
Banks and non-bank financial institutions	**1,369**	1,064	**1,369**	1,064
Others	**2,814**	159	**2,814**	159
Total	**8,715**	3,044	**8,715**	3,044
Listed outside Hong Kong	**–**	51	**–**	51
Unlisted	**8,715**	2,993	**8,715**	2,993
Total	**8,715**	3,044	**8,715**	3,044

(b) Equity instruments and Funds

	Group	
	2011	2010
Banks and non-bank financial institutions	**–**	4
Others	**549**	1,537
Total	**549**	1,541
Listed	**549**	1,541
– of which in Hong Kong	**488**	1,151

(2) Designated at fair value through profit or loss

(a) Debt securities

	Group	
	2011	2010
Policy banks	**264**	281
Banks and non-bank financial institutions	**633**	1,184
Others	**4,763**	3,351
Total	**5,660**	4,816
Listed	**280**	535
– of which in Hong Kong	**31**	411
Unlisted	**5,380**	4,281
Total	**5,660**	4,816

(Expressed in millions of RMB, unless otherwise stated)

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(2) Designated at fair value through profit or loss (continued)

(b) Equity instruments

	Group	
	2011	2010
Banks and non-bank financial institutions	**618**	–
Others	**7,554**	7,943
Total	**8,172**	7,943
Listed	**1,961**	2,379
– of which in Hong Kong	**1,141**	2,003
Unlisted	**6,211**	5,564
Total	**8,172**	7,943

There was no significant limitation on the ability of the Group and the Bank to dispose of financial assets at fair value through profit or loss.

22 DERIVATIVES

(1) Analysed by type of contract

Group

	2011			2010		
	Notional amounts	**Assets**	**Liabilities**	Notional amounts	Assets	Liabilities
Interest rate contracts	**183,660**	**4,252**	**4,434**	181,130	3,493	3,706
Exchange rate contracts	**740,737**	**9,344**	**8,480**	619,449	7,054	5,414
Other contracts	**5,011**	**531**	**396**	3,875	677	238
Total	**929,408**	**14,127**	**13,310**	804,454	11,224	9,358

Bank

	2011			2010		
	Notional amounts	**Assets**	**Liabilities**	Notional amounts	Assets	Liabilities
Interest rate contracts	**172,652**	**4,203**	**4,356**	172,667	3,512	3,682
Exchange rate contracts	**631,047**	**8,851**	**7,941**	550,524	6,631	5,042
Other contracts	**3,137**	**19**	**57**	1,625	10	10
Total	**806,836**	**13,073**	**12,354**	724,816	10,153	8,734

(2) Analysed by credit risk-weighted amount

	Group		Bank	
	2011	2010	**2011**	2010
Interest rate contracts	**4,004**	3,491	**3,979**	3,485
Exchange rate contracts	**11,900**	7,868	**10,909**	7,195
Other contracts	**685**	830	**49**	22
Total	**16,589**	12,189	**14,937**	10,702

The notional amounts of derivatives only represent the unsettled transaction volume as at the end of the reporting period. They do not represent the amounts at risk. The credit risk-weighted amount was computed in accordance with the rules set out by the CBRC and depended on the status of the counterparty and the maturity characteristics. It included customer driven transactions, which were hedged back to back.

(Expressed in millions of RMB, unless otherwise stated)

23 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	Group		Bank	
	2011	2010	**2011**	2010
Securities				
– Government bonds	**63,787**	98,288	**63,787**	98,288
– Bills issued by the PBOC	**14,810**	2,490	**14,810**	2,490
– Debt securities issued by banks and non-bank financial institutions	**107,467**	13,541	**107,467**	13,541
Subtotal	**186,064**	114,319	**186,064**	114,319
Discounted bills	**5,811**	44,689	**5,811**	44,689
Loans and advances to customers	**8,170**	22,067	**8,170**	22,067
Total and net balances	**200,045**	181,075	**200,045**	181,075

24 INTEREST RECEIVABLE

	Group		Bank	
	2011	2010	**2011**	2010
Deposits with central banks	**919**	757	**919**	757
Deposits with banks and non-bank financial institutions	**1,055**	176	**1,070**	176
Financial assets held under resale agreements	**580**	704	**580**	704
Loans and advances to customers	**16,674**	11,575	**16,334**	11,442
Debt securities	**37,060**	30,703	**36,978**	30,609
Others	**489**	174	**540**	174
Gross balances	**56,777**	44,089	**56,421**	43,862
Allowances for impairment losses (Note 37)	**(1)**	(1)	**(1)**	(1)
Net balances	**56,776**	44,088	**56,420**	43,861

25 LOANS AND ADVANCES TO CUSTOMERS

(1) Analysed by nature

	Group		Bank	
	2011	2010	**2011**	2010
Corporate loans and advances				
– Loans	**4,636,821**	4,111,613	**4,563,855**	4,061,698
– Finance leases	**36,095**	23,382	**–**	–
	4,672,916	4,134,995	**4,563,855**	4,061,698
Personal loans and advances				
– Residential mortgages	**1,330,198**	1,105,431	**1,312,974**	1,088,603
– Personal consumer loans	**79,515**	81,118	**76,692**	78,844
– Personal business loans	**80,075**	48,659	**78,716**	48,185
– Credit cards	**101,694**	59,562	**97,553**	55,440
– Others	**114,140**	96,187	**111,975**	94,612
	1,705,622	1,390,957	**1,677,910**	1,365,684
Discounted bills	**117,873**	143,176	**117,781**	143,158
Gross loans and advances to customers	**6,496,411**	5,669,128	**6,359,546**	5,570,540
Allowances for impairment losses (Note 37)	**(171,217)**	(143,102)	**(170,183)**	(142,261)
– Individual assessment	**(38,109)**	(37,352)	**(38,020)**	(37,278)
– Collective assessment	**(133,108)**	(105,750)	**(132,163)**	(104,983)
Net loans and advances to customers	**6,325,194**	5,526,026	**6,189,363**	5,428,279

(Expressed in millions of RMB, unless otherwise stated)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(2) Analysed by assessment method of allowances for impairment losses

	(note (a)) Loans and advances for which collectively assessed	(note (b)) Impaired loans and advances		Total
		for which allowances are collectively assessed	for which allowances are individually assessed	
Group				
As at 31 December 2011				
Gross loans and advances to customers	**6,425,496**	**5,290**	**65,625**	**6,496,411**
Allowances for impairment losses	**(129,832)**	**(3,276)**	**(38,109)**	**(171,217)**
Net loans and advances to customers	**6,295,664**	**2,014**	**27,516**	**6,325,194**
As at 31 December 2010				
Gross loans and advances to customers	5,604,416	6,054	58,658	5,669,128
Allowances for impairment losses	(102,093)	(3,657)	(37,352)	(143,102)
Net loans and advances to customers	5,502,323	2,397	21,306	5,526,026
Bank				
As at 31 December 2011				
Gross loans and advances to customers	**6,288,878**	**5,178**	**65,490**	**6,359,546**
Allowances for impairment losses	**(128,898)**	**(3,265)**	**(38,020)**	**(170,183)**
Net loans and advances to customers	**6,159,980**	**1,913**	**27,470**	**6,189,363**
As at 31 December 2010				
Gross loans and advances to customers	5,506,036	5,920	58,584	5,570,540
Allowances for impairment losses	(101,335)	(3,648)	(37,278)	(142,261)
Net loans and advances to customers	5,404,701	2,272	21,306	5,428,279

(a) Loans and advances assessed on a collective basis for impairment are those graded normal or special mention.

(b) Impaired loans and advances include loans for which objective evidence of impairment exists and assessed:

- individually (including corporate loans and advances which are graded substandard, doubtful or loss); or
- collectively; these are portfolios of homogeneous loans (including personal loans and advances which are graded substandard, doubtful or loss).

The proportion of impaired loans and advances of the Group to gross loans and advances as at 31 December 2011 is 1.09% (2010: 1.14%).

The proportion of impaired loans and advances of the Bank to gross loans and advances as at 31 December 2011 is 1.11% (2010: 1.16%).

(c) The definitions of the loan classifications stated in notes (a) and (b) above are set out in Note 62(1).

(Expressed in millions of RMB, unless otherwise stated)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(3) Movements of allowances for impairment losses

Group

	Note	2011			
		Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances which are collectively assessed	Allowances for impaired loans and advances which are individually assessed	Total
As at 1 January		**102,093**	**3,657**	**37,352**	**143,102**
Charge for the year		**27,806**	**217**	**14,605**	**42,628**
Release during the year		**–**	**–**	**(10,225)**	**(10,225)**
Unwinding of discount		**–**	**–**	**(1,413)**	**(1,413)**
Transfers out	(a)	**(67)**	**(8)**	**(718)**	**(793)**
Write-offs		**–**	**(676)**	**(2,654)**	**(3,330)**
Recoveries		**–**	**86**	**1,162**	**1,248**
As at 31 December		**129,832**	**3,276**	**38,109**	**171,217**

	Note	2010			
		Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances which are collectively assessed	Allowances for impaired loans and advances which are individually assessed	Total
As at 1 January		75,628	4,838	46,360	126,826
Charge for the year		26,465	103	11,857	38,425
Release during the year		–	(261)	(12,523)	(12,784)
Unwinding of discount		–	–	(799)	(799)
Transfers out	(a)	–	(18)	(383)	(401)
Write-offs		–	(1,084)	(8,193)	(9,277)
Recoveries		–	79	1,033	1,112
As at 31 December		102,093	3,657	37,352	143,102

Bank

	Note	2011			
		Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances which are collectively assessed	Allowances for impaired loans and advances which are individually assessed	Total
As at 1 January		**101,335**	**3,648**	**37,278**	**142,261**
Charge for the year		**27,630**	**144**	**14,567**	**42,341**
Release during the year		**–**	**–**	**(10,220)**	**(10,220)**
Unwinding of discount		**–**	**–**	**(1,413)**	**(1,413)**
Transfers out	(a)	**(67)**	**(8)**	**(698)**	**(773)**
Write-offs		**–**	**(582)**	**(2,653)**	**(3,235)**
Recoveries		**–**	**63**	**1,159**	**1,222**
As at 31 December		**128,898**	**3,265**	**38,020**	**170,183**

(Expressed in millions of RMB, unless otherwise stated)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(3) Movements of allowances for impairment losses (continued)

Bank (continued)

		2010			
			Allowances for impaired loans and advances		
	Note	Allowances for loans and advances which are collectively assessed	which are collectively assessed	which are individually assessed	Total
As at 1 January		74,971	4,832	46,308	126,111
Charge for the year		26,364	–	11,817	38,181
Release during the year		–	(261)	(12,520)	(12,781)
Unwinding of discount		–	–	(799)	(799)
Transfers out	(a)	–	(14)	(366)	(380)
Write-offs		–	(966)	(8,193)	(9,159)
Recoveries		–	57	1,031	1,088
As at 31 December		101,335	3,648	37,278	142,261

(a) Transfers out include the transfer of allowances for impairment losses to repossessed assets.

(4) Overdue loans analysed by overdue period

Group

	2011				
	Overdue within three months	**Overdue between three months and one year**	**Overdue between one year and three years**	**Overdue over three years**	**Total**
Unsecured loans	**2,515**	**603**	**938**	**1,209**	**5,265**
Guaranteed loans	**2,732**	**2,958**	**2,781**	**4,558**	**13,029**
Loans secured by tangible assets other than monetary assets	**15,585**	**5,585**	**7,525**	**6,989**	**35,684**
Loans secured by monetary assets	**983**	**593**	**641**	**797**	**3,014**
Total	**21,815**	**9,739**	**11,885**	**13,553**	**56,992**
As a percentage of gross loans and advances to customers	**0.34%**	**0.15%**	**0.18%**	**0.21%**	**0.88%**

	2010				
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	2,141	529	1,486	1,081	5,237
Guaranteed loans	943	833	5,275	4,243	11,294
Loans secured by tangible assets other than monetary assets	15,095	3,926	11,141	5,842	36,004
Loans secured by monetary assets	428	1,307	1,164	821	3,720
Total	18,607	6,595	19,066	11,987	56,255
As a percentage of gross loans and advances to customers	0.33%	0.12%	0.34%	0.20%	0.99%

(Expressed in millions of RMB, unless otherwise stated)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(4) Overdue loans analysed by overdue period (continued)

Bank

	2011				
	Overdue within three months	**Overdue between three months and one year**	**Overdue between one year and three years**	**Overdue over three years**	**Total**
Unsecured loans	**2,444**	**595**	**896**	**1,203**	**5,138**
Guaranteed loans	**2,731**	**2,892**	**2,781**	**4,558**	**12,962**
Loans secured by tangible assets other than monetary assets	**15,302**	**5,585**	**7,525**	**6,987**	**35,399**
Loans secured by monetary assets	**983**	**593**	**641**	**797**	**3,014**
Total	**21,460**	**9,665**	**11,843**	**13,545**	**56,513**
As a percentage of gross loans and advances to customers	**0.34%**	**0.15%**	**0.19%**	**0.21%**	**0.89%**

	2010				
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	2,068	520	1,436	1,080	5,104
Guaranteed loans	942	833	5,275	4,243	11,293
Loans secured by tangible assets other than monetary assets	14,889	3,925	11,141	5,840	35,795
Loans secured by monetary assets	428	1,307	1,164	821	3,720
Total	18,327	6,585	19,016	11,984	55,912
As a percentage of gross loans and advances to customers	0.33%	0.11%	0.34%	0.22%	1.00%

Overdue loans represent loans of which the whole or part of the principal or interest are overdue for 1 day or more.

(Expressed in millions of RMB, unless otherwise stated)

26 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Note	Group		Bank	
		2011	2010	**2011**	2010
Debt securities	(1)	**661,036**	676,840	**651,585**	675,277
Equity instruments	(2)	**13,764**	19,837	**11,998**	17,754
Funds	(2)	**258**	171	**–**	–
Total		**675,058**	696,848	**663,583**	693,031

(1) Debt securities

	Group		Bank	
	2011	2010	**2011**	2010
Government	**84,591**	87,556	**84,015**	87,226
Central banks	**144,830**	284,706	**141,810**	284,029
Policy banks	**59,175**	31,770	**59,165**	31,760
Banks and non-bank financial institutions	**156,185**	110,678	**151,626**	110,552
Public sector entities	**196**	1,458	**196**	1,458
Other enterprises	**216,059**	160,672	**214,773**	160,252
Total	**661,036**	676,840	**651,585**	675,277
Listed	**18,666**	23,012	**18,312**	22,576
– of which in Hong Kong	**1,906**	2,287	**1,906**	2,254
Unlisted	**642,370**	653,828	**633,273**	652,701
Total	**661,036**	676,840	**651,585**	675,277

(2) Equity instruments and funds

	Group		Bank	
	2011	2010	**2011**	2010
Debt equity swap ("DES") investments	**10,607**	16,467	**10,607**	16,467
Other equity instruments	**3,157**	3,370	**1,391**	1,287
Funds	**258**	171	**–**	–
Total	**14,022**	20,008	**11,998**	17,754
Listed	**10,251**	16,550	**10,064**	15,953
– of which in Hong Kong	**632**	1,011	**617**	740
Unlisted	**3,771**	3,458	**1,934**	1,801
Total	**14,022**	20,008	**11,998**	17,754

Pursuant to the DES arrangement by the PRC government in 1999, the Group obtained equity interests of certain entities in lieu of repayments of loans granted to them. According to relevant requirements, the Group is prohibited from being involved in management of the operations of these entities. In substance, the Group does not have any control or significant influence over these entities.

(Expressed in millions of RMB, unless otherwise stated)

27 HELD-TO-MATURITY INVESTMENTS

	Group		Bank	
	2011	2010	**2011**	2010
Government	**765,747**	673,620	**764,969**	673,490
Central banks	**270,122**	668,407	**270,122**	668,407
Policy banks	**225,576**	151,743	**225,576**	151,743
Banks and non-bank financial institutions	**475,703**	385,708	**475,504**	385,708
Public sector entities	**–**	198	**–**	198
Other enterprises	**10,415**	9,384	**10,165**	9,384
Gross balances	**1,747,563**	1,889,060	**1,746,336**	1,888,930
Allowances for impairment losses (Note 37)	**(3,994)**	(5,003)	**(3,994)**	(5,003)
Net balances	**1,743,569**	1,884,057	**1,742,342**	1,883,927
Listed outside Hong Kong	**4,126**	4,684	**4,115**	4,684
Unlisted	**1,739,443**	1,879,373	**1,738,227**	1,879,243
Total	**1,743,569**	1,884,057	**1,742,342**	1,883,927
Market value of listed securities	**4,627**	5,341	**4,616**	5,341

28 DEBT SECURITIES CLASSIFIED AS RECEIVABLES

All debt securities classified as receivables are unlisted and issued by the following entities in Mainland China:

		Group		Bank	
	Note	**2011**	2010	**2011**	2010
Government					
– Special government bond	(1)	**49,200**	49,200	**49,200**	49,200
– Others		**742**	530	**530**	530
The PBOC	(2)	**17,944**	593	**17,944**	593
Banks and non-bank financial institutions		**82,336**	48,925	**82,286**	48,925
China Cinda Assets Management Co., Ltd. (“Cinda”)	(3)	**131,761**	206,261	**131,761**	206,261
Other enterprises		**18,659**	1,359	**18,659**	1,359
Gross balances		**300,642**	306,868	**300,380**	306,868
Allowance for impairment losses (Note 37)		**(615)**	(120)	**(615)**	(120)
Net balances		**300,027**	306,748	**299,765**	306,748

(1) This represents a non-negotiable bond with a nominal value of RMB49,200 million issued by the Ministry of Finance (“MOF”) in 1998 to strengthen the capital base of CCB. The bond matures in 2028 and bears a fixed interest rate of 2.25% per annum. The PBOC approved the Bank’s use of the special government bond as eligible assets equivalent to the surplus deposit reserve at PBOC for clearing purpose.

(2) Debt securities issued by the PBOC mainly refer to PBOC bills issued specifically to the Bank.

(3) China Cinda Assets Management Co., Ltd. (formerly known as China Cinda Asset Management Corporation) (“Cinda”) issued a bond (“Cinda Bond”) with a nominal value of RMB247 billion specifically to CCB in 1999 with a fixed coupon rate of 2.25%. Cinda Bond was extended for 10 years upon its expiry and the interest rate remained unchanged from 2009.

(Expressed in millions of RMB, unless otherwise stated)

29 INVESTMENTS IN SUBSIDIARIES

(1) Investment cost

	2011	2010
Sing Jian Development Company Limited ("SJDCL")	**383**	383
Sino-German Bausparkasse Corporation Limited ("Sino-German")	**1,502**	751
CCB Principal Asset Management Corporation Limited ("CCB Principal")	**130**	130
CCB International Group Holdings Limited ("CCBIG")	**–**	–
CCB Financial Leasing Corporation Limited ("CCBFLCL")	**3,380**	3,380
China Construction Bank (London) Limited ("CCB London")	**1,361**	1,361
Jianxin Trust Corporation Limited ("Jianxin Trust")	**3,409**	3,409
CCB Life Insurance Company Limited ("CCB Life")	**1,010**	–
Rural Banks	**775**	455
Total	**11,950**	9,869

The total amount of investment costs of rural banks consists 16 rural banks in total, which are established and controlled by the Bank in substance.

(2) Major subsidiaries of the Group are unlisted enterprises; details of the investments in subsidiaries are as follows:

Name of company	Place of incorporation	Particulars of the issued and paid up capital	Principal activities	% of ownership directly held by the Bank	% of ownership indirectly held by the Bank	% of voting rights held by the Bank
SJDCL	Hong Kong, the PRC	300 million shares of HK$1 each	Investment	100%	–	100%
Sino-German	Tianjin, the PRC	RMB2,000 million	Loan and deposit taking business	75.1%	–	75.1%
CCB Principal	Beijing, the PRC	RMB200 million	Fund management services	65%	–	65%
CCBIG	Hong Kong, the PRC	1 share of HK$1 each	Investment	100%	–	100%
CCBFLCL	Beijing, the PRC	4,500 million shares of RMB1 each	Financial leasing	75.1%	–	75.1%
CCB London	London, United Kingdom	200 million shares of US$1 each	Commercial banking	100%	–	100%
Jianxin Trust	Anhui, the PRC	RMB1,527 million	Trust business	67%	–	67%
CCB Life	Shanghai, the PRC	RMB1,180 million	Insurance	51%	–	51%
Lanhye Investment Holdings Limited	British Virgin Islands	1 share of US$1 each	Investment	–	100%	100%
CCB International (Holdings) Limited ("CCBI")	Hong Kong, the PRC	601 million shares of US$1 each	Investment	–	100%	100%
China Construction Bank (Asia) Corporation Limited ("CCB Asia")	Hong Kong, the PRC	163 million shares of HK$40 each	Commercial banking	–	100%	100%

(Expressed in millions of RMB, unless otherwise stated)

30 INTERESTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

(1) The movement of the Group's interests in associates and jointly controlled entities is as follows:

	2011	2010
As at 1 January	**1,777**	1,791
Acquisition during the year	**348**	18
Share of profits less losses	**24**	34
Cash dividend receivable	**(3)**	–
Effect of exchange difference and others	**(77)**	(66)
Total	**2,069**	1,777

(2) Details of the interests in major associate and jointly controlled entity are as follows:

Name of Company	Place of incorporation	Particulars of issued and paid up capital	Principal activity	% of ownership held	% of voting held	Total assets at year end	Total liabilities at year end	Revenue for the year	Net profit for the year
QBE Hong Kong and Shanghai Insurance Limited	Hong Kong, the PRC	78,192,220 ordinary shares of HK$1 each	Insurance	25.5%	25.5%	1,400	896	659	89
Diamond String Limited	Hong Kong, the PRC	10,000 ordinary shares of HK$1 each	Property investment	50%	50%	1,232	1,230	–	–

31 FIXED ASSETS

Group

	Bank premises	Construction in progress	Equipments	Others	Total
Cost/deemed cost					
As at 1 January 2011	**57,848**	**15,639**	**26,724**	**19,375**	**119,586**
Additions through acquisition	**–**	**–**	**10**	**52**	**62**
Additions	**3,808**	**10,150**	**5,053**	**3,158**	**22,169**
Transfer in/(out)	**4,396**	**(6,233)**	**62**	**1,775**	**–**
Disposals	**(361)**	**(623)**	**(1,774)**	**(1,127)**	**(3,885)**
As at 31 December 2011	**65,691**	**18,933**	**30,075**	**23,233**	**137,932**
Accumulated depreciation					
As at 1 January 2011	**(11,646)**	**–**	**(16,360)**	**(7,661)**	**(35,667)**
Additions through acquisition	**–**	**–**	**(8)**	**(45)**	**(53)**
Charge for the year	**(2,212)**	**–**	**(4,264)**	**(3,921)**	**(10,397)**
Disposals	**97**	**–**	**1,667**	**1,110**	**2,874**
As at 31 December 2011	**(13,761)**	**–**	**(18,965)**	**(10,517)**	**(43,243)**
Allowances for impairment losses (Note 37)					
As at 1 January 2011	**(476)**	**–**	**(3)**	**(6)**	**(485)**
Charge for the year	**–**	**–**	**–**	**(1)**	**(1)**
Disposals	**17**	**–**	**2**	**–**	**19**
As at 31 December 2011	**(459)**	**–**	**(1)**	**(7)**	**(467)**
Net carrying value					
As at 1 January 2011	**45,726**	**15,639**	**10,361**	**11,708**	**83,434**
As at 31 December 2011	**51,471**	**18,933**	**11,109**	**12,709**	**94,222**

(Expressed in millions of RMB, unless otherwise stated)

31 FIXED ASSETS (CONTINUED)

Group (continued)

	Bank premises	Construction in progress	Equipments	Others	Total
Cost/deemed cost					
As at 1 January 2010	51,305	11,349	24,030	16,351	103,035
Additions	3,506	8,940	3,928	2,505	18,879
Transfer in/(out)	3,174	(4,546)	29	1,343	–
Disposals	(137)	(104)	(1,263)	(824)	(2,328)
As at 31 December 2010	57,848	15,639	26,724	19,375	119,586
Accumulated depreciation					
As at 1 January 2010	(9,701)	–	(13,286)	(4,852)	(27,839)
Charge for the year	(2,009)	–	(4,285)	(3,561)	(9,855)
Disposals	64	–	1,211	752	2,027
As at 31 December 2010	(11,646)	–	(16,360)	(7,661)	(35,667)
Allowances for impairment losses (Note 37)					
As at 1 January 2010	(489)	(5)	(3)	(6)	(503)
Charge for the year	(2)	–	–	–	(2)
Disposals	15	5	–	–	20
As at 31 December 2010	(476)	–	(3)	(6)	(485)
Net carrying value					
As at 1 January 2010	41,115	11,344	10,741	11,493	74,693
As at 31 December 2010	45,726	15,639	10,361	11,708	83,434

Bank

	Bank premises	**Construction in progress**	**Equipments**	**Others**	**Total**
Cost/deemed cost					
As at 1 January 2011	**57,296**	**15,636**	**26,458**	**19,083**	**118,473**
Additions	**3,806**	**10,131**	**5,006**	**2,978**	**21,921**
Transfer in/(out)	**4,395**	**(6,225)**	**62**	**1,768**	**–**
Disposals	**(357)**	**(614)**	**(1,761)**	**(1,113)**	**(3,845)**
As at 31 December 2011	**65,140**	**18,928**	**29,765**	**22,716**	**136,549**
Accumulated depreciation					
As at 1 January 2011	**(11,585)**	**–**	**(16,201)**	**(7,506)**	**(35,292)**
Charge for the year	**(2,192)**	**–**	**(4,216)**	**(3,869)**	**(10,277)**
Disposals	**97**	**–**	**1,655**	**1,103**	**2,855**
As at 31 December 2011	**(13,680)**	**–**	**(18,762)**	**(10,272)**	**(42,714)**
Allowances for impairment losses (Note 37)					
As at 1 January 2011	**(476)**	**–**	**(3)**	**(6)**	**(485)**
Disposals	**17**	**–**	**2**	**–**	**19**
As at 31 December 2011	**(459)**	**–**	**(1)**	**(6)**	**(466)**
Net carrying value					
As at 1 January 2011	**45,235**	**15,636**	**10,254**	**11,571**	**82,696**
As at 31 December 2011	**51,001**	**18,928**	**11,002**	**12,438**	**93,369**

(Expressed in millions of RMB, unless otherwise stated)

31 FIXED ASSETS (CONTINUED)

Bank (continued)

	Bank premises	Construction in progress	Equipments	Others	Total
Cost/deemed cost					
As at 1 January 2010	51,072	11,139	23,818	16,109	102,138
Additions	3,462	8,838	3,877	2,442	18,619
Transfer in/(out)	2,894	(4,237)	15	1,328	–
Disposals	(132)	(104)	(1,252)	(796)	(2,284)
As at 31 December 2010	57,296	15,636	26,458	19,083	118,473
Accumulated depreciation					
As at 1 January 2010	(9,648)	–	(13,157)	(4,732)	(27,537)
Charge for the year	(1,998)	–	(4,245)	(3,510)	(9,753)
Disposals	61	–	1,201	736	1,998
As at 31 December 2010	(11,585)	–	(16,201)	(7,506)	(35,292)
Allowances for impairment losses (Note 37)					
As at 1 January 2010	(489)	(5)	(3)	(6)	(503)
Charge for the year	(2)	–	–	–	(2)
Disposals	15	5	–	–	20
As at 31 December 2010	(476)	–	(3)	(6)	(485)
Net carrying value					
As at 1 January 2010	40,935	11,134	10,658	11,371	74,098
As at 31 December 2010	45,235	15,636	10,254	11,571	82,696

Notes:

(1) As at 31 December 2011, the ownership documentation for the Group's and the Bank's bank premises with a net carrying value of RMB11,222 million (2010: RMB9,790 million) was being finalised. However, management is of the view that the aforesaid matter would not affect the rights of the Group and the Bank to these assets nor have any significant impact on the business operation of the Group and the Bank.

(2) Analysed by remaining terms of the leases

The net carrying values of bank premises of the Group and the Bank as at the end of the reporting period are analysed by the remaining terms of the leases as follows:

	Group		Bank	
	2011	2010	**2011**	2010
Long term leases (over 50 years) held overseas	**37**	72	**–**	38
Medium term leases (10-50 years) held overseas	**125**	168	**111**	147
Short term leases (less than 10 years) held overseas	**6**	1	**6**	1
Long term leases (over 50 years) held in Mainland China	**3,836**	3,687	**3,834**	3,684
Medium term leases (10-50 years) held in Mainland China	**45,990**	40,058	**45,573**	39,625
Short term leases (less than 10 years) held in Mainland China	**1,477**	1,740	**1,477**	1,740
Total	**51,471**	45,726	**51,001**	45,235

(Expressed in millions of RMB, unless otherwise stated)

32 LAND USE RIGHTS

Group

	2011	2010
Cost/deemed cost		
As at 1 January	**20,458**	20,173
Additions	**172**	375
Disposals	**(155)**	(90)
As at 31 December	**20,475**	20,458
Amortisation		
As at 1 January	**(3,387)**	(2,900)
Charge for the year	**(508)**	(503)
Disposals	**23**	16
As at 31 December	**(3,872)**	(3,387)
Allowances for impairment losses (Note 37)		
As at 1 January	**(149)**	(151)
Disposals	**3**	2
As at 31 December	**(146)**	(149)
Net carrying value		
As at 1 January	**16,922**	17,122
As at 31 December	**16,457**	16,922

Bank

	2011	2010
Cost/deemed cost		
As at 1 January	**20,397**	20,110
Additions	**172**	375
Disposals	**(152)**	(88)
As at 31 December	**20,417**	20,397
Amortisation		
As at 1 January	**(3,383)**	(2,897)
Charge for the year	**(507)**	(502)
Disposals	**23**	16
As at 31 December	**(3,867)**	(3,383)
Allowances for impairment losses (Note 37)		
As at 1 January	**(149)**	(151)
Disposals	**3**	2
As at 31 December	**(146)**	(149)
Net carrying value		
As at 1 January	**16,865**	17,062
As at 31 December	**16,404**	16,865

(Expressed in millions of RMB, unless otherwise stated)

33 INTANGIBLE ASSETS

Group

	Software	Others	Total
Cost/deemed cost			
As at 1 January 2011	**3,906**	**49**	**3,955**
Additions through acquisition	**48**	**424**	**472**
Additions	**409**	**71**	**480**
Disposals	**(118)**	**(5)**	**(123)**
As at 31 December 2011	**4,245**	**539**	**4,784**
Amortisation			
As at 1 January 2011	**(2,626)**	**(11)**	**(2,637)**
Additions through acquisition	**(27)**	**–**	**(27)**
Charge for the year	**(491)**	**(74)**	**(565)**
Disposals	**111**	**2**	**113**
As at 31 December 2011	**(3,033)**	**(83)**	**(3,116)**
Allowances for impairment losses (Note 37)			
As at 1 January 2011	**(1)**	**(7)**	**(8)**
As at 31 December 2011	**(1)**	**(7)**	**(8)**
Net carrying value			
As at 1 January 2011	**1,279**	**31**	**1,310**
As at 31 December 2011	**1,211**	**449**	**1,660**
Cost/deemed cost			
As at 1 January 2010	3,433	58	3,491
Additions	502	14	516
Disposals	(29)	(23)	(52)
As at 31 December 2010	3,906	49	3,955
Amortisation			
As at 1 January 2010	(2,183)	(30)	(2,213)
Charge for the year	(467)	(1)	(468)
Disposals	24	20	44
As at 31 December 2010	(2,626)	(11)	(2,637)
Allowances for impairment losses (Note 37)			
As at 1 January 2010	(1)	(7)	(8)
As at 31 December 2010	(1)	(7)	(8)
Net carrying value			
As at 1 January 2010	1,249	21	1,270
As at 31 December 2010	1,279	31	1,310

(Expressed in millions of RMB, unless otherwise stated)

33 INTANGIBLE ASSETS (CONTINUED)

Bank

	Software	Others	Total
Cost/deemed cost			
As at 1 January 2011	**3,858**	**38**	**3,896**
Additions	**386**	**69**	**455**
Disposals	**(117)**	**(5)**	**(122)**
As at 31 December 2011	**4,127**	**102**	**4,229**
Amortisation			
As at 1 January 2011	**(2,604)**	**(11)**	**(2,615)**
Charge for the year	**(477)**	**(66)**	**(543)**
Disposals	**111**	**2**	**113**
As at 31 December 2011	**(2,970)**	**(75)**	**(3,045)**
Allowances for impairment losses (Note 37)			
As at 1 January 2011	**(1)**	**(7)**	**(8)**
As at 31 December 2011	**(1)**	**(7)**	**(8)**
Net carrying value			
As at 1 January 2011	**1,253**	**20**	**1,273**
As at 31 December 2011	**1,156**	**20**	**1,176**
Cost/deemed cost			
As at 1 January 2010	3,400	49	3,449
Additions	482	10	492
Disposals	(24)	(21)	(45)
As at 31 December 2010	3,858	38	3,896
Amortisation			
As at 1 January 2010	(2,170)	(29)	(2,199)
Charge for the year	(458)	(1)	(459)
Disposals	24	19	43
As at 31 December 2010	(2,604)	(11)	(2,615)
Allowances for impairment losses (Note 37)			
As at 1 January 2010	(1)	(7)	(8)
As at 31 December 2010	(1)	(7)	(8)
Net carrying value			
As at 1 January 2010	1,229	13	1,242
As at 31 December 2010	1,253	20	1,273

(Expressed in millions of RMB, unless otherwise stated)

34 GOODWILL

(1) The goodwill is attributable to the expected synergies arising from the acquisition of CCB Asia on 29 December 2006, Jianxin Trust on 29 July 2009 and CCB Life on 29 June 2011. Movement of the goodwill is as follows:

	2011	2010
As at 1 January	**1,534**	1,590
Additions through acquisitions	**194**	–
Effect of exchange difference	**(66)**	(56)
As at 31 December	**1,662**	1,534

(2) Impairment test for CGU containing goodwill

The Group calculated the recoverable amount of the CGU using cash flow projections based on financial forecasts approved by management. The average growth rate used by the Group is consistent with the forecasts included in industry reports. The discount rate used reflects specific risks relating to the relevant segments.

Based on the result of the impairment test, no impairment losses on goodwill were recognised as at 31 December 2011 (2010: nil).

35 DEFERRED TAX

	Group		Bank	
	2011	2010	2011	2010
Deferred tax assets	**21,410**	17,825	**22,003**	18,774
Deferred tax liabilities	**(358)**	(243)	**(23)**	(4)
Total	**21,052**	17,582	**21,980**	18,770

(1) Analysed by nature

Group

	2011		2010	
	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets				
– Fair value adjustments	**(9,066)**	**(2,271)**	(10,685)	(2,683)
– Allowances for impairment losses	**86,022**	**21,386**	63,559	15,736
– Early retirement benefits and accrued salaries	**22,755**	**5,689**	18,772	4,694
– Others	**(12,758)**	**(3,394)**	469	78
Total	**86,953**	**21,410**	72,115	17,825
Deferred tax liabilities				
– Fair value adjustments	**(1,323)**	**(309)**	(1,034)	(236)
– Allowances for impairment losses	**(46)**	**(11)**	73	24
– Accrued salaries	**–**	**–**	(34)	(6)
– Others	**(148)**	**(38)**	(77)	(25)
Total	**(1,517)**	**(358)**	(1,072)	(243)

(Expressed in millions of RMB, unless otherwise stated)

35 DEFERRED TAX (CONTINUED)

(1) Analysed by nature (continued)

Bank

	2011		2010	
	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets				
– Fair value adjustments	**(9,106)**	**(2,281)**	(10,752)	(2,692)
– Allowances for impairment losses	**85,634**	**21,320**	63,143	15,665
– Early retirement benefits and accrued salaries	**22,606**	**5,651**	18,627	4,657
– Others	**(7,268)**	**(2,687)**	7,840	1,144
Total	**91,866**	**22,003**	78,858	18,774
Deferred tax liabilities				
– Fair value adjustments	**(55)**	**(13)**	(7)	(2)
– Allowances for impairment losses	**(46)**	**(11)**	73	24
– Others	**4**	**1**	(80)	(26)
Total	**(97)**	**(23)**	(14)	(4)

(2) Movements of deferred tax

Group

	Early retirement benefits and accrued salaries	Fair value adjustments	Allowances for impairment losses	Others	Total
As at 1 January 2011	**4,688**	**(2,919)**	**15,760**	**53**	**17,582**
Recognised in profit or loss	**998**	**210**	**5,615**	**(3,443)**	**3,380**
Recognised in other comprehensive income	**–**	**229**	**–**	**–**	**229**
Addition through acquisition	**3**	**(100)**	**–**	**(42)**	**(139)**
As at 31 December 2011	**5,689**	**(2,580)**	**21,375**	**(3,432)**	**21,052**
As at 1 January 2010	3,809	(4,565)	11,249	81	10,574
Recognised in profit or loss	879	(445)	4,511	(28)	4,917
Recognised in other comprehensive income	–	2,091	–	–	2,091
As at 31 December 2010	4,688	(2,919)	15,760	53	17,582

Bank

	Early retirement benefits and accrued salaries	Fair value adjustments	Allowances for impairment losses	Others	Total
As at 1 January 2011	**4,657**	**(2,694)**	**15,689**	**1,118**	**18,770**
Recognised in profit or loss	**994**	**198**	**5,620**	**(3,804)**	**3,008**
Recognised in other comprehensive income	**–**	**202**	**–**	**–**	**202**
As at 31 December 2011	**5,651**	**(2,294)**	**21,309**	**(2,686)**	**21,980**
As at 1 January 2010	3,802	(4,405)	11,164	740	11,301
Recognised in profit or loss	855	(409)	4,525	378	5,349
Recognised in other comprehensive income	–	2,120	–	–	2,120
As at 31 December 2010	4,657	(2,694)	15,689	1,118	18,770

The Group and the Bank did not have significant unrecognised deferred tax as at the end of the reporting period.

(Expressed in millions of RMB, unless otherwise stated)

36 OTHER ASSETS

	Note	Group		Bank	
		2011	2010	**2011**	2010
Repossessed assets	(1)				
– Buildings		**1,553**	1,373	**1,549**	1,373
– Land use rights		**219**	243	**219**	243
– Others		**60**	230	**60**	230
		1,832	1,846	**1,828**	1,846
Long-term deferred expenses		**493**	351	**462**	344
Receivables from CCBIG	(2)	**–**	–	**18,205**	19,055
Other receivables		**15,920**	13,478	**13,696**	11,260
Leasehold improvements		**2,401**	2,607	**2,389**	2,595
Subtotal		**20,646**	18,282	**36,580**	35,100
Allowances for impairment losses (Note 37)		**(2,503)**	(2,981)	**(2,503)**	(2,978)
Total		**18,143**	15,301	**34,077**	32,122

(1) During the year ended 31 December 2011, the original cost of repossessed assets disposed of by the Group amounted to RMB473 million (2010: RMB1,764 million). The Group intends to dispose of repossessed assets through various methods including auction, competitive bidding and disposal.

(2) Receivables from CCBIG represent lending to CCBIG, a wholly owned subsidiary, for acquisition of equity investments and capital injection to other subsidiaries. The receivables are unsecured, non-interest bearing and without fixed repayment term.

37 MOVEMENTS OF ALLOWANCES FOR IMPAIRMENT LOSSES

Group

	Note	2011				
		As at 1 January	Charge for the year/ (Write-back)	Transfer in/(out)	Write-offs	As at 31 December
Deposits with banks and non-bank financial institutions	19	**11**	**(16)**	**14**	**–**	**9**
Placements with banks and non-bank financial institutions	20	**84**	**(37)**	**35**	**(17)**	**65**
Interest receivable	24	**1**	**–**	**–**	**–**	**1**
Loans and advances to customers	25(3)	**143,102**	**32,403**	**(958)**	**(3,330)**	**171,217**
Held-to-maturity investments	27	**5,003**	**(15)**	**(192)**	**(802)**	**3,994**
Debt securities classified as receivables	28	**120**	**495**	**–**	**–**	**615**
Fixed assets	31	**485**	**1**	**–**	**(19)**	**467**
Land use rights	32	**149**	**–**	**–**	**(3)**	**146**
Intangible assets	33	**8**	**–**	**–**	**–**	**8**
Other assets	36	**2,981**	**(169)**	**–**	**(309)**	**2,503**
Total		**151,944**	**32,662**	**(1,101)**	**(4,480)**	**179,025**

Transfer in/(out) includes the exchange difference; write-offs include disposals.

(Expressed in millions of RMB, unless otherwise stated)

37 MOVEMENTS OF ALLOWANCES FOR IMPAIRMENT LOSSES (CONTINUED)

Group (continued)

		2010				
	Note	As at 1 January	Charge for the year/ (Write-back)	Transfer out	Write-offs	As at 31 December
Deposits with banks and non-bank financial institutions	19	18	(3)	–	(4)	11
Placements with banks and non-bank financial institutions	20	131	(30)	–	(17)	84
Interest receivable	24	1	14	–	(14)	1
Loans and advances to customers	25(3)	126,826	25,641	(88)	(9,277)	143,102
Held-to-maturity investments	27	6,086	(381)	(173)	(529)	5,003
Debt securities classified as receivables	28	96	24	–	–	120
Fixed assets	31	503	2	–	(20)	485
Land use rights	32	151	–	–	(2)	149
Intangible assets	33	8	–	–	–	8
Other assets	36	3,288	226	–	(533)	2,981
Total		137,108	25,493	(261)	(10,396)	151,944

Bank

		2011				
	Note	**As at 1 January**	**Charge for the year/ (Write-back)**	**Transfer in/(out)**	**Write-offs**	**As at 31 December**
Deposits with banks and non-bank financial institutions	19	**11**	**(16)**	**14**	**–**	**9**
Placements with banks and non-bank financial institutions	20	**84**	**(37)**	**35**	**(17)**	**65**
Interest receivable	24	**1**	**–**	**–**	**–**	**1**
Loans and advances to customers	25(3)	**142,261**	**32,121**	**(964)**	**(3,235)**	**170,183**
Held-to-maturity investments	27	**5,003**	**(15)**	**(192)**	**(802)**	**3,994**
Debt securities classified as receivables	28	**120**	**495**	**–**	**–**	**615**
Fixed assets	31	**485**	**–**	**–**	**(19)**	**466**
Land use rights	32	**149**	**–**	**–**	**(3)**	**146**
Intangible assets	33	**8**	**–**	**–**	**–**	**8**
Other assets	36	**2,978**	**(242)**	**–**	**(233)**	**2,503**
Total		**151,100**	**32,306**	**(1,107)**	**(4,309)**	**177,990**

		2010				
	Note	As at 1 January	Charge for the year/ (Write-back)	Transfer out	Write-offs	As at 31 December
Deposits with banks and non-bank financial institutions	19	18	(3)	–	(4)	11
Placements with banks and non-bank financial institutions	20	131	(30)	–	(17)	84
Interest receivable	24	1	14	–	(14)	1
Loans and advances to customers	25(3)	126,111	25,400	(91)	(9,159)	142,261
Held-to-maturity investments	27	6,086	(381)	(173)	(529)	5,003
Debt securities classified as receivables	28	96	24	–	–	120
Fixed assets	31	503	2	–	(20)	485
Land use rights	32	151	–	–	(2)	149
Intangible assets	33	8	–	–	–	8
Other assets	36	3,283	228	–	(533)	2,978
Total		136,388	25,254	(264)	(10,278)	151,100

(Expressed in millions of RMB, unless otherwise stated)

38 AMOUNTS DUE FROM/TO SUBSIDIARIES

Amounts due from subsidiaries of the Bank are analysed by assets category as follows:

	2011	2010
Deposits with banks and non-bank financial institutions	**9,118**	4,771
Placements with banks and non-bank financial institutions	**7,750**	6,187
Positive fair value of derivatives	**–**	35
Interest receivable	**136**	20
Available-for-sale financial assets	**3,333**	3,955
Other assets	**18,394**	19,158
Total	**38,731**	34,126

Amounts due to subsidiaries of the Bank are analysed by liabilities category as follows:

	2011	2010
Deposits from banks and non-bank financial institutions	**4,587**	2,232
Placements from banks and non-bank financial institutions	**2,397**	2,563
Financial assets sold under repurchase agreements	**1,133**	6,222
Deposits from customers	**1,633**	2,716
Interest payable	**78**	97
Debt securities issued	**–**	848
Other liabilities	**42**	–
Total	**9,870**	14,678

39 DEPOSITS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	Group		Bank	
	2011	2010	2011	2010
Banks	**461,574**	187,548	**464,173**	188,229
Non-bank financial institutions	**504,655**	495,989	**505,860**	497,009
Total	**966,229**	683,537	**970,033**	685,238

(2) Analysed by geographical sectors

	Group		Bank	
	2011	2010	2011	2010
Mainland China	**966,085**	682,885	**968,168**	683,783
Overseas	**144**	652	**1,865**	1,455
Total	**966,229**	683,537	**970,033**	685,238

(Expressed in millions of RMB, unless otherwise stated)

40 PLACEMENTS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	Group		Bank	
	2011	2010	**2011**	2010
Banks	**77,474**	65,895	**44,692**	41,334
Non-bank financial institutions	**1,251**	377	**962**	330
Total	**78,725**	66,272	**45,654**	41,664

(2) Analysed by geographical sectors

	Group		Bank	
	2011	2010	**2011**	2010
Mainland China	**33,045**	24,952	**5,745**	6,292
Overseas	**45,680**	41,320	**39,909**	35,372
Total	**78,725**	66,272	**45,654**	41,664

41 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2011	2010	**2011**	2010
Structured financial instruments	**11,332**	2,422	**8,642**	75
Financial liabilities related to precious metals	**22,324**	12,865	**22,324**	12,865
Total	**33,656**	15,287	**30,966**	12,940

The Group's and the Bank's financial liabilities at fair value through profit or loss are those designated at fair value through profit or loss. As at the end of reporting period, the difference between the fair value of these financial liabilities and the contractual payables at maturity is not material. The amounts of changes in the fair value of these financial liabilities that are attributable to changes in credit risk are considered not significant during the year presented and cumulatively as at 31 December 2011 and 2010.

42 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	Group		Bank	
	2011	2010	**2011**	2010
Securities				
– PBOC bills	**10,010**	2,867	**10,010**	2,867
– Other securities	**–**	55	**–**	–
	10,010	2,922	**10,010**	2,867
Discounted bills	**451**	–	**451**	–
Loans	**–**	2,000	**1,133**	8,222
Total	**10,461**	4,922	**11,594**	11,089

(Expressed in millions of RMB, unless otherwise stated)

43 DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2011	2010	**2011**	2010
Demand deposits				
– Corporate customers	**3,576,929**	3,412,050	**3,569,524**	3,408,265
– Personal customers	**1,839,812**	1,726,159	**1,829,426**	1,714,764
Subtotal	**5,416,741**	5,138,209	**5,398,950**	5,123,029
Time deposits (including call deposits)				
– Corporate customers	**1,949,188**	1,608,186	**1,920,555**	1,585,294
– Personal customers	**2,621,521**	2,328,974	**2,586,588**	2,306,323
Subtotal	**4,570,709**	3,937,160	**4,507,143**	3,891,617
Total	**9,987,450**	9,075,369	**9,906,093**	9,014,646

Deposits from customers include:

		Group		Bank	
		2011	2010	**2011**	2010
(1)	Pledged deposits				
	– Deposits for acceptance	**104,880**	118,172	**104,699**	118,172
	– Deposits for guarantee	**40,570**	34,103	**40,570**	34,103
	– Deposits for letter of credit	**59,445**	39,692	**59,441**	39,692
	– Others	**158,088**	104,779	**157,986**	104,747
	Total	**362,983**	296,746	**362,696**	296,714
(2)	Outward remittance and remittance payables	**9,508**	15,895	**9,434**	15,864

(3) As at 31 December 2011, the deposits arising from wealth management products with principal guaranteed by the Group and the Bank were RMB154,062 million.

44 ACCRUED STAFF COSTS

Group

		2011			
	Note	As at 1 January	Accrued	Paid	As at 31 December
Salaries, bonuses, allowances and subsidies		**14,873**	**49,703**	**(44,705)**	**19,871**
Defined contribution retirement schemes		**492**	**8,495**	**(8,435)**	**552**
Other social insurance and welfare		**1,265**	**6,581**	**(6,216)**	**1,630**
Housing funds		**112**	**3,989**	**(3,977)**	**124**
Union running costs and employee education costs		**954**	**2,013**	**(1,793)**	**1,174**
Supplementary retirement benefits	(1)	**6,901**	**638**	**(507)**	**7,032**
Early retirement benefits		**6,765**	**409**	**(1,632)**	**5,542**
Compensation to employees for termination of employment relationship		**7**	**10**	**(11)**	**6**
Total		**31,369**	**71,838**	**(67,276)**	**35,931**

(Expressed in millions of RMB, unless otherwise stated)

44 ACCRUED STAFF COSTS (CONTINUED)

Group (continued)

		2010			
	Note	As at 1 January	Accrued	Paid	As at 31 December
Salaries, bonuses, allowances and subsidies		10,835	42,652	(38,614)	14,873
Defined contribution retirement schemes		459	7,206	(7,173)	492
Other social insurance and welfare		1,105	5,311	(5,151)	1,265
Housing funds		82	3,409	(3,379)	112
Union running costs and employee education costs		797	1,695	(1,538)	954
Supplementary retirement benefits	(1)	6,786	651	(536)	6,901
Early retirement benefits		7,353	841	(1,429)	6,765
Compensation to employees for termination of employment relationship		8	19	(20)	7
Total		27,425	61,784	(57,840)	31,369

Bank

		2011			
	Note	**As at 1 January**	**Accrued**	**Paid**	**As at 31 December**
Salaries, bonuses, allowances and subsidies		**14,133**	**48,153**	**(43,064)**	**19,222**
Defined contribution retirement schemes		**491**	**8,397**	**(8,338)**	**550**
Other social insurance and welfare		**1,169**	**6,525**	**(6,150)**	**1,544**
Housing funds		**111**	**3,968**	**(3,955)**	**124**
Union running costs and employee education costs		**945**	**1,997**	**(1,780)**	**1,162**
Supplementary retirement benefits	(1)	**6,901**	**638**	**(507)**	**7,032**
Early retirement benefits		**6,765**	**409**	**(1,632)**	**5,542**
Compensation to employees for termination of employment relationship		**7**	**10**	**(11)**	**6**
Total		**30,522**	**70,097**	**(65,437)**	**35,182**

		2010			
	Note	As at 1 January	Accrued	Paid	As at 31 December
Salaries, bonuses, allowances and subsidies		10,217	41,218	(37,302)	14,133
Defined contribution retirement schemes		458	7,142	(7,109)	491
Other social insurance and welfare		1,013	5,236	(5,080)	1,169
Housing funds		81	3,397	(3,367)	111
Union running costs and employee education costs		792	1,684	(1,531)	945
Supplementary retirement benefits	(1)	6,786	651	(536)	6,901
Early retirement benefits		7,353	841	(1,429)	6,765
Compensation to employees for termination of employment relationship		8	19	(20)	7
Total		26,708	60,188	(56,374)	30,522

(Expressed in millions of RMB, unless otherwise stated)

44 ACCRUED STAFF COSTS (CONTINUED)

(1) Supplementary retirement benefits

The Group's obligations in respect of the supplementary retirement benefits as at the end of the reporting period were calculated using the projected unit credit actuarial cost method and reviewed by qualified staff (a member of Society of Actuaries of the United States of America) of an external independent actuary: Towers, Perrin, Forster & Crosby, Inc., Hong Kong.

(a) Breakdowns of supplementary retirement benefits of the Group and the Bank are as follows:

	2011	2010
Present value of supplementary retirement benefit obligations	**7,033**	6,646
Unrecognised actuarial (losses)/gains	**(1)**	255
As at 31 December	**7,032**	6,901

(b) Movements of supplementary retirement benefits of the Group and the Bank are as follows:

	2011	2010
As at 1 January	**6,901**	6,786
Payments made	**(507)**	(536)
Expenses recognised in profit or loss		
– Interest cost	**251**	219
– Past service costs	**387**	432
As at 31 December	**7,032**	6,901

Interest cost was recognised in other general and administrative expenses. Past service costs were recognised in staff costs.

(c) Principal actuarial assumptions of the Group and the Bank as at the end of the reporting period are as follows:

	2011	2010
Discount rate	**3.50%**	4.00%
Health care cost increases	**7.00%**	7.00%
Average expected future lifetime of eligible employees	**13.6 years**	14.1 years

(2) The Group and the Bank had no overdue balance of accrued staff costs as at the end of the reporting period.

45 TAXES PAYABLE

	Group		Bank	
	2011	2010	**2011**	2010
Income tax	**38,899**	27,748	**38,747**	27,554
Business tax and surcharges	**7,752**	5,739	**7,688**	5,704
Others	**538**	754	**515**	687
Total	**47,189**	34,241	**46,950**	33,945

46 INTEREST PAYABLE

	Group		Bank	
	2011	2010	**2011**	2010
Deposits from banks and non-bank financial institutions	**1,405**	1,002	**1,392**	982
Deposits from customers	**76,850**	62,966	**76,665**	62,906
Debts securities issued	**1,921**	1,575	**1,921**	1,575
Others	**378**	116	**334**	129
Total	**80,554**	65,659	**80,312**	65,592

(Expressed in millions of RMB, unless otherwise stated)

47 PROVISIONS

	Group and Bank	
	2011	2010
Litigation provisions	**896**	691
Others	**4,284**	2,708
Total	**5,180**	3,399

48 DEBT SECURITIES ISSUED

		Group		Bank	
	Note	**2011**	2010	**2011**	2010
Certificates of deposit issued	(1)	**48,451**	13,414	**38,189**	11,530
Subordinated bonds issued	(2)	**119,861**	79,901	**119,861**	79,901
Total		**168,312**	93,315	**158,050**	91,431

(1) Certificates of deposit were mainly issued by overseas branches and CCB Asia and recognised at amortised cost.

(2) Subordinated bonds issued

The carrying value of the Group and the Bank's subordinated bonds issued upon the approval of the PBOC and the CBRC is as follows:

		Group and Bank	
	Note	**2011**	2010
3.20% subordinated fixed rate bonds maturing in February 2019	(a)	**12,000**	12,000
4.00% subordinated fixed rate bonds maturing in February 2024	(b)	**28,000**	28,000
3.32% subordinated fixed rate bonds maturing in August 2019	(c)	**10,000**	10,000
4.04% subordinated fixed rate bonds maturing in August 2024	(d)	**10,000**	10,000
4.80% subordinated fixed rate bonds maturing in December 2024	(e)	**20,000**	20,000
5.70% subordinated fixed rate bonds maturing in November 2026	(f)	**40,000**	–
Total nominal value		**120,000**	80,000
Less: Unamortised issuance cost		**(139)**	(99)
Carrying value as at 31 December		**119,861**	79,901

(a) The interest rate per annum on the subordinated fixed rate bonds issued in February 2009 is 3.20%. The Group has an option to redeem the bonds on 26 February 2014. If they are not redeemed by the Group, the interest rate will increase to 6.20% per annum from 26 February 2014 for the next five years.

(b) The interest rate per annum on the subordinated fixed rate bonds issued in February 2009 is 4.00%. The Group has an option to redeem the bonds on 26 February 2019. If they are not redeemed by the Group, the interest rate will increase to 7.00% per annum from 26 February 2019 for the next five years.

(c) The interest rate per annum on the subordinated fixed rate bonds issued in August 2009 is 3.32%. The Group has an option to redeem the bonds on 11 August 2014. If they are not redeemed by the Group, the interest rate will increase to 6.32% per annum from 11 August 2014 for the next five years.

(d) The interest rate per annum on the subordinated fixed rate bonds issued in August 2009 is 4.04%. The Group has an option to redeem the bonds on 11 August 2019. If they are not redeemed by the Group, the interest rate will increase to 7.04% per annum from 11 August 2019 for the next five years.

(e) The interest rate per annum on the subordinated fixed rate bonds issued in December 2009 is 4.80%. The Group has an option to redeem the bonds on 22 December 2019. If they are not redeemed by the Group, the interest rate will increase to 7.80% per annum from 22 December 2019 for the next five years.

(f) The interest rate per annum on the subordinated fixed rate bonds issued in November 2011 is 5.70%. The Group has an option to redeem the bonds on 7 November 2021, subject to an approval from relevant authority. The interest rate for these bonds will remain at 5.70% per annum for the next five years from 7 November 2021.

(Expressed in millions of RMB, unless otherwise stated)

49 OTHER LIABILITIES

	Group		Bank	
	2011	2010	**2011**	2010
Deferred income	**7,455**	4,049	**7,296**	3,956
Capital expenditure payable	**5,518**	5,332	**5,517**	5,332
Insurance reserve of CCB life	**2,670**	–	**–**	–
Dormant accounts	**2,193**	3,388	**2,193**	3,388
Securities underwriting and redemption payable	**2,000**	1,977	**2,000**	1,977
Payment and collection clearance accounts	**572**	491	**572**	487
Settlement accounts	**452**	555	**452**	555
Payables to China Jianyin Investment Limited ("Jianyin")	**107**	150	**107**	150
Others	**14,631**	8,718	**9,575**	6,610
Total	**35,598**	24,660	**27,712**	22,455

50 SHARE CAPITAL

	Group and Bank	
	2011	2010
Listed in Hong Kong (H share)	**240,417**	240,417
Listed in Mainland China (A share)	**9,594**	9,594
Total	**250,011**	250,011

All H and A shares are ordinary shares and rank pari passu with the same rights and benefits.

51 CAPITAL RESERVE

	Group and Bank	
	2011	2010
Share premium	**135,047**	135,047
Others	**131**	89
Total	**135,178**	135,136

52 INVESTMENT REVALUATION RESERVE

The changes in fair value of available-for-sale financial assets were recognised in "investment revaluation reserve". Movements of investment revaluation reserve are as follows:

Group

	2011		
	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
As at 1 January	**9,024**	**(2,318)**	**6,706**
Gains/(losses) during the year			
– Debt securities	**5,118**	**(1,203)**	**3,915**
– Equity instruments and funds	**(6,004)**	**1,501**	**(4,503)**
	(886)	**298**	**(588)**
Reclassification adjustments			
– Impairment	**1,106**	**(277)**	**829**
– Disposals	**(810)**	**202**	**(608)**
– Others	**58**	**(14)**	**44**
	354	**(89)**	**265**
As at 31 December	**8,492**	**(2,109)**	**6,383**

(Expressed in millions of RMB, unless otherwise stated)

52 INVESTMENT REVALUATION RESERVE (CONTINUED)

Group (continued)

	2010		
	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
As at 1 January	17,566	(4,403)	13,163
Losses during the year			
– Debt securities	(6,140)	1,485	(4,655)
– Equity instruments and funds	(2,018)	504	(1,514)
	(8,158)	1,989	(6,169)
Reclassification adjustments			
– Impairment	295	(74)	221
– Disposals	(735)	184	(551)
– Others	56	(14)	42
	(384)	96	(288)
As at 31 December	9,024	(2,318)	6,706

Bank

	2011		
	Before-tax amount	**Tax (expense)/ benefit**	**Net-of-tax amount**
As at 1 January	**9,039**	**(2,296)**	**6,743**
Gains/(losses) during the year			
– Debt securities	**4,942**	**(1,151)**	**3,791**
– Equity instruments	**(5,825)**	**1,456**	**(4,369)**
	(883)	**305**	**(578)**
Reclassification adjustments			
– Impairment	**1,106**	**(277)**	**829**
– Disposals	**(754)**	**188**	**(566)**
– Others	**58**	**(14)**	**44**
	410	**(103)**	**307**
As at 31 December	**8,566**	**(2,094)**	**6,472**

(Expressed in millions of RMB, unless otherwise stated)

52 INVESTMENT REVALUATION RESERVE (CONTINUED)

Bank (continued)

	2010		
	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
As at 1 January	17,629	(4,416)	13,213
Losses during the year			
– Debt securities	(6,017)	1,477	(4,540)
– Equity instruments	(2,056)	513	(1,543)
	(8,073)	1,990	(6,083)
Reclassification adjustments			
– Impairment	139	(34)	105
– Disposals	(712)	178	(534)
– Others	56	(14)	42
	(517)	130	(387)
As at 31 December	9,039	(2,296)	6,743

Others refer to the amortisation of accumulated losses previously recognised in revaluation reserve for the year. These accumulated losses were related to certain debt securities reclassified from available-for-sale financial assets to held-to-maturity investments in prior years.

53 SURPLUS RESERVE

Surplus reserves consist of statutory surplus reserve fund and discretionary surplus reserve fund.

The Bank is required to allocate 10% of its net profit, as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the MOF ("PRC GAAP"), to the statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital. After making appropriations to the statutory surplus reserve fund, the Bank may also allocate its net profit to the discretionary surplus reserve fund upon approval by shareholders in annual general meetings.

54 GENERAL RESERVE

The general reserve of the Group and the Bank is set up based upon the requirements of:

		Group		Bank	
	Note	**2011**	2010	**2011**	2010
MOF	(1)	**66,458**	60,475	**66,458**	60,475
Hong Kong Banking Ordinance	(2)	**596**	692	**105**	105
Other regulatory bodies in Mainland China	(3)	**205**	151	**–**	–
Other overseas regulatory bodies		**83**	29	**82**	28
Total		**67,342**	61,347	**66,645**	60,608

(1) Pursuant to relevant regulations issued by the MOF, the Bank is required to set aside a general reserve through appropriations of profit after tax according to a certain provision ratio of the ending balance of gross risk-bearing assets to cover potential losses against their assets. In principle, the general reserve balance should not be lower than 1% of the ending balance of gross risk-bearing assets.

(2) Pursuant to requirements of the Hong Kong Banking Ordinance, the Group's banking operations in Hong Kong are required to set aside amounts in a regulatory reserve in respect of losses which it will, or may, incur on loans and advances to customers, in addition to impairment losses recognised in accordance with the accounting policies of the Group. Transfers to and from the regulatory reserve are made through retained earnings.

(3) Pursuant to the relevant regulatory requirements in Mainland China, the Bank's subsidiaries are required to appropriate a certain amount of its net profit as general reserve.

(Expressed in millions of RMB, unless otherwise stated)

55 PROFIT DISTRIBUTION

In the Annual General Meeting held on 9 June 2011, the shareholders approved the profit distribution for the year ended 31 December 2010. The Bank appropriated cash dividend for the year ended 31 December 2010 in an aggregate amount of RMB53,052 million.

On 23 March 2012, Board of Directors proposed the following profit distribution scheme for the year ended 31 December 2011:

(1) Appropriate statutory surplus reserve amounted to RMB168,950 million, based on 10% of the net profit of the Bank amounted to RMB16,895 million. It has been recorded in "Surplus reserve" as at the end of the reporting period.

(2) Appropriate general reserve amounted to RMB12,723 million, pursuant to relevant regulations issued by MOF.

(3) Appropriate cash dividend RMB0.2365 per share before tax and in aggregation amount of RMB59,128 million to all shareholders. Proposed dividends at the end of the reporting period are not recognised as a liability.

Above proposed profit distribution scheme is subject to the approval of shareholders in the Annual General Meeting. Cash dividends will be distributed to all shareholders registered at the relevant date upon approval.

56 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(1) Cash and cash equivalents

	2011	2010
Cash	**58,308**	48,201
Surplus deposit reserves with central banks	**324,568**	170,938
Demand deposits with banks and non-bank financial institutions	**33,072**	17,910
Deposits with banks and non-bank financial institutions with original maturity with or within three months	**78,795**	7,000
Placements with banks and non-bank financial institutions with original maturity with or within three months	**63,720**	57,250
Total	**558,463**	301,299

(2) Acquisition of CCB Life

To acquire CCB Life, the Bank paid a cash consideration of RMB816 million, and acquired cash and cash equivalents of RMB99 million. The net cash outflow arising from the aforesaid acquisition was RMB717 million, which is analysed as follows:

	Recognised values	Fair value adjustments	Carrying amounts
Deposits with banks and non-bank financial institutions	1,096	–	1,096
Financial assets at fair value through profit or loss	6	–	6
Financial assets held under resale agreements	50	–	50
Interest receivable	75	–	75
Loans and advances to customers	10	–	10
Available-for-sale financial assets	1,678	–	1,678
Held-to-maturity investments	1,146	–	1,146
Debt securities classified as receivables	50	–	50
Fixed assets	9	–	9
Intangible assets	445	424	21
Other assets	250	–	250
Accrued staff costs	(9)	–	(9)
Taxes payable	(9)	–	(9)
Deferred tax liabilities	(139)	(106)	(33)
Other liabilities	(3,439)	–	(3,439)
Total	1,219	318	901
Non-controlling interests	(597)		
Net identifiable assets	622		
Goodwill on acquisition	194		
Consideration transferred	816		
Cash and cash equivalents acquired	99		
Cash consideration	(816)		
Net cash outflow from the acquisition	(717)		

Operating income and net profit of CCB Life contributed to the Group since the acquisition date did not result in significant impact to the consolidated statement of comprehensive income for the year ended 31 December 2011. Operating income and net profit of the Group for the year ended 31 December 2011 was not significantly impacted either had the acquisition occurred as at the beginning of the year.

(Expressed in millions of RMB, unless otherwise stated)

57 OPERATING SEGMENTS

The Group has presented the operating segments in a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment. Measurement of segment assets and liabilities and segment income and results is based on the Group's accounting policies.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense". Interest income and expense earned from third parties are referred to as "external net interest income/expense".

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, results, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the period to acquire fixed assets, intangible assets and other long-term assets.

(1) Geographical segments

The Group operates principally in Mainland China with branches covering all provinces, autonomous regions and municipalities directly under the central government, and several subsidiaries located in Mainland China. The Group also has bank branch operations in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo, Seoul, New York, Sydney and Ho Chi Minh City and certain subsidiaries operating in Hong Kong and London.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches and subsidiaries that generate the income. Segment assets, liabilities and capital expenditure are allocated based on their geographical location.

Geographical segments of the Group, as defined for management reporting purposes, are defined as follows:

- "Yangtze River Delta" refers to the following areas serviced by the subsidiary and tier-1 branches of the Bank: Shanghai Municipality, Jiangsu Province, Zhejiang Province, City of Ningbo and City of Suzhou;
- "Pearl River Delta" refers to the following areas serviced by the tier-1 branches of the Bank: Guangdong Province, City of Shenzhen, Fujian Province and City of Xiamen;
- "Bohai Rim" refers to the following areas serviced by the subsidiaries and tier-1 branches of the Bank: Beijing Municipality, Shandong Province, Tianjin Municipality, Hebei Province and City of Qingdao;
- the "Central" region refers to the following areas serviced by the subsidiaries and tier-1 branches of the Bank: Shanxi Province, Guangxi Autonomous Region, Hubei Province, Henan Province, Hunan Province, Jiangxi Province, Hainan Province, Anhui Province and the Three Gorges Area;
- the "Western" region refers to the following areas serviced by the tier-1 branches of the Bank: Sichuan Province, Chongqing Municipality, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Inner Mongolia Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region; and
- the "Northeastern" region refers to the following areas serviced by the tier-1 branches of the Bank: Liaoning Province, Jilin Province, Heilongjiang Province and City of Dalian.

(Expressed in millions of RMB, unless otherwise stated)

57 OPERATING SEGMENTS (CONTINUED)

(1) Geographical segments (continued)

	2011								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Total
External net interest income	46,645	24,815	27,473	32,486	36,034	11,469	123,007	2,643	304,572
Internal net interest income/(expense)	7,534	12,700	18,169	12,322	10,936	7,055	(69,224)	508	–
Net interest income	54,179	37,515	45,642	44,808	46,970	18,524	53,783	3,151	304,572
Net fee and commission income	21,011	15,556	13,917	13,360	11,845	5,467	4,692	1,146	86,994
Net trading gain/(loss)	507	465	290	257	259	121	957	(2,468)	388
Dividend income	7	–	–	48	11	–	43	49	158
Net gain arising from investment securities	64	–	5	434	17	41	1,147	48	1,756
Other operating income, net	1,436	378	209	547	863	122	340	1,640	5,535
Operating income	77,204	53,914	60,063	59,454	59,965	24,275	60,962	3,566	399,403
Operating expenses	(27,277)	(19,330)	(22,096)	(24,795)	(23,856)	(10,622)	(13,634)	(2,927)	(144,537)
Impairment losses	(8,811)	(5,611)	(4,218)	(4,780)	(4,666)	(1,604)	(5,727)	(366)	(35,783)
Share of profits less losses of associates and jointly controlled entities	–	–	–	(7)	–	–	–	31	24
Profit before tax	41,116	28,973	33,749	29,872	31,443	12,049	41,601	304	219,107
Capital expenditure	3,631	2,690	3,224	4,522	4,166	1,932	2,546	93	22,804
Depreciation and amortisation	2,107	1,451	1,847	2,259	1,978	1,020	1,727	108	12,497
Segment assets	2,309,626	1,773,562	2,241,298	1,874,631	1,982,662	769,288	5,140,899	441,119	16,533,085
Interests in associates and jointly controlled entities	–	–	–	–	–	–	–	2,069	2,069
	2,309,626	1,773,562	2,241,298	1,874,631	1,982,662	769,288	5,140,899	443,188	16,535,154
Deferred tax assets									21,410
Elimination									(4,274,730)
Total assets									12,281,834
Segment liabilities	2,304,167	1,769,903	2,232,283	1,869,614	1,976,095	766,375	4,402,281	418,827	15,739,545
Deferred tax liabilities									358
Elimination									(4,274,730)
Total liabilities									11,465,173
Off-balance sheet credit commitments	565,867	365,648	406,115	245,292	233,361	103,085	12,002	50,579	1,981,949

(Expressed in millions of RMB, unless otherwise stated)

57 OPERATING SEGMENTS (CONTINUED)

(1) Geographical segments (continued)

	2010								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Total
External net interest income	36,485	19,546	23,000	25,777	30,198	8,368	104,896	3,230	251,500
Internal net interest income/(expense)	8,994	12,488	14,741	11,886	9,638	6,282	(63,899)	(130)	–
Net interest income	45,479	32,034	37,741	37,663	39,836	14,650	40,997	3,100	251,500
Net fee and commission income	16,101	12,173	10,097	9,770	8,799	3,752	4,091	1,349	66,132
Net trading gain	313	362	209	59	143	90	1,124	1,209	3,509
Dividend income	2	–	25	51	64	–	34	52	228
Net gain arising from investment securities	41	8	69	463	102	258	845	117	1,903
Other operating income/(loss), net	487	457	494	451	897	174	(1,601)	1,149	2,508
Operating income	62,423	45,034	48,635	48,457	49,841	18,924	45,490	6,976	325,780
Operating expenses	(21,601)	(16,109)	(18,330)	(20,617)	(20,204)	(8,821)	(12,864)	(2,820)	(121,366)
Impairment losses	(7,596)	(4,289)	(3,119)	(5,547)	(5,580)	(1,689)	(495)	(977)	(29,292)
Share of profits less losses of associates and jointly controlled entities	–	–	–	–	–	–	–	34	34
Profit before tax	33,226	24,636	27,186	22,293	24,057	8,414	32,131	3,213	175,156
Capital expenditure	3,204	1,876	2,563	3,424	3,483	1,962	3,573	74	20,159
Depreciation and amortisation	1,966	1,409	1,736	2,098	1,845	915	1,752	106	11,827
Segment assets	2,054,133	1,663,001	1,913,481	1,672,191	1,717,538	694,294	4,781,069	271,052	14,766,759
Interests in associates and jointly controlled entities	–	–	–	–	–	–	–	1,777	1,777
	2,054,133	1,663,001	1,913,481	1,672,191	1,717,538	694,294	4,781,069	272,829	14,768,536
Deferred tax assets									17,825
Elimination									(3,976,044)
Total assets									10,810,317
Segment liabilities	2,050,953	1,659,607	1,907,041	1,669,392	1,715,699	692,888	4,142,555	247,078	14,085,213
Deferred tax liabilities									243
Elimination									(3,976,044)
Total liabilities									10,109,412
Off-balance sheet credit commitments	559,761	322,547	430,258	270,124	265,379	126,394	12,002	49,355	2,035,820

(2) Business segments

Business segments, as defined for management reporting purposes, are as follows:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit taking activities, agency services, financial consulting and advisory services, cash management services, remittance and settlement services, custody services and guarantee services, etc.

(Expressed in millions of RMB, unless otherwise stated)

57 OPERATING SEGMENTS (CONTINUED)

(2) Business segments (continued)

Personal banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans, deposit taking activities, card business, personal wealth management services, remittance services and securities agency services, etc.

Treasury business

This segment covers the Group's treasury operations. The treasury enters into inter-bank money market transactions, repurchase and resale transactions, and invests in debt securities. It also trades in derivatives and foreign currency for its own account. The treasury carries out customer-driven derivatives, foreign currency and precious metal trading. Its function also includes the management of the Group's overall liquidity position, including the issuance of debt securities.

Others

These represent equity investments and the revenues, results, assets and liabilities of overseas branches and subsidiaries.

	2011				
	Corporate banking	Personal banking	Treasury business	Others	Total
External net interest income	181,180	(3,644)	122,483	4,553	304,572
Internal net interest income/(expense)	(21,784)	88,562	(63,185)	(3,593)	–
Net interest income	159,396	84,918	59,298	960	304,572
Net fee and commission income	39,170	29,061	16,841	1,922	86,994
Net trading gain/(loss)	7	688	2,047	(2,354)	388
Dividend income	–	–	–	158	158
Net gain arising from investment securities	–	–	824	932	1,756
Other operating income/(loss), net	782	288	(524)	4,989	5,535
Operating income	199,355	114,955	78,486	6,607	399,403
Operating expenses	(60,023)	(73,361)	(4,309)	(6,844)	(144,537)
Impairment losses	(28,291)	(3,967)	(3,118)	(407)	(35,783)
Share of profits less losses of associates and jointly controlled entities	–	–	–	24	24
Profit before tax	111,041	37,627	71,059	(620)	219,107
Capital expenditure	6,783	14,818	826	377	22,804
Depreciation and amortisation	3,717	8,120	453	207	12,497
Segment assets	4,643,350	1,662,434	5,411,041	700,464	12,417,289
Interests in associates and jointly controlled entities	–	–	–	2,069	2,069
	4,643,350	1,662,434	5,411,041	702,533	12,419,358
Deferred tax assets					21,410
Elimination					(158,934)
Total assets					12,281,834
Segment liabilities	5,911,337	4,981,889	160,905	569,618	11,623,749
Deferred tax liabilities					358
Elimination					(158,934)
Total liabilities					11,465,173
Off-balance sheet credit commitments	1,689,179	242,191	–	50,579	1,981,949

(Expressed in millions of RMB, unless otherwise stated)

57 OPERATING SEGMENTS (CONTINUED)

(2) Business segments (continued)

	2010				
	Corporate banking	Personal banking	Treasury business	Others	Total
External net interest income	150,070	(3,659)	101,116	3,973	251,500
Internal net interest income/(expense)	(14,511)	74,156	(58,441)	(1,204)	–
Net interest income	135,559	70,497	42,675	2,769	251,500
Net fee and commission income	28,563	23,919	11,898	1,752	66,132
Net trading (loss)/gain	(1)	350	1,940	1,220	3,509
Dividend income	–	–	–	228	228
Net gain arising from investment securities	–	–	504	1,399	1,903
Other operating income/(loss), net	754	278	(1,591)	3,067	2,508
Operating income	164,875	95,044	55,426	10,435	325,780
Operating expenses	(50,151)	(62,278)	(3,573)	(5,364)	(121,366)
Impairment losses	(23,557)	(2,176)	(655)	(2,904)	(29,292)
Share of profits less losses of associates and jointly controlled entities	–	–	–	34	34
Profit before tax	91,167	30,590	51,198	2,201	175,156
Capital expenditure	6,065	13,048	777	269	20,159
Depreciation and amortisation	3,558	7,655	456	158	11,827
Segment assets	4,343,277	1,361,904	4,684,227	487,968	10,877,376
Interests in associates and jointly controlled entities	–	–	–	1,777	1,777
	4,343,277	1,361,904	4,684,227	489,745	10,879,153
Deferred tax assets					17,825
Elimination					(86,661)
Total assets					10,810,317
Segment liabilities	5,238,032	4,489,333	110,697	357,768	10,195,830
Deferred tax liabilities					243
Elimination					(86,661)
Total liabilities					10,109,412
Off-balance sheet credit commitments	1,781,695	205,092	–	49,033	2,035,820

(Expressed in millions of RMB, unless otherwise stated)

58 ENTRUSTED LENDING BUSINESS

As at the end of the reporting period, the entrusted loans and funds were as follows:

	Group		Bank	
	2011	2010	**2011**	2010
Entrusted loans	**1,027,817**	778,349	**971,331**	776,418
Entrusted funds	**1,027,817**	778,349	**971,331**	776,418

59 PLEDGED ASSETS

(1) Assets pledged as security

(a) Carrying value of pledged assets analysed by asset type

	Group		Bank	
	2011	2010	**2011**	2010
Pledged deposits	**388**	559	**388**	559
Equity instruments	**–**	43	**–**	–
Loans	**–**	2,000	**1,133**	8,222
Discounted bills	**451**	–	**451**	–
Bonds	**597**	543	**597**	543
PBOC bills	**10,110**	2,860	**10,110**	2,860
Total	**11,546**	6,005	**12,679**	12,184

(b) Carrying value of pledged assets analysed by classification

	Group		Bank	
	2011	2010	**2011**	2010
Deposits with banks and non-bank financial institutions	**388**	559	**388**	559
Financial assets at fair value through profit or loss	**–**	43	**–**	–
Loans and advances to customers	**451**	2,000	**1,584**	8,222
Available-for-sale financial assets	**597**	543	**597**	543
Held-to-maturity investments	**10,110**	2,860	**10,110**	2,860
Total	**11,546**	6,005	**12,679**	12,184

(2) Collateral accepted as securities for assets

The Group conducts resale agreements under usual and customary terms of placements, and holds collateral for these transactions. As at 31 December 2011 and 2010, the Group did not hold any collateral for resale agreements, which it was permitted to sell or repledge in the absence of default for the transactions.

(Expressed in millions of RMB, unless otherwise stated)

60 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Credit commitments

Credit commitments take the form of undrawn loan facilities which are approved and contracted, unutilised credit card limits, financial guarantees, letters of credit etc. The Group assesses and makes allowance for any probable losses accordingly.

The contractual amounts of loans and credit card commitments represent the cash outflows should the contracts be fully drawn upon. The amounts of guarantees and letters of credit represent the maximum potential loss that would be recognised if counterparties failed completely to perform as contracted. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers.

As credit commitments expire without being drawn upon, the total of the contractual amounts set out in the following table do not represent the expected future cash outflows.

	Group		Bank	
	2011	2010	**2011**	2010
Loan commitments				
– with an original maturity under one year	**129,745**	123,092	**127,134**	120,071
– with an original maturity of one year or over	**349,032**	461,785	**348,992**	461,636
Credit card commitments	**266,447**	227,478	**242,191**	205,092
	745,224	812,355	**718,317**	786,799
Bank acceptances	**335,517**	393,671	**335,391**	393,522
Financing guarantees	**189,258**	162,824	**188,537**	162,410
Non-financing guarantees	**439,322**	446,010	**439,231**	445,936
Sight letters of credit	**42,778**	58,135	**42,778**	58,135
Usance letters of credit	**203,810**	131,045	**204,242**	130,710
Others	**26,040**	31,780	**28,288**	31,881
Total	**1,981,949**	2,035,820	**1,956,784**	2,009,393

(2) Credit risk-weighted amount

The credit risk-weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% of contingent liabilities and commitments.

	Group		Bank	
	2011	2010	**2011**	2010
Credit risk-weighted amount of contingent liabilities and commitments	**929,681**	954,706	**928,188**	953,856

(Expressed in millions of RMB, unless otherwise stated)

60 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(3) Operating lease commitments

The Group and the Bank lease certain property and equipment under operating leases, which typically run for an initial period of one to five years and may include an option to renew the lease when all terms are renegotiated. As at the end of the reporting period, the future minimum lease payments under non-cancellable operating leases for property and equipment were as follows:

	Group		Bank	
	2011	2010	**2011**	2010
Within one year	**3,363**	3,002	**3,130**	2,742
After one year but within two years	**2,640**	2,319	**2,503**	2,243
After two years but within three years	**1,836**	1,766	**1,770**	1,727
After three years but within five years	**2,130**	2,171	**2,113**	1,968
After five years	**1,467**	1,388	**1,461**	1,359
Total	**11,436**	10,646	**10,977**	10,039

(4) Capital commitments

As at the end of the reporting period, the Group and the Bank had capital commitments as follows:

	Group		Bank	
	2011	2010	**2011**	2010
Contracted for	**4,793**	3,815	**4,759**	3,726
Authorised but not contracted for	**5,802**	1,619	**5,782**	1,603
Total	**10,595**	5,434	**10,541**	5,329

(5) Underwriting obligations

As at 31 December 2011, there was no unexpired underwriting commitments of the Group and the Bank (2010: RMB51,846 million).

(6) Redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations, which represent the nominal value of government bonds underwritten and sold by the Group and the Bank, but not yet matured as at 31 December 2011, were RMB72,205 million (2010: RMB91,578 million).

(7) Outstanding litigation and disputes

As at 31 December 2011, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB2,173 million (2010: RMB1,976 million). Provisions have been made for the estimated losses arising from such litigations based upon the opinions of the Group's internal and external legal counsels (Note 47). The Group considers that the provisions made are reasonable and adequate.

(8) Provision against commitments and contingent liabilities

The Group and the Bank assessed and made provisions for any probable outflow of economic benefits in relation to the above commitments and contingent liabilities in accordance with their accounting policies (Note 4 (13)).

(Expressed in millions of RMB, unless otherwise stated)

61 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Transactions with parent companies and their affiliates

The parent companies of the Group are CIC and Huijin.

Approved by the State Council, CIC was established on 29 September 2007 with a registered capital of RMB1,550 billion. As a wholly owned subsidiary of CIC, Huijin exercises its rights and obligations as an investor on behalf of PRC government.

Huijin was incorporated on 16 December 2003 as a wholly state-owned investment company with the approval of the State Council. It was registered in Beijing with a registered capital of RMB828,209 million. Its principal activities are equity investments as authorised by the State Council, without engaging in other commercial operations. As at 31 December 2011, Huijin directly held 57.13% shares of the Bank.

The related companies under parent companies include the subsidiaries under parent companies and other associates and jointly controlled entities.

The Group's transactions with parent companies and their affiliates mainly include deposit taking, entrusted asset management, operating leases, lending, purchase and sale of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under general commercial terms.

The Group has issued subordinated debts with a nominal value of RMB120 billion (2010: RMB80 billion). These are bearer bonds and tradable in secondary market. Accordingly, the Group has no information in respect of the amount of the bonds held by the affiliates of parent companies as at the end of the reporting period.

(a) Transactions with parent companies

In the ordinary course of the business, material transactions that the Group and the Bank entered into with parent companies are as follows:

Amounts

	2011		2010	
	Amount	Ratio to similar transactions	Amount	Ratio to similar transactions
Interest income	578	0.12%	185	0.05%
Interest expense	113	0.06%	68	0.05%
Fee and commission income	–	–	2	0.00%

Balances outstanding as at the end of the reporting period

	2011		2010	
	Balance	Ratio to similar transactions	Balance	Ratio to similar transactions
Interest receivable	186	0.33%	185	0.42%
Held-to-maturity investments	16,680	0.96%	16,680	0.89%
Deposits from customers	3,559	0.04%	4,934	0.05%
Interest payable	22	0.03%	1	0.00%
Credit commitments	288	0.01%	–	–

(Expressed in millions of RMB, unless otherwise stated)

61 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(1) Transactions with parent companies and their affiliates (continued)

(b) Transactions with the affiliates of parent companies

In the ordinary course of the business, material transactions that the Group and the Bank entered into with the affiliates of parent companies are as follows:

Amounts

		2011		2010	
	Note	Amount	Ratio to similar transactions	Amount	Ratio to similar transactions
Interest income		**27,761**	**5.76%**	15,123	4.00%
Interest expense		**2,372**	**1.34%**	1,670	1.32%
Fee and commission income		**495**	**0.55%**	201	0.29%
Fee and commission expense		**56**	**2.24%**	113	5.58%
Other operating income, net		**–**	**–**	10	0.40%
Operating expenses	(i)	**1,025**	**0.71%**	967	0.80%

Balances outstanding as at the end of the reporting period

		2011		2010	
	Note	Balance	Ratio to similar transactions	Balance	Ratio to similar transactions
Deposits with banks and non-bank financial institutions		**41,033**	**14.83%**	9,436	12.05%
Placements with banks and non-bank financial institutions		**21,941**	**20.12%**	19,478	30.45%
Financial assets at fair value through profit or loss		**2,106**	**9.12%**	1,353	7.80%
Positive fair value of derivatives		**529**	**3.74%**	830	7.39%
Financial assets held under resale agreements		**10,007**	**5.00%**	1,401	0.77%
Interest receivable		**11,358**	**20.00%**	5,875	13.33%
Loans and advances to customers		**33,244**	**0.53%**	15,306	0.28%
Available for sale financial assets		**134,765**	**19.96%**	85,682	12.30%
Held-to-maturity investments		**443,695**	**25.45%**	372,605	19.78%
Debt securities classified as receivables		**64,549**	**21.51%**	34,049	11.10%
Other assets	(ii)	**32**	**0.18%**	157	1.03%
Deposits from banks and non-bank financial institutions	(iii)	**67,006**	**6.93%**	53,529	7.83%
Placements from banks and non-bank financial institutions		**33,744**	**42.86%**	14,018	21.15%
Negative fair value of derivatives		**514**	**3.86%**	628	6.71%
Deposits from customers		**40,238**	**0.40%**	13,597	0.15%
Interest payable		**163**	**0.20%**	69	0.11%
Other liabilities		**234**	**0.66%**	150	0.61%
Credit commitments		**7,822**	**0.39%**	6,878	0.34%

(i) Operating expenses mainly represent rental expenses paid by the Group for leased assets, including properties and motor vehicles, owned by parent companies and its affiliates, and fees for related services provided by parent companies and its affiliates.

(ii) Other assets mainly represent other receivables from the affiliates of parent companies.

(iii) Deposits from the affiliates of parent companies are unsecured and are repayable under general commercial terms.

(Expressed in millions of RMB, unless otherwise stated)

61 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(2) Transactions with associates and jointly controlled entities of the Group

Transactions between the Group and its associates and jointly controlled entities are conducted in the normal and ordinary course of the business and under general commercial terms as those transactions conducted between the Group and non-related companies outside the Group. In the ordinary course of the business, material transactions that the Group entered into with associates and jointly controlled entities are as follows:

Amounts

	2011	2010
Interest income	**6**	3
Interest expense	**2**	–

Balances outstanding as at the end of the reporting period

	2011	2010
Loans and advances to customers	**497**	567
Deposits from customers	**824**	–

(3) Transactions between the Bank and its subsidiaries

Transactions between the Bank and its subsidiaries are conducted in the normal and ordinary course of the business and under normal commercial terms as those transactions conducted between the Group and non-related companies outside the Group. All the inter-group transactions and inter-group balances are eliminated when preparing the consolidated financial statements as mentioned in Note 4(1)(b).

In the ordinary course of the business, material transactions that the Bank entered into with its subsidiaries are as follows:

Amounts

	2011	2010
Interest income	**412**	128
Interest expense	**418**	169
Fee and commission income	**268**	260
Fee and commission expense	**32**	28
Dividend income	**85**	65
Net trading gain	**22**	60
Other operating income, net	**5**	13
Credit commitment	**35**	62

Balances outstanding as at the end of the reporting period are presented in Note 38.

As at 31 December 2011, the total maximum guarantee limit of guarantee letters issued by the Bank with its subsidiaries as beneficiary is RMB3,416 million (2010: RMB4,262 million).

For the year ended 31 December 2011, the transactions between subsidiaries of the Group are mainly deposit taking and ordinary receivables and payables. As at 31 December, 2011, the balances of the above transactions were RMB783 million (2010: RMB737 million) and RMB148 million (2010: RMB220 million) respectively.

(4) Transactions with other PRC state-owned entities

State-owned entities refer to those entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations. Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; sale, purchase, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group's pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(Expressed in millions of RMB, unless otherwise stated)

61 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(5) Key management personnel

Key management personnel are those persons having authorities and responsibilities for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and senior executives.

The compensation of directors and supervisors is disclosed in Note 14. The senior executives' annual compensation before individual income tax during the year is as follows:

	2011			
	Remuneration paid RMB'000	Contributions to defined contribution retirement schemes RMB'000	Other benefits in kind (note (i)) RMB'000	Total RMB'000
Executive vice president				
Zhu Hongbo	–	–	–	–
Hu Zheyi (Note (ii))	589	30	257	876
Pang Xiusheng (Note (ii))	589	30	253	872
Zhao Huan (Note (ii))	589	30	248	867
Member of senior management				
Zhang Gengsheng (Note (ii))	571	30	242	843
Chief Financial Officer				
Zeng Jianhua (Note (ii))	414	23	162	599
Chief Risk Officer				
Huang Zhiling (Note (ii))	455	25	180	660
Chief Audit Officer				
Yu Jingbo (Note (ii))	414	23	161	598
Secretary to the board of directors				
Chen Caihong (Note (ii))	538	30	219	787
Controller of wholesale banking				
Xu Huibin (Note (ii))	414	23	162	599
Controller of retail banking				
Tian Huiyu (Note (ii))	414	23	153	590
Controller of investment and wealth management banking				
Wang Guiya (Note (ii))	414	23	161	598
Former controller of wholesale banking				
Gu Jingpu (Note (ii))	125	7	54	186
Former controller of retail banking				
Du Yajun	–	–	–	–
Former controller of investment and wealth management banking				
Mao Yumin	975	2	6	983
	6,501	299	2,258	9,058

(Expressed in millions of RMB, unless otherwise stated)

61 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(5) Key management personnel (continued)

	2011				
	Salaries and allowance RMB'000	Variable compensation RMB'000	Contributions to defined contribution retirement schemes RMB'000	Other benefits in kind (Note (i)) RMB'000	Total RMB'000
Company Secretary					
Chan Mei Sheung	**2,297**	**1,823**	**184**	**13**	**4,317**
Qualified accountant					
Yuen Yiu Leung	**2,085**	**564**	**152**	**22**	**2,823**
	4,382	**2,387**	**336**	**35**	**7,140**

	2010						
	Basic annual salaries RMB'000	Annual performance bonus RMB'000	Allowance RMB'000	Welfare RMB'000	Total (before tax) (Note (iii)) RMB'000	Including: deferral payment RMB'000	The actual payment in 2010 (before tax) RMB'000
Executive vice president							
Hu Zheyi	363	1,002	–	275	1,640	501	1,139
Executive vice president							
Pang Xiusheng	363	1,003	–	270	1,636	501	1,135
Executive vice president							
Zhao Huan	–	–	–	–	–	–	–
Member of senior management							
Zhang Gengsheng	–	–	–	–	–	–	–
Chief Financial Officer							
Zeng Jianhua	–	–	–	–	–	–	–
Chief Risk Officer							
Huang Zhiling	–	–	–	–	–	–	–
Chief Audit Officer							
Yu Jingbo	–	–	–	–	–	–	–
Secretary to the board of directors							
Chen Caihong	333	919	–	240	1,492	459	1,033
Controller of wholesale banking							
Gu Jingpu	333	919	–	240	1,492	459	1,033
Controller of retail banking							
Du Yajun	333	919	–	240	1,492	459	1,033
Controller of investment and wealth management banking							
Mao Yumin	4,330	400	–	31	4,761	–	4,761
Former vice president							
Fan Yifei	152	417	–	112	681	209	472
Former chief audit officer							
Yu Yongshun	333	919	–	240	1,492	459	1,033
	6,540	6,498	–	1,648	14,686	3,047	11,639

(Expressed in millions of RMB, unless otherwise stated)

61 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(5) Key management personnel (continued)

	2010				
	Salaries and allowance	Variable compensation	Contributions to defined contribution retirement schemes	Other benefits in kind (Note (i))	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Company Secretary					
Chan Mei Sheung	2,289	2,348	183	16	4,836
Qualified accountant					
Yuen Yiu Leung	2,116	1,185	148	19	3,468
	4,405	3,533	331	35	8,304

Notes:

(i) Other benefits in kind included the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included the Bank's contribution to its own corporate annuity plan (which was set up in accordance with the relevant policies issued by the government authorities) and supplementary medical insurance.

(ii) The total compensation package for these key management personnel for the year ended 31 December 2011 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation to be adjusted for is not expected to have significant impact on the Group's and the Bank's financial statements for the year ended 31 December 2011. The final compensation will be disclosed in a separate announcement when determined.

(iii) The total compensation package for certain key management personnel for the year ended 31 December 2010 had not been finalised in accordance with regulations of the PRC relevant authorities till the date that the 2010 financial statements were announced. The aforesaid total compensation package for the key management personnel for the year ended 31 December 2010 was the final amount and the Bank made the relevant supplementary announcement on 18 May 2011.

(6) Loans and advances to directors, supervisors and senior executives

The Group had no material balance of loans and advances to directors, supervisors and senior executives as at the end of reporting period. Those loans and advances to directors, supervisors and senior executives were conducted in the normal and ordinary course of the business and under normal commercial terms or on the same terms and conditions with those which are available to other employees, based on terms and conditions granted to third parties adjusted for risk reduction.

(7) Defined contribution retirement schemes

The Group participates in various defined contribution retirement schemes organized by municipal and provincial governments for its employees in Mainland China. For its overseas employees, the Group participates in various defined contribution retirement schemes at funding rates determined in accordance with the local practices and regulations. The details of the Group's defined contribution retirement schemes are described in Note 4 (12)(a).

62 RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

– credit risk
– market risk
– liquidity risk
– operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's capital management.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk strategy and risk management policies and evaluating the Group's overall risk exposures regularly.

To identify, evaluate, monitor and manage risk, the Group has designed a comprehensive governance framework, internal control policies and procedures. The Chief Risk Officer, who reports directly to the President, is responsible for the Group's overall risk management. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures management, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

Risk management framework (continued)

The Group Audit Committee is responsible for monitoring and evaluating internal controls, and monitoring the compliance of core business sectors and their management procedures. The Group Audit Committee is assisted in these functions by Audit Department. Audit Department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the findings of which are reported to the Group Audit Committee.

(1) Credit risk

Credit risk management

Credit risk represents the financial loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Group.

Credit business

The Risk Management Department, under the supervision of the Chief Risk Officer, is responsible for establishing credit risk management policies and performing credit risk measurement and analysis. The Credit Management Department is responsible for monitoring the implementation of credit risk management policies and coordinating credit approval and credit ratings activities. The Credit Management Department works together with the Corporate Banking Department, the SME Business Department, the Institutional Banking Department, the International Business Department, the Group Clients Department, the Housing Finance & Personal Lending Department, the Credit Card Center, the Special Assets Resolution Department and the Legal and Compliance Department to implement credit risk management policies and procedures.

With respect to the credit risk management of corporate and institutional business, the Group has sped up the adjustment of its credit portfolio structure, enhanced post-lending monitoring, and refined the industry-specific guideline and policy baseline for credit approval. Management also fine-tuned the credit acceptance and exit policies, and optimised its economic capital and credit risk limit management. All these policies have implemented to improve the overall asset quality. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring. The Group performs pre-lending evaluations by assessing the entity's credit ratings based on internal rating criteria and assessing the risk and rewards with respect to the proposed project. Credit approvals are granted by designated Credit Approval Officers. The Group continually monitors loans, particularly those related to targeted industries, geographical segments, products and clients. Any adverse events that may significantly affect a borrower's repayment ability are reported timely and measures are implemented to prevent and control risks. The centralized risk management was also expedited in the cities where the first-tier branches are located, and the Bank will continue to explore the ways of specifying the operating characteristic for those branches, in addition to develop an intensive management for risk, reallocation of resource, and improving the quality and efficiency.

With respect to the personal credit business, the Group relies on credit assessment of applicants as the basis for loan approval. Customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and recommendations to the loan-approval departments for consent. The Group monitors borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the recovery process according to standard personal loan recovery procedures.

To mitigate risks, the Group requests the customers to provide collateral and guarantees where appropriate. A fine management system and operating workflow for collateral was developed, and there is a guideline to specify the suitability of accepting specific types of collateral, as well as determining evaluation parameters. Collateral values, structures and legal covenants are regularly reviewed to ensure that they still serve their intended purposes and conform to market practices.

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

Credit grading classification

The Group adopts a loan risk classification approach to manage the loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their level of risk. Substandard, doubtful and loss loans are considered as impaired loans and advances when one or more events demonstrate there is objective evidence of a loss event which triggers impairment. The allowance for impairment loss on impaired loans and advances is collectively or individually assessed as appropriate.

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' abilities to service their loans are in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

The Group has also applied the same grading criteria and management approach in classifying the off-balance sheet credit-related operations.

Treasury business

For risk management purposes, credit risk arising on debt securities and exposures relating to the Group's derivatives portfolio is managed independently and information thereon is disclosed in notes (1)(h) and (1)(i) below. The Group sets credit limits for treasury activities and monitors them regularly with reference to the fair values of the relevant financial instruments.

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(a) Maximum credit risk exposure

The following table presents the maximum exposure to credit risk as at the end of the reporting period without taking into consideration any collateral held or other credit enhancement. In respect of the financial assets recognised in the statement of financial position, the maximum exposure to credit risk is represented by the carrying amount after deducting for any impairment allowance.

	Group		Bank	
	2011	2010	**2011**	2010
Deposits with central banks	**2,321,501**	1,799,828	**2,315,432**	1,793,907
Deposits with banks and non-bank financial institutions	**276,752**	78,318	**279,861**	78,198
Placements with banks and non-bank financial institutions	**109,040**	63,962	**110,533**	68,528
Financial assets at fair value through profit or loss	**14,375**	7,860	**8,715**	3,044
Positive fair value of derivatives	**14,127**	11,224	**13,073**	10,153
Financial assets held under resale agreements	**200,045**	181,075	**200,045**	181,075
Interest receivable	**56,776**	44,088	**56,420**	43,861
Loans and advances to customers	**6,325,194**	5,526,026	**6,189,363**	5,428,279
Available-for-sale debt securities	**661,036**	676,840	**651,585**	675,277
Held-to-maturity investments	**1,743,569**	1,884,057	**1,742,342**	1,883,927
Debt securities classified as receivables	**300,027**	306,748	**299,765**	306,748
Other financial assets	**13,695**	10,994	**29,676**	27,835
Total	**12,036,137**	10,591,020	**11,896,810**	10,500,832
Off-balance sheet credit commitments	**1,981,949**	2,035,820	**1,956,784**	2,009,393
Maximum credit risk exposure	**14,018,086**	12,626,840	**13,853,594**	12,510,225

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(b) Distribution of loans and advances to customers in terms of credit quality is analysed as follows:

		Group		Bank	
	Note	**2011**	2010	**2011**	2010
Individually assessed and impaired gross amount		**65,625**	58,658	**65,490**	58,584
Allowances for impairment losses		**(38,109)**	(37,352)	**(38,020)**	(37,278)
Subtotal		**27,516**	21,306	**27,470**	21,306
Collectively assessed and impaired gross amount		**5,290**	6,054	**5,178**	5,920
Allowances for impairment losses		**(3,276)**	(3,657)	**(3,265)**	(3,648)
Subtotal		**2,014**	2,397	**1,913**	2,272
Overdue but not impaired					
– not more than 90 days		**14,567**	15,971	**14,209**	15,707
Allowances for impairment losses	(i)	**(696)**	(916)	**(696)**	(912)
Subtotal		**13,871**	15,055	**13,513**	14,795
Neither overdue nor impaired					
– Unsecured loans		**1,739,648**	1,513,872	**1,703,090**	1,492,970
– Guaranteed loans		**1,308,879**	1,161,167	**1,265,752**	1,130,549
– Loans secured by tangible assets other than monetary assets		**2,737,839**	2,364,592	**2,688,465**	2,322,350
– Loans secured by monetary assets		**624,563**	548,814	**617,362**	544,460
Gross amount		**6,410,929**	5,588,445	**6,274,669**	5,490,329
Allowances for impairment losses	(i)	**(129,136)**	(101,177)	**(128,202)**	(100,423)
Subtotal		**6,281,793**	5,487,268	**6,146,467**	5,389,906
Total		**6,325,194**	5,526,026	**6,189,363**	5,428,279

(i) The balances represent collectively assessed allowances of impairment losses.

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED))

(1) Credit risk (continued)

(b) Distribution of loans and advances to customers in terms of credit quality is analysed as follows (continued):

Group

Within overdue but not impaired loans and advances and impaired loans and advances which are subject to individual assessment, the portion covered or not covered by collateral held are shown as follows:

	2011		
	Overdue but not impaired loans and advances		Impaired loans and advances which are subject to individual assessment
	Corporate	Personal	Corporate
Portion covered	**170**	**11,935**	**17,607**
Portion not covered	**123**	**2,339**	**48,018**
Total	**293**	**14,274**	**65,625**

	2010		
	Overdue but not impaired loans and advances		Impaired loans and advances which are subject to individual assessment
	Corporate	Personal	Corporate
Portion covered	462	13,055	14,948
Portion not covered	2,002	452	43,710
Total	2,464	13,507	58,658

(Expressed in millions of RMB, unless otherwise stated)

61 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(b) Distribution of loans and advances to customers in terms of credit quality is analyzed as follows (continued):

Bank

Within overdue but not impaired loans and advances and impaired loans and advances which are subject to individual assessment, the portion covered or not covered by collateral held are shown as follows:

	2011		
	Overdue but not impaired loans and advances		Impaired loans and advances which are subject to individual assessment
	Corporate	Personal	Corporate
Portion covered	**45**	**11,766**	**17,605**
Portion not covered	**122**	**2,276**	**47,885**
Total	**167**	**14,042**	**65,490**

	2010		
	Overdue but not impaired loans and advances		Impaired loans and advances which are subject to individual assessment
	Corporate	Personal	Corporate
Portion covered	387	12,925	14,946
Portion not covered	1,998	397	43,638
Total	2,385	13,322	58,584

The above collateral includes land use rights, buildings and equipment, etc. The fair value of collateral was estimated by the Group with reference to the latest available external valuations adjusted after taking into account the current realisation experience as well as the market situation.

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED))

(1) Credit risk (continued)

(c) Loans and advances to customers analysed by economic sector concentrations

Group

	2011			2010		
	Gross loan balance	Percentage	Balance secured by collateral	Gross loan balance	Percentage	Balance secured by collateral
Corporate loans and advances						
– Manufacturing	**1,141,376**	**17.56%**	**393,347**	1,010,527	17.83%	357,152
– Transportation, storage and postal services	**765,763**	**11.79%**	**303,444**	660,308	11.65%	267,123
– Production and supply of electric power, gas and water	**591,315**	**9.10%**	**145,490**	528,279	9.32%	129,473
– Real estate	**465,899**	**7.17%**	**387,527**	435,234	7.68%	354,485
– Leasing and commercial services	**386,588**	**5.95%**	**168,593**	361,713	6.38%	146,145
– Wholesale and retail trade	**322,106**	**4.96%**	**113,374**	243,738	4.30%	91,752
– Water, environment and public utility management	**226,655**	**3.49%**	**100,239**	216,328	3.82%	95,955
– Construction	**190,096**	**2.93%**	**66,963**	150,736	2.66%	53,883
– Mining	**173,824**	**2.68%**	**26,793**	148,261	2.62%	23,731
– Education	**85,069**	**1.31%**	**35,214**	100,193	1.77%	38,738
– Telecommunications, computer services and software	**24,077**	**0.37%**	**7,271**	28,498	0.50%	7,085
– Others	**300,148**	**4.62%**	**111,642**	251,180	4.40%	107,221
Total corporate loans and advances	**4,672,916**	**71.93%**	**1,859,897**	4,134,995	72.93%	1,672,743
Personal loans and advances	**1,705,622**	**26.25%**	**1,558,628**	1,390,957	24.54%	1,295,659
Discounted bills	**117,873**	**1.82%**	**–**	143,176	2.53%	–
Total loans and advances to customers	**6,496,411**	**100.00%**	**3,418,525**	5,669,128	100.00%	2,968,402

Details of impaired loans, impairment allowances, charges, and amounts written off in respect of economic sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

	2011				
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances	Charged to profit or loss during the year	Written off during the year
Manufacturing	**25,883**	**(15,167)**	**(25,254)**	**5,750**	**1,748**
Transportation, storage and postal services	**7,139**	**(3,636)**	**(18,106)**	**6,371**	**28**

	2010				
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances	Charged to profit or loss during the year	Written off during the year
Manufacturing	22,538	(14,627)	(22,345)	10,316	3,637
Transportation, storage and postal services	6,646	(3,194)	(12,541)	1,839	82

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(c) Loans and advances to customers analysed by economic sector concentrations (continued)

Bank

	2011			2010		
	Gross loan balance	Percentage	Balance secured by collateral	Gross loan balance	Percentage	Balance secured by collateral
Corporate loans and advances						
– Manufacturing	**1,121,439**	**17.61%**	**391,393**	994,814	17.86%	355,803
– Transportation, storage and postal services	**752,130**	**11.83%**	**298,202**	653,718	11.74%	264,290
– Production and supply of electric power, gas and water	**581,301**	**9.14%**	**144,399**	522,734	9.38%	128,549
– Real estate	**439,905**	**6.92%**	**365,509**	413,977	7.43%	337,168
– Leasing and commercial services	**385,789**	**6.07%**	**168,317**	361,451	6.49%	145,918
– Wholesale and retail trade	**306,287**	**4.82%**	**110,193**	230,543	4.14%	88,661
– Water, environment and public utility management	**226,560**	**3.56%**	**100,202**	216,163	3.88%	95,924
– Construction	**188,765**	**2.97%**	**66,764**	149,348	2.68%	53,632
– Mining	**169,852**	**2.67%**	**26,793**	145,810	2.62%	23,731
– Education	**84,983**	**1.34%**	**35,161**	100,045	1.80%	38,620
– Telecommunications, computer services and software	**23,510**	**0.37%**	**7,146**	27,572	0.49%	6,900
– Others	**283,334**	**4.46%**	**109,506**	245,523	4.40%	105,837
Total corporate loans and advances	**4,563,855**	**71.76%**	**1,823,585**	4,061,698	72.91%	1,645,033
Personal loans and advances	**1,677,910**	**26.38%**	**1,538,107**	1,365,684	24.52%	1,276,534
Discounted bills	**117,781**	**1.86%**	**–**	143,158	2.57%	–
Total loans and advances to customers	**6,359,546**	**100.00%**	**3,361,692**	5,570,540	100.00%	2,921,567

Details of impaired loans, impairment allowances, charges, and amounts written off in respect of economic sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

	2011				
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances	Charged to profit or loss during the year	Written off during the year
Manufacturing	**25,815**	**(15,099)**	**(25,071)**	**5,680**	**1,748**
Transportation, storage and postal services	**7,073**	**(3,616)**	**(17,987)**	**6,294**	**28**

	2010				
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances	Charged to profit or loss during the year	Written off during the year
Manufacturing	22,465	(14,554)	(22,181)	10,210	3,637
Transportation, storage and postal services	6,646	(3,194)	(12,479)	1,791	82

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(d) Loans and advances to customers analysed by geographical sector concentrations

Group

	2011			2010		
	Gross loan balance	**Percentage**	**Balance secured by collateral**	Gross loan balance	Percentage	Balance secured by collateral
Yangtze River Delta	**1,476,118**	**22.72%**	**882,276**	1,321,708	23.31%	765,533
Bohai Rim	**1,137,623**	**17.51%**	**497,565**	1,008,340	17.79%	456,068
Western	**1,108,112**	**17.06%**	**622,268**	963,636	17.00%	532,143
Central	**1,051,837**	**16.19%**	**567,187**	922,185	16.27%	477,127
Pearl River Delta	**955,937**	**14.71%**	**597,404**	858,420	15.14%	515,678
Northeastern	**406,035**	**6.25%**	**197,775**	350,584	6.18%	163,249
Head office	**105,632**	**1.63%**	**486**	63,638	1.12%	494
Overseas	**255,117**	**3.93%**	**53,564**	180,617	3.19%	58,110
Gross loans and advances to customers	**6,496,411**	**100.00%**	**3,418,525**	5,669,128	100.00%	2,968,402

Details of impaired loans and impairment allowances in respect of geographical sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

	2011		
	Gross impaired loans	**Individually assessed impairment allowances**	**Collectively assessed impairment allowances**
Yangtze River Delta	**19,264**	**(9,721)**	**(29,988)**
Central	**11,885**	**(6,296)**	**(21,313)**
Western	**10,653**	**(5,878)**	**(23,568)**
Pearl River Delta	**9,699**	**(5,458)**	**(21,106)**
Bohai Rim	**9,428**	**(5,850)**	**(23,412)**

	2010		
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances
Yangtze River Delta	13,830	(8,106)	(24,260)
Central	12,222	(6,290)	(17,403)
Western	10,340	(6,138)	(19,073)
Bohai Rim	9,400	(6,618)	(18,816)
Pearl River Delta	8,491	(5,133)	(16,507)

The definitions of geographical segments are set out in Note 57(1).

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(d) Loans and advances to customers analysed by geographical sector concentrations (continued)

Bank

	2011			2010		
	Gross loan balance	Percentage	Balance secured by collateral	Gross loan balance	Percentage	Balance secured by collateral
Yangtze River Delta	**1,472,744**	**23.17%**	**881,074**	1,320,810	23.71%	765,222
Western	**1,108,061**	**17.42%**	**622,253**	963,592	17.30%	532,117
Bohai Rim	**1,090,356**	**17.15%**	**483,614**	978,095	17.56%	448,493
Central	**1,050,747**	**16.52%**	**567,015**	920,626	16.53%	476,579
Pearl River Delta	**955,937**	**15.03%**	**597,404**	858,420	15.41%	515,678
Northeastern	**406,035**	**6.38%**	**197,775**	350,584	6.29%	163,249
Head office	**105,632**	**1.66%**	**486**	63,638	1.14%	494
Overseas	**170,034**	**2.67%**	**12,071**	114,775	2.06%	19,735
Gross loans and advances to customers	**6,359,546**	**100.00%**	**3,361,692**	5,570,540	100.00%	2,921,567

Details of impaired loans and impairment allowances in respect of geographical sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

	2011		
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances
Yangtze River Delta	**19,264**	**(9,721)**	**(29,914)**
Central	**11,885**	**(6,296)**	**(21,289)**
Western	**10,653**	**(5,878)**	**(23,567)**
Pearl River Delta	**9,699**	**(5,458)**	**(21,106)**
Bohai Rim	**9,361**	**(5,829)**	**(22,924)**

	2010		
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances
Yangtze River Delta	13,830	(8,106)	(24,251)
Central	12,222	(6,290)	(17,387)
Western	10,340	(6,138)	(19,073)
Bohai Rim	9,400	(6,618)	(18,461)
Pearl River Delta	8,491	(5,133)	(16,507)

The definitions of geographical segments are set out in Note 57(1).

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(e) Loans and advances to customers analysed by types of collateral

	Group		Bank	
	2011	2010	**2011**	2010
Unsecured loans	**1,655,537**	1,520,613	**1,618,823**	1,499,484
Guaranteed loans	**1,422,349**	1,180,113	**1,379,031**	1,149,489
Loans secured by tangible assets other than monetary assets	**2,787,776**	2,412,285	**2,738,008**	2,369,804
Loans secured by monetary assets	**630,749**	556,117	**623,684**	551,763
Gross loans and advances to customers	**6,496,411**	5,669,128	**6,359,546**	5,570,540

(f) Rescheduled loans and advances to customers

Group

	2011		2010	
	Total	**% of gross loans and advances to customers**	Total	% of gross loans and advances to customers
Rescheduled loans and advances to customers	**2,692**	**0.04%**	2,070	0.04%
Less:				
Rescheduled loans and advances overdue for more than 90 days	**977**	**0.01%**	668	0.01%
Rescheduled loans and advances overdue for not more than 90 days	**1,715**	**0.03%**	1,402	0.03%

Bank

	2011		2010	
	Total	**% of gross loans and advances to customers**	Total	% of gross loans and advances to customers
Rescheduled loans and advances to customers	**2,575**	**0.04%**	1,926	0.03%
Less:				
Rescheduled loans and advances overdue for more than 90 days	**975**	**0.01%**	666	0.01%
Rescheduled loans and advances overdue for not more than 90 days	**1,600**	**0.03%**	1,260	0.02%

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(g) Distribution of amounts due from banks and non-bank financial institutions in terms of credit quality is as follows:

Amount due from banks and non-bank financial institutions includes deposits and placements with banks and non-bank financial institutions, and financial assets held under resale agreements of which counterparties are banks and non-bank financial institutions.

	Group		Bank	
	2011	2010	**2011**	2010
Individually assessed and impaired gross amount	**102**	105	**102**	105
Allowances for impairment losses	**(74)**	(95)	**(74)**	(95)
Subtotal	**28**	10	**28**	10
Neither overdue nor impaired				
– grade A to AAA	**490,618**	186,796	**493,745**	186,957
– grade B to BBB	**92**	90	**92**	90
– unrated	**95,099**	136,459	**96,574**	140,744
Subtotal	**585,809**	323,345	**590,411**	327,791
Total	**585,837**	323,355	**590,439**	327,801

Amounts neither overdue nor impaired are analysed above according to the Group and the Bank's internal credit rating. Unrated amounts due from banks and non-bank financial institutions include amounts due from a number of banks and non-bank financial institutions for which the Group and the Bank have not assigned an internal credit rating.

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(h) Distribution of debt securities investments analysed by rating

The Group adopts a credit rating approach to manage the credit risk of the debt securities portfolio held by its operations in Mainland China. The ratings are obtained from Bloomberg Composite, or major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at the end of the reporting period are as follows:

Group

	2011					
	Unrated	AAA	AA	A	Lower than A	Total
Individually assessed and impaired gross amount						
– Policy banks	–	–	–	45	–	45
– Banks and non-bank financial institutions	753	11	199	5,615	9,142	15,720
– Public sector entities	125	–	–	–	–	125
– Other enterprises	312	2,818	–	–	311	3,441
	1,190	2,829	199	5,660	9,453	19,331
Impairment						(8,674)
Subtotal						10,657
Neither overdue nor impaired						
– Government	891,088	2,642	7,029	473	83	901,315
– Central banks	429,101	4,574	2,187	–	185	436,047
– Policy banks	285,340	–	264	140	–	285,744
– Banks and non-bank financial institutions	644,925	33,578	14,415	8,018	3,765	704,701
– Cinda	131,761	–	–	–	–	131,761
– Public sector entities	–	63	87	–	65	215
– Other enterprises	5,157	234,469	5,418	3,250	1,593	249,887
	2,387,372	275,326	29,400	11,881	5,691	2,709,670
Impairment						(1,320)
Subtotal						2,708,350
Total						2,719,007

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(h) Distribution of debt securities investments analysed by rating (continued)

Group (continued)

	2010					
	Unrated	AAA	AA	A	Lower than A	Total
Individually assessed and impaired gross amount						
– Policy banks	–	–	–	45	–	45
– Banks and non-bank financial institutions	2,077	34	258	8,227	9,004	19,600
– Public sector entities	–	–	–	–	1,128	1,128
– Other enterprises	315	–	–	49	296	660
	2,392	34	258	8,321	10,428	21,433
Impairment						(10,970)
Subtotal						10,463
Neither overdue nor impaired						
– Government	729,814	9,401	–	72,242	92	811,549
– Central banks	940,292	12,978	–	740	509	954,519
– Policy banks	183,087	–	11	654	162	183,914
– Banks and non-bank financial institutions	479,941	26,973	13,502	12,100	1,551	534,067
– Cinda	206,261	–	–	–	–	206,261
– Public sector entities	–	671	91	–	71	833
– Other enterprises	3,804	163,041	4,535	1,484	1,547	174,411
	2,543,199	213,064	18,139	87,220	3,932	2,865,554
Impairment						(512)
Subtotal						2,865,042
Total						2,875,505

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(h) Distribution of debt securities investments analysed by rating (continued)

Bank

	2011					
	Unrated	AAA	AA	A	Lower than A	Total
Individually assessed and impaired gross amount						
– Policy banks	–	–	–	45	–	45
– Banks and non-bank financial institutions	753	11	199	5,615	9,142	15,720
– Public sector entities	125	–	–	–	–	125
– Other enterprises	312	2,818	–	–	311	3,441
	1,190	2,829	199	5,660	9,453	19,331
Impairment						(8,674)
Subtotal						10,657
Neither overdue nor impaired						
– Government	889,890	2,574	6,729	473	83	899,749
– Central banks	429,101	1,738	2,187	–	–	433,026
– Policy banks	285,340	–	–	130	–	285,470
– Banks and non-bank financial institutions	645,200	32,953	13,638	4,948	2,519	699,258
– Cinda	131,761	–	–	–	–	131,761
– Public sector entities	–	63	87	–	65	215
– Other enterprises	674	233,532	5,010	2,930	1,445	243,591
	2,381,966	270,860	27,651	8,481	4,112	2,693,070
Impairment						(1,320)
Subtotal						2,691,750
Total						2,702,407

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(h) Distribution of debt securities investments analysed by rating (continued)

Bank (continued)

	2010					
	Unrated	AAA	AA	A	Lower than A	Total
Individually assessed and impaired gross amount						
– Policy banks	–	–	–	45	–	45
– Banks and non-bank financial institutions	2,077	34	258	8,227	9,004	19,600
– Public sector entities	–	–	–	–	1,128	1,128
– Other enterprises	315	–	–	49	296	660
	2,392	34	258	8,321	10,428	21,433
Impairment						(10,970)
Subtotal						10,463
Neither overdue nor impaired						
– Government	729,814	9,072	–	72,112	92	811,090
– Central banks	940,123	12,978	–	740	–	953,841
– Policy banks	183,087	–	–	374	162	183,623
– Banks and non-bank financial institutions	482,248	26,850	13,237	9,037	1,034	532,406
– Cinda	206,261	–	–	–	–	206,261
– Public sector entities	–	671	91	–	71	833
– Other enterprises	452	163,041	4,311	1,288	1,547	170,639
	2,541,985	212,612	17,639	83,551	2,906	2,858,693
Impairment						(510)
Subtotal						2,858,183
Total						2,868,646

(i) Credit risk arising from the Group's derivatives exposures

The majority of the Group's derivatives transactions with domestic customers are hedged back-to-back with overseas banks and non-bank financial institutions. The Group is exposed to credit risk both in respect of the domestic customers and the overseas banks and non-bank financial institutions. The Group manages this risk by monitoring this exposure on a regular basis.

(j) Settlement risk

The Group's activities may give rise to settlement risk at the time of the settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement or clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(2) 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 business. A trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book. Non-trading book records those financial instruments and commodities which are not included in the trading book.

The Risk Management Department is responsible for formulating standardised market risk management policies and rules and supervising the implementation of market risk management policies and rules of the Bank. The Asset and Liability Management Department (the "ALM") and the International Business Department is responsible for managing the size and structure of the assets and liabilities in response to non-trading market risk. The Financial Market Department manages the Head Office's RMB and foreign currency investment portfolios, conducts proprietary and customer-driven transactions, as well as implementing market risk management policies and rules. The Audit Department is responsible for regularly performing independent audits of the reliability and effectiveness of the processes constituting the risk management system.

The Group is primarily exposed to structural interest rate risk arising from interest generating commercial banking assets and interest bearing commercial banking liabilities. Interest rate risk is inherent in many of its businesses and largely arises from mismatches between the re-pricing dates of assets and liabilities. The Group manages this risk through regular interest rate gap analysis.

The Group's foreign exchange exposure mainly comprises exposures from foreign currency portfolios within treasury proprietary investments in debt securities and money market placements, and currency exposures from its overseas business. The Group manages its foreign exchange exposure by entering into cross currency interest rate swaps to hedge these exposures on a portfolio basis.

The Group is also exposed to market risk in respect of its customer driven derivatives portfolio and manages this risk by entering into back-to-back hedging transactions on a trade-by-trade basis with overseas banks and non-bank financial institutions.

The Group considers that the market risk arising from stock prices in respect of its investment portfolios is minimal.

The Group monitors market risk separately in respect of trading portfolios and non-trading portfolios. Trading portfolios include exchange rate and interest rate derivatives as well as trading securities. The historical simulation model for the Value-at-risk ("VaR") analysis is a major tool used by the Bank to measure and monitor the market risk of its trading portfolio and available-for-sale debt securities. Net interest income sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major tools used by the Group to monitor the market risk of its overall businesses.

(a) VaR analysis

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to movements in market interest rates, foreign exchange rates and other market prices over a specified time horizon and at a given level of confidence. The Risk Management Department calculates interest rates, foreign exchange rates and commodity prices VaR for the Bank's trading portfolio. By reference to historical movements in interest rates, foreign exchange rates and prices, the Risk Management Department calculates VaR on a daily basis for the trading portfolio and monitors regularly. VaR is calculated at a confidence level of 99% and with a holding period of one day.

A summary of the VaR of the Bank's trading portfolio as at the end of the reporting period and during the respective years is as follows:

	2011			
	As at 31 December	**Average**	**Maximum**	**Minimum**
Risk valuation of trading portfolio	**57**	**90**	**263**	**12**
– Interest rate risk	**18**	**25**	**67**	**7**
– Foreign exchange risk(1)	**49**	**84**	**260**	**8**
– Commodity risk(2)	**8**	**25**	**73**	**1**

	2010			
	As at 31 December	Average	Maximum	Minimum
Risk valuation of trading portfolio	43	39	95	8
– Interest rate risk	10	17	47	2
– Foreign exchange risk(1)	44	36	97	4

(1) The reporting of risk in relation to bullion is included in foreign exchange risk above.

(2) The group calculates the commodity risk since November 2011.

62 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(a) VaR analysis (continued)

VaR for each risk factor is the independently derived largest potential loss in a specific holding period and within a certain confidence level due to fluctuations solely in that risk factor. The individual VaRs did not add up to the total VaR as there was diversification effect due to correlation amongst the risk factors.

The above average, maximum and minimum VaR for interest rate risk, foreign exchange risk and diversification of the trading portfolio represent a breakdown of the average, maximum and minimum VaR for the whole portfolio and not the individual average, maximum and minimum VaR for each risk within the portfolio.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Within the model used there is 1 percent probability that losses could exceed the VaR;
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and
- The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

(b) Net interest income sensitivity analysis

In monitoring interest rate risk on its overall non-derivative financial assets and liabilities, the Bank regularly measures its future net interest income sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant financial position). An incremental 100 basis points parallel fall or rise in all yield curves, other than that applicable to balances with central banks, would increase or decrease planned net interest income for the next twelve months from the reporting date by RMB37,516 million (2010: RMB34,771 million). Had the impact of yield curves movement for demand deposits from customers been excluded, the planned net interest income for the next twelve months from the reporting date would decrease or increase by RMB21,061 million (2010: RMB21,214 million).

The above interest rate sensitivity is for illustration purposes only and is assessed based on simplified assumptions. The figures here indicate estimated net interest income movements under various predicted yield curve scenarios and subject to the Bank's current interest rate exposures. However, account has not been taken of the possible risk management measures that can be undertaken by the department who manage the interest related risk or related business departments to mitigate interest rate risk. In practice, the department who manage the interest related risk strives to reduce loss arising from interest rate risk while increasing its net income. These figures are estimated on the assumption that the interest rates on various maturities will move within similar ranges, and therefore do not reflect the potential net interest income changes in the event that interest rates on some maturities may change and others remain unchanged. Moreover, the above estimations are based on other simplified assumptions, including that all positions will be held to maturity and rolled over upon maturity.

(c) Interest rate repricing gap analysis

Interest rate risk refers to the risk where the market interest rates, tenor and other factors may experience unfavourable fluctuations which impact the overall profitability and fair value resulting in losses to the banking book. The key determinants of the Group's interest rate risk arises from the mismatch between the maturity periods of the assets and liabilities, and inconsistent pricing basis, resulting in re-pricing risk and basis risk.

The ALM is responsible for regularly monitoring the interest rate risk positions and measuring the interest rate re-pricing gap. The main reason for measuring the interest rate re-pricing gap is to assist in analysing the impact of interest rate changes on net interest income.

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(c) Interest rate repricing gap analysis (continued)

The following tables indicate the effective interest rate ("EIR") for the respective year, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the reporting period.

Group

		2011						
	Note	Effective interest rate Note (i)	Non-interest bearing	Within three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks		1.54%	197,288	2,182,521	–	–	–	2,379,809
Deposits and placements with banks and non-bank financial institutions		2.75%	–	279,079	105,486	1,151	76	385,792
Financial assets held under resale agreements		4.03%	–	198,966	1,079	–	–	200,045
Loans and advances to customers	(ii)	5.69%	–	3,485,517	2,746,432	26,964	66,281	6,325,194
Investments	(iii)	3.27%	24,811	258,463	465,984	1,098,204	896,357	2,743,819
Other assets		–	247,175	–	–	–	–	247,175
Total assets		4.27%	469,274	6,404,546	3,318,981	1,126,319	962,714	12,281,834
Liabilities								
Borrowings from central banks		0.98%	–	2,220	–	–	–	2,220
Deposits and placements from banks and non-bank financial institutions		2.35%	–	948,479	58,520	37,955	–	1,044,954
Financial liabilities at fair value through profit or loss		1.33%	12,683	11,669	9,304	–	–	33,656
Financial assets sold under repurchase agreements		5.67%	–	9,543	918	–	–	10,461
Deposits from customers		1.61%	44,435	7,185,234	2,057,323	692,825	7,633	9,987,450
Debt securities issued		3.41%	–	18,100	20,518	31,123	98,571	168,312
Other liabilities		–	218,120	–	–	–	–	218,120
Total liabilities		1.70%	275,238	8,175,245	2,146,583	761,903	106,204	11,465,173
Asset-liability gap		2.57%	194,036	(1,770,699)	1,172,398	364,416	856,510	816,661

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(c) Interest rate repricing gap analysis (continued)

Group (continued)

		2010						
	Note	Effective interest rate Note (i)	Non-interest bearing	Within three months	Between three months and one year	Between one year and five years	More than Five years	Total
Assets								
Cash and deposits with central banks		1.52%	65,649	1,782,380	–	–	–	1,848,029
Deposits and placements with banks and non-bank financial institutions		1.51%	–	138,366	3,864	50	–	142,280
Financial assets held resale agreements		1.68%	–	160,915	20,160	–	–	181,075
Loans and advances to customers	(ii)	5.07%	–	2,753,781	2,682,962	21,099	68,184	5,526,026
Investments	(iii)	2.83%	31,269	595,367	660,904	886,509	732,725	2,906,774
Other assets		–	206,133	–	–	–	–	206,133
Total assets		3.74%	303,051	5,430,809	3,367,890	907,658	800,909	10,810,317
Liabilities								
Borrowings from central banks		2.34%	–	1,781	–	–	–	1,781
Deposits and placements from banks and non-bank financial institutions		1.73%	–	679,934	31,497	38,378	–	749,809
Financial liabilities at fair value through profit or loss		1.32%	2,926	9,963	51	2,347	–	15,287
Financial assets sold under repurchase agreements		1.82%	–	4,868	54	–	–	4,922
Deposits from customers		1.28%	41,602	6,708,141	1,951,209	367,097	7,320	9,075,369
Debt securities issued		3.78%	–	7,563	3,401	24,425	57,926	93,315
Other liabilities		–	168,929	–	–	–	–	168,929
Total liabilities		1.34%	213,457	7,412,250	1,986,212	432,247	65,246	10,109,412
Asset-liability gap		2.40%	89,594	(1,981,441)	1,381,678	475,411	735,663	700,905

Notes:

(i) Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.

(ii) For loans and advances to customers, the "within three months" category includes overdue amounts (net of allowances for impairment losses) of RMB25,121 million as at 31 December 2011 (2010: RMB23,433 million).

(iii) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investment, debt securities classified as receivables and investments in associates and jointly controlled entities.

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(c) Interest rate repricing gap analysis (continued)

Bank

	Note	2011						
		Effective interest rate Note (i)	Non-interest bearing	Within three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks		1.54%	192,636	2,180,857	–	–	–	2,373,493
Deposits and placements with banks and non-bank financial institutions		2.80%	–	277,365	112,959	24	46	390,394
Financial assets held under resale agreements		4.03%	–	198,966	1,079	–	–	200,045
Loans and advances to customers	(ii)	5.72%	–	3,371,429	2,729,704	22,166	66,064	6,189,363
Investments	(iii)	3.26%	23,949	253,680	460,878	1,093,014	894,834	2,726,355
Other assets		–	259,240	–	–	–	–	259,240
Total assets		4.27%	475,825	6,282,297	3,304,620	1,115,204	960,944	12,138,890
Liabilities								
Borrowings from central banks		0.98%	–	2,210	–	–	–	2,210
Deposits and placements from banks and non-bank financial institutions		2.30%	–	941,999	37,133	36,555	–	1,015,687
Financial liabilities at fair value through profit or loss		1.33%	12,683	11,669	6,614	–	–	30,966
Financial assets sold under repurchase agreements		4.85%	–	10,676	918	–	–	11,594
Deposits from customers		1.61%	40,221	7,119,711	2,047,688	691,184	7,289	9,906,093
Debt securities issued		3.52%	–	14,904	15,573	29,002	98,571	158,050
Other liabilities		–	207,713	–	–	–	–	207,713
Total liabilities		1.70%	260,617	8,101,169	2,107,926	756,741	105,860	11,332,313
Asset-liability gap		2.57%	215,208	(1,818,872)	1,196,694	358,463	855,084	806,577

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(c) Interest rate repricing gap analysis (continued)

Bank (continued)

		2010						
	Note	Effective interest rate Note (i)	Non-interest bearing	Within three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks		1.52%	65,408	1,776,459	–	–	–	1,841,867
Deposits and placements with banks and non-bank financial institutions		1.46%	–	137,516	9,210	–	–	146,726
Financial assets held under resale agreements		1.68%	–	160,915	20,160	–	–	181,075
Loans and advances to customers	(ii)	5.07%	–	2,693,227	2,648,564	18,464	68,024	5,428,279
Investments	(iii)	2.83%	27,623	593,104	660,150	883,051	732,691	2,896,619
Other assets		–	220,239	–	–	–	–	220,239
Total assets		3.73%	313,270	5,361,221	3,338,084	901,515	800,715	10,714,805
Liabilities								
Borrowings from central banks		2.34%	–	1,781	–	–	–	1,781
Deposits and placements from banks and non-bank financial institutions		1.69%	–	660,043	29,463	37,396	–	726,902
Financial liabilities at fair value through profit or loss		1.32%	2,926	9,963	51	–	–	12,940
Financial assets sold under repurchase agreements		1.29%	–	6,774	4,315	–	–	11,089
Deposits from customers		1.28%	41,602	6,656,114	1,943,158	366,508	7,264	9,014,646
Debt securities issued		3.70%	–	6,203	3,145	24,161	57,922	91,431
Other liabilities		–	164,651	–	–	–	–	164,651
Total liabilities		1.34%	209,179	7,340,878	1,980,132	428,065	65,186	10,023,440
Asset-liability gap		2.39%	104,091	(1,979,657)	1,357,952	473,450	735,529	691,365

Notes:

(i) Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.

(ii) For loans and advances to customers, the "within three months" category includes overdue amounts (net of allowances for impairment losses) of RMB24,664 million as at 31 December 2011 (2010: RMB23,092 million).

(iii) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, debt securities classified as receivables and investments in subsidiaries.

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(d) Currency risk

The Group's foreign exchange exposure mainly comprises exposures that arise from the foreign currency portfolio within the treasury's proprietary investments, and currency exposures originated by the Group's overseas businesses.

The Group manages other currency risk by spot and forward foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives (principally foreign exchange swaps and cross currency swaps) in the management of its own foreign currency asset and liability portfolios and structural positions.

The currency exposures of the Group's and the Bank's assets and liabilities as at the end of the reporting period are as follows:

Group

		2011			
	Note	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and deposits with central banks		2,253,657	45,133	81,019	2,379,809
Deposits and placements with banks and non-bank financial institutions	(i)	536,807	25,609	23,421	585,837
Loans and advances to customers		5,955,730	245,419	124,045	6,325,194
Investments		2,672,309	29,090	42,420	2,743,819
Other assets		218,568	22,703	5,904	247,175
Total assets		11,637,071	367,954	276,809	12,281,834
Liabilities					
Borrowings from central banks		16	2,203	1	2,220
Deposits and placements from banks and non-bank financial institutions	(ii)	856,133	81,819	117,463	1,055,415
Financial liabilities at fair value through profit or loss		22,323	8,545	2,788	33,656
Deposits from customers		9,690,386	164,752	132,312	9,987,450
Debt securities issued		132,920	20,399	14,993	168,312
Other liabilities		182,299	8,305	27,516	218,120
Total liabilities		10,884,077	286,023	295,073	11,465,173
Net position		752,994	81,931	(18,264)	816,661
Net notional amount of derivatives		44,469	(79,952)	36,194	711

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(d) Currency risk (continued)

Group (continued)

		2010			
	Note	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and deposits with central banks		1,815,825	5,960	26,244	1,848,029
Deposits and placements with banks and non-bank financial institutions	(i)	254,409	26,068	42,878	323,355
Loans and advances to customers		5,194,760	223,264	108,002	5,526,026
Investments		2,834,022	35,416	37,336	2,906,774
Other assets		198,160	1,769	6,204	206,133
Total assets		10,297,176	292,477	220,664	10,810,317
Liabilities					
Borrowings from central banks		6	1,054	721	1,781
Deposits and placements from banks and non-bank financial institutions	(ii)	619,166	68,882	66,683	754,731
Financial liabilities at fair value through profit or loss		12,865	75	2,347	15,287
Deposits from customers		8,833,230	126,643	115,496	9,075,369
Debt securities issued		79,910	3,610	9,795	93,315
Other liabilities		146,955	9,392	12,582	168,929
Total liabilities		9,692,132	209,656	207,624	10,109,412
Net position		605,044	82,821	13,040	700,905
Net notional amount of derivatives		56,482	(65,331)	10,622	1,773

Notes:

(i) Including financial assets held under resale agreements.

(ii) Including financial assets sold under repurchase agreements.

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(d) Currency risk (continued)

Bank

	Note	2011			
		RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and deposits with central banks		2,252,012	45,133	76,348	2,373,493
Deposits and placements with banks and non-bank financial institutions	(i)	543,655	30,651	16,133	590,439
Loans and advances to customers		5,898,547	220,940	69,876	6,189,363
Investments		2,671,599	27,916	26,840	2,726,355
Other assets		234,948	22,717	1,575	259,240
Total assets		11,600,761	347,357	190,772	12,138,890
Liabilities					
Borrowings from central banks		6	2,203	1	2,210
Deposits and placements from banks and non-bank financial institutions	(ii)	832,280	84,504	110,497	1,027,281
Financial liabilities at fair value through profit or loss		22,323	8,545	98	30,966
Deposits from customers		9,675,116	150,321	80,656	9,906,093
Debt securities issued		131,796	17,442	8,812	158,050
Other liabilities		193,377	7,920	6,416	207,713
Total liabilities		10,854,898	270,935	206,480	11,332,313
Net position		745,863	76,422	(15,708)	806,577
Net notional amount of derivatives		44,785	(69,562)	25,439	662

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(d) Currency risk (continued)

Bank (continued)

		2010			
	Note	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and deposits with central banks		1,815,109	5,960	20,798	1,841,867
Deposits and placements with banks and non-bank financial institutions	(i)	258,007	28,914	40,880	327,801
Loans and advances to customers		5,162,066	209,412	56,801	5,428,279
Investments		2,837,047	33,378	26,194	2,896,619
Other assets		217,396	2,025	818	220,239
Total assets		10,289,625	279,689	145,491	10,714,805
Liabilities					
Borrowings from central banks		6	1,054	721	1,781
Deposits and placements from banks and non-bank financial institutions	(ii)	601,454	74,872	61,665	737,991
Financial liabilities at fair value through profit or loss		12,865	75	–	12,940
Deposits from customers		8,827,457	116,157	71,032	9,014,646
Debt securities issued		79,909	2,435	9,087	91,431
Other liabilities		152,348	8,913	3,390	164,651
Total liabilities		9,674,039	203,506	145,895	10,023,440
Net position		615,586	76,183	(404)	691,365
Net notional amount of derivatives		60,175	(61,683)	3,033	1,525

Notes:

(i) Including financial assets held under resale agreements.

(ii) Including financial assets sold under repurchase agreements.\

(3) Liquidity risk

Liquidity risk is the type of risk that occurs when, despite its debt servicing ability, the Group cannot obtain sufficient funds in time, or obtain sufficient funds at a reasonable cost, to meet the needs of asset growth or repay liabilities when they are due. It is caused by mismatches of assets and liabilities in terms of their amounts and maturity dates. In accordance with liquidity policies, the Group monitors the future cash flows to ensure that an appropriate level of highly liquid assets is maintained.

At the Group level, liquidity is managed and coordinated through the ALM. The ALM is responsible for formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- adopting a prudent strategy and ensuring sufficient funds are available at any moment to satisfy any payment request;
- optimising the Group's asset and liability structure, diversifying and stabilizing the source of funds, and reserving an appropriate proportion of highly credit-rated and liquid asset portfolio; and
- managing and utilising centrally the Bank's liquid funds.

The Group uses a variety of methods including liquidity index analysis, analysis of remaining contractual maturities and undiscounted cash flow analysis to measure the liquidity risk. Gap analysis is used to predict the cash flow within one year. Various types of scenario analysis are then applied to assess the impact of liquidity risk.

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(a) Maturity analysis

The following tables provide an analysis of the assets and liabilities of the Group and the Bank based on the remaining periods to repayment as at the end of the reporting period:

Group

	2011							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks	1,996,932	382,877	–	–	–	–	–	2,379,809
Deposits and placements with banks and non-bank financial institutions	–	32,603	151,071	95,405	98,454	8,183	76	385,792
Financial assets held under resale agreements	–	–	185,613	13,353	1,079	–	–	200,045
Loans and advances to customers	33,363	104,292	236,117	456,647	1,647,945	1,674,416	2,172,414	6,325,194
Investments								
– Financial assets at fair value through profit or loss	8,722	–	2	201	6,382	6,326	1,463	23,096
– Available-for-sale financial assets	22,308	–	7,678	42,776	136,627	314,230	151,439	675,058
– Held-to-maturity investments	2,004	–	24,140	22,928	156,543	911,631	626,323	1,743,569
– Debt securities classified as receivables	368	–	–	750	17,944	57,259	223,706	300,027
– Investments in associates and jointly controlled entities	2,069	–	–	–	–	–	–	2,069
Other assets	138,347	31,518	14,631	25,221	28,087	4,689	4,682	247,175
Total assets	2,204,113	551,290	619,252	657,281	2,093,061	2,976,734	3,180,103	12,281,834
Liabilities								
Borrowings from central banks	–	2,220	–	–	–	–	–	2,220
Deposits and placements from banks and non-bank financial institutions	–	445,029	320,833	156,922	57,350	64,820	–	1,044,954
Financial liabilities at fair value through profit or loss	–	12,682	8,460	3,182	9,304	–	28	33,656
Financial assets sold under repurchase agreements	–	–	2,469	7,074	918	–	–	10,461
Deposits from customers	–	5,396,360	844,136	896,678	2,145,634	694,911	9,731	9,987,450
Debt securities issued								
– Certificates of deposit issued	–	–	7,258	10,842	20,518	9,138	695	48,451
– Subordinated bonds issued	–	–	–	–	–	21,985	97,876	119,861
Other liabilities	358	134,242	11,632	14,833	40,171	12,495	4,389	218,120
Total liabilities	358	5,990,533	1,194,788	1,089,531	2,273,895	803,349	112,719	11,465,173
Long/(short) position	2,203,755	(5,439,243)	(575,536)	(432,250)	(180,834)	2,173,385	3,067,384	816,661
Notional amount of derivatives								
– Interest rate contracts	–	–	2,471	8,976	69,553	74,121	28,539	183,660
– Exchange rate contracts	–	–	165,801	181,875	334,292	48,370	10,399	740,737
– Other contracts	–	–	399	59	3,969	584	–	5,011
Total	–	–	168,671	190,910	407,814	123,075	38,938	929,408

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

Group (continued)

	2010							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks	1,628,890	219,139	–	–	–	–	–	1,848,029
Deposits and placements with banks and non-bank financial institutions	–	53,210	74,247	9,638	5,135	50	–	142,280
Financial assets held under resale agreements	–	–	99,961	60,954	20,160	–	–	181,075
Loans and advances to customers	28,796	68,102	182,745	395,284	1,278,290	1,504,855	2,067,954	5,526,026
Investments								
– Financial assets at fair value through profit or loss	9,484	–	796	1,239	1,576	3,945	304	17,344
– Available-for-sale financial assets	28,437	–	30,095	130,872	143,758	238,283	125,403	696,848
– Held-to-maturity investments	2,035	–	52,824	198,229	355,341	761,587	514,041	1,884,057
– Debt securities classified as receivables	–	–	–	–	16,494	3,628	286,626	306,748
– Investments in associates and jointly controlled entities	1,777	–	–	–	–	–	–	1,777
Other assets	124,387	47,792	3,613	5,664	9,779	5,520	9,378	206,133
Total assets	1,823,806	388,243	444,281	801,880	1,830,533	2,517,868	3,003,706	10,810,317
Liabilities								
Borrowings from central banks	–	1,781	–	–	–	–	–	1,781
Deposits and placements from banks and non-bank financial institutions	–	518,773	77,774	16,846	61,039	75,377	–	749,809
Financial liabilities at fair value through profit or loss	–	2,926	3,043	6,896	24	2,347	51	15,287
Financial assets sold under repurchase agreements	–	–	2,868	2,000	54	–	–	4,922
Deposits from customers	–	5,162,475	809,818	775,614	1,949,539	367,799	10,124	9,075,369
Debt securities issued								
– Certificates of deposit issued	–	–	794	898	6,569	5,149	4	13,414
– Subordinated bonds issued	–	–	–	–	–	21,979	57,922	79,901
Other liabilities	243	76,817	8,056	15,598	58,579	3,946	5,690	168,929
Total liabilities	243	5,762,772	902,353	817,852	2,075,804	476,597	73,791	10,109,412
Long/(short) position	1,823,563	(5,374,529)	(458,072)	(15,972)	(245,271)	2,041,271	2,929,915	700,905
Notional amount of derivatives								
– Interest rate contracts	–	–	3,475	24,497	49,557	70,726	32,875	181,130
– Exchange rate contracts	–	–	159,043	146,726	275,359	27,309	11,012	619,449
– Other contracts	–	–	1,576	331	731	1,237	–	3,875
Total	–	–	164,094	171,554	325,647	99,272	43,887	804,454

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

Bank

	2011							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks	1,995,697	377,796	–	–	–	–	–	2,373,493
Deposits and placements with banks and non-bank financial institutions	–	30,093	148,930	98,343	105,958	7,024	46	390,394
Financial assets held under resale agreements	–	–	185,613	13,353	1,079	–	–	200,045
Loans and advances to customers	32,274	103,938	230,801	443,386	1,613,532	1,628,225	2,137,207	6,189,363
Investments								
– Financial assets at fair value through profit or loss	–	–	2	201	4,332	2,748	1,432	8,715
– Available-for-sale financial assets	20,284	–	6,791	40,350	132,784	312,415	150,959	663,583
– Held-to-maturity investments	2,004	–	24,141	22,888	156,503	911,447	625,359	1,742,342
– Debt securities classified as receivables	368	–	–	750	17,944	57,047	223,656	299,765
– Investments in subsidiaries	11,950	–	–	–	–	–	–	11,950
Other assets	154,043	30,666	14,212	24,889	27,432	3,316	4,682	259,240
Total assets	2,216,620	542,493	610,490	644,160	2,059,564	2,922,222	3,143,341	12,138,890
Liabilities								
Borrowings from central banks	–	2,210	–	–	–	–	–	2,210
Deposits and placements from banks and non-bank financial institutions	–	447,667	322,533	146,309	35,808	63,370	–	1,015,687
Financial liabilities at fair value through profit or loss	–	12,682	8,460	3,182	6,614	–	28	30,966
Financial assets sold under repurchase agreements	–	–	3,161	7,515	918	–	–	11,594
Deposits from customers	–	5,378,414	819,917	869,435	2,135,490	693,169	9,668	9,906,093
Debt securities issued								
– Certificates of deposit issued	–	–	5,719	9,185	15,573	7,017	695	38,189
– Subordinated bonds issued	–	–	–	–	–	21,985	97,876	119,861
Other liabilities	23	133,015	10,765	13,154	34,286	12,082	4,388	207,713
Total liabilities	23	5,973,988	1,170,555	1,048,780	2,228,689	797,623	112,655	11,332,313
Long/(short) position	2,216,597	(5,431,495)	(560,065)	(404,620)	(169,125)	2,124,599	3,030,686	806,577
Notional amount of derivatives								
– Interest rate contracts	–	–	1,798	6,532	68,583	67,200	28,539	172,652
– Exchange rate contracts	–	–	132,742	149,261	291,538	47,107	10,399	631,047
– Other contracts	–	–	298	–	2,839	–	–	3,137
Total	–	–	134,838	155,793	362,960	114,307	38,938	806,836

(Expressed in millions of RMB, unless otherwise stated)

62 MATURITY ANALYSIS (CONTINUED)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

Bank (continued)

	2010							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks	1,628,372	213,495	–	–	–	–	–	1,841,867
Deposits and placements with banks and non-bank financial institutions	–	49,494	72,580	14,172	10,480	–	–	146,726
Financial assets held under resale agreements	–	–	99,961	60,954	20,160	–	–	181,075
Loans and advances to customers	27,826	68,098	178,306	389,016	1,259,594	1,468,371	2,037,068	5,428,279
Investments								
– Financial assets at fair value through profit or loss	–	–	599	1,007	653	515	270	3,044
– Available-for-sale financial assets	26,182	–	29,844	130,722	144,408	236,504	125,371	693,031
– Held-to-maturity investments	2,035	–	52,824	198,209	355,231	761,587	514,041	1,883,927
– Debt securities classified as receivables	–	–	–	–	16,494	3,628	286,626	306,748
– Investments in subsidiaries	9,869	–	–	–	–	–	–	9,869
Other assets	142,005	47,456	3,093	5,209	8,012	5,081	9,383	220,239
Total assets	1,836,289	378,543	437,207	799,289	1,815,032	2,475,686	2,972,759	10,714,805
Liabilities								
Borrowings from central banks	–	1,781	–	–	–	–	–	1,781
Deposits and placements from banks and non-bank financial institutions	–	520,782	77,870	14,111	40,889	73,250	–	726,902
Financial liabilities at fair value through profit or loss	–	2,926	3,043	6,896	24	–	51	12,940
Financial assets sold under repurchase agreements	–	–	3,446	3,328	4,315	–	–	11,089
Deposits from customers	–	5,163,478	772,509	759,893	1,941,488	367,210	10,068	9,014,646
Debt securities issued								
– Certificates of deposit issued	–	–	487	1,481	5,657	3,905	–	11,530
– Subordinated bonds issued	–	–	–	–	–	21,979	57,922	79,901
Other liabilities	4	76,101	7,453	15,053	56,523	3,807	5,710	164,651
Total liabilities	4	5,765,068	864,808	800,762	2,048,896	470,151	73,751	10,023,440
Long/(short) position	1,836,285	(5,386,525)	(427,601)	(1,473)	(233,864)	2,005,535	2,899,008	691,365
Notional amount of derivatives								
– Interest rate contracts	–	–	3,475	23,719	43,435	69,163	32,875	172,667
– Exchange rate contracts	–	–	129,103	132,548	250,552	27,309	11,012	550,524
– Other contracts	–	–	1,502	–	90	33	–	1,625
Total	–	–	134,080	156,267	294,077	96,505	43,887	724,816

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(b) Contractual undiscounted cash flow

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and off-balance sheet credit commitments of the Group and the Bank as at the end of the reporting period. The Group's and the Bank's expected cash flows on these instruments may vary significantly from this analysis.

Group

	2011							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	**2,220**	**2,220**	**2,220**	**–**	**–**	**–**	**–**	**–**
Deposits and placements from banks and non-bank financial institutions	**1,044,954**	**1,068,048**	**445,050**	**322,102**	**159,237**	**59,685**	**81,974**	**–**
Financial liabilities at fair value through profit or loss	**33,656**	**33,684**	**12,682**	**8,476**	**3,192**	**9,305**	**–**	**29**
Financial assets sold under repurchase agreements	**10,461**	**10,615**	**–**	**2,480**	**7,175**	**960**	**–**	**–**
Deposits from customers	**9,987,450**	**10,201,224**	**5,400,418**	**851,975**	**915,887**	**2,217,601**	**802,755**	**12,588**
Debt securities issued								
– Certificates of deposit issued	**48,451**	**49,133**	**–**	**7,261**	**10,859**	**20,655**	**9,432**	**926**
– Subordinated bonds issued	**119,861**	**164,820**	**–**	**–**	**1,504**	**3,976**	**42,488**	**116,852**
Other financial liabilities	**52,449**	**52,449**	**48,745**	**140**	**160**	**2,896**	**–**	**508**
Total	**11,299,502**	**11,582,193**	**5,909,115**	**1,192,434**	**1,098,014**	**2,315,078**	**936,649**	**130,903**
Off-balance sheet loan commitments and credit card commitments (Note)		**745,224**	**557,208**	**53,318**	**25,953**	**76,123**	**30,629**	**1,993**
Guarantees, acceptances and other financial facilities (Note)		**1,236,725**	**–**	**251,994**	**258,931**	**403,962**	**226,551**	**95,287**

	2010							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	1,781	1,781	1,781	–	–	–	–	–
Deposits and placements from banks and non-bank financial institutions	749,809	773,294	518,852	78,010	16,966	67,208	92,258	–
Financial liabilities at fair value through profit or loss	15,287	15,503	2,926	3,052	6,915	24	2,535	51
Financial assets sold under repurchase agreements	4,922	4,956	–	2,872	2,027	57	–	–
Deposits from customers	9,075,369	9,206,516	5,163,295	816,968	790,309	2,008,784	415,469	11,691
Debt securities issued								
– Certificates of deposit issued	13,414	13,628	–	827	915	6,653	5,228	5
– Subordinated bonds issued	79,901	105,220	–	–	1,504	1,696	34,084	67,936
Other financial liabilities	38,970	38,970	37,630	227	55	86	460	512
Total	9,979,453	10,159,868	5,724,484	901,956	818,691	2,084,508	550,034	80,195
Off-balance sheet loan commitments and credit card commitments (Note)		812,355	481,802	52,753	49,993	117,755	68,140	41,912
Guarantees, acceptances and other financial facilities (Note)		1,223,465	–	317,802	260,916	375,122	237,075	32,550

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(b) Contractual undiscounted cash flow (continued)

Bank

	2011							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	2,210	2,210	2,210	–	–	–	–	–
Deposits and placements from banks and non-bank financial institutions	1,015,687	1,036,867	447,688	323,783	148,369	36,736	80,291	–
Financial liabilities at fair value through profit or loss	30,966	30,993	12,682	8,476	3,192	6,614	–	29
Financial assets sold under repurchase agreements	11,594	11,779	–	3,189	7,630	960	–	–
Deposits from customers	9,906,093	10,119,604	5,382,466	827,734	888,559	2,207,347	800,974	12,524
Debt securities issued								
– Certificates of deposit issued	38,189	38,766	–	5,721	9,199	15,681	7,239	926
– Subordinated bonds issued	119,861	164,820	–	–	1,504	3,976	42,488	116,852
Other financial liabilities	44,024	44,024	40,341	139	149	2,887	–	508
Total	11,168,624	11,449,063	5,885,387	1,169,042	1,058,602	2,274,201	930,992	130,839
Off-balance sheet loan commitments and credit card commitments (Note)		718,317	557,208	29,473	25,051	74,233	30,359	1,993
Guarantees, acceptances and other financial facilities (Note)		1,238,467	–	251,967	259,571	405,377	226,265	95,287

	2010							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	1,781	1,781	1,781	–	–	–	–	–
Deposits and placements from banks and non-bank financial institutions	726,902	749,660	520,806	78,142	14,198	46,487	90,027	–
Financial liabilities at fair value through profit or loss	12,940	12,968	2,926	3,051	6,916	24	–	51
Financial assets sold under repurchase agreements	11,089	11,378	–	3,450	3,373	4,555	–	–
Deposits from customers	9,014,646	9,145,793	5,164,298	779,659	774,588	2,000,733	414,880	11,635
Debt securities issued								
– Certificates of deposit issued	11,530	11,743	–	520	1,498	5,741	3,984	–
– Subordinated bonds issued	79,901	105,220	–	–	1,504	1,696	34,084	67,936
Other financial liabilities	36,046	36,046	34,719	225	48	86	456	512
Total	9,894,835	10,074,589	5,724,530	865,047	802,125	2,059,322	543,431	80,134
Off-balance sheet loan commitments and credit card commitments (Note)		786,799	481,802	30,098	49,139	115,964	67,884	41,912
Guarantees, acceptances and other financial facilities (Note)		1,222,594	–	317,831	260,513	375,114	236,586	32,550

Note: The off-balance sheet loan commitments and credit card commitments may expire without being drawn upon. Guarantees, acceptances and other financial facilities do not represent the amount to be paid.

62 RISK MANAGEMENT (CONTINUED)

(4) Operational risk

Operational risk represents the risk of loss due to deficient and flawed internal processes, personnel and information system, or other external events.

The Group has continued to further strengthen the operational risk management processes to ensure operational stability and business as usual, by enhancing the self-assessment of operational risk, establishing key risk controls and examination, utilizing usage of operational risk tools and systems, performing emergency drills to ensure continuous business operations in adverse scenarios and promoting business continuity management:

– continuous self-assessment of operational risk – The Group continuously improves and expands the scope of self-assessment, placing particular focus on off-balance sheet related items to enhance respective regulations, processes and services;

– establishment of examination of key risk controls – The Group carries out examination over key risk controls, and continues to refine, expand and re-examine the scope and contents of the monitoring checks, placing particular focus on key business areas and preventive checks on major operational risk areas;

– strengthening the centralized operational risk management evaluation system – The Group refines the operational risk indicators with respect to corporate and personal credit businesses, which assists and drives branches' evaluation of the operational risks;

– improvement in segregation of duties – The Group continues to improve and review the roles and responsibilities of its key staff positions to ensure adequate segregation of duties (responsibilities), further strengthening the system of checks and balances;

– steady progress in business continuity management – The Group conducts emergency operational drills in pilot branches, which improves the strategies and mechanisms of the Tier 2 institutions and networks in response to natural disasters;

– strengthening major risks and unforeseen events reporting process – The Group formalizes the supervision and monitoring over major risks and unforeseen events by prescribing the information recording and reporting processes. Clear information channels have also been established to increase the ability of the Group to address these risks and events;

– streamline and review of important system parameters – The Group continues to evaluate management system parameters and timely remediates deficiency to ensure secured and smooth system operations; and

– the Group has implemented laws, rules and regulations concerning anti-money laundering (AML). The Group continued to improve its internal control system relating to AML. The Group follows "know-your-customer" principle in identifying and recording customers' identities and transactions diligently, and proactively identifies and reports significant, suspicious and suspected terrorist-related transactions. Training and publicity for AML has also been enhanced. All these measures are put in place to effectively fulfill the statutory AML obligations.

(5) Fair value

(a) Financial assets

The Group's financial assets mainly include cash and deposits with central banks, deposits and placements with banks and non-bank financial institutions, financial assets at fair value through profit or loss, financial assets held under resale agreements, loans and advances to customers, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements are mainly priced at market interest rates and mature within one year. Accordingly, the carrying values approximate the fair values.

Loans and advances to customers

Majority of the loans and advances to customers are repriced at least annually to the market rate. Accordingly, their carrying values approximate the fair values.

Investments

Available-for-sale financial assets and financial assets at fair value through profit or loss are stated at fair value in the financial statements. The following table shows the carrying values and the fair values of the debt securities classified as receivables and held-to-maturity investments which are not presented in the statement of financial position at their fair values.

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(5) Fair value (continued)

(a) Financial assets (continued)

Group

	Carrying value		Fair value	
	2011	2010	**2011**	2010
Debt securities classified as receivables	**300,027**	306,748	**291,829**	282,996
Held-to-maturity investments	**1,743,569**	1,884,057	**1,753,842**	1,864,881
Total	**2,043,596**	2,190,805	**2,045,671**	2,147,877

Bank

	Carrying value		Fair value	
	2011	2010	**2011**	2010
Debt securities classified as receivables	**299,765**	306,748	**291,569**	282,996
Held-to-maturity investments	**1,742,342**	1,883,927	**1,752,585**	1,864,751
Total	**2,042,107**	2,190,675	**2,044,154**	2,147,747

(b) Financial liabilities

The Group's financial liabilities mainly include borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial liabilities at fair value through profit or loss, financial assets sold under repurchase agreements, deposits from customers, and debt securities issued. The carrying values of financial liabilities approximated their fair values as at the end of the reporting period, except that the fair value of subordinated bonds issued As at 31 December 2011 was RMB117,969 million (2010: RMB75,779 million), which was lower than their carrying value of RMB119,861 million (2010: RMB79, 901 million).

(6) Valuation of financial instruments

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(6) Valuation of financial instruments (continued)

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

Group

	2011			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading purpose				
– Debt securities	**–**	**8,715**	**–**	**8,715**
– Equity instruments and funds	**549**	**–**	**–**	**549**
Financial assets designated as at fair value through profit or loss				
– Debt securities	**1,177**	**–**	**4,483**	**5,660**
– Equity instruments	**794**	**1,059**	**6,319**	**8,172**
Positive fair value of derivatives	**–**	**11,709**	**2,418**	**14,127**
Available-for-sale financial assets				
– Debt securities	**17,776**	**638,695**	**4,565**	**661,036**
– Equity instruments and funds	**10,499**	**1,118**	**552**	**12,169**
Total	**30,795**	**661,296**	**18,337**	**710,428**
Liabilities				
Financial liabilities at fair value through profit or loss				
Financial liabilities designated as at fair value through profit or loss	**–**	**30,937**	**2,719**	**33,656**
Negative fair value of derivatives	**–**	**10,860**	**2,450**	**13,310**
Total	**–**	**41,797**	**5,169**	**46,966**

	2010			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading purpose				
– Debt securities	51	2,993	–	3,044
– Equity instruments and funds	1,541	–	–	1,541
Financial assets designated as at fair value through profit or loss				
– Debt securities	1,309	508	2,999	4,816
– Equity instruments	4,372	–	3,571	7,943
Positive fair value of derivatives	–	8,763	2,461	11,224
Available-for-sale financial assets				
– Debt securities	15,594	657,106	4,140	676,840
– Equity instruments and funds	16,666	400	374	17,440
Total	39,533	669,770	13,545	722,848
Liabilities				
Financial liabilities at fair value through profit or loss				
Financial liabilities designated as at fair value through profit or loss	–	12,916	2,371	15,287
Negative fair value of derivatives	–	7,212	2,146	9,358
Total	–	20,128	4,517	24,645

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(6) Valuation of financial instruments (continued)

Bank

	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading purpose				
– Debt securities	**–**	**8,715**	**–**	**8,715**
Positive fair value of derivatives	**–**	**10,707**	**2,366**	**13,073**
Available-for-sale financial assets				
– Debt securities	**8,715**	**641,165**	**1,705**	**651,585**
– Equity instruments and funds	**10,064**	**34**	**62**	**10,160**
Total	**18,779**	**660,621**	**4,133**	**683,533**
Liabilities				
Financial liabilities at fair value through profit or loss				
Financial liabilities designated as at fair value through profit or loss	**–**	**30,937**	**29**	**30,966**
Negative fair value of derivatives	**–**	**9,992**	**2,362**	**12,354**
Total	**–**	**40,929**	**2,391**	**43,320**

	2010			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading purpose				
– Debt securities	51	2,993	–	3,044
Positive fair value of derivatives	–	8,033	2,120	10,153
Available-for-sale financial assets				
– Debt securities	15,100	658,183	1,994	675,277
– Equity instruments and funds	15,952	–	–	15,952
Total	31,103	669,209	4,114	704,426
Liabilities				
Financial liabilities at fair value through profit or loss				
Financial liabilities designated as at fair value through profit or loss	–	12,916	24	12,940
Negative fair value of derivatives	–	6,617	2,117	8,734
Total	–	19,533	2,141	21,674

For the year ended 31 December 2011 and 2010, there were no significant transfer between level 1 and level 2 of the fair value hierarchy.

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(6) Valuation of financial instruments (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in level 3 of the fair value hierarchy:

Group

	2011								
	Financial assets designated as at fair value through profit or loss		Positive fair value of derivatives	Available-for-sale financial assets		Total assets	Financial liabilities designated as at fair value through profit or loss	Negative fair value of derivatives	Total liabilities
	Debt securities	Equity instruments and funds		Debt securities	Equity instruments and funds				
As at 1 January 2011	2,999	3,571	2,461	4,140	374	13,545	(2,371)	(2,146)	(4,517)
Total gains or losses:									
In profit or loss	(330)	129	93	370	–	262	(48)	(436)	(484)
In other comprehensive income	–	–	–	(266)	(28)	(294)	–	–	–
Purchases	3,091	3,244	35	2,085	207	8,662	(655)	(88)	(743)
Sales and settlements	(1,277)	(625)	(193)	(1,860)	(1)	(3,956)	355	191	546
Transfer in/out	–	–	22	96	–	118	–	29	29
As at 31 December 2011	4,483	6,319	2,418	4,565	552	18,337	(2,719)	(2,450)	(5,169)
Total gains or losses for the period included in profit or loss for assets and liabilities held at the end of the reporting period	(334)	129	631	370	–	796	(48)	(1,027)	(1,075)

	2010								
	Financial assets designated as at fair value through profit or loss		Positive fair value of derivatives	Available-for-sale financial assets		Total assets	Financial liabilities designated as at fair value through profit or loss	Negative fair value of derivatives	Total liabilities
	Debt securities	Equity instruments and funds		Debt securities	Equity instruments and funds				
As at 1 January 2010	2,480	2,510	4,034	2,834	704	12,562	(29)	(3,085)	(3,114)
Total gains or losses:									
In profit or loss	143	(1,449)	(603)	244	–	(1,665)	(31)	386	355
In other comprehensive income	–	–	–	193	60	253	–	–	–
Purchases	3,236	2,510	–	2,146	140	8,032	(2,311)	–	(2,311)
Sales and settlements	(2,860)	–	(829)	(1,212)	(530)	(5,431)	–	547	547
Transfer out	–	–	(141)	(65)	–	(206)	–	6	6
As at 31 December 2010	2,999	3,571	2,461	4,140	374	13,545	(2,371)	(2,146)	(4,517)
Total gains or losses for the period included in profit or loss for assets and liabilities held at the end of the reporting period	(61)	(1,449)	(152)	244	–	(1,418)	(31)	(64)	(95)

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(6) Valuation of financial instruments (continued)

Bank

	2011						
		Available-for-sale financial assets					
	Positive fair value of derivatives	Debt securities	Equity instruments and funds	Total assets	Financial liabilities designated as at fair value through profit or loss	Negative fair value of derivatives	Total liabilities
As at 1 January 2011	2,120	1,994	–	4,114	(24)	(2,117)	(2,141)
Total gains or losses:							
In profit or loss	437	370	–	807	(5)	(436)	(441)
In other comprehensive income	–	(262)	8	(254)	–	–	–
Purchases	2	–	54	56	–	–	–
Sales and settlements	(193)	(493)	–	(686)	–	191	191
Transfer in	–	96	–	96	–	–	–
As at 31 December 2011	2,366	1,705	62	4,133	(29)	(2,362)	(2,391)
Total gains or losses for the period included in profit or loss for assets and liabilities held at the end of the reporting period	601	370	–	971	(5)	(598)	(603)

	2010					
	Positive fair value of derivatives	Available-for-sale debt securities	Total assets	Financial liabilities designated as at fair value through profit or loss	Negative fair value of derivatives	Total liabilities
As at 1 January 2010	3,064	2,834	5,898	(29)	(3,056)	(3,085)
Total gains or losses:						
In profit or loss	(387)	244	(143)	5	394	399
In other comprehensive income	–	193	193	–	–	–
Sales and settlements	(549)	(1,212)	(1,761)	–	545	545
Transfer out	(8)	(65)	(73)	–	–	–
As at 31 December 2010	2,120	1,994	4,114	(24)	(2,117)	(2,141)
Total gains or losses for the period included in profit or loss for assets and liabilities held at the end of the reporting period	64	244	308	5	(57)	(52)

In Level 3 of the fair value hierarchy, total gains or losses included in profit or loss for the year in the above table are presented in net trading gain, net gain arising from investment securities and impairment losses of the statement of comprehensive income.

(7) Capital management

The Group has implemented a comprehensive capital management policy, covering the management of regulatory capital, economic capital and accounting capital, including but not limited to management of capital adequacy ratio, capital planning, capital raising and economic capital.

Capital adequacy ratio is a reflection of the Group's ability to run stable operations and resist adverse risks. The CBRC requires commercial banks to maintain the capital adequacy ratio at or above minimum of 8% and the core capital adequacy ratio at or above minimum of 4%. Supplementary capital of a commercial bank cannot exceed 100% of its core capital, and long-term subordinated debts qualified for inclusion in the supplementary capital cannot exceed 50% of the core capital. Any amount in excess of the balance of the trading book over 10% of total on and off-balance sheet assets or RMB8,500 million will be subject to provision for market risk in the computation of capital adequacy ratio. The Group timely monitors, analyses and reports capital adequacy ratio level to exercise effective management of capital adequacy ratio. The Group adopts various measures such as controlling asset growth, adjusting the structure of risk assets, accumulating capital internally and raising capital through external channels, to ensure that the capital adequacy ratio and core capital adequacy ratio of the Group and the Bank are in full compliance with regulatory requirements and meet internal management needs. This helps insulate against potential risks as well as support the healthy business development. The Group now fully complies with all regulatory requirements in this respect.

The Group's capital planning has taken the regulatory requirements, the Group's development strategy and risk appetite into consideration, and based on those factors the Group projects the capital usage and need. The Group regularly compares its position with its capital adequacy ratio target to ensure capital will be adequate for future or otherwise to plan for supplementation of capital.

The capital raising management of the Group involves reasonable utilisation of various capital instruments to ensure that both external regulatory and internal capital management objectives are met, taking in account capital planning and operating environment. This helps to optimize the Group's total capital and structure, as well as improve the competitiveness of the Group's cost of capital.

(Expressed in millions of RMB, unless otherwise stated)

62 RISK MANAGEMENT (CONTINUED)

(7) Capital management (continued)

The Group's consolidated regulatory capital positions calculated in accordance with the guidance issued by the CBRC as at the end of the reporting period are as follows:

	Note	2011	2010
Core capital adequacy ratio	(a)	**10.97%**	10.40%
Capital adequacy ratio	(b)	**13.68%**	12.68%
Components of capital base			
Core capital:			
– Share capital		**250,011**	250,011
– Capital reserve, investment revaluation reserve and exchange reserve	(c)	**130,562**	127,536
– Surplus reserve and general reserve		**134,918**	112,028
– Retained earnings	(c),(d)	**229,649**	140,995
– Non-controlling interests		**5,520**	4,113
		750,660	634,683
Supplementary capital:			
– General provision for doubtful debts		**66,180**	57,359
– Positive changes in fair value of financial instruments at fair value through profit or loss		**3,675**	7,547
– Subordinated bonds issued		**120,000**	80,000
		189,855	144,906
Total capital base before deductions		**940,515**	779,589
Deductions:			
– Goodwill		**(1,662)**	(1,534)
– Unconsolidated equity investments		**(12,402)**	(13,695)
– Others	(e)	**(1,945)**	(1,911)
Net capital		**924,506**	762,449
Risk-weighted assets	(f)	**6,760,117**	6,015,329

Notes:

(a) Core capital adequacy ratio is calculated by dividing the net amount of core capital, which is after deductions of 100% of goodwill and 50% of unconsolidated equity investments, and other items, by risk-weighted assets.

(b) Capital adequacy ratio is calculated by dividing the net capital by risk-weighted assets.

(c) The investment revaluation reserve arising from the accumulated net positive changes in the fair value of available-for-sale financial assets is excluded from the core capital and 50% of the balance is included in the supplementary capital. In addition, the unrealised accumulated net positive changes in fair value of financial instruments at fair value through profit or loss, net of income tax, are excluded from the core capital and included in the supplementary capital.

(d) The dividend proposed after the reporting period has been deducted from retained earnings.

(e) Others mainly represent investments in those asset backed securities specified by CBRC which required reduction.

(f) The balances of risk-weighted assets include an amount equal to 12.5 times the Group's market risk capital.

(Expressed in millions of RMB, unless otherwise stated)

63 EVENTS AFTER THE REPORTING PERIOD

There are no significant events after the reporting period.

64 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform with changes in disclosures in current year.

65 ULTIMATE PARENT

As stated in Note 1, the immediate and ultimate parent of the Group is Huijin and CIC respectively.

66 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Up to the date of issue of the financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2011 and which have not been adopted in the these financial statements.

- Amendments to IFRS 7, "Financial instruments: Disclosures"
- Amendments to IFRS 1, "First time adoption"
- Amendments to IAS 12, "Income taxes"
- Amendments to IAS 1, "Financial statement presentation"
- Amendments to IAS 19, "Employee benefits"
- IFRS 9, "Financial instruments"
- IFRS 10, "Consolidated financial statements"
- IFRS 11, "Joint arrangements"
- IFRS 12, "Disclosure of interests in other entities"
- IFRS 13, "Fair value measurement"
- IAS 27 (revised 2011), "Separate financial statements"
- IAS 28 (revised 2011), "Associates and joint ventures"

The Group is in the process of making assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position except for IFRS 9, Financial instruments, which may have an impact on the Group's results and financial position.

Independent Review Report

羅兵咸永道

To the Board of Directors of China Construction Bank Corporation
(a joint stock company incorporated in the People's Republic of China with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 51 to 140, which comprises the consolidated and Bank's statements of financial position of China Construction Bank Corporation (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2012 and the related consolidated statement of comprehensive income, the consolidated and the Bank's statements of changes in equity and the consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 August 2012

Half-Year Financial Statements

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012
(Expressed in millions of RMB, unless otherwise stated)

	Note	Six months ended 30 June 2012	2011
Interest income		**295,433**	223,458
Interest expense		**(125,741)**	(77,752)
Net interest income	3	**169,692**	145,706
Fee and commission income		**50,525**	48,891
Fee and commission expense		**(1,282)**	(1,220)
Net fee and commission income	4	**49,243**	47,671
Net trading gain	5	**350**	669
Dividend income	6	**89**	61
Net gain arising from investment securities	7	**1,814**	930
Other operating income, net	8	**6,624**	2,209
Operating income		**227,812**	197,246
Operating expenses	9	**(74,570)**	(62,557)
		153,242	134,689
Impairment losses on:			
– Loans and advances to customers		**(14,726)**	(13,895)
– Others		**(12)**	(30)
Impairment losses	10	**(14,738)**	(13,925)
Share of profits less losses of associates and jointly controlled entities		**8**	25
Profit before tax		**138,512**	120,789
Income tax expense	11	**(32,018)**	(27,836)
Net profit		**106,494**	92,953
Other comprehensive income:			
Gain/(loss) of available-for-sale financial assets arising during the period		**7,557**	(2,652)
Less: income tax relating to available-for-sale financial assets		**(1,886)**	684
Reclassification adjustments for gain included in profit or loss		**(735)**	(510)
		4,936	(2,478)
Exchange difference on translating foreign operations		**303**	(563)
Others		**5**	22
Other comprehensive income for the period, net of tax		**5,244**	(3,019)
Total comprehensive income for the period		**111,738**	89,934
Net profit attributable to:			
Equity shareholders of the Bank		**106,283**	92,825
Non-controlling interests		**211**	128
		106,494	92,953
Total comprehensive income attributable to:			
Equity shareholders of the Bank		**111,513**	89,858
Non-controlling interests		**225**	76
		111,738	89,934
Basic and diluted earnings per share (in RMB Yuan)	12	**0.43**	0.37

The notes on pages 58 to 140 form part of these financial statements.

Consolidated Statement of Financial Position

As at 30 June 2012
(Expressed in millions of RMB, unless otherwise stated)

	Note	30 June 2012	31 December 2011
Assets:			
Cash and deposits with central banks	13	**2,491,592**	2,379,809
Deposits with banks and non-bank financial institutions	14	**530,577**	276,752
Precious metals		**30,589**	22,718
Placements with banks and non-bank financial institutions	15	**173,270**	109,040
Financial assets at fair value through profit or loss	16	**24,251**	23,096
Positive fair value of derivatives	17	**15,319**	14,127
Financial assets held under resale agreements	18	**321,055**	200,045
Interest receivable	19	**70,956**	56,776
Loans and advances to customers	20	**6,876,580**	6,325,194
Available-for-sale financial assets	21	**698,108**	675,058
Held-to-maturity investments	22	**1,806,707**	1,743,569
Debt securities classified as receivables	23	**300,119**	300,027
Interests in associates and jointly controlled entities	25	**2,305**	2,069
Fixed assets	26	**99,391**	94,222
Land use rights	27	**16,212**	16,457
Intangible assets	28	**1,451**	1,660
Goodwill	29	**1,677**	1,662
Deferred tax assets	30	**23,860**	21,410
Other assets	31	**21,726**	18,143
Total assets		**13,505,745**	12,281,834
Liabilities:			
Borrowings from central banks		**2,788**	2,220
Deposits from banks and non-bank financial institutions	34	**1,035,051**	966,229
Placements from banks and non-bank financial institutions	35	**101,321**	78,725
Financial liabilities at fair value through profit or loss	36	**38,801**	33,656
Negative fair value of derivatives	17	**13,524**	13,310
Financial assets sold under repurchase agreements	37	**3,207**	10,461
Deposits from customers	38	**10,940,837**	9,987,450
Accrued staff costs	39	**37,232**	35,931
Taxes payable	40	**30,217**	47,189
Interest payable	41	**104,345**	80,554
Provisions	42	**4,947**	5,180
Debt securities issued	43	**213,628**	168,312
Deferred tax liabilities	30	**368**	358
Other liabilities	44	**110,074**	35,598
Total liabilities		**12,636,340**	11,465,173
Equity:			
Share capital	45	**250,011**	250,011
Capital reserve	46	**135,183**	135,178
Investment revaluation reserve	47	**11,305**	6,383
Surplus reserve	48	**67,576**	67,576
General reserve	49	**80,163**	67,342
Retained earnings	50	**323,600**	289,266
Exchange reserve		**(4,312)**	(4,615)
Total equity attributable to equity shareholders of the Bank		**863,526**	811,141
Non-controlling interests		**5,879**	5,520
Total equity		**869,405**	816,661
Total liabilities and equity		**13,505,745**	12,281,834

Approved and authorised for issue by the Board of Directors on 24 August 2012.

Zhang Jianguo	**Wong Kai-Man**	**Li Xiaoling**
Vice chairman, executive director and president	*Independent non-executive director*	*Non-executive director*

The notes on pages 58 to 140 form part of these financial statements.

Statement of Financial Position

As at 30 June 2012
(Expressed in millions of RMB, unless otherwise stated)

	Note	30 June 2012	31 December 2011
Assets:			
Cash and deposits with central banks	13	**2,481,585**	2,373,493
Deposits with banks and non-bank financial institutions	14	**537,112**	279,861
Precious metals		**30,589**	22,718
Placements with banks and non-bank financial institutions	15	**186,977**	110,533
Financial assets at fair value through profit or loss	16	**11,175**	8,715
Positive fair value of derivatives	17	**14,385**	13,073
Financial assets held under resale agreements	18	**321,041**	200,045
Interest receivable	19	**70,495**	56,420
Loans and advances to customers	20	**6,707,448**	6,189,363
Available-for-sale financial assets	21	**684,517**	663,583
Held-to-maturity investments	22	**1,805,455**	1,742,342
Debt securities classified as receivables	23	**299,434**	299,765
Investments in subsidiaries	24	**12,144**	11,950
Fixed assets	26	**96,502**	93,369
Land use rights	27	**16,159**	16,404
Intangible assets	28	**977**	1,176
Deferred tax assets	30	**24,439**	22,003
Other assets	31	**42,644**	34,077
Total assets		**13,343,078**	12,138,890
Liabilities:			
Borrowings from central banks		**2,758**	2,210
Deposits from banks and non-bank financial institutions	34	**1,036,522**	970,033
Placements from banks and non-bank financial institutions	35	**61,638**	45,654
Financial liabilities at fair value through profit or loss	36	**36,090**	30,966
Negative fair value of derivatives	17	**12,607**	12,354
Financial assets sold under repurchase agreements	37	**1,748**	11,594
Deposits from customers	38	**10,863,754**	9,906,093
Accrued staff costs	39	**36,645**	35,182
Taxes payable	40	**29,860**	46,950
Interest payable	41	**103,962**	80,312
Provisions	42	**4,947**	5,180
Debt securities issued	43	**198,955**	158,050
Deferred tax liabilities	30	**25**	23
Other liabilities	44	**95,640**	27,712
Total liabilities		**12,485,151**	11,332,313
Equity:			
Share capital	45	**250,011**	250,011
Capital reserve	46	**135,183**	135,178
Investment revaluation reserve	47	**11,383**	6,472
Surplus reserve	48	**67,576**	67,576
General reserve	49	**79,391**	66,645
Retained earnings	50	**315,154**	281,491
Exchange reserve		**(771)**	(796)
Total equity		**857,927**	806,577
Total liabilities and equity		**13,343,078**	12,138,890

Approved and authorised for issue by the Board of Directors on 24 August 2012.

Zhang Jianguo	**Wong Kai-Man**	**Li Xiaoling**
Vice chairman, executive director and president	*Independent non-executive director*	*Non-executive director*

The notes on pages 58 to 140 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012
(Expressed in millions of RMB, unless otherwise stated)

	Note	Attributable to equity shareholders of the Bank								
		Share capital	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Exchange reserve	Non-controlling interests	Total equity
As at 1 January 2012		**250,011**	**135,178**	**6,383**	**67,576**	**67,342**	**289,266**	**(4,615)**	**5,520**	**816,661**
Movements during the period		**–**	**5**	**4,922**	**–**	**12,821**	**34,334**	**303**	**359**	**52,744**
(1) Total comprehensive income for the period		**–**	**5**	**4,922**	**–**	**–**	**106,283**	**303**	**225**	**111,738**
(2) Changes in share capital		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**181**	**181**
i. Non-controlling interests of new subsidiaries		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**186**	**186**
ii. Change in shareholdings in subsidiaries		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5)**	**(5)**
(3) Profit distribution		**–**	**–**	**–**	**–**	**12,821**	**(71,949)**	**–**	**(47)**	**(59,175)**
i. Appropriation to general reserve		**–**	**–**	**–**	**–**	**12,821**	**(12,821)**	**–**	**–**	**–**
ii. Appropriation to equity shareholders	50	**–**	**–**	**–**	**–**	**–**	**(59,128)**	**–**	**(47)**	**(59,175)**
As at 30 June 2012		**250,011**	**135,183**	**11,305**	**67,576**	**80,163**	**323,600**	**(4,312)**	**5,879**	**869,405**
As at 1 January 2011		250,011	135,136	6,706	50,681	61,347	195,950	(3,039)	4,113	700,905
Movements during the period		–	22	(2,426)	–	6,075	33,698	(563)	965	37,771
(1) Total comprehensive income for the period		–	22	(2,426)	–	–	92,825	(563)	76	89,934
(2) Changes in share capital		–	–	–	–	–	–	–	902	902
(3) Profit distribution		–	–	–	–	6,075	(59,127)	–	(13)	(53,065)
i. Appropriation to general reserve		–	–	–	–	6,075	(6,075)	–	–	–
ii. Appropriation to equity shareholders		–	–	–	–	–	(53,052)	–	(13)	(53,065)
As at 30 June 2011		250,011	135,158	4,280	50,681	67,422	229,648	(3,602)	5,078	738,676
As at 1 January 2011		250,011	135,136	6,706	50,681	61,347	195,950	(3,039)	4,113	700,905
Movements during the year		–	42	(323)	16,895	5,995	93,316	(1,576)	1,407	115,756
(1) Total comprehensive income for the year		–	42	(323)	–	–	169,258	(1,576)	120	167,521
(2) Changes in share capital		–	–	–	–	–	–	–	1,325	1,325
(3) Profit distribution		–	–	–	16,895	5,995	(75,942)	–	(38)	(53,090)
i. Appropriation to surplus reserve		–	–	–	16,895	–	(16,895)	–	–	–
ii. Appropriation to general reserve		–	–	–	–	5,995	(5,995)	–	–	–
iii. Appropriation to equity shareholders		–	–	–	–	–	(53,052)	–	(38)	(53,090)
As at 31 December 2011		250,011	135,178	6,383	67,576	67,342	289,266	(4,615)	5,520	816,661

The notes on pages 58 to 140 form part of these financial statements.

Statement of Changes in Equity

For the six months ended 30 June 2012
(Expressed in millions of RMB, unless otherwise stated)

	Note	Share capital	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Exchange reserve	Total equity
As at 1 January 2012		**250,011**	**135,178**	**6,472**	**67,576**	**66,645**	**281,491**	**(796)**	**806,577**
Movements during the period		**–**	**5**	**4,911**	**–**	**12,746**	**33,663**	**25**	**51,350**
(1) Total comprehensive income for the period		**–**	**5**	**4,911**	**–**	**–**	**105,537**	**25**	**110,478**
(2) Profit distribution		**–**	**–**	**–**	**–**	**12,746**	**(71,874)**	**–**	**(59,128)**
i. Appropriation to general reserve		**–**	**–**	**–**	**–**	**12,746**	**(12,746)**	**–**	**–**
ii. Appropriation to equity shareholders	50	**–**	**–**	**–**	**–**	**–**	**(59,128)**	**–**	**(59,128)**
As at 30 June 2012		**250,011**	**135,183**	**11,383**	**67,576**	**79,391**	**315,154**	**(771)**	**857,927**
As at 1 January 2011		250,011	135,136	6,743	50,681	60,608	188,525	(339)	691,365
Movements during the period		–	22	(2,335)	–	6,055	32,710	(29)	36,423
(1) Total comprehensive income for the period		–	22	(2,335)	–	–	91,817	(29)	89,475
(2) Profit distribution		–	–	–	–	6,055	(59,107)	–	(53,052)
i. Appropriation to general reserve		–	–	–	–	6,055	(6,055)	–	–
ii. Appropriation to equity shareholders		–	–	–	–	–	(53,052)	–	(53,052)
As at 30 June 2011		250,011	135,158	4,408	50,681	66,663	221,235	(368)	727,788
As at 1 January 2011		250,011	135,136	6,743	50,681	60,608	188,525	(339)	691,365
Movements during the year		–	42	(271)	16,895	6,037	92,966	(457)	115,212
(1) Total comprehensive income for the year		–	42	(271)	–	–	168,950	(457)	168,264
(2) Profit distribution		–	–	–	16,895	6,037	(75,984)	–	(53,052)
i. Appropriation to surplus reserve		–	–	–	16,895	–	(16,895)	–	–
ii. Appropriation to general reserve		–	–	–	–	6,037	(6,037)	–	–
iii. Appropriation to equity shareholders		–	–	–	–	–	(53,052)	–	(53,052)
As at 31 December 2011		250,011	135,178	6,472	67,576	66,645	281,491	(796)	806,577

The notes on pages 58 to 140 form part of these financial statements.

Consolidated Statement of Cash Flows

For the six months ended 30 June 2012
(Expressed in millions of RMB, unless otherwise stated)

	Note	Six months ended 30 June 2012	2011
Cash flows from operating activities			
Profit before tax		**138,512**	120,789
Adjustments for:			
– Impairment losses	10	**14,738**	13,925
– Depreciation and amortisation	9	**6,647**	6,222
– Unwinding of discount		**(839)**	(671)
– Revaluation loss on financial instruments at fair value through profit or loss		**365**	178
– Share of profits less losses of associates and jointly controlled entities		**(8)**	(25)
– Dividend income	6	**(89)**	(61)
– Unrealised foreign exchange (gain)/loss		**(178)**	1,843
– Interest expense on subordinated bonds issued		**2,750**	1,611
– Net gain on disposal of investment securities	7	**(1,814)**	(930)
– Net gain on disposal of fixed assets and other long-term assets		**(23)**	(371)
		160,061	142,510
Changes in operating assets:			
Net increase in deposits with central banks and with banks and non-bank financial institutions		**(170,028)**	(284,972)
Net increase in placements with banks and non-bank financial institutions		**(4,809)**	(12,067)
Net increase in loans and advances to customers		**(561,731)**	(479,810)
Net increase in financial assets held under resale agreements		**(121,007)**	(117,713)
Increase in other operating assets		**(26,934)**	(143,392)
		(884,509)	(1,037,954)
Changes in operating liabilities:			
Net increase/(decrease) in borrowings from central banks		**558**	(434)
Net increase in placements from banks and non-bank financial institutions		**22,022**	42,874
Net increase in deposits from customers and from banks and non-bank financial institutions		**1,016,808**	803,947
Net decrease in financial assets sold under repurchase agreements		**(7,254)**	(1,860)
Net increase in certificates of deposit issued		**43,664**	11,908
Income tax paid		**(52,785)**	(38,426)
Increase in other operating liabilities		**42,377**	9,923
		1,065,390	827,932
Net cash from/(used in) operating activities		**340,942**	(67,512)
Cash flows from investing activities			
Proceeds from sale and redemption of investments		**282,470**	732,118
Dividends received		**88**	58
Proceeds from disposal of fixed assets and other long-term assets		**358**	608
Purchase of investment securities		**(359,078)**	(554,416)
Purchase of fixed assets and other long-term assets		**(11,466)**	(5,057)
Acquisition of subsidiaries, associates and jointly controlled entities		**(209)**	(802)
Net cash (used in)/from investing activities		**(87,837)**	172,509
Cash flows from financing activities			
Issue of subordinated bonds		**993**	–
Capital contribution by non-controlling interests		**186**	353
Dividends paid		**(36)**	(1,949)
Interest paid on bonds issued		**(1,505)**	(1,505)
Cash paid relating to other financing activities		**(5)**	(51)
Net cash used in financing activities		**(367)**	(3,152)

The notes on pages 58 to 140 form part of these financial statements.

(Expressed in millions of RMB, unless otherwise stated)

	Note	Six months ended 30 June 2012	2011
Effect of exchange rate changes on cash and cash equivalents		**1,814**	(797)
Net increase in cash and cash equivalents		**254,552**	101,048
Cash and cash equivalents as at 1 January	51	**558,463**	301,299
Cash and cash equivalents as at 30 June	51	**813,015**	402,347
Cash flows from operating activities include:			
Interest received		**279,396**	204,463
Interest paid, excluding interest expense on bonds issued		**(100,436)**	(61,857)

The notes on pages 58 to 140 form part of these financial statements.

1 Company information

The history of China Construction Bank Corporation (the "Bank") dates back to 1954, which was previously known as the People's Construction Bank of China when it was established. It administered and disbursed government funds for construction and infrastructure related projects under the state economic plan. The People's Construction Bank of China gradually became a full service commercial bank following the establishment of China Development Bank in 1994 to assume its policy lending functions. In 1996, the People's Construction Bank of China changed its name to China Construction Bank ("CCB"). On 17 September 2004, China Construction Bank Corporation was formed as a joint-stock commercial bank in the People's Republic of China (the "PRC") as a result of a separation procedure undertaken by our predecessor, China Construction Bank. In October 2005 and September 2007, the Bank's H-shares and A-shares were listed on Hong Kong Stock Exchange (Stock Code: 939) and Shanghai Stock Exchange (Stock Code: 601939) respectively.

The Bank obtained its finance permit No.B0004H111000001 from the China Banking Regulatory Commission (the "CBRC") of the PRC. The Bank obtained its business license No.100000000039122 from the State Administration for Industry and Commerce of the PRC. The registered office of the Bank is located at No.25, Finance Street, Xicheng District, Beijing, the PRC.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management, trustee, finance leasing, investment banking, insurance and other financial services. The Group operates in Mainland China and also has several overseas branches and subsidiaries. For the purpose of these financial statements, Mainland China refers to the PRC excluding Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC and Taiwan. Overseas refers to countries and regions other than Mainland China.

The Bank is under the supervision of the banking regulatory bodies empowered by the State Council of the PRC (the "State Council"). The overseas financial operations of the Bank are under the supervision of their respective local jurisdictions. Central Huijin Investments Limited ("Huijin"), a wholly owned subsidiary of China Investment Corporation ("CIC"), exercises the rights and obligations as an investor on behalf of the PRC government.

2 Basis of preparation and significant accounting policies

(1) Basis of preparation

The interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" and with all applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The unaudited interim financial statements contain selected explanatory notes, which provide explanations of events and transactions that are significant to the understanding of the changes in financial position and performance of the Group since the financial statements for the year ended 31 December 2011. The selected notes do not include all of the information and disclosures required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs"), and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2011.

(2) Use of estimates and assumptions

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results in the future may differ from those reported as a result of the use of estimates and assumptions about future conditions.

(3) Consolidation

The interim financial statements comprise the Bank and its subsidiaries and the Group's interests in associates and jointly controlled entities.

The results and affairs of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Necessary adjustments on the accounting period and accounting policies of subsidiaries are made to comply with those of the Bank. Intragroup balances and transactions, and any profits or losses arising from intragroup transactions are eliminated in full in preparing the consolidated financial statements.

The Group's interest in associates or jointly controlled entities is included from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. Profits and losses resulting from transactions between the Group and its associates or jointly controlled entities are eliminated to the extent of the Group's interest in the associates or jointly controlled entities.

(Expressed in millions of RMB, unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

(4) Significant accounting policies

The Group has adopted new or revised IFRSs effective for the current accounting period. There is no early adoption of any new IFRSs not yet effective for the six months ended 30 June 2012.

The accounting policies adopted by the Group for the interim financial statements are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 31 December 2011. The aforesaid amendments of IFRSs have no material impact on the accounting policies of the Group.

(5) Interim financial statements and statutory accounts

The interim financial statements have been reviewed by the Audit Committee of the Bank, and were approved by the Board of Directors of the Bank on 24 August 2012. The interim financial statements have also been reviewed by the Bank's auditors, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

The financial information relating to the financial year ended 31 December 2011 that is included in the interim financial statements as previously reported information does not constitute the Group's statutory financial statements for that financial year but is derived from those financial statements. The auditor has expressed an unqualified opinion on those financial statements in the report dated 23 March 2012.

3 Net interest income

	Six months ended 30 June	
	2012	2011
Interest income		
Deposits with central banks	**17,107**	14,665
Deposits with banks and non-bank financial institutions	**8,992**	921
Placements with banks and non-bank financial institutions	**1,671**	542
Financial assets at fair value through profit or loss	**362**	217
Financial assets held under resale agreements	**3,732**	5,534
Investment securities	**48,604**	42,101
Loans and advances to customers		
– Corporate loans and advances	**155,943**	117,157
– Personal loans and advances	**54,015**	39,094
– Discounted bills	**5,007**	3,227
Total	**295,433**	223,458
Interest expense		
Borrowings from central banks	**(17)**	(8)
Deposits from banks and non-bank financial institutions	**(16,606)**	(7,247)
Placements from banks and non-bank financial institutions	**(1,213)**	(797)
Financial liabilities at fair value through profit or loss	**(1)**	(1)
Financial assets sold under repurchase agreements	**(925)**	(544)
Debt securities issued	**(3,399)**	(1,748)
Deposits from customers		
– Corporate deposits	**(50,904)**	(33,449)
– Personal deposits	**(52,676)**	(33,958)
Total	**(125,741)**	(77,752)
Net interest income	**169,692**	145,706

(Expressed in millions of RMB, unless otherwise stated)

3 Net interest income (continued)

(1) Interest income from impaired financial assets is listed as follows:

	Six months ended 30 June	
	2012	2011
Impaired loans	**839**	671
Other impaired financial assets	**219**	207
Total	**1,058**	878

(2) Interest expense on financial liabilities with maturity over five years mainly represented the interest expense on debt securities issued.

4 Net fee and commission income

	Six months ended 30 June	
	2012	2011
Fee and commission income		
Consultancy and advisory fees	**10,475**	10,390
Bank card fees	**9,132**	7,829
Agency service fees	**7,282**	7,920
Settlement and clearing fees	**6,175**	7,157
Wealth management service fees	**5,618**	3,662
Commission on trust and fiduciary activities	**4,562**	4,531
Electronic banking service fees	**2,251**	2,134
Credit commitment fees	**1,467**	1,280
Guarantee fees	**1,095**	1,468
Others	**2,468**	2,520
Total	**50,525**	48,891
Fee and commission expense		
Bank card transaction fees	**(795)**	(735)
Inter-bank transaction fees	**(185)**	(166)
Others	**(302)**	(319)
Total	**(1,282)**	(1,220)
Net fee and commission income	**49,243**	47,671

5 Net trading gain

	Six months ended 30 June	
	2012	2011
Debt securities	**366**	99
Derivatives	**175**	274
Equity investment	**(341)**	(249)
Others	**150**	545
Total	**350**	669

For the six months ended 30 June 2012, trading loss related to financial assets designated at fair value through profit or loss of the Group amounted to RMB54 million (for the six months ended 30 June 2011: net gain RMB28 million). Trading gain related to financial liabilities designated at fair value through profit or loss of the Group amounted to RMB866 million (for the six months ended 30 June 2011: loss RMB144 million).

(Expressed in millions of RMB, unless otherwise stated)

6 Dividend income

	Six months ended 30 June	
	2012	2011
Dividend income from listed trading equity investments	**11**	12
Dividend income from available-for-sale equity investments		
– Listed	**23**	24
– Unlisted	**55**	25
Total	**89**	61

7 Net gain arising from investment securities

	Six months ended 30 June	
	2012	2011
Net gain on sale of available-for-sale financial assets	**1,018**	265
Net revaluation gain reclassified from other comprehensive income on disposal	**738**	665
Net gain on sale of held-to-maturity investments	**58**	–
Total	**1,814**	930

8 Other operating income, net

	Six months ended 30 June	
	2012	2011
Net foreign exchange gain	**2,488**	674
Income from clearance of dormant accounts	**182**	305
Net gain on disposal of repossessed assets	**50**	68
Net gain on disposal of fixed assets	**22**	371
Others	**3,882**	791
Total	**6,624**	2,209

Net foreign exchange gain includes gains in connection with the translation of foreign currency denominated monetary assets and liabilities, and net realised and unrealised gains and losses on foreign exchange derivatives (including those foreign exchange swaps, foreign exchange options and cross currency swaps entered into in order to economically hedge long positions in foreign currency assets).

(Expressed in millions of RMB, unless otherwise stated)

9 Operating expenses

	Six months ended 30 June	
	2012	2011
Staff costs		
– Salaries, bonuses, allowances and subsidies	**23,974**	22,208
– Defined contribution retirement schemes	**3,769**	3,202
– Other social insurance and welfare	**3,107**	2,616
– Housing funds	**2,139**	1,813
– Union running costs and employee education costs	**987**	885
– Compensation to employees for termination of employment relationship	**6**	6
	33,982	30,730
Premises and equipment expenses		
– Depreciation charges	**5,580**	5,189
– Rent and property management expenses	**2,802**	2,457
– Maintenance	**888**	784
– Utilities	**827**	746
– Others	**560**	459
	10,657	9,635
Business tax and surcharges	**14,975**	11,530
Amortisation expenses	**1,067**	1,033
Audit fees	**76**	72
Other general and administrative expenses	**13,813**	9,557
Total	**74,570**	62,557

10 Impairment losses

	Six months ended 30 June	
	2012	2011
Loans and advances to customers	**14,726**	13,895
– Additions	**20,644**	20,590
– Releases	**(5,918)**	(6,695)
Available-for-sale debt securities	**(262)**	(41)
Available-for-sale equity investments	**9**	2
Held-to-maturity investments	**55**	(51)
Debt securities classified as receivables	**370**	27
Others	**(160)**	93
Total	**14,738**	13,925

(Expressed in millions of RMB, unless otherwise stated)

11 Income tax expense

(1) Income tax expense

	Six months ended 30 June	
	2012	2011
Current tax	**35,509**	28,563
– Mainland China	**35,110**	28,336
– Hong Kong	**301**	191
– Other countries and regions	**98**	36
Adjustments for prior years	**590**	561
Deferred tax	**(4,081)**	(1,288)
Total	**32,018**	27,836

The provisions of income taxes for Mainland China and Hong Kong are calculated at 25% and 16.5% of the estimated taxable income from Mainland China and Hong Kong operations for the period respectively. Taxation for other overseas operations is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

(2) Reconciliation between income tax expense and accounting profit

	Six months ended 30 June	
	2012	2011
Profit before tax	**138,512**	120,789
Income tax calculated at statutory tax rate	**34,628**	30,197
Non-deductible expenses		
– Staff costs	**134**	79
– Others	**440**	101
	574	180
Non-taxable income		
– Interest income from PRC government bonds	**(3,607)**	(3,004)
– Others	**(167)**	(98)
	(3,774)	(3,102)
Total	**31,428**	27,275
Adjustments on income tax for prior years which affect profit or loss	**590**	561
Income tax expense	**32,018**	27,836

(Expressed in millions of RMB, unless otherwise stated)

12 Earnings per share

Basic earnings per share for the six months ended 30 June 2012 and 2011 have been computed by dividing the net profit attributable to equity shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. There was no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the six months ended 30 June 2012 and 2011.

	Six months ended 30 June	
	2012	2011
Net profit attributable to shareholders of the Bank	**106,283**	92,825
Weighted average number of shares (in million shares)	**250,011**	250,011
Basic and diluted earnings per share attributable to shareholders of the Bank (in RMB Yuan)	**0.43**	0.37

13 Cash and deposits with central banks

		Group		Bank	
	Note	**30 June 2012**	31 December 2011	**30 June 2012**	31 December 2011
Cash		**53,823**	58,308	**53,555**	58,061
Deposits with central banks					
– Statutory deposit reserves	(1)	**2,026,630**	1,982,150	**2,025,191**	1,980,915
– Surplus deposit reserves	(2)	**396,769**	324,568	**388,469**	319,734
– Fiscal deposits		**14,370**	14,783	**14,370**	14,783
Subtotal		**2,437,769**	2,321,501	**2,428,030**	2,315,432
Total		**2,491,592**	2,379,809	**2,481,585**	2,373,493

(1) The Group places statutory deposit reserves with the People's Bank of China ("PBOC") and overseas central banks where it has operations. The statutory deposit reserves are not available for use in the Group's daily business.

As at the end of the reporting period, the statutory deposit reserve rates applicable to domestic branches of the Bank were as follows:

	30 June 2012	31 December 2011
Reserve rate for RMB deposits	**20.0%**	21.0%
Reserve rate for foreign currency deposits	**5.0%**	5.0%

The statutory RMB deposit reserve rates applicable to domestic subsidiaries of the Group are determined by the PBOC.

The amounts of statutory deposit reserves placed with the central banks of overseas countries are determined by local jurisdictions.

(2) The surplus deposit reserve maintained with the PBOC is mainly for the purpose of clearing.

(Expressed in millions of RMB, unless otherwise stated)

14 Deposits with banks and non-bank financial institutions

(1) Analysed by type of counterparties

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Banks	**528,638**	274,228	**535,284**	277,427
Non-bank financial institutions	**1,948**	2,533	**1,837**	2,443
Gross balances	**530,586**	276,761	**537,121**	279,870
Allowances for impairment losses (Note 32)	**(9)**	(9)	**(9)**	(9)
Net balances	**530,577**	276,752	**537,112**	279,861

(2) Analysed by geographical sectors

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Mainland China	**508,751**	252,409	**512,407**	257,902
Overseas	**21,835**	24,352	**24,714**	21,968
Gross balances	**530,586**	276,761	**537,121**	279,870
Allowances for impairment losses (Note 32)	**(9)**	(9)	**(9)**	(9)
Net balances	**530,577**	276,752	**537,112**	279,861

15 Placements with banks and non-bank financial institutions

(1) Analysed by type of counterparties

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Banks	**141,156**	77,946	**151,305**	76,380
Non-bank financial institutions	**32,175**	31,159	**35,733**	34,218
Gross balances	**173,331**	109,105	**187,038**	110,598
Allowances for impairment losses (Note 32)	**(61)**	(65)	**(61)**	(65)
Net balances	**173,270**	109,040	**186,977**	110,533

(2) Analysed by geographical sectors

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Mainland China	**86,272**	86,244	**88,273**	87,844
Overseas	**87,059**	22,861	**98,765**	22,754
Gross balances	**173,331**	109,105	**187,038**	110,598
Allowances for impairment losses (Note 32)	**(61)**	(65)	**(61)**	(65)
Net balances	**173,270**	109,040	**186,977**	110,533

(Expressed in millions of RMB, unless otherwise stated)

16 Financial assets at fair value through profit or loss

	Note	Group 30 June 2012	Group 31 December 2011	Bank 30 June 2012	Bank 31 December 2011
Held for trading purpose	(1)				
– Debt securities		**11,278**	8,715	**11,175**	8,715
– Equity instruments		**440**	515	**–**	–
– Funds		**49**	34	**–**	–
		11,767	9,264	**11,175**	8,715
Designated at fair value through profit or loss	(2)				
– Debt securities		**4,896**	5,660	**–**	–
– Equity instruments		**7,350**	8,172	**–**	–
– Funds		**238**	–	**–**	–
		12,484	13,832	**–**	–
Total		**24,251**	23,096	**11,175**	8,715

(1) Held for trading purpose

(a) Debt securities

	Group 30 June 2012	Group 31 December 2011	Bank 30 June 2012	Bank 31 December 2011
Government	**949**	950	**846**	950
Central banks	**20**	2,830	**20**	2,830
Policy banks	**650**	752	**650**	752
Banks and non-bank financial institutions	**3,569**	1,369	**3,569**	1,369
Others	**6,090**	2,814	**6,090**	2,814
Total	**11,278**	8,715	**11,175**	8,715
Unlisted	**11,278**	8,715	**11,175**	8,715

(b) Equity instruments and Funds

	Group 30 June 2012	Group 31 December 2011
Banks and non-bank financial institutions	**49**	–
Others	**440**	549
Total	**489**	549
Listed	**445**	549
– of which in Hong Kong	**270**	488
Unlisted	**44**	–
Total	**489**	549

(Expressed in millions of RMB, unless otherwise stated)

16 Financial assets at fair value through profit or loss (continued)

(2) Designated at fair value through profit or loss

(a) Debt securities

	Group	
	30 June 2012	31 December 2011
Policy banks	**265**	264
Banks and non-bank financial institutions	**635**	633
Others	**3,996**	4,763
Total	**4,896**	5,660
Listed	**280**	280
– of which in Hong Kong	**32**	31
Unlisted	**4,616**	5,380
Total	**4,896**	5,660

(b) Equity instruments and Funds

	Group	
	30 June 2012	31 December 2011
Banks and non-bank financial institutions	**685**	618
Others	**6,903**	7,554
Total	**7,588**	8,172
Listed	**1,560**	1,961
– of which in Hong Kong	**1,009**	1,141
Unlisted	**6,028**	6,211
Total	**7,588**	8,172

There was no significant limitation on the ability of the Group and the Bank to dispose of financial assets at fair value through profit or loss.

(Expressed in millions of RMB, unless otherwise stated)

17 Derivatives

(1) Analysed by type of contract

Group

	As at 30 June 2012			As at 31 December 2011		
	Notional amounts	**Assets**	**Liabilities**	Notional amounts	Assets	Liabilities
Interest rate contracts	**277,803**	**3,750**	**3,694**	183,660	4,252	4,434
Exchange rate contracts	**1,023,111**	**10,989**	**9,280**	740,737	9,344	8,480
Other contracts	**9,674**	**580**	**550**	5,011	531	396
Total	**1,310,588**	**15,319**	**13,524**	929,408	14,127	13,310

Bank

	As at 30 June 2012			As at 31 December 2011		
	Notional amounts	**Assets**	**Liabilities**	Notional amounts	Assets	Liabilities
Interest rate contracts	**269,261**	**3,717**	**3,632**	172,652	4,203	4,356
Exchange rate contracts	**867,253**	**10,434**	**8,819**	631,047	8,851	7,941
Other contracts	**7,549**	**234**	**156**	3,137	19	57
Total	**1,144,063**	**14,385**	**12,607**	806,836	13,073	12,354

(2) Analysed by credit risk-weighted amount

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Interest rate contracts	**3,682**	4,004	**3,666**	3,979
Exchange rate contracts	**17,314**	11,900	**15,466**	10,909
Other contracts	**789**	685	**316**	49
Total	**21,785**	16,589	**19,448**	14,937

The notional amounts of derivatives only represent the unsettled transaction volume as at the end of the reporting period. They do not represent the amounts at risk. The credit risk-weighted amount was computed in accordance with the rules set out by the CBRC and depended on the status of the counterparty and the maturity characteristics. It included customer driven transactions, which were hedged back to back.

18 Financial assets held under resale agreements

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Securities				
– Government bonds	**93,904**	63,787	**93,904**	63,787
– Bills issued by the PBOC	**22,637**	14,810	**22,637**	14,810
– Debt securities issued by banks and non-bank financial institutions	**140,406**	107,467	**140,392**	107,467
Subtotal	**256,947**	186,064	**256,933**	186,064
Discounted bills	**59,981**	5,811	**59,981**	5,811
Loans and advances to customers	**4,127**	8,170	**4,127**	8,170
Total and net balances	**321,055**	200,045	**321,041**	200,045

(Expressed in millions of RMB, unless otherwise stated)

19 Interest receivable

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Deposits with central banks	**842**	919	**842**	919
Deposits with banks and non-bank financial institutions	**3,994**	1,055	**3,919**	1,070
Financial assets held under resale agreements	**965**	580	**965**	580
Loans and advances to customers	**19,903**	16,674	**19,638**	16,334
Debt securities	**44,889**	37,060	**44,764**	36,978
Others	**364**	489	**368**	540
Gross balances	**70,957**	56,777	**70,496**	56,421
Allowances for impairment losses (Note 32)	**(1)**	(1)	**(1)**	(1)
Net balances	**70,956**	56,776	**70,495**	56,420

20 Loans and advances to customers

(1) Analysed by nature

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Corporate loans and advances				
– Loans	**5,030,467**	4,636,821	**4,930,276**	4,563,855
– Finance leases	**40,746**	36,095	**–**	–
	5,071,213	4,672,916	**4,930,276**	4,563,855
Personal loans and advances				
– Residential mortgages	**1,419,530**	1,330,198	**1,404,048**	1,312,974
– Personal consumer loans	**80,873**	79,515	**77,732**	76,692
– Personal business loans	**94,841**	80,075	**93,191**	78,716
– Credit cards	**126,418**	101,694	**122,542**	97,553
– Others	**125,960**	114,140	**120,913**	111,975
	1,847,622	1,705,622	**1,818,426**	1,677,910
Discounted bills	**142,508**	117,873	**142,400**	117,781
Gross loans and advances to customers	**7,061,343**	6,496,411	**6,891,102**	6,359,546
Allowances for impairment losses (Note 32)	**(184,763)**	(171,217)	**(183,654)**	(170,183)
– Individual assessment	**(39,576)**	(38,109)	**(39,449)**	(38,020)
– Collective assessment	**(145,187)**	(133,108)	**(144,205)**	(132,163)
Net loans and advances to customers	**6,876,580**	6,325,194	**6,707,448**	6,189,363

(Expressed in millions of RMB, unless otherwise stated)

20 Loans and advances to customers (continued)

(2) Analysed by assessment method of allowances for impairment losses

	(note (a)) Loans and advances for which collectively assessed	(note (b)) Impaired loans and advances for which allowances are collectively assessed	for which allowances are individually assessed	Total
Group				
As at 30 June 2012				
Gross loans and advances to customers	**6,990,926**	**5,837**	**64,580**	**7,061,343**
Allowances for impairment losses	**(141,425)**	**(3,762)**	**(39,576)**	**(184,763)**
Net loans and advances to customers	**6,849,501**	**2,075**	**25,004**	**6,876,580**
As at 31 December 2011				
Gross loans and advances to customers	6,425,496	5,290	65,625	6,496,411
Allowances for impairment losses	(129,832)	(3,276)	(38,109)	(171,217)
Net loans and advances to customers	6,295,664	2,014	27,516	6,325,194
Bank				
As at 30 June 2012				
Gross loans and advances to customers	**6,820,921**	**5,735**	**64,446**	**6,891,102**
Allowances for impairment losses	**(140,452)**	**(3,753)**	**(39,449)**	**(183,654)**
Net loans and advances to customers	**6,680,469**	**1,982**	**24,997**	**6,707,448**
As at 31 December 2011				
Gross loans and advances to customers	6,288,878	5,178	65,490	6,359,546
Allowances for impairment losses	(128,898)	(3,265)	(38,020)	(170,183)
Net loans and advances to customers	6,159,980	1,913	27,470	6,189,363

(a) Loans and advances assessed on a collective basis for impairment are those graded normal or special mention.

(b) Impaired loans and advances include loans for which objective evidence of impairment exists and assessed:

- individually (including corporate loans and advances which are graded substandard, doubtful or loss); or
- collectively; these are portfolios of homogeneous loans (including personal loans and advances which are graded substandard, doubtful or loss).

The proportion of impaired loans and advances of the Group to gross loans and advances as at 30 June 2012 is 1.00% (31 December 2011: 1.09%).

The proportion of impaired loans and advances of the Bank to gross loans and advances as at 30 June 2012 is 1.02% (31 December 2011: 1.11%).

(c) The definitions of the loan classifications stated in notes (a) and (b) above are set out in Note 57(1).

(Expressed in millions of RMB, unless otherwise stated)

20 Loans and advances to customers (continued)

(3) Movements of allowances for impairment losses

Group

	Note	Six months ended 30 June 2012			
		Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances		Total
			which are collectively assessed	which are individually assessed	
As at 1 January		**129,832**	**3,276**	**38,109**	**171,217**
Charge for the period		**11,593**	**602**	**8,449**	**20,644**
Release during the period		**–**	**–**	**(5,918)**	**(5,918)**
Unwinding of discount		**–**	**–**	**(839)**	**(839)**
Transfers out	(a)	**–**	**4**	**45**	**49**
Write-offs		**–**	**(171)**	**(999)**	**(1,170)**
Recoveries		**–**	**51**	**729**	**780**
As at 30 June		**141,425**	**3,762**	**39,576**	**184,763**

	Note	2011			
		Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances		Total
			which are collectively assessed	which are individually assessed	
As at 1 January		102,093	3,657	37,352	143,102
Charge for the year		27,806	217	14,605	42,628
Release during the year		–	–	(10,225)	(10,225)
Unwinding of discount		–	–	(1,413)	(1,413)
Transfers out	(a)	(67)	(8)	(718)	(793)
Write-offs		–	(676)	(2,654)	(3,330)
Recoveries		–	86	1,162	1,248
As at 31 December		129,832	3,276	38,109	171,217

(Expressed in millions of RMB, unless otherwise stated)

20 Loans and advances to customers (continued)

(3) Movements of allowances for impairment losses (continued)

Bank

	Note	Six months ended 30 June 2012			
		Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances		
			which are collectively assessed	which are individually assessed	Total
As at 1 January		**128,898**	**3,265**	**38,020**	**170,183**
Charge for the period		**11,554**	**567**	**8,411**	**20,532**
Release during the period		**–**	**–**	**(5,917)**	**(5,917)**
Unwinding of discount		**–**	**–**	**(839)**	**(839)**
Transfers out	(a)	**–**	**–**	**44**	**44**
Write-offs		**–**	**(118)**	**(998)**	**(1,116)**
Recoveries		**–**	**39**	**728**	**767**
As at 30 June		**140,452**	**3,753**	**39,449**	**183,654**

	Note	2011			
		Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances		
			which are collectively assessed	which are individually assessed	Total
As at 1 January		101,335	3,648	37,278	142,261
Charge for the year		27,630	144	14,567	42,341
Release during the year		–	–	(10,220)	(10,220)
Unwinding of discount		–	–	(1,413)	(1,413)
Transfers out	(a)	(67)	(8)	(698)	(773)
Write-offs		–	(582)	(2,653)	(3,235)
Recoveries		–	63	1,159	1,222
As at 31 December		128,898	3,265	38,020	170,183

(a) Transfers out include the transfer for allowances for impairment losses to repossessed assets, and the exchange difference.

(4) Overdue loans analysed by overdue period

Group

	30 June 2012				
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	**4,309**	**934**	**766**	**1,452**	**7,461**
Guaranteed loans	**5,978**	**7,353**	**2,983**	**4,996**	**21,310**
Loans secured by tangible assets other than monetary assets	**23,266**	**9,853**	**6,946**	**8,281**	**48,346**
Loans secured by monetary assets	**1,247**	**2,128**	**570**	**688**	**4,633**
Total	**34,800**	**20,268**	**11,265**	**15,417**	**81,750**
As a percentage of gross loans and advances to customers	**0.49%**	**0.29%**	**0.16%**	**0.22%**	**1.16%**

(Expressed in millions of RMB, unless otherwise stated)

20 Loans and advances to customers (continued)

(4) Overdue loans analysed by overdue period (continued)

Group (continued)

	31 December 2011				
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	2,515	603	938	1,209	5,265
Guaranteed loans	2,732	2,958	2,781	4,558	13,029
Loans secured by tangible assets other than monetary assets	15,585	5,585	7,525	6,989	35,684
Loans secured by monetary assets	983	593	641	797	3,014
Total	21,815	9,739	11,885	13,553	56,992
As a percentage of gross loans and advances to customers	0.34%	0.15%	0.18%	0.21%	0.88%

Bank

	30 June 2012				
	Overdue within three months	**Overdue between three months and one year**	**Overdue between one year and three years**	**Overdue over three years**	**Total**
Unsecured loans	**4,103**	**912**	**766**	**1,404**	**7,185**
Guaranteed loans	**5,947**	**7,283**	**2,983**	**4,996**	**21,209**
Loans secured by tangible assets other than monetary assets	**22,950**	**9,853**	**6,945**	**8,280**	**48,028**
Loans secured by monetary assets	**1,210**	**2,128**	**570**	**688**	**4,596**
Total	**34,210**	**20,176**	**11,264**	**15,368**	**81,018**
As a percentage of gross loans and advances to customers	**0.50%**	**0.29%**	**0.16%**	**0.22%**	**1.17%**

	31 December 2011				
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	Total
Unsecured loans	2,444	595	896	1,203	5,138
Guaranteed loans	2,731	2,892	2,781	4,558	12,962
Loans secured by tangible assets other than monetary assets	15,302	5,585	7,525	6,987	35,399
Loans secured by monetary assets	983	593	641	797	3,014
Total	21,460	9,665	11,843	13,545	56,513
As a percentage of gross loans and advances to customers	0.34%	0.15%	0.19%	0.21%	0.89%

Overdue loans represent loans of which the whole or part of the principal or interest are overdue for 1 day or more.

(Expressed in millions of RMB, unless otherwise stated)

21 Available-for-sale financial assets

	Note	Group		Bank	
		30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Debt securities	(1)	**684,487**	661,036	**673,267**	651,585
Equity instruments	(2)	**13,184**	13,764	**11,250**	11,998
Funds	(2)	**437**	258	**–**	–
Total		**698,108**	675,058	**684,517**	663,583

(1) Debt securities

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Government	**84,465**	84,591	**84,050**	84,015
Central banks	**107,716**	144,830	**103,782**	141,810
Policy banks	**69,364**	59,175	**69,354**	59,165
Banks and non-bank financial institutions	**169,864**	156,185	**165,675**	151,626
Public sector entities	**151**	196	**151**	196
Other enterprises	**252,927**	216,059	**250,255**	214,773
Total	**684,487**	661,036	**673,267**	651,585
Listed	**11,433**	18,666	**11,072**	18,312
– of which in Hong Kong	**1,542**	1,906	**1,542**	1,906
Unlisted	**673,054**	642,370	**662,195**	633,273
Total	**684,487**	661,036	**673,267**	651,585

(2) Equity instruments and funds

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Debt equity swap ("DES") investments	**9,899**	10,607	**9,899**	10,607
Other equity instruments	**3,285**	3,157	**1,351**	1,391
Funds	**437**	258	**–**	–
Total	**13,621**	14,022	**11,250**	11,998
Listed	**9,996**	10,251	**9,627**	10,064
– of which in Hong Kong	**543**	632	**543**	617
Unlisted	**3,625**	3,771	**1,623**	1,934
Total	**13,621**	14,022	**11,250**	11,998

Pursuant to the DES arrangement by the PRC government in 1999, the Group obtained equity interests of certain entities in lieu of repayments of loans granted to them. According to relevant requirements, the Group is prohibited from being involved in management of the operations of these entities. In substance, the Group does not have any control or significant influence over these entities.

(Expressed in millions of RMB, unless otherwise stated)

22 Held-to-maturity investments

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Government	**774,482**	765,747	**773,791**	764,969
Central banks	**236,479**	270,122	**236,479**	270,122
Policy banks	**266,121**	225,576	**266,121**	225,576
Banks and non-bank financial institutions	**521,439**	475,703	**521,191**	475,504
Other enterprises	**12,263**	10,415	**11,950**	10,165
Gross balances	**1,810,784**	1,747,563	**1,809,532**	1,746,336
Allowances for impairment losses (Note 32)	**(4,077)**	(3,994)	**(4,077)**	(3,994)
Net balances	**1,806,707**	1,743,569	**1,805,455**	1,742,342
Listed outside Hong Kong	**4,643**	4,126	**4,641**	4,115
Unlisted	**1,802,064**	1,739,443	**1,800,814**	1,738,227
Total	**1,806,707**	1,743,569	**1,805,455**	1,742,342
Market value of listed securities	**5,176**	4,627	**5,174**	4,616

23 Debt securities classified as receivables

All debt securities classified as receivables are unlisted and issued by the following entities in Mainland China:

		Group		Bank	
	Note	**30 June 2012**	31 December 2011	**30 June 2012**	31 December 2011
Government					
– Special government bond	(1)	**49,200**	49,200	**49,200**	49,200
– Others		**749**	742	**530**	530
The PBOC	(2)	**18,253**	17,944	**18,253**	17,944
China Cinda Assets Management Co., Ltd.	(3)	**109,709**	131,761	**109,709**	131,761
Banks and non-bank financial institutions		**85,757**	82,336	**85,757**	82,286
Other enterprises		**37,436**	18,659	**36,970**	18,659
Gross balances		**301,104**	300,642	**300,419**	300,380
Allowance for impairment losses (Note 32)		**(985)**	(615)	**(985)**	(615)
Net balances		**300,119**	300,027	**299,434**	299,765

(1) This represents a non-negotiable bond with a nominal value of RMB49,200 million issued by the Ministry of Finance ("MOF") in 1998 to strengthen the capital base of CCB. The bond matures in 2028 and bears a fixed interest rate of 2.25% per annum. The PBOC approved the Bank's use of the special government bond as eligible assets equivalent to the surplus deposit reserve at PBOC for clearing purpose.

(2) Debt securities issued by the PBOC mainly refer to PBOC bills issued specifically to the Bank.

(3) China Cinda Assets Management Co., Ltd. (formerly known as China Cinda Asset Management Corporation) ("Cinda") issued a bond ("Cinda Bond") with a nominal value of RMB247 billion specifically to CCB in 1999 with a fixed coupon rate of 2.25%. Cinda Bond was extended for 10 years upon its expiry and the interest rate remained unchanged from 2009.

(Expressed in millions of RMB, unless otherwise stated)

24 Investments in subsidiaries

(1) Investment cost

	30 June 2012	31 December 2011
Sing Jian Development Company Limited ("SJDCL")	**383**	383
Sino-German Bausparkasse Corporation Limited ("Sino-German")	**1,502**	1,502
CCB Principal Asset Management Corporation Limited ("CCB Principal")	**130**	130
CCB International Group Holdings Limited ("CCBIG")	**–**	–
CCB Financial Leasing Corporation Limited ("CCBFLCL")	**3,380**	3,380
China Construction Bank (London) Limited ("CCB London")	**1,361**	1,361
Jianxin Trust Corporation Limited ("Jianxin Trust")	**3,409**	3,409
CCB Life Insurance Company Limited ("CCB Life")	**1,010**	1,010
Rural Banks	**969**	775
Total	**12,144**	11,950

The total amount of investment costs of rural banks comprises 20 rural banks in total, which are established and controlled by the Bank in substance.

(2) Major subsidiaries of the Group are unlisted enterprises; details of the investments in subsidiaries are as follows:

Name of company	Place of incorporation	Paid-in capital	Principal activities	% of ownership directly held by the Bank	% of ownership indirectly held by the Bank	% of voting rights held by the Bank
SJDCL	Hong Kong, the PRC	HK$300 million	Investment	100%	–	100%
Sino-German	Tianjin, the PRC	RMB2,000 million	Loan and deposit taking business	75.1%	–	75.1%
CCB Principal	Beijing, the PRC	RMB200 million	Fund management services	65%	–	65%
CCBIG	Hong Kong, the PRC	HK$1	Investment	100%	–	100%
CCBFLCL	Beijing, the PRC	RMB4,500 million	Financial leasing	75.1%	–	75.1%
CCB London	London, United Kingdom	US$200 million	Commercial banking	100%	–	100%
Jianxin Trust	Anhui, the PRC	RMB1,527 million	Trust business	67%	–	67%
CCB Life	Shanghai, the PRC	RMB1,180 million	Insurance	51%	–	51%
Lanhye Investment Holdings Limited	British Virgin Islands	US$1	Investment	–	100%	100%
CCB International (Holdings) Limited ("CCBI")	Hong Kong, the PRC	US$601 million	Investment	–	100%	100%
China Construction Bank (Asia) Corporation Limited ("CCB Asia")	Hong Kong, the PRC	HK$6,520 million	Commercial banking	–	100%	100%

(Expressed in millions of RMB, unless otherwise stated)

25 Interests in associates and jointly controlled entities

(1) The movement of the Group's interests in associates and jointly controlled entities is as follows:

	Six months ended 30 June 2012	2011
As at 1 January	**2,069**	1,777
Acquisitions during the period/year	**209**	348
Share of profits less losses	**8**	24
Cash dividend receivable	**–**	(3)
Effect of exchange difference and others	**19**	(77)
Total	**2,305**	2,069

(2) Details of the interests in major associate and jointly controlled entity are as follows:

Name of company	**Place of incorporation**	**Particulars of issued and paid up capital**	**Principal activity**	**% of ownership held**	**% of voting held**	**Total assets at period end**	**Total liabilities at period end**	**Revenue for the period**	**Net profit for the period**
QBE Hong Kong and Shanghai Insurance Limited	Hong Kong, the PRC	HK$ 78,192,220	Insurance	25.5%	25.5%	1,564	1,020	349	34
Diamond String Limited	Hong Kong, the PRC	HK$ 10,000	Property investment	50%	50%	1,457	1,455	–	(1)
CCBT Private Equity Fund	Beijing, the PRC	RMB 341 million	Investment management and consultancy	45.70%	45.70%	330	2	–	(5)
CCBT Fortune Private Equity Fund	Beijing, the PRC	RMB 422 million	Investment management and consultancy	32.83%	32.83%	413	–	4	(2)

(Expressed in millions of RMB, unless otherwise stated)

26 Fixed assets

Group

	Bank premises	Construction in progress	Equipment	Others	Total
Cost/deemed cost					
As at 1 January 2012	**65,691**	**18,933**	**30,075**	**23,233**	**137,932**
Additions	**4,109**	**5,054**	**1,278**	**731**	**11,172**
Transfer in/(out)	**1,353**	**(1,904)**	**18**	**533**	**–**
Disposals	**(105)**	**(303)**	**(311)**	**(350)**	**(1,069)**
As at 30 June 2012	**71,048**	**21,780**	**31,060**	**24,147**	**148,035**
Accumulated depreciation					
As at 1 January 2012	**(13,761)**	**–**	**(18,965)**	**(10,517)**	**(43,243)**
Charge for the period	**(1,227)**	**–**	**(2,221)**	**(2,132)**	**(5,580)**
Disposals	**10**	**–**	**302**	**333**	**645**
As at 30 June 2012	**(14,978)**	**–**	**(20,884)**	**(12,316)**	**(48,178)**
Allowances for impairment losses (Note 32)					
As at 1 January 2012	**(459)**	**–**	**(1)**	**(7)**	**(467)**
Disposals	**–**	**–**	**–**	**1**	**1**
As at 30 June 2012	**(459)**	**–**	**(1)**	**(6)**	**(466)**
Net carrying value					
As at 1 January 2012	**51,471**	**18,933**	**11,109**	**12,709**	**94,222**
As at 30 June 2012	**55,611**	**21,780**	**10,175**	**11,825**	**99,391**

	Bank premises	Construction in progress	Equipment	Others	Total
Cost/deemed cost					
As at 1 January 2011	57,848	15,639	26,724	19,375	119,586
Additions through acquisition	–	–	10	52	62
Additions	3,808	10,150	5,053	3,158	22,169
Transfer in/(out)	4,396	(6,233)	62	1,775	–
Disposals	(361)	(623)	(1,774)	(1,127)	(3,885)
As at 31 December 2011	65,691	18,933	30,075	23,233	137,932
Accumulated depreciation					
As at 1 January 2011	(11,646)	–	(16,360)	(7,661)	(35,667)
Additions through acquisition	–	–	(8)	(45)	(53)
Charge for the year	(2,212)	–	(4,264)	(3,921)	(10,397)
Disposals	97	–	1,667	1,110	2,874
As at 31 December 2011	(13,761)	–	(18,965)	(10,517)	(43,243)
Allowances for impairment losses (Note 32)					
As at 1 January 2011	(476)	–	(3)	(6)	(485)
Charge for the year	–	–	–	(1)	(1)
Disposals	17	–	2	–	19
As at 31 December 2011	(459)	–	(1)	(7)	(467)
Net carrying value					
As at 1 January 2011	45,726	15,639	10,361	11,708	83,434
As at 31 December 2011	51,471	18,933	11,109	12,709	94,222

(Expressed in millions of RMB, unless otherwise stated)

26 Fixed assets (continued)

Bank

	Bank premises	Construction in progress	Equipment	Others	Total
Cost/deemed cost					
As at 1 January 2012	**65,140**	**18,928**	**29,765**	**22,716**	**136,549**
Additions	**2,048**	**5,051**	**1,258**	**708**	**9,065**
Transfer in/(out)	**1,353**	**(1,904)**	**18**	**533**	**–**
Disposals	**(105)**	**(302)**	**(311)**	**(344)**	**(1,062)**
As at 30 June 2012	**68,436**	**21,773**	**30,730**	**23,613**	**144,552**
Accumulated depreciation					
As at 1 January 2012	**(13,680)**	**–**	**(18,762)**	**(10,272)**	**(42,714)**
Charge for the period	**(1,216)**	**–**	**(2,195)**	**(2,101)**	**(5,512)**
Disposals	**10**	**–**	**302**	**329**	**641**
As at 30 June 2012	**(14,886)**	**–**	**(20,655)**	**(12,044)**	**(47,585)**
Allowances for impairment losses (Note 32)					
As at 1 January 2012	**(459)**	**–**	**(1)**	**(6)**	**(466)**
Disposals	**–**	**–**	**–**	**1**	**1**
As at 30 June 2012	**(459)**	**–**	**(1)**	**(5)**	**(465)**
Net carrying value					
As at 1 January 2012	**51,001**	**18,928**	**11,002**	**12,438**	**93,369**
As at 30 June 2012	**53,091**	**21,773**	**10,074**	**11,564**	**96,502**

	Bank premises	Construction in progress	Equipment	Others	Total
Cost/deemed cost					
As at 1 January 2011	57,296	15,636	26,458	19,083	118,473
Additions	3,806	10,131	5,006	2,978	21,921
Transfer in/(out)	4,395	(6,225)	62	1,768	–
Disposals	(357)	(614)	(1,761)	(1,113)	(3,845)
As at 31 December 2011	65,140	18,928	29,765	22,716	136,549
Accumulated depreciation					
As at 1 January 2011	(11,585)	–	(16,201)	(7,506)	(35,292)
Charge for the year	(2,192)	–	(4,216)	(3,869)	(10,277)
Disposals	97	–	1,655	1,103	2,855
As at 31 December 2011	(13,680)	–	(18,762)	(10,272)	(42,714)
Allowances for impairment losses (Note 32)					
As at 1 January 2011	(476)	–	(3)	(6)	(485)
Disposals	17	–	2	–	19
As at 31 December 2011	(459)	–	(1)	(6)	(466)
Net carrying value					
As at 1 January 2011	45,235	15,636	10,254	11,571	82,696
As at 31 December 2011	51,001	18,928	11,002	12,438	93,369

(Expressed in millions of RMB, unless otherwise stated)

26 Fixed assets (continued)

Notes:

(1) As at 30 June 2012, ownership documentation for the Group's and the Bank's bank premises with a net carrying value of RMB12,482 million (31 December 2011: RMB11,222 million) was being finalised. However, management is of the view that the aforesaid matter would not affect the rights of the Group and the Bank to these assets nor have any significant impact on the business operation of the Group and the Bank.

(2) Analysed by remaining terms of the leases

The net carrying values of bank premises of the Group and the Bank as at the end of the reporting period are analysed by the remaining terms of the leases as follows:

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Long term leases (over 50 years) held overseas	**43**	37	**–**	–
Medium term leases (10-50 years) held overseas	**2,169**	125	**107**	111
Short term leases (less than 10 years) held overseas	**3**	6	**3**	6
Long term leases (over 50 years) held in Mainland China	**3,839**	3,836	**3,837**	3,834
Medium term leases (10-50 years) held in Mainland China	**48,140**	45,990	**47,727**	45,573
Short term leases (less than 10 years) held in Mainland China	**1,417**	1,477	**1,417**	1,477
Total	**55,611**	51,471	**53,091**	51,001

27 Land use rights

Group

	Six months ended 30 June 2012	2011
Cost/deemed cost		
As at 1 January	**20,475**	20,458
Additions	**25**	172
Disposals	**(4)**	(155)
As at 30 June/31 December	**20,496**	20,475
Amortisation		
As at 1 January	**(3,872)**	(3,387)
Charge for the period/year	**(267)**	(508)
Disposals	**1**	23
As at 30 June/31 December	**(4,138)**	(3,872)
Allowances for impairment losses (Note 32)		
As at 1 January	**(146)**	(149)
Disposals	**–**	3
As at 30 June/31 December	**(146)**	(146)
Net carrying value		
As at 1 January	**16,457**	16,922
As at 30 June/31 December	**16,212**	16,457

(Expressed in millions of RMB, unless otherwise stated)

27 Land use rights (continued)

Bank

	Six months ended 30 June 2012	2011
Cost/deemed cost		
As at 1 January	**20,417**	20,397
Additions	**12**	172
Disposals	**(4)**	(152)
As at 30 June/31 December	**20,425**	20,417
Amortisation		
As at 1 January	**(3,867)**	(3,383)
Charge for the period/year	**(254)**	(507)
Disposals	**1**	23
As at 30 June/31 December	**(4,120)**	(3,867)
Allowances for impairment losses (Note 32)		
As at 1 January	**(146)**	(149)
Disposals	**–**	3
As at 30 June/31 December	**(146)**	(146)
Net carrying value		
As at 1 January	**16,404**	16,865
As at 30 June/31 December	**16,159**	16,404

28 Intangible assets

Group

	Software	Others	Total
Cost/deemed cost			
As at 1 January 2012	**4,245**	**539**	**4,784**
Additions	**33**	**19**	**52**
Disposals	**(11)**	**(6)**	**(17)**
As at 30 June 2012	**4,267**	**552**	**4,819**
Amortisation			
As at 1 January 2012	**(3,033)**	**(83)**	**(3,116)**
Charge for the period	**(233)**	**(16)**	**(249)**
Disposals	**5**	**–**	**5**
As at 30 June 2012	**(3,261)**	**(99)**	**(3,360)**
Allowances for impairment losses (Note 32)			
As at 1 January 2012	**(1)**	**(7)**	**(8)**
As at 30 June 2012	**(1)**	**(7)**	**(8)**
Net carrying value			
As at 1 January 2012	**1,211**	**449**	**1,660**
As at 30 June 2012	**1,005**	**446**	**1,451**

(Expressed in millions of RMB, unless otherwise stated)

28 Intangible assets (continued)

Group (continued)

	Software	Others	Total
Cost/deemed cost			
As at 1 January 2011	3,906	49	3,955
Additions through acquisition	48	424	472
Additions	409	71	480
Disposals	(118)	(5)	(123)
As at 31 December 2011	4,245	539	4,784
Amortisation			
As at 1 January 2011	(2,626)	(11)	(2,637)
Additions through acquisition	(27)	–	(27)
Charge for the year	(491)	(74)	(565)
Disposals	111	2	113
As at 31 December 2011	(3,033)	(83)	(3,116)
Allowances for impairment losses (Note 32)			
As at 1 January 2011	(1)	(7)	(8)
As at 31 December 2011	(1)	(7)	(8)
Net carrying value			
As at 1 January 2011	1,279	31	1,310
As at 31 December 2011	1,211	449	1,660

Bank

	Software	**Others**	**Total**
Cost/deemed cost			
As at 1 January 2012	**4,127**	**102**	**4,229**
Additions	**26**	**19**	**45**
Disposals	**(11)**	**(6)**	**(17)**
As at 30 June 2012	**4,142**	**115**	**4,257**
Amortisation			
As at 1 January 2012	**(2,970)**	**(75)**	**(3,045)**
Charge for the period	**(224)**	**(8)**	**(232)**
Disposals	**5**	**–**	**5**
As at 30 June 2012	**(3,189)**	**(83)**	**(3,272)**
Allowances for impairment losses (Note 32)			
As at 1 January 2012	**(1)**	**(7)**	**(8)**
As at 30 June 2012	**(1)**	**(7)**	**(8)**
Net carrying value			
As at 1 January 2012	**1,156**	**20**	**1,176**
As at 30 June 2012	**952**	**25**	**977**

(Expressed in millions of RMB, unless otherwise stated)

28 Intangible assets (continued)

Bank (continued)

	Software	Others	Total
Cost/deemed cost			
As at 1 January 2011	3,858	38	3,896
Additions	386	69	455
Disposals	(117)	(5)	(122)
As at 31 December 2011	4,127	102	4,229
Amortisation			
As at 1 January 2011	(2,604)	(11)	(2,615)
Charge for the year	(477)	(66)	(543)
Disposals	111	2	113
As at 31 December 2011	(2,970)	(75)	(3,045)
Allowances for impairment losses (Note 32)			
As at 1 January 2011	(1)	(7)	(8)
As at 31 December 2011	(1)	(7)	(8)
Net carrying value			
As at 1 January 2011	1,253	20	1,273
As at 31 December 2011	1,156	20	1,176

29 Goodwill

(1) The goodwill is attributable to the expected synergies arising from the acquisition of CCB Asia on 29 December 2006, Jianxin Trust on 29 July 2009 and CCB Life on 29 June 2011. Movement of the goodwill is as follows:

	Six months ended 30 June 2012	2011
As at 1 January	**1,662**	1,534
Additions through acquisitions	**–**	194
Effect of exchange difference	**15**	(66)
As at 30 June/31 December	**1,677**	1,662

(2) Impairment test for cash-generating unit containing goodwill

The Group calculated the recoverable amount of the CGU using cash flow projections based on financial forecasts approved by management. The average growth rate used by the Group is consistent with the forecasts included in industry reports. The discount rate used reflects specific risks relating to the relevant segments.

Based on the result of the impairment test, no impairment losses on goodwill were recognised as at 30 June 2012 (31 December 2011: Nil).

(Expressed in millions of RMB, unless otherwise stated)

30 Deferred tax

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Deferred tax assets	**23,860**	21,410	**24,439**	22,003
Deferred tax liabilities	**(368)**	(358)	**(25)**	(23)
Total	**23,492**	21,052	**24,414**	21,980

(1) Analysed by nature

Group

	30 June 2012		31 December 2011	
	Deductible/ (taxable) temporary differences	**Deferred tax assets/ (liabilities)**	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets				
– Fair value adjustments	**(16,606)**	**(4,164)**	(9,066)	(2,271)
– Allowances for impairment losses	**105,518**	**26,290**	86,022	21,386
– Early retirement benefits and accrued salaries	**23,185**	**5,791**	22,755	5,689
– Others	**(15,391)**	**(4,057)**	(12,758)	(3,394)
Total	**96,706**	**23,860**	86,953	21,410
Deferred tax liabilities				
– Fair value adjustments	**(1,330)**	**(320)**	(1,323)	(309)
– Allowances for impairment losses	**(47)**	**(11)**	(46)	(11)
– Others	**(147)**	**(37)**	(148)	(38)
Total	**(1,524)**	**(368)**	(1,517)	(358)

Bank

	30 June 2012		31 December 2011	
	Deductible/ (taxable) temporary differences	**Deferred tax assets/ (liabilities)**	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets				
– Fair value adjustments	**(16,645)**	**(4,172)**	(9,106)	(2,281)
– Allowances for impairment losses	**105,176**	**26,230**	85,634	21,320
– Early retirement benefits and accrued salaries	**23,078**	**5,769**	22,606	5,651
– Others	**(10,099)**	**(3,388)**	(7,268)	(2,687)
Total	**101,510**	**24,439**	91,866	22,003
Deferred tax liabilities				
– Fair value adjustments	**(59)**	**(15)**	(55)	(13)
– Allowances for impairment losses	**(47)**	**(11)**	(46)	(11)
– Others	**4**	**1**	4	1
Total	**(102)**	**(25)**	(97)	(23)

(Expressed in millions of RMB, unless otherwise stated)

30 Deferred tax (continued)

(2) Movements of deferred tax

Group

	Early retirement benefits and accrued salaries	Fair value adjustments	Allowances for impairment losses	Others	Total
As at 1 January 2012	**5,689**	**(2,580)**	**21,375**	**(3,432)**	**21,052**
Recognised in profit or loss	**102**	**(263)**	**4,904**	**(662)**	**4,081**
Recognised in other comprehensive income	**–**	**(1,641)**	**–**	**–**	**(1,641)**
As at 30 June 2012	**5,791**	**(4,484)**	**26,279**	**(4,094)**	**23,492**
As at 1 January 2011	4,688	(2,919)	15,760	53	17,582
Recognised in profit or loss	998	210	5,615	(3,443)	3,380
Recognised in other comprehensive income	–	229	–	–	229
Addition through acquisition	3	(100)	–	(42)	(139)
As at 31 December 2011	5,689	(2,580)	21,375	(3,432)	21,052

Bank

	Early retirement benefits and accrued salaries	Fair value adjustments	Allowances for impairment losses	Others	Total
As at 1 January 2012	**5,651**	**(2,294)**	**21,309**	**(2,686)**	**21,980**
Recognised in profit or loss	**118**	**(266)**	**4,910**	**(701)**	**4,061**
Recognised in other comprehensive income	**–**	**(1,627)**	**–**	**–**	**(1,627)**
As at 30 June 2012	**5,769**	**(4,187)**	**26,219**	**(3,387)**	**24,414**
As at 1 January 2011	4,657	(2,694)	15,689	1,118	18,770
Recognised in profit or loss	994	198	5,620	(3,804)	3,008
Recognised in other comprehensive income	–	202	–	–	202
As at 31 December 2011	5,651	(2,294)	21,309	(2,686)	21,980

The Group and the Bank did not have significant unrecognised deferred tax as at the end of the reporting period.

(Expressed in millions of RMB, unless otherwise stated)

31 Other assets

	Note	Group 30 June 2012	Group 31 December 2011	Bank 30 June 2012	Bank 31 December 2011
Repossessed assets	(1)				
– Buildings		**1,472**	1,553	**1,472**	1,549
– Land use rights		**208**	219	**208**	219
– Others		**60**	60	**60**	60
		1,740	1,832	**1,740**	1,828
Long-term deferred expenses		**564**	493	**518**	462
Receivables from CCBIG	(2)	**–**	–	**20,499**	18,205
Other receivables		**19,563**	15,920	**20,040**	13,696
Leasehold improvements		**2,234**	2,401	**2,218**	2,389
Gross balances		**24,101**	20,646	**45,015**	36,580
Allowances for impairment losses (Note 32)					
– Repossessed assets		**(238)**	(278)	**(238)**	(278)
– Others		**(2,137)**	(2,225)	**(2,133)**	(2,225)
		(2,375)	(2,503)	**(2,371)**	(2,503)
Net balances		**21,726**	18,143	**42,644**	34,077

(1) For the six months ended 30 June 2012, the original cost of repossessed assets disposed of by the Group amounted to RMB187 million (for the six months ended 30 June 2011: RMB256 million). The Group intends to dispose of repossessed assets through various methods including auction, competitive bidding and disposal.

(2) Receivables from CCBIG represent lending to CCBIG, a wholly owned subsidiary, for acquisition of equity investments and capital injection to other subsidiaries. The receivables are unsecured, non-interest bearing and without fixed repayment term.

32 Movements of allowances for impairment losses

Group

		Six months ended 30 June 2012				
	Note	As at 1 January	Charge for the period/ (write-back)	Transfer in/(out)	Write-offs	As at 30 June
Deposits with banks and non-bank financial institutions	14	**9**	**–**	**–**	**–**	**9**
Placements with banks and non-bank financial institutions	15	**65**	**(4)**	**–**	**–**	**61**
Interest receivable	19	**1**	**–**	**–**	**–**	**1**
Loans and advances to customers	20(3)	**171,217**	**14,726**	**(10)**	**(1,170)**	**184,763**
Held-to-maturity investments	22	**3,994**	**55**	**35**	**(7)**	**4,077**
Debt securities classified as receivables	23	**615**	**370**	**–**	**–**	**985**
Fixed assets	26	**467**	**–**	**–**	**(1)**	**466**
Land use rights	27	**146**	**–**	**–**	**–**	**146**
Intangible assets	28	**8**	**–**	**–**	**–**	**8**
Other assets	31	**2,503**	**14**	**–**	**(142)**	**2,375**
Total		**179,025**	**15,161**	**25**	**(1,320)**	**192,891**

Transfer in/(out) includes the exchange difference; write-offs include disposals.

(Expressed in millions of RMB, unless otherwise stated)

32 Movements of allowances for impairment losses (continued)

Group (continued)

	Note	2011 As at 1 January	Charge for the year/ (write-back)	Transfer in/(out)	Write-offs	As at 31 December
Deposits with banks and non-bank financial institutions	14	11	(16)	14	–	9
Placements with banks and non-bank financial institutions	15	84	(37)	35	(17)	65
Interest receivable	19	1	–	–	–	1
Loans and advances to customers	20(3)	143,102	32,403	(958)	(3,330)	171,217
Held-to-maturity investments	22	5,003	(15)	(192)	(802)	3,994
Debt securities classified as receivables	23	120	495	–	–	615
Fixed assets	26	485	1	–	(19)	467
Land use rights	27	149	–	–	(3)	146
Intangible assets	28	8	–	–	–	8
Other assets	31	2,981	(169)	–	(309)	2,503
Total		151,944	32,662	(1,101)	(4,480)	179,025

Bank

	Note	**Six months ended 30 June 2012** **As at 1 January**	**Charge for the period/ (write-back)**	**Transfer in/(out)**	**Write-offs**	**As at 30 June**
Deposits with banks and non-bank financial institutions	14	**9**	**–**	**–**	**–**	**9**
Placements with banks and non-bank financial institutions	15	**65**	**(4)**	**–**	**–**	**61**
Interest receivable	19	**1**	**–**	**–**	**–**	**1**
Loans and advances to customers	20(3)	**170,183**	**14,615**	**(28)**	**(1,116)**	**183,654**
Held-to-maturity investments	22	**3,994**	**55**	**35**	**(7)**	**4,077**
Debt securities classified as receivables	23	**615**	**370**	**–**	**–**	**985**
Fixed assets	26	**466**	**–**	**–**	**(1)**	**465**
Land use rights	27	**146**	**–**	**–**	**–**	**146**
Intangible assets	28	**8**	**–**	**–**	**–**	**8**
Other assets	31	**2,503**	**10**	**–**	**(142)**	**2,371**
Total		**177,990**	**15,046**	**7**	**(1,266)**	**191,777**

	Note	2011 As at 1 January	Charge for the year/ (write-back)	Transfer in/(out)	Write-offs	As at 31 December
Deposits with banks and non-bank financial institutions	14	11	(16)	14	–	9
Placements with banks and non-bank financial institutions	15	84	(37)	35	(17)	65
Interest receivable	19	1	–	–	–	1
Loans and advances to customers	20(3)	142,261	32,121	(964)	(3,235)	170,183
Held-to-maturity investments	22	5,003	(15)	(192)	(802)	3,994
Debt securities classified as receivables	23	120	495	–	–	615
Fixed assets	26	485	–	–	(19)	466
Land use rights	27	149	–	–	(3)	146
Intangible assets	28	8	–	–	–	8
Other assets	31	2,978	(242)	–	(233)	2,503
Total		151,100	32,306	(1,107)	(4,309)	177,990

(Expressed in millions of RMB, unless otherwise stated)

33 Amounts due from/to subsidiaries

Amounts due from subsidiaries of the Bank are analysed by assets category as follows:

	30 June 2012	31 December 2011
Deposits with banks and non-bank financial institutions	11,295	9,118
Placements with banks and non-bank financial institutions	18,837	7,750
Interest receivable	24	136
Available-for-sale financial assets	2,554	3,333
Other assets	23,530	18,394
Total	56,240	38,731

Amounts due to subsidiaries of the Bank are analysed by liabilities category as follows:

	30 June 2012	31 December 2011
Deposits from banks and non-bank financial institutions	4,519	4,587
Placements from banks and non-bank financial institutions	1,610	2,397
Financial assets sold under repurchase agreements	–	1,133
Deposits from customers	9,598	1,633
Interest payable	136	78
Other liabilities	11	42
Total	15,874	9,870

34 Deposits from banks and non-bank financial institutions

(1) Analysed by type of counterparties

	Group		Bank	
	30 June 2012	31 December 2011	30 June 2012	31 December 2011
Banks	550,256	461,574	550,362	464,173
Non-bank financial institutions	484,795	504,655	486,160	505,860
Total	1,035,051	966,229	1,036,522	970,033

(2) Analysed by geographical sectors

	Group		Bank	
	30 June 2012	31 December 2011	30 June 2012	31 December 2011
Mainland China	1,033,683	966,085	1,034,439	968,168
Overseas	1,368	144	2,083	1,865
Total	1,035,051	966,229	1,036,522	970,033

(Expressed in millions of RMB, unless otherwise stated)

35 Placements from banks and non-bank financial institutions

(1) Analysed by type of counterparties

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Banks	**99,207**	77,474	**59,586**	44,692
Non-bank financial institutions	**2,114**	1,251	**2,052**	962
Total	**101,321**	78,725	**61,638**	45,654

(2) Analysed by geographical sectors

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Mainland China	**46,489**	33,045	**14,941**	5,745
Overseas	**54,832**	45,680	**46,697**	39,909
Total	**101,321**	78,725	**61,638**	45,654

36 Financial liabilities at fair value through profit or loss

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Structured financial instruments	**10,907**	11,332	**8,196**	8,642
Financial liabilities related to precious metals	**27,894**	22,324	**27,894**	22,324
Total	**38,801**	33,656	**36,090**	30,966

The Group's and the Bank's financial liabilities at fair value through profit or loss are all financial liabilities designated at fair value through profit or loss. As at the end of the reporting period, the difference between the fair value of these financial liabilities and the contractual payables at maturity of the Group and the Bank is not material. The amounts of changes in the fair value of these financial liabilities that are attributable to changes in credit risk are considered not significant during the period presented and cumulatively as at 30 June 2012 and 31 December 2011.

37 Financial assets sold under repurchase agreements

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Securities				
– PBOC bills	**890**	10,010	**890**	10,010
– Government bonds	**1,061**	–	**–**	–
	1,951	10,010	**890**	10,010
Discounted bills	**858**	451	**858**	451
Loans	**398**	–	**–**	1,133
Total	**3,207**	10,461	**1,748**	11,594

(Expressed in millions of RMB, unless otherwise stated)

38 Deposits from customers

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Demand deposits				
– Corporate customers	**3,603,730**	3,576,929	**3,601,728**	3,569,524
– Personal customers	**1,995,804**	1,839,812	**1,984,275**	1,829,426
Subtotal	**5,599,534**	5,416,741	**5,586,003**	5,398,950
Time deposits (including call deposits)				
– Corporate customers	**2,286,308**	1,949,188	**2,257,490**	1,920,555
– Personal customers	**3,054,995**	2,621,521	**3,020,261**	2,586,588
Subtotal	**5,341,303**	4,570,709	**5,277,751**	4,507,143
Total	**10,940,837**	9,987,450	**10,863,754**	9,906,093

Deposits from customers include:

		Group		Bank	
		30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
(1)	Pledged deposits				
	– Deposits for acceptance	**145,082**	104,880	**145,288**	104,699
	– Deposits for guarantee	**36,861**	40,570	**36,861**	40,570
	– Deposits for letter of credit	**50,132**	59,445	**50,132**	59,441
	– Others	**215,876**	158,088	**217,795**	157,986
	Total	**447,951**	362,983	**450,076**	362,696
(2)	Outward remittance and remittance payables	**28,610**	9,508	**28,534**	9,434

(3) As at 30 June 2012, the balance of wealth management products with principal guaranteed by the Group and the Bank was RMB342,435 million (31 December 2011: RMB154,062 million).

(Expressed in millions of RMB, unless otherwise stated)

39 Accrued staff costs

Group

	Note	Six months ended 30 June 2012 As at 1 January	Accrued	Paid	As at 30 June
Salaries, bonuses, allowances and subsidies		**19,871**	**23,974**	**(23,085)**	**20,760**
Defined contribution retirement schemes		**552**	**3,769**	**(3,797)**	**524**
Other social insurance and welfare		**1,630**	**3,107**	**(2,578)**	**2,159**
Housing funds		**124**	**2,139**	**(2,079)**	**184**
Union running costs and employee education costs		**1,174**	**987**	**(614)**	**1,547**
Supplementary retirement benefits	(1)	**7,032**	**105**	**(270)**	**6,867**
Early retirement benefits		**5,542**	**322**	**(678)**	**5,186**
Compensation to employees for termination of employment relationship		**6**	**6**	**(7)**	**5**
Total		**35,931**	**34,409**	**(33,108)**	**37,232**

	Note	2011 As at 1 January	Accrued	Paid	As at 31 December
Salaries, bonuses, allowances and subsidies		14,873	49,703	(44,705)	19,871
Defined contribution retirement schemes		492	8,495	(8,435)	552
Other social insurance and welfare		1,265	6,581	(6,216)	1,630
Housing funds		112	3,989	(3,977)	124
Union running costs and employee education costs		954	2,013	(1,793)	1,174
Supplementary retirement benefits	(1)	6,901	638	(507)	7,032
Early retirement benefits		6,765	409	(1,632)	5,542
Compensation to employees for termination of employment relationship		7	10	(11)	6
Total		31,369	71,838	(67,276)	35,931

Bank

	Note	Six months ended 30 June 2012 As at 1 January	Accrued	Paid	As at 30 June
Salaries, bonuses, allowances and subsidies		**19,222**	**23,176**	**(22,142)**	**20,256**
Defined contribution retirement schemes		**550**	**3,705**	**(3,734)**	**521**
Other social insurance and welfare		**1,544**	**3,064**	**(2,509)**	**2,099**
Housing funds		**124**	**2,123**	**(2,066)**	**181**
Union running costs and employee education costs		**1,162**	**976**	**(608)**	**1,530**
Supplementary retirement benefits	(1)	**7,032**	**105**	**(270)**	**6,867**
Early retirement benefits		**5,542**	**322**	**(678)**	**5,186**
Compensation to employees for termination of employment relationship		**6**	**6**	**(7)**	**5**
Total		**35,182**	**33,477**	**(32,014)**	**36,645**

	Note	2011 As at 1 January	Accrued	Paid	As at 31 December
Salaries, bonuses, allowances and subsidies		14,133	48,153	(43,064)	19,222
Defined contribution retirement schemes		491	8,397	(8,338)	550
Other social insurance and welfare		1,169	6,525	(6,150)	1,544
Housing funds		111	3,968	(3,955)	124
Union running costs and employee education costs		945	1,997	(1,780)	1,162
Supplementary retirement benefits	(1)	6,901	638	(507)	7,032
Early retirement benefits		6,765	409	(1,632)	5,542
Compensation to employees for termination of employment relationship		7	10	(11)	6
Total		30,522	70,097	(65,437)	35,182

(Expressed in millions of RMB, unless otherwise stated)

39 Accrued staff costs (continued)

(1) Supplementary retirement benefits

The Group's obligations in respect of the supplementary retirement benefits as at the end of the reporting period were calculated using the projected unit credit actuarial cost method and reviewed by qualified staff (a member of Society of Actuaries of the United States of America) of an external independent actuary: Towers, Perrin, Forster & Crosby, Inc., Hong Kong.

(a) Breakdowns of supplementary retirement benefits of the Group and the Bank are as follows:

	30 June 2012	31 December 2011
Present value of supplementary retirement benefit obligations	**6,837**	7,033
Unrecognised actuarial gains/(losses)	**30**	(1)
As at 30 June/31 December	**6,867**	7,032

(b) Movements of supplementary retirement benefits of the Group and the Bank are as follows:

	30 June 2012	31 December 2011
As at 1 January	**7,032**	6,901
Paid	**(270)**	(507)
Expenses recognised in profit or loss		
– Interest cost	**105**	251
– Past service costs	**–**	387
As at 30 June/31 December	**6,867**	7,032

Interest cost was recognised in other general and administrative expenses. Past service costs were recognised in staff costs.

(c) Principal actuarial assumptions of the Group and the Bank as at the end of the reporting period:

	30 June 2012	31 December 2011
Discount rate	**3.50%**	3.50%
Health care cost increases	**7.00%**	7.00%
Average expected future lifetime of eligible employees	**13.3 years**	13.6 years

(2) The Group and the Bank had no overdue balance of accrued staff costs as at the end of the reporting period.

40 Taxes payable

	Group		**Bank**	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Income tax	**22,212**	38,899	**21,986**	38,747
Business tax and surcharges	**7,830**	7,752	**7,759**	7,688
Others	**175**	538	**115**	515
Total	**30,217**	47,189	**29,860**	46,950

(Expressed in millions of RMB, unless otherwise stated)

41 Interest payable

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Deposits from banks and non-bank financial institutions	**1,756**	1,405	**1,720**	1,392
Deposits from customers	**98,987**	76,850	**98,788**	76,665
Debts securities issued	**3,157**	1,921	**3,157**	1,921
Others	**445**	378	**297**	334
Total	**104,345**	80,554	**103,962**	80,312

42 Provisions

	Group and Bank	
	30 June 2012	31 December 2011
Litigation provisions	**876**	896
Others	**4,071**	4,284
Total	**4,947**	5,180

43 Debt securities issued

		Group		Bank	
	Note	**30 June 2012**	31 December 2011	**30 June 2012**	31 December 2011
Certificates of deposit issued	(1)	**92,765**	48,451	**78,092**	38,189
Bonds issued	(2)	**993**	–	**993**	–
Subordinated bonds issued	(3)	**119,870**	119,861	**119,870**	119,861
Total		**213,628**	168,312	**198,955**	158,050

(1) Certificates of deposit were mainly issued by overseas branches of the Bank and CCB Asia in Hong Kong and recognised at amortised cost.

(2) Bonds issued

		Group and Bank	
	Note	**30 June 2012**	31 December 2011
3.08% fixed rate RMB bonds maturing in June 2014	(a)	**500**	–
3.25% fixed rate RMB bonds maturing in June 2015	(b)	**500**	–
Total nominal value		**1,000**	–
Less: unamortised issuance costs		**(7)**	–
Carrying value as at 30 June/31 December		**993**	–

(a) 3.08% fixed rate RMB bonds were issued on 21 June, 2012 in Hong Kong, and will mature on 28 June, 2014.

(b) 3.25% fixed rate RMB bonds were issued on 21 June, 2012 in Hong Kong, and will mature on 28 June, 2015.

(Expressed in millions of RMB, unless otherwise stated)

43 Debt securities issued (continued)

(3) Subordinated bonds issued

The carrying value of the Group and the Bank's subordinated bonds issued upon the approval of the PBOC and the CBRC is as follows:

	Note	Group and Bank 30 June 2012	31 December 2011
3.20% subordinated fixed rate bonds maturing in February 2019	(a)	**12,000**	12,000
4.00% subordinated fixed rate bonds maturing in February 2024	(b)	**28,000**	28,000
3.32% subordinated fixed rate bonds maturing in August 2019	(c)	**10,000**	10,000
4.04% subordinated fixed rate bonds maturing in August 2024	(d)	**10,000**	10,000
4.80% subordinated fixed rate bonds maturing in December 2024	(e)	**20,000**	20,000
5.70% subordinated fixed rate bonds maturing in November 2026	(f)	**40,000**	40,000
Total nominal value		**120,000**	120,000
Less: Unamortised issuance cost		**(130)**	(139)
Carrying value as at 30 June/31 December		**119,870**	119,861

(a) The interest rate per annum on the subordinated fixed rate bonds issued in February 2009 is 3.20%. The Group has an option to redeem the bonds on 26 February 2014. If they are not redeemed by the Group, the interest rate will increase to 6.20% per annum from 26 February 2014 for the next five years.

(b) The interest rate per annum on the subordinated fixed rate bonds issued in February 2009 is 4.00%. The Group has an option to redeem the bonds on 26 February 2019. If they are not redeemed by the Group, the interest rate will increase to 7.00% per annum from 26 February 2019 for the next five years.

(c) The interest rate per annum on the subordinated fixed rate bonds issued in August 2009 is 3.32%. The Group has an option to redeem the bonds on 11 August 2014. If they are not redeemed by the Group, the interest rate will increase to 6.32% per annum from 11 August 2014 for the next five years.

(d) The interest rate per annum on the subordinated fixed rate bonds issued in August 2009 is 4.04%. The Group has an option to redeem the bonds on 11 August 2019. If they are not redeemed by the Group, the interest rate will increase to 7.04% per annum from 11 August 2019 for the next five years.

(e) The interest rate per annum on the subordinated fixed rate bonds issued in December 2009 is 4.80%. The Group has an option to redeem the bonds on 22 December 2019. If they are not redeemed by the Group, the interest rate will increase to 7.80% per annum from 22 December 2019 for the next five years.

(f) The interest rate per annum on the subordinated fixed rate bonds issued in November 2011 is 5.70%, which will keep fixed in the duration. The Group has an option to redeem the bonds on 7 November 2021, subject to an approval from relevant authority.

44 Other liabilities

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Dividend payable	**59,164**	25	**59,128**	–
Deferred income	**8,166**	7,455	**8,044**	7,296
Insurance reserve of CCB Life	**4,994**	2,670	**–**	–
Capital expenditure payable	**4,340**	5,518	**4,340**	5,517
Securities underwriting and redemption payable	**2,789**	2,000	**2,789**	2,000
Dormant accounts	**2,466**	2,193	**2,466**	2,193
Payment and collection clearance accounts	**725**	572	**725**	572
Settlement accounts	**621**	452	**629**	452
Payables to China Jianyin Investment Limited	**85**	107	**85**	107
Others	**26,724**	14,606	**17,434**	9,575
Total	**110,074**	35,598	**95,640**	27,712

45 Share capital

	Group and Bank 30 June 2012	31 December 2011
Listed in Hong Kong (H share)	**240,417**	240,417
Listed in Mainland China (A share)	**9,594**	9,594
Total	**250,011**	250,011

All H and A shares are ordinary shares and rank pari passu with the same rights and benefits.

(Expressed in millions of RMB, unless otherwise stated)

46 Capital reserve

	Group and Bank	
	30 June 2012	31 December 2011
Share premium	**135,047**	135,047
Others	**136**	131
Total	**135,183**	135,178

47 Investment revaluation reserve

The changes in fair value of available-for-sale financial assets were recognised in "investment revaluation reserve". Movements of investment revaluation reserve are as follows:

Group

	Six months ended 30 June 2012		
	Before-tax amount	**Tax (expense)/benefit**	**Net-of-tax amount**
As at 1 January	**8,492**	**(2,109)**	**6,383**
Gains/(losses) during the period			
– Debt securities	**7,813**	**(1,950)**	**5,863**
– Equity instruments and funds	**(275)**	**69**	**(206)**
	7,538	**(1,881)**	**5,657**
Reclassification adjustments			
– Impairment	**(262)**	**65**	**(197)**
– Disposals	**(738)**	**185**	**(553)**
– Others	**20**	**(5)**	**15**
	(980)	**245**	**(735)**
As at 30 June	**15,050**	**(3,745)**	**11,305**

	2011		
	Before-tax amount	Tax (expense)/benefit	Net-of-tax amount
As at 1 January	9,024	(2,318)	6,706
Gains/(losses) during the year			
– Debt securities	5,118	(1,203)	3,915
– Equity instruments and funds	(6,004)	1,501	(4,503)
	(886)	298	(588)
Reclassification adjustments			
– Impairment	1,106	(277)	829
– Disposals	(810)	202	(608)
– Others	58	(14)	44
	354	(89)	265
As at 31 December	8,492	(2,109)	6,383

(Expressed in millions of RMB, unless otherwise stated)

47 Investment revaluation reserve (continued)

Bank

	Six months ended 30 June 2012		
	Before-tax amount	**Tax (expense)/benefit**	**Net-of-tax amount**
As at 1 January	**8,566**	**(2,094)**	**6,472**
Gains/(losses) during the period			
– Debt securities	**7,810**	**(1,945)**	**5,865**
– Equity instruments	**(268)**	**67**	**(201)**
	7,542	**(1,878)**	**5,664**
Reclassification adjustments			
– Impairment	**(264)**	**66**	**(198)**
– Disposals	**(760)**	**190**	**(570)**
– Others	**20**	**(5)**	**15**
	(1,004)	**251**	**(753)**
As at 30 June	**15,104**	**(3,721)**	**11,383**

	2011		
	Before-tax amount	Tax (expense)/benefit	Net-of-tax amount
As at 1 January	9,039	(2,296)	6,743
Gains/(losses) during the year			
– Debt securities	4,942	(1,151)	3,791
– Equity instruments	(5,825)	1,456	(4,369)
	(883)	305	(578)
Reclassification adjustments			
– Impairment	1,106	(277)	829
– Disposals	(754)	188	(566)
– Others	58	(14)	44
	410	(103)	307
As at 31 December	8,566	(2,094)	6,472

Others refer to the amortisation of accumulated losses previously recognised in revaluation reserve for the period/year. These accumulated losses were related to certain debt securities reclassified from available-for-sale financial assets to held-to-maturity investments in prior years.

48 Surplus reserve

Surplus reserves consist of statutory surplus reserve fund and discretionary surplus reserve fund.

The Bank is required to allocate 10% of its net profit, as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the MOF ("PRC GAAP"), to the statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital. After making appropriations to the statutory surplus reserve fund, the Bank may also allocate its net profit to the discretionary surplus reserve fund upon approval by shareholders in general meetings.

(Expressed in millions of RMB, unless otherwise stated)

49 General reserve

The general reserve of the Group and the Bank at the end of the reporting period is set up based upon the requirements of:

		Group		Bank	
	Note	**30 June 2012**	31 December 2011	**30 June 2012**	31 December 2011
MOF	(1)	**79,182**	66,458	**79,182**	66,458
Hong Kong Banking Ordinance	(2)	**647**	596	**105**	105
Other regulatory bodies in Mainland China	(3)	**229**	205	**–**	–
Other overseas regulatory bodies		**105**	83	**104**	82
Total		**80,163**	67,342	**79,391**	66,645

(1) Pursuant to relevant regulations issued by the MOF, the Bank is required to set aside a general reserve through appropriations of profit after tax according to a certain provision ratio of the ending balance of gross risk-bearing assets to cover potential losses against their assets. In principle, the general reserve balance should not be lower than 1% of the ending balance of gross risk-bearing assets.

(2) Pursuant to requirements of the Hong Kong Banking Ordinance, the Group's banking operations in Hong Kong are required to set aside amounts in a regulatory reserve in respect of losses which it will, or may, incur on loans and advances to customers, in addition to impairment losses recognised in accordance with the accounting policies of the Group. Transfers to and from the regulatory reserve are made through retained earnings.

(3) Pursuant to the relevant regulatory requirements in Mainland China, the Bank's subsidiaries are required to appropriate a certain amount of its net profit as general reserve.

50 Profit distribution

The Bank declared a cash dividend of RMB59,128 million for the year ended 31 December 2011 according to the profit distribution plan approved by the Annual General Meeting held on 7 June 2012.

51 Notes to consolidated cash flow statement

Cash and cash equivalents

	30 June 2012	31 December 2011	30 June 2011
Cash	**53,823**	58,308	47,172
Surplus deposit reserves with central banks	**396,769**	324,568	269,061
Demand deposits with banks and non-bank financial institutions	**32,816**	33,072	33,609
Deposits with banks and non-bank financial institutions with original maturity with or within three months	**206,639**	78,795	19,499
Placements with banks and non-bank financial institutions with original maturity with or within three months	**122,968**	63,720	33,006
Total	**813,015**	558,463	402,347

52 Operating segments

The Group has presented the operating segments in a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment. Measurement of segment assets and liabilities and segment income and results is based on the Group's accounting policies.

Transactions between segments are conducted under general commercial terms and conditions. Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense". Interest income and expense earned from third parties are referred to as "external net interest income/expense".

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, results, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the period to acquire fixed assets, intangible assets and other long-term assets.

(1) Geographical segments

The Group operates principally in Mainland China with branches covering all provinces, autonomous regions and municipalities directly under the central government, and several subsidiaries located in Mainland China. The Group also has bank branch operations in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo, Seoul, New York, Sydney and Ho Chi Minh City and certain subsidiaries operating in Hong Kong and London.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches and subsidiaries that generate the income. Segment assets, liabilities and capital expenditure are allocated based on their geographical location.

Geographical segments of the Group, as defined for management reporting purposes, are defined as follows:

- "Yangtze River Delta" refers to the following areas serviced by the subsidiary and tier-1 branches of the Bank: Shanghai Municipality, Jiangsu Province, Zhejiang Province, City of Ningbo and City of Suzhou;

- "Pearl River Delta" refers to the following areas serviced by the tier-1 branches of the Bank: Guangdong Province, City of Shenzhen, Fujian Province and City of Xiamen;

- "Bohai Rim" refers to the following areas serviced by the subsidiaries and tier-1 branches of the Bank: Beijing Municipality, Shandong Province, Tianjin Municipality, Hebei Province and City of Qingdao;

- the "Central" region refers to the following areas serviced by the subsidiaries and tier-1 branches of the Bank: Shanxi Province, Guangxi Autonomous Region, Hubei Province, Henan Province, Hunan Province, Jiangxi Province, Hainan Province, Anhui Province and the Three Gorges Area;

- the "Western" region refers to the following areas serviced by the subsidiaries and tier-1 branches of the Bank: Sichuan Province, Chongqing Municipality, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Inner Mongolia Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region; and

- the "Northeastern" region refers to the following areas serviced by the tier-1 branches of the Bank: Liaoning Province, Jilin Province, Heilongjiang Province and City of Dalian.

(Expressed in millions of RMB, unless otherwise stated)

52 Operating segments (continued)

(1) Geographical segments (continued)

	Six months ended 30 June 2012								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Total
External net interest income	26,739	14,274	14,906	17,397	20,497	6,416	68,269	1,194	169,692
Internal net interest income/(expense)	3,037	6,358	10,331	7,784	6,289	4,158	(38,876)	919	–
Net interest income	29,776	20,632	25,237	25,181	26,786	10,574	29,393	2,113	169,692
Net fee and commission income	10,857	8,903	8,026	7,564	6,519	2,952	3,869	553	49,243
Net trading gain/(loss)	281	345	166	74	128	69	(766)	53	350
Dividend income	–	–	–	45	10	13	11	10	89
Net gain arising from investment securities	85	–	–	384	639	15	665	26	1,814
Other operating income, net	2,961	180	110	163	379	42	2,666	123	6,624
Operating income	43,960	30,060	33,539	33,411	34,461	13,665	35,838	2,878	227,812
Operating expenses	(16,009)	(10,195)	(11,695)	(13,059)	(12,358)	(5,608)	(4,279)	(1,367)	(74,570)
Impairment losses	(7,158)	(1,478)	(1,520)	(1,921)	(1,126)	(728)	(906)	99	(14,738)
Share of profits less losses of associates and jointly controlled entities	–	–	–	(5)	–	–	–	13	8
Profit before tax	20,793	18,387	20,324	18,426	20,977	7,329	30,653	1,623	138,512
Capital expenditure	1,444	1,093	1,351	2,286	1,610	1,009	515	2,062	11,370
Depreciation and amortisation	1,159	761	970	1,216	1,082	572	833	54	6,647
	30 June 2012								
Segment assets	2,563,903	1,970,485	2,466,289	2,097,289	2,180,809	858,760	5,629,901	540,422	18,307,858
Interests in associates and jointly controlled entities	–	–	–	387	–	–	–	1,918	2,305
	2,563,903	1,970,485	2,466,289	2,097,676	2,180,809	858,760	5,629,901	542,340	18,310,163
Deferred tax assets									23,860
Elimination									(4,828,278)
Total assets									13,505,745
Segment liabilities	2,547,919	1,960,710	2,452,220	2,085,662	2,167,217	853,540	4,882,012	514,970	17,464,250
Deferred tax liabilities									368
Elimination									(4,828,278)
Total liabilities									12,636,340
Off-balance sheet credit commitments	586,419	370,657	429,114	239,835	234,569	102,732	12,002	55,117	2,030,445

(Expressed in millions of RMB, unless otherwise stated)

52 Operating segments (continued)

(1) Geographical segments (continued)

	Six months ended 30 June 2011								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Total
External net interest income	21,781	12,042	13,602	15,468	17,039	5,294	58,988	1,492	145,706
Internal net interest income/(expense)	3,327	5,463	7,472	5,497	4,727	3,230	(29,645)	(71)	–
Net interest income	25,108	17,505	21,074	20,965	21,766	8,524	29,343	1,421	145,706
Net fee and commission income	11,647	8,647	7,382	7,297	6,058	2,860	3,150	630	47,671
Net trading gain/(loss)	296	261	169	44	143	83	(126)	(201)	669
Dividend income	–	–	–	23	–	–	24	14	61
Net gain arising from investment securities	–	–	–	288	8	9	540	85	930
Other operating income/(expense), net	260	147	95	270	426	40	(217)	1,188	2,209
Operating income	37,311	26,560	28,720	28,887	28,401	11,516	32,714	3,137	197,246
Operating expenses	(12,275)	(8,739)	(9,959)	(11,204)	(10,589)	(4,801)	(3,668)	(1,322)	(62,557)
Impairment losses	(2,890)	(1,874)	(1,634)	(2,082)	(4,124)	(114)	(1,343)	136	(13,925)
Share of profits less losses of associates and jointly controlled entities	–	–	–	–	–	–	–	25	25
Profit before tax	22,146	15,947	17,127	15,601	13,688	6,601	27,703	1,976	120,789
Capital expenditure	855	382	785	1,131	946	502	425	9	5,035
Depreciation and amortisation	1,023	712	898	1,106	969	496	962	56	6,222
	31 December 2011								
Segment assets	2,309,626	1,773,562	2,241,298	1,874,631	1,982,662	769,288	5,140,899	441,119	16,533,085
Interests in associates and jointly controlled entities	–	–	–	–	–	–	–	2,069	2,069
	2,309,626	1,773,562	2,241,298	1,874,631	1,982,662	769,288	5,140,899	443,188	16,535,154
Deferred tax assets									21,410
Elimination									(4,274,730)
Total assets									12,281,834
Segment liabilities	2,304,167	1,769,903	2,232,283	1,869,614	1,976,095	766,375	4,402,281	418,827	15,739,545
Deferred tax liabilities									358
Elimination									(4,274,730)
Total liabilities									11,465,173
Off-balance sheet credit commitments	565,867	365,648	406,115	245,292	233,361	103,085	12,002	50,579	1,981,949

(Expressed in millions of RMB, unless otherwise stated)

52 Operating segments (continued)

(2) Business segments

Business segments, as defined for management reporting purposes, are as follows:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit taking activities, agency services, financial consulting and advisory services, cash management services, remittance and settlement services, custody services and guarantee services, etc.

Personal banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans, deposit taking activities, card business, personal wealth management services, remittance services and securities agency services, etc.

Treasury business

This segment covers the Group's treasury operations. The treasury enters into inter-bank money market transactions, repurchase and resale transactions, and invests in debt securities. It also trades in derivatives and foreign currency for its own account. The treasury carries out customer-driven derivatives, foreign currency and precious metal trading. Its function also includes the management of the Group's overall liquidity position, including the issuance of debt securities.

Others

These represent equity investments and the revenues, results, assets and liabilities of overseas branches and subsidiaries.

	Six months ended 30 June 2012				
	Corporate banking	Personal banking	Treasury business	Others	Total
External net interest income/(expense)	100,654	(7,963)	73,863	3,138	169,692
Internal net interest (expense)/income	(15,983)	54,987	(38,408)	(596)	–
Net interest income	**84,671**	**47,024**	**35,455**	**2,542**	**169,692**
Net fee and commission income	21,892	16,205	10,165	981	49,243
Net trading (loss)/gain	(7)	322	(9)	44	350
Dividend income	–	–	–	89	89
Net gain arising from investment securities	–	–	200	1,614	1,814
Other operating income, net	231	129	2,768	3,496	6,624
Operating income	**106,787**	**63,680**	**48,579**	**8,766**	**227,812**
Operating expenses	(29,754)	(36,846)	(2,851)	(5,119)	(74,570)
Impairment losses	(10,734)	(4,489)	520	(35)	(14,738)
Share of profits less losses of associates and jointly controlled entities	–	–	–	8	8
Profit before tax	**66,299**	**22,345**	**46,248**	**3,620**	**138,512**
Capital expenditure	3,378	7,413	368	211	11,370
Depreciation and amortisation	1,975	4,334	215	123	6,647
	30 June 2012				
Segment assets	4,985,037	1,774,021	6,308,657	625,968	13,693,683
Interests in associates and jointly controlled entities	–	–	–	2,305	2,305
	4,985,037	1,774,021	6,308,657	628,273	13,695,988
Deferred tax assets					23,860
Elimination					(214,103)
Total assets					13,505,745
Segment liabilities	6,302,753	5,653,169	159,463	734,690	12,850,075
Deferred tax liabilities					368
Elimination					(214,103)
Total liabilities					12,636,340
Off-balance sheet credit commitments	1,676,703	298,625	–	55,117	2,030,445

(Expressed in millions of RMB, unless otherwise stated)

52 Operating segments (continued)

(2) Business segments (continued)

	Six months ended 30 June 2011				
	Corporate banking	Personal banking	Treasury business	Others	Total
External net interest income/(expense)	86,710	(526)	57,451	2,071	145,706
Internal net interest (expense)/income	(11,690)	40,650	(27,987)	(973)	–
Net interest income	75,020	40,124	29,464	1,098	145,706
Net fee and commission income	21,928	15,386	9,413	944	47,671
Net trading gain/(loss)	–	384	502	(217)	669
Dividend income	–	–	–	61	61
Net gain arising from investment securities	–	–	265	665	930
Other operating income/(expense), net	373	113	(165)	1,888	2,209
Operating income	97,321	56,007	39,479	4,439	197,246
Operating expenses	(26,384)	(31,940)	(1,930)	(2,303)	(62,557)
Impairment losses	(12,552)	(1,365)	(105)	97	(13,925)
Share of profits less losses of associates and jointly controlled entities	–	–	–	25	25
Profit before tax	58,385	22,702	37,444	2,258	120,789
Capital expenditure	1,515	3,257	188	75	5,035
Depreciation and amortisation	1,873	4,024	232	93	6,222
	31 December 2011				
Segment assets	4,643,350	1,662,434	5,411,041	700,464	12,417,289
Interests in associates and jointly controlled entities	–	–	–	2,069	2,069
	4,643,350	1,662,434	5,411,041	702,533	12,419,358
Deferred tax assets					21,410
Elimination					(158,934)
Total assets					12,281,834
Segment liabilities	5,911,337	4,981,889	160,905	569,618	11,623,749
Deferred tax liabilities					358
Elimination					(158,934)
Total liabilities					11,465,173
Off-balance sheet credit commitments	1,689,179	242,191	–	50,579	1,981,949

(Expressed in millions of RMB, unless otherwise stated)

53 Entrusted lending business

As at the end of the reporting period, the entrusted loans and funds were as follows:

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Entrusted loans	**1,024,034**	1,027,817	**992,870**	971,331
Entrusted funds	**1,024,034**	1,027,817	**992,870**	971,331

54 Pledged assets

(1) Assets pledged as security

(a) Carrying value of pledged assets analysed by asset type

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Pledged deposits	**169**	388	**169**	388
Loans	**398**	–	**–**	1,133
Discounted bills	**858**	451	**858**	451
Bonds	**1,273**	597	**212**	597
PBOC bills	**890**	10,110	**890**	10,110
Total	**3,588**	11,546	**2,129**	12,679

(b) Carrying value of pledged assets analysed by classification

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Deposits with banks and non-bank financial institutions	**169**	388	**169**	388
Loans and advances to customers	**1,256**	451	**858**	1,584
Available-for-sale financial assets	**212**	597	**212**	597
Held-to-maturity investments	**1,951**	10,110	**890**	10,110
Total	**3,588**	11,546	**2,129**	12,679

(2) Collateral accepted as securities for assets

The Group conducts resale agreements under usual and customary terms of placements, and holds collateral for these transactions. As at 30 June 2012 and 31 December 2011, the Group did not hold any collateral for resale agreements, which it was permitted to sell or repledge in the absence of default for the transactions.

(Expressed in millions of RMB, unless otherwise stated)

55 Commitments and contingent liabilities

(1) Credit commitments

Credit commitments take the form of undrawn loan facilities which are approved and contracted, unutilised credit card limits, financial guarantees and letters of credit etc. The Group assesses and makes allowance for any probable losses accordingly.

The contractual amounts of loans and credit card commitments represent the cash outflows should the contracts be fully drawn upon. The amounts of guarantees and letters of credit represent the maximum potential loss that would be recognised if counterparties failed completely to perform as contracted. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers.

As credit commitments may expire without being drawn upon, the total of the contractual amounts set out in the following table do not represent the expected future cash outflows.

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Loan commitments				
– with an original maturity within one year	**140,321**	129,745	**137,426**	127,134
– with an original maturity of one year or over	**277,346**	349,032	**277,104**	348,992
Credit card commitments	**298,625**	266,447	**272,990**	242,191
	716,292	745,224	**687,520**	718,317
Bank acceptances	**383,126**	335,517	**382,934**	335,391
Financing guarantees	**204,181**	189,258	**202,858**	188,537
Non-financing guarantees	**461,302**	439,322	**461,202**	439,231
Sight letters of credit	**38,850**	42,778	**38,850**	42,778
Usance letters of credit	**186,701**	203,810	**188,526**	204,242
Others	**39,993**	26,040	**50,065**	28,288
Total	**2,030,445**	1,981,949	**2,011,955**	1,956,784

(2) Credit risk-weighted amount

The credit risk-weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% of contingent liabilities and commitments.

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Credit risk-weighted amount of contingent liabilities and commitments	**963,185**	929,681	**961,783**	928,188

(Expressed in millions of RMB, unless otherwise stated)

55 Commitments and contingent liabilities (continued)

(3) Operating lease commitments

The Group and the Bank lease certain property and equipment under operating leases, which typically run for an initial period of one to five years and may include an option to renew the lease when all terms are renegotiated. As at the end of the reporting period, the future minimum lease payments under non-cancellable operating leases for property and equipment were as follows:

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Within one year	**3,589**	3,363	**3,356**	3,130
After one year but within two years	**2,784**	2,640	**2,664**	2,503
After two years but within three years	**2,009**	1,836	**1,951**	1,770
After three years but within five years	**2,511**	2,130	**2,497**	2,113
After five years	**1,792**	1,467	**1,784**	1,461
Total	**12,685**	11,436	**12,252**	10,977

(4) Capital commitments

As at the end of the reporting period, the Group and the Bank had capital commitments as follows:

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Contracted for	**2,203**	4,793	**2,168**	4,759
Authorised but not contracted for	**10,724**	5,802	**10,690**	5,782
Total	**12,927**	10,595	**12,858**	10,541

(Expressed in millions of RMB, unless otherwise stated)

55 Commitments and contingent liabilities (continued)

(5) Underwriting obligations

As at 30 June 2012, the unexpired underwriting commitments of the Group and the Bank were RMB36,350 million (As at 31 December 2011: Nil).

(6) Redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations, which represent the nominal value of government bonds underwritten and sold by the Group and the Bank, but not yet matured as at 30 June 2012, were RMB53,905 million (As at 31 December 2011: RMB72,205 million).

(7) Outstanding litigation and disputes

As at 30 June 2012, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB2,172 million (as at 31 December 2011: RMB2,173 million). Provisions have been made for the estimated losses arising from such litigations based upon the opinions of the Group's internal and external legal counsels (Note 42). The Group considers that the provisions made are reasonable and adequate.

(8) Provisions against commitments and contingent liabilities

The Group and the Bank assessed and made provisions for any probable outflow of economic benefits in relation to the above commitments and contingent liabilities in accordance with their accounting policies.

56 Related party relationships and transactions

(1) Transactions with parent companies and their affiliates

The parent companies of the Group are CIC and Huijin.

Approved by the State Council, CIC was established on 29 September 2007 with a registered capital of RMB1,550 billion. As a wholly owned subsidiary of CIC, Huijin exercises its rights and obligations as an investor on behalf of PRC government.

Huijin was incorporated on 16 December 2003 as a wholly state-owned investment company with the approval of the State Council. It was registered in Beijing with a registered capital of RMB828,209 million. Its principal activities are equity investments as authorised by the State Council, without engaging in other commercial operations. As at 30 June 2012, Huijin directly held 57.14% shares of the Bank.

The related companies under parent companies include the subsidiaries under parent companies and other associates and jointly controlled entities.

The Group's transactions with parent companies and their affiliates mainly include deposit taking, entrusted asset management, operating leases, lending, purchase and sale of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under general commercial terms.

The Group has issued subordinated debts with a nominal value of RMB120 billion (31 December 2011: RMB120 billion). These are bearer bonds and tradable in secondary market. Accordingly, the Group has no information in respect of the amount of the bonds held by the affiliates of parent companies as at the end of the reporting period.

(a) Transactions with parent companies

In the ordinary course of the business, material transactions that the Group and the Bank entered into with parent companies are as follows:

Amounts

	Six months ended 30 June			
	2012		2011	
	Amount	**Ratio to similar transactions**	Amount	Ratio to similar transactions
Interest income	**472**	**0.16%**	289	0.13%
Interest expense	**278**	**0.22%**	42	0.05%

(Expressed in millions of RMB, unless otherwise stated)

56 Related party relationships and transactions (continued)

(1) Transactions with parent companies and their affiliates (continued)

(a) Transactions with parent companies (continued)

Balances outstanding as at the end of the reporting period

	Note	30 June 2012 Balance	30 June 2012 Ratio to similar transactions	31 December 2011 Balance	31 December 2011 Ratio to similar transactions
Interest receivable		**472**	**0.67%**	186	0.33%
Held-to-maturity investments		**16,680**	**0.92%**	16,680	0.96%
Deposits from customers		**11,128**	**0.10%**	3,559	0.04%
Interest payable		**250**	**0.24%**	22	0.03%
Other liabilities	(i)	**33,787**	**30.69%**	–	–
Credit commitments		**288**	**0.02%**	288	0.01%

(i) Other liabilities as at 30 June 2012 represent cash dividends payable to Huijin approved by the 2011 Annual General Meeting.

(b) Transactions with the affiliates of parent companies

In the ordinary course of the business, material transactions that the Group and the Bank entered into with the affiliates of parent companies are as follows:

Amounts

	Note	Six months ended 30 June 2012 Amount	2012 Ratio to similar transactions	2011 Amount	2011 Ratio to similar transactions
Interest income		**14,591**	**4.94%**	11,221	5.02%
Interest expense		**2,415**	**1.92%**	633	0.81%
Fee and commission income		**239**	**0.47%**	176	0.36%
Fee and commission expense		**–**	**–**	56	4.59%
Operating expenses	(i)	**444**	**0.60%**	371	0.59%

Balances outstanding as at the end of the reporting period

	Note	30 June 2012 Balance	30 June 2012 Ratio to similar transactions	31 December 2011 Balance	31 December 2011 Ratio to similar transactions
Deposits with banks and non-bank financial institutions		**23,103**	**4.35%**	41,033	14.83%
Placements with banks and non-bank financial institutions		**95,706**	**55.24%**	21,941	20.12%
Financial assets at fair value through profit or loss		**1,554**	**6.41%**	2,106	9.12%
Positive fair value of derivatives		**531**	**3.47%**	529	3.74%
Financial assets held under resale agreements		**31,802**	**9.91%**	10,007	5.00%
Interest receivable		**12,770**	**18.00%**	11,358	20.00%
Loans and advances to customers		**33,220**	**0.48%**	33,244	0.53%
Available for sale financial assets		**153,842**	**22.04%**	134,765	19.96%
Held-to-maturity investments		**482,022**	**26.68%**	443,695	25.45%
Debt securities classified as receivables		**64,449**	**21.47%**	64,549	21.51%
Other assets	(ii)	**1**	**0.00%**	32	0.18%
Deposits from banks and non-bank financial institutions	(iii)	**75,766**	**7.32%**	67,006	6.93%
Placements from banks and non-bank financial institutions		**36,899**	**36.42%**	33,744	42.86%
Negative fair value of derivatives		**734**	**5.43%**	514	3.86%
Financial assets sold under repurchase agreements		**1,077**	**33.58%**	–	–
Deposits from customers		**29,578**	**0.27%**	40,238	0.40%
Interest payable		**78**	**0.07%**	163	0.20%
Other liabilities		**103**	**0.09%**	234	0.66%
Credit commitments		**9,797**	**0.59%**	7,822	0.39%

(i) Operating expenses mainly represent rental expenses paid by the Group for leased assets, including properties and motor vehicles, owned by the affiliates of parent companies, and fees for related services provided by the affiliates of parent companies.

(ii) Other assets mainly represent other receivables from the affiliates of parent companies.

(iii) Deposits from the affiliates of parent companies are unsecured and are repayable under general commercial terms.

(Expressed in millions of RMB, unless otherwise stated)

56 Related party relationships and transactions (continued)

(2) Transactions with associates and jointly controlled entities of the Group

Transactions between the Group and its associates and jointly controlled entities are conducted in the normal and ordinary course of the business and under general commercial terms as those transactions conducted between the Group and non-related companies outside the Group. In the ordinary course of the business, material transactions that the Group entered into with associates and jointly controlled entities are as follows:

Amounts

	Six months ended 30 June	
	2012	2011
Interest expense	**1**	1

Balances outstanding as at the end of the reporting period

	30 June 2012	31 December 2011
Loans and advances to customers	**–**	497
Deposits from customers	**112**	824

(3) Transactions between the Bank and its subsidiaries

Transactions between the Bank and its subsidiaries are conducted in the normal and ordinary course of the business and under general commercial terms as those transactions conducted between the Group and non-related companies outside the Group. All the inter-group transactions and inter-group balances are eliminated when preparing the consolidated financial statements as mentioned in Note 2(3).

In the ordinary course of the business, material transactions that the Bank entered into with its subsidiaries are as follows:

Amounts

	Six months ended 30 June	
	2012	2011
Interest income	**282**	144
Interest expense	**334**	171
Fee and commission income	**226**	112
Fee and commission expense	**27**	3
Dividend income	**70**	40
Net trading gain	**8**	11
Other operating income, net	**5**	12

Balances outstanding as at the end of the reporting period are presented in Note 33.

As of 30 June 2012, the total maximum guarantee limit of guarantee letters issued by the Bank with its subsidiaries as beneficiary is RMB3,032 million (As at 30 June 2011: RMB3,416 million).

For the six months ended 30 June 2012, the transactions between subsidiaries of the Group are mainly deposit taking and ordinary receivables and payables. As at 30 June 2012, the balances of the above transactions were RMB992 million (As at 31 December 2011: RMB783 million) and RMB147 million respectively (As at 31 December 2011: RMB148 million).

(4) Transactions with other PRC state-owned entities

State-owned entities refer to those entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organizations. Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; sale, purchase, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group's pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

56 Related party relationships and transactions (continued)

(5) Key management personnel

Key management personnel are those persons having authorities and responsibilities for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and senior executives. The Group enters into banking transactions with key management personnel in the normal course of business. For the six months ended 30 June 2012 and for the year ended 2011, there were no material transactions and balances with key management personnel.

(6) Loans and advances to directors, supervisors and senior executives

The Group had no material balance of loans and advances to directors, supervisors and senior executives as at the end of reporting period. Those loans and advances to directors, supervisors and senior executives were conducted in the normal and ordinary course of the business and under general commercial terms or on the same terms and conditions with those which are available to other employees, based on terms and conditions granted to third parties adjusted for risk reduction.

(7) Defined contribution retirement schemes

The Group participates in various defined contribution retirement schemes organized by municipal and provincial governments for its employees in Mainland China. For its overseas employees, the Group participates in various defined contribution retirement schemes at funding rates determined in accordance with the local practices and regulations. The details of the Group's defined contribution retirement schemes are described in Note 39.

57 Risk Management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- market risk
- liquidity risk
- operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's capital management.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk strategy and risk management policies and evaluating the Group's overall risk exposures regularly.

To identify, evaluate, monitor and manage risk, the Group has designed a comprehensive governance framework, internal control policies and procedures. The Chief Risk Officer, who reports directly to the President, is responsible for the Group's overall risk management. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures management, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Group Audit Committee is responsible for monitoring and evaluating internal controls, and monitoring the compliance of core businesses sectors and their management procedures. The Group Audit Committee is assisted in these functions by the Audit Department. The Audit Department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the findings of which are reported to the Group Audit Committee.

(1) Credit risk

Credit risk management

Credit risk represents the financial loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Group.

Credit business

The Risk Management Department, under the supervision of the Chief Risk Officer, is responsible for establishing credit risk management policies and performing credit risk measurement and analysis. The Credit Management Department is responsible for monitoring the implementation of credit risk management policies and coordinating credit approval and credit ratings activities. The Credit Management Department works together with the Corporate Banking Department, the SME Business Department, the Institutional Banking Department, the International Business Department, the Group Clients Department, the Housing Finance & Personal Lending Department, the Credit Card Center, the Special Assets Resolution Department and the Legal and Compliance Department to implement credit risk management policies and procedures.

57 Risk Management (continued)

(1) Credit risk (continued)

Credit business (continued)

With respect to the credit risk management of corporate and institutional business, the Group has sped up the adjustment of its credit portfolio structure, enhanced post-lending monitoring, and refined the industry-specific guideline and policy baseline for credit approval. Management also fine-tuned the credit acceptance and exit policies, and optimised its economic capital and credit risk limit management. All these policies have been implemented to improve the overall asset quality. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring. The Group performs pre-lending evaluations by assessing the entity's credit ratings based on internal rating criteria and assessing the risk and rewards with respect to the proposed project. Credit approvals are granted by designated Credit Approval Officers. The Group continually monitors loans, particularly those related to targeted industries, geographical segments, products and clients. Any adverse events that may significantly affect a borrower's repayment ability are reported timely and measures are implemented to prevent and control risks. The centralized risk management was also expedited in the cities where the first-tier branches are located, and the Bank will continue to explore the ways of specifying the operating characteristic for those branches, in addition to develop an intensive management for risk, reallocation of resource, and improving the quality and efficiency.

With respect to the personal credit business, the Group relies on credit assessment of applicants as the basis for loan approval. Customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and recommendations to the loan-approval departments for consent. The Group monitors borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the recovery process according to standard personal loan recovery procedures.

To mitigate risks, the Group requests the customers to provide collateral and guarantees where appropriate. A fine management system and operating workflow for collateral was developed, and there is a guideline to specify the suitability of accepting specific types of collateral. Collateral values, structures and legal covenants are regularly reviewed to ensure that they still serve their intended purposes and conform to market practices.

Credit grading classification

The Group adopts a loan risk classification approach to manage the loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their level of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances when one or more events demonstrate there is objective evidence of a loss event which triggers impairment. The allowance for impairment loss on impaired loans and advances is collectively or individually assessed as appropriate.

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' abilities to service their loans are in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

The Group has also applied the same grading criteria and management approach in classifying the off-balance sheet credit-related operations.

Treasury business

For risk management purposes, credit risk arising on debt securities and exposures relating to the Group's derivatives portfolio is managed independently and information thereon is disclosed in notes (1)(h) and (1)(i) below. The Group sets credit limits for treasury activities and monitors them regularly with reference to the fair values of the relevant financial instruments.

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(1) Credit risk (continued)

(a) *Maximum credit risk exposure*

The following table presents the maximum exposure to credit risk as at the end of the reporting period without taking into consideration any collateral held or other credit enhancement. In respect of the financial assets recognised in the statement of financial position, the maximum exposure to credit risk is represented by the carrying amount after deducting for any impairment allowance.

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Deposits with central banks	**2,437,769**	2,321,501	**2,428,030**	2,315,432
Deposits with banks and non-bank financial institutions	**530,577**	276,752	**537,112**	279,861
Placements with banks and non-bank financial institutions	**173,270**	109,040	**186,977**	110,533
Financial liabilities at fair value through profit or loss	**16,174**	14,375	**11,175**	8,715
Positive fair value of derivatives	**15,319**	14,127	**14,385**	13,073
Financial assets held under resale agreements	**321,055**	200,045	**321,041**	200,045
Interest receivable	**70,956**	56,776	**70,495**	56,420
Loans and advances to customers	**6,876,580**	6,325,194	**6,707,448**	6,189,363
Available-for-sale debt securities	**684,487**	661,036	**673,267**	651,585
Held-to-maturity investments	**1,806,707**	1,743,569	**1,805,455**	1,742,342
Debt securities classified as receivables	**300,119**	300,027	**299,434**	299,765
Other financial assets	**17,426**	13,695	**38,406**	29,676
Total	**13,250,439**	12,036,137	**13,093,225**	11,896,810
Off-balance sheet credit commitments	**2,030,445**	1,981,949	**2,011,955**	1,956,784
Maximum credit risk exposure	**15,280,884**	14,018,086	**15,105,180**	13,853,594

(b) *Distribution of loans and advances to customers in terms of credit quality is analysed as follows:*

	Note	Group		Bank	
		30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Individually assessed and impaired gross amount		**64,580**	65,625	**64,446**	65,490
Allowances for impairment losses		**(39,576)**	(38,109)	**(39,449)**	(38,020)
Subtotal		**25,004**	27,516	**24,997**	27,470
Collectively assessed and impaired gross amount		**5,837**	5,290	**5,735**	5,178
Allowances for impairment losses		**(3,762)**	(3,276)	**(3,753)**	(3,265)
Subtotal		**2,075**	2,014	**1,982**	1,913
Overdue but not impaired – not more than 90 days		**24,968**	14,567	**24,387**	14,209
Allowances for impairment losses	(i)	**(1,962)**	(696)	**(1,957)**	(696)
Subtotal		**23,006**	13,871	**22,430**	13,513
Neither overdue nor impaired					
– Unsecured loans		**1,957,893**	1,739,648	**1,893,897**	1,703,090
– Guaranteed loans		**1,383,527**	1,308,879	**1,335,682**	1,265,752
– Loans secured by tangible assets other than monetary assets		**2,913,692**	2,737,839	**2,860,483**	2,688,465
– Loans secured by monetary assets		**710,846**	624,563	**706,472**	617,362
Gross amount		**6,965,958**	6,410,929	**6,796,534**	6,274,669
Allowances for impairment losses	(i)	**(139,463)**	(129,136)	**(138,495)**	(128,202)
Subtotal		**6,826,495**	6,281,793	**6,658,039**	6,146,467
Total		**6,876,580**	6,325,194	**6,707,448**	6,189,363

(i) The balances represent collectively assessed allowances of impairment losses.

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(1) Credit risk (continued)

(b) Distribution of loans and advances to customers in terms of credit quality is analysed as follows (continued):

Group

Within overdue but not impaired loans and advances and impaired loans and advances which are subject to individual assessment, the balances secured by collateral are shown as follows:

	30 June 2012		
	Overdue but not impaired loans and advances		Impaired loans and advances which are subject to individual assessment
	Corporate	Personal	Corporate
Balance secured by collateral	2,296	16,340	16,056
Others	3,762	2,570	48,524
Total	6,058	18,910	64,580

	31 December 2011		
	Overdue but not impaired loans and advances		Impaired loans and advances which are subject to individual assessment
	Corporate	Personal	Corporate
Balance secured by collateral	170	11,935	17,607
Others	123	2,339	48,018
Total	293	14,274	65,625

Bank

Within overdue but not impaired loans and advances and impaired loans and advances which are subject to individual assessment, the balances secured by collateral are shown as follows:

	30 June 2012		
	Overdue but not impaired loans and advances		Impaired loans and advances which are subject to individual assessment
	Corporate	Personal	Corporate
Balance secured by collateral	2,195	16,067	15,989
Others	3,756	2,369	48,457
Total	5,951	18,436	64,446

	31 December 2011		
	Overdue but not impaired loans and advances		Impaired loans and advances which are subject to individual assessment
	Corporate	Personal	Corporate
Balance secured by collateral	45	11,766	17,605
Others	122	2,276	47,885
Total	167	14,042	65,490

The above collateral includes land use rights, buildings and equipment, etc. The fair value of collateral was estimated by the Group with reference to the latest available external valuations adjusted after taking into account the current realisation experience as well as the market situation.

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(1) Credit risk (continued)

(c) Loans and advances to customers analysed by economic sector concentrations

Group

	30 June 2012			31 December 2011		
	Gross loan balance	**Percentage**	**Balance secured by collateral**	Gross loan balance	Percentage	Balance secured by collateral
Corporate loans and advances						
– Manufacturing	**1,268,261**	**17.96%**	**440,991**	1,141,376	17.56%	393,347
– Transportation, storage and postal services	**831,514**	**11.78%**	**331,889**	765,763	11.79%	303,444
– Production and supply of electric power, gas and water	**628,601**	**8.90%**	**153,841**	591,315	9.10%	145,490
– Real estate	**478,722**	**6.78%**	**402,581**	465,899	7.17%	387,527
– Leasing and commercial services	**394,092**	**5.58%**	**174,742**	386,588	5.95%	168,593
– Wholesale and retail trade	**364,119**	**5.16%**	**138,932**	322,106	4.96%	113,374
– Water, environment and public utility management	**229,847**	**3.26%**	**108,835**	226,655	3.49%	100,239
– Construction	**214,498**	**3.04%**	**75,089**	190,096	2.93%	66,963
– Mining	**192,375**	**2.72%**	**26,028**	173,824	2.68%	26,793
– Education	**81,797**	**1.16%**	**33,247**	85,069	1.31%	35,214
– Telecommunications, computer services and software	**21,978**	**0.31%**	**6,444**	24,077	0.37%	7,271
– Others	**365,409**	**5.17%**	**124,700**	300,148	4.62%	111,642
Total corporate loans and advances	**5,071,213**	**71.82%**	**2,017,319**	4,672,916	71.93%	1,859,897
Personal loans and advances	**1,847,622**	**26.16%**	**1,668,588**	1,705,622	26.25%	1,558,628
Discounted bills	**142,508**	**2.02%**	**–**	117,873	1.82%	–
Gross loans and advances to customers	**7,061,343**	**100.00%**	**3,685,907**	6,496,411	100.00%	3,418,525

Details of impaired loans, impairment allowances, charges, and amounts written off in respect of economic sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

	30 June 2012				
	Gross impaired loans	**Individually assessed impairment allowances**	**Collectively assessed impairment allowances**	**Charged to profit or loss during the period**	**Written off during the period**
Manufacturing	**28,461**	**(16,986)**	**(28,769)**	**5,456**	**482**
Transportation, storage and postal services	**4,582**	**(2,695)**	**(20,094)**	**1,142**	**29**

	31 December 2011				
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances	Charged to profit or loss during the year	Written off during the year
Manufacturing	25,883	(15,167)	(25,254)	5,750	1,748
Transportation, storage and postal services	7,139	(3,636)	(18,106)	6,371	28

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(1) Credit risk (continued)

(c) Loans and advances to customers analysed by economic sector concentrations (continued)

Bank

	30 June 2012			31 December 2011		
	Gross loan balance	**Percentage**	**Balance secured by collateral**	Gross loan balance	Percentage	Balance secured by collateral
Corporate loans and advances						
– Manufacturing	**1,237,098**	**17.94%**	**438,906**	1,121,439	17.61%	391,393
– Transportation, storage and postal services	**815,984**	**11.84%**	**327,657**	752,130	11.83%	298,202
– Production and supply of electric power, gas and water	**615,465**	**8.93%**	**151,772**	581,301	9.14%	144,399
– Real estate	**452,329**	**6.56%**	**380,505**	439,905	6.92%	365,509
– Leasing and commercial services	**393,584**	**5.71%**	**174,433**	385,789	6.07%	168,317
– Wholesale and retail trade	**347,816**	**5.05%**	**135,855**	306,287	4.82%	110,193
– Water, environment and public utility management	**229,755**	**3.33%**	**108,798**	226,560	3.56%	100,202
– Construction	**211,971**	**3.08%**	**74,749**	188,765	2.97%	66,764
– Mining	**190,239**	**2.76%**	**26,028**	169,852	2.67%	26,793
– Education	**81,720**	**1.19%**	**33,199**	84,983	1.34%	35,161
– Telecommunications, computer services and software	**21,754**	**0.32%**	**6,318**	23,510	0.37%	7,146
– Others	**332,561**	**4.83%**	**122,472**	283,334	4.46%	109,506
Total corporate loans and advances	**4,930,276**	**71.54%**	**1,980,692**	4,563,855	71.76%	1,823,585
Personal loans and advances	**1,818,426**	**26.39%**	**1,647,360**	1,677,910	26.38%	1,538,107
Discounted bills	**142,400**	**2.07%**	**–**	117,781	1.86%	–
Gross loans and advances to customers	**6,891,102**	**100.00%**	**3,628,052**	6,359,546	100.00%	3,361,692

Details of impaired loans, impairment allowances, charges, and amounts written off in respect of economic sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

	30 June 2012				
	Gross impaired loans	**Individually assessed impairment allowances**	**Collectively assessed impairment allowances**	**Charged to profit or loss during the period**	**Written off during the period**
Manufacturing	**28,393**	**(16,918)**	**(28,587)**	**5,475**	**481**
Transportation, storage and postal services	**4,516**	**(2,636)**	**(19,963)**	**1,091**	**29**

	31 December 2011				
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances	Charged to profit or loss during the year	Written off during the year
Manufacturing	25,815	(15,099)	(25,071)	5,680	1,748
Transportation, storage and postal services	7,073	(3,616)	(17,987)	6,294	28

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(1) Credit risk (continued)

(d) Loans and advances to customers analysed by geographical sector concentrations

Group

	30 June 2012			31 December 2011		
	Gross loan balance	Percentage	Balance secured by collateral	Gross loan balance	Percentage	Balance secured by collateral
Yangtze River Delta	1,577,349	22.34%	962,917	1,476,118	22.72%	882,276
Bohai Rim	1,223,271	17.32%	522,777	1,137,623	17.51%	497,565
Western	1,193,276	16.90%	674,289	1,108,112	17.06%	622,268
Central	1,128,151	15.98%	611,834	1,051,837	16.19%	567,187
Pearl River Delta	1,030,533	14.59%	651,432	955,937	14.71%	597,404
Northeastern	434,766	6.16%	209,388	406,035	6.25%	197,775
Head Office	130,524	1.85%	486	105,632	1.63%	486
Overseas	343,473	4.86%	52,784	255,117	3.93%	53,564
Gross loans and advances to customers	7,061,343	100.00%	3,685,907	6,496,411	100.00%	3,418,525

Details of impaired loans and impairment allowances in respect of geographical sectors are as follows:

	30 June 2012		
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances
Yangtze River Delta	24,817	(12,878)	(33,555)
Central	9,489	(5,587)	(23,333)
Western	9,430	(5,475)	(25,176)
Pearl River Delta	8,755	(5,071)	(22,459)
Bohai Rim	8,102	(5,666)	(25,026)
Northeastern	5,996	(3,280)	(9,449)
Head Office	1,887	(863)	(3,636)
Overseas	1,941	(756)	(2,553)
Total	70,417	(39,576)	(145,187)

	31 December 2011		
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances
Yangtze River Delta	19,264	(9,721)	(29,988)
Central	11,885	(6,296)	(21,313)
Western	10,653	(5,878)	(23,568)
Pearl River Delta	9,699	(5,458)	(21,106)
Bohai Rim	9,428	(5,850)	(23,412)
Northeastern	6,264	(3,379)	(8,733)
Head office	1,744	(864)	(2,978)
Overseas	1,978	(663)	(2,010)
Total	70,915	(38,109)	(133,108)

The definitions of geographical segments are set out in Note 52(1).

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(1) Credit risk (continued)

(d) *Loans and advances to customers analysed by geographical sector concentrations (continued)*

Bank

	30 June 2012			31 December 2011		
	Gross loan balance	**Percentage**	**Balance secured by collateral**	Gross loan balance	Percentage	Balance secured by collateral
Yangtze River Delta	**1,573,107**	**22.84%**	**961,535**	1,472,744	23.17%	881,074
Western	**1,193,123**	**17.31%**	**674,260**	1,108,061	17.42%	622,253
Bohai Rim	**1,169,628**	**16.98%**	**507,980**	1,090,356	17.15%	483,614
Central	**1,126,908**	**16.35%**	**611,636**	1,050,747	16.52%	567,015
Pearl River Delta	**1,030,533**	**14.95%**	**651,432**	955,937	15.03%	597,404
Northeastern	**434,766**	**6.31%**	**209,388**	406,035	6.38%	197,775
Head Office	**130,524**	**1.89%**	**486**	105,632	1.66%	486
Overseas	**232,513**	**3.37%**	**11,335**	170,034	2.67%	12,071
Gross loans and advances to customers	**6,891,102**	**100.00%**	**3,628,052**	6,359,546	100.00%	3,361,692

Details of impaired loans and impairment allowances in respect of geographical sectors are as follows:

	30 June 2012		
	Gross impaired loans	**Individually assessed impairment allowances**	**Collectively assessed impairment allowances**
Yangtze River Delta	**24,817**	**(12,878)**	**(33,471)**
Central	**9,489**	**(5,587)**	**(23,306)**
Western	**9,430**	**(5,475)**	**(25,173)**
Pearl River Delta	**8,755**	**(5,071)**	**(22,459)**
Bohai Rim	**8,036**	**(5,607)**	**(24,476)**
Northeastern	**5,996**	**(3,280)**	**(9,449)**
Head Office	**1,887**	**(863)**	**(3,635)**
Overseas	**1,771**	**(688)**	**(2,236)**
Total	**70,181**	**(39,449)**	**(144,205)**

	31 December 2011		
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances
Yangtze River Delta	19,264	(9,721)	(29,914)
Central	11,885	(6,296)	(21,289)
Western	10,653	(5,878)	(23,567)
Pearl River Delta	9,699	(5,458)	(21,106)
Bohai Rim	9,361	(5,829)	(22,924)
Northeastern	6,264	(3,379)	(8,733)
Head Office	1,743	(865)	(2,978)
Overseas	1,799	(594)	(1,652)
Total	70,668	(38,020)	(132,163)

The definitions of geographical segments are set out in Note 52(1).

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(1) Credit risk (continued)

(e) Loans and advances to customers analysed by types of collateral

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Unsecured loans	**1,967,381**	1,655,537	**1,903,031**	1,618,823
Guaranteed loans	**1,408,055**	1,422,349	**1,360,019**	1,379,031
Loans secured by tangible assets other than monetary assets	**2,968,511**	2,787,776	**2,914,976**	2,738,008
Loans secured by monetary assets	**717,396**	630,749	**713,076**	623,684
Gross loans and advances to customers	**7,061,343**	6,496,411	**6,891,102**	6,359,546

(f) Restructured loans and advances to customers

Group

	30 June 2012		31 December 2011	
	Total	**% of gross loans and advances to customers**	Total	% of gross loans and advances to customers
Restructured loans and advances to customers	**3,703**	**0.05%**	2,692	0.04%
Of which: Restructured loans and advances overdue for more than 90 days	**1,340**	**0.02%**	977	0.01%

Bank

	30 June 2012		31 December 2011	
	Total	**% of gross loans and advances to customers**	Total	% of gross loans and advances to customers
Restructured loans and advances to customers	**3,592**	**0.05%**	2,575	0.04%
Of which: Restructured loans and advances overdue for more than 90 days	**1,339**	**0.02%**	975	0.01%

(g) Distribution of amounts due from banks and non-bank financial institutions in terms of credit quality is as follows:

Amount due from banks and non-bank financial institutions includes deposits and placements with banks and non-bank financial institutions, and financial assets held under resale agreements of which counterparties are banks and non-bank financial institutions.

	Group		Bank	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Individually assessed and impaired gross amount	**104**	102	**104**	102
Allowances for impairment losses	**(70)**	(74)	**(70)**	(74)
Subtotal	**34**	28	**34**	28
Neither overdue nor impaired				
– grade A to AAA	**890,375**	490,618	**904,538**	493,745
– grade B to BBB	**3,487**	92	**3,438**	92
– unrated	**131,006**	95,099	**137,120**	96,574
Subtotal	**1,024,868**	585,809	**1,045,096**	590,411
Total	**1,024,902**	585,837	**1,045,130**	590,439

Amounts neither overdue nor impaired are analysed above according to the Group and the Bank's internal credit rating. Unrated amounts due from banks and non-bank financial institutions include amounts due from a number of banks and non-bank financial institutions for which the Group and the Bank have not assigned an internal credit rating.

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(1) Credit risk (continued)

(h) *Distribution of debt securities investments analysed by rating*

The Group adopts a credit rating approach to manage the credit risk of the debt securities portfolio held by its operations in Mainland China. The ratings are obtained from Bloomberg Composite, or major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at the end of the reporting period are as follows:

Group

	30 June 2012					
	Unrated	**AAA**	**AA**	**A**	**Lower than A**	**Total**
Individually assessed and impaired gross amount						
– Banks and non-bank financial institutions	1,086	10	203	2,655	11,077	15,031
– Other enterprises	78	2,870	–	–	278	3,226
	1,164	2,880	203	2,655	11,355	18,257
Impairment						(8,284)
Subtotal						9,973
Neither overdue nor impaired						
– Government	899,645	2,483	7,511	160	82	909,881
– Central banks	353,074	1,537	7,043	1,229	–	362,883
– Policy banks	335,994	10	265	132	–	336,401
– Banks and non-bank financial institutions	697,853	40,400	21,083	7,943	2,979	770,258
– Cinda	109,710	–	–	–	–	109,710
– Public sector entities	–	64	86	–	–	150
– Other enterprises	23,980	275,308	7,185	1,704	1,800	309,977
	2,420,256	319,802	43,173	11,168	4,861	2,799,260
Impairment						(1,746)
Subtotal						2,797,514
Total						2,807,487

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(1) Credit risk (continued)

(h) Distribution of debt securities investments analysed by rating (continued)

Group (continued)

	31 December 2011					
	Unrated	AAA	AA	A	Lower than A	Total
Individually assessed and impaired gross amount						
– Policy banks	–	–	–	45	–	45
– Banks and non-bank financial institutions	753	11	199	5,615	9,142	15,720
– Public sector entities	125	–	–	–	–	125
– Other enterprises	312	2,818	–	–	311	3,441
	1,190	2,829	199	5,660	9,453	19,331
Impairment						(8,674)
Subtotal						10,657
Neither overdue nor impaired						
– Government	891,088	2,642	7,029	473	83	901,315
– Central banks	429,101	4,574	2,187	–	185	436,047
– Policy banks	285,340	–	264	140	–	285,744
– Banks and non-bank financial institutions	644,925	33,578	14,415	8,018	3,765	704,701
– Cinda	131,761	–	–	–	–	131,761
– Public sector entities	–	63	87	–	65	215
– Other enterprises	5,157	234,469	5,418	3,250	1,593	249,887
	2,387,372	275,326	29,400	11,881	5,691	2,709,670
Impairment						(1,320)
Subtotal						2,708,350
Total						2,719,007

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(1) Credit risk (continued)

(h) Distribution of debt securities investments analysed by rating (continued)

Bank

	30 June 2012					
	Unrated	AAA	AA	A	Lower than A	Total
Individually assessed and impaired gross amount						
– Banks and non-bank financial institutions	1,086	10	203	2,655	11,077	15,031
– Other enterprises	78	2,870	–	–	278	3,226
	1,164	2,880	203	2,655	11,355	18,257
Impairment						(8,284)
Subtotal						9,973
Neither overdue nor impaired						
– Government	898,491	2,480	7,242	160	82	908,455
– Central banks	352,907	1,537	3,276	1,229	–	358,949
– Policy banks	335,994	–	–	132	–	336,126
– Banks and non-bank financial institutions	697,644	40,253	19,558	5,291	2,440	765,186
– Cinda	109,710	–	–	–	–	109,710
– Public sector entities	–	64	86	–	–	150
– Other enterprises	19,316	273,620	6,558	1,384	1,650	302,528
	2,414,062	317,954	36,720	8,196	4,172	2,781,104
Impairment						(1,746)
Subtotal						2,779,358
Total						2,789,331

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(1) Credit risk (continued)

(h) Distribution of debt securities investments analysed by rating (continued)

Bank (continued)

	31 December 2011					
	Unrated	AAA	AA	A	Lower than A	Total
Individually assessed and impaired gross amount						
– Policy banks	–	–	–	45	–	45
– Banks and non-bank financial institutions	753	11	199	5,615	9,142	15,720
– Public sector entities	125	–	–	–	–	125
– Other enterprises	312	2,818	–	–	311	3,441
	1,190	2,829	199	5,660	9,453	19,331
Impairment						(8,674)
Subtotal						10,657
Neither overdue nor impaired						
– Government	889,890	2,574	6,729	473	83	899,749
– Central banks	429,101	1,738	2,187	–	–	433,026
– Policy banks	285,340	–	–	130	–	285,470
– Banks and non-bank financial institutions	645,200	32,953	13,638	4,948	2,519	699,258
– Cinda	131,761	–	–	–	–	131,761
– Public sector entities	–	63	87	–	65	215
– Other enterprises	674	233,532	5,010	2,930	1,445	243,591
	2,381,966	270,860	27,651	8,481	4,112	2,693,070
Impairment						(1,320)
Subtotal						2,691,750
Total						2,702,407

57 Risk Management (continued)

(1) Credit risk (continued)

(i) Credit risk arising from the Group's derivatives exposures

The majority of the Group's derivatives transactions with domestic customers are hedged back-to-back with overseas banks and non-bank financial institutions. The Group is exposed to credit risk both in respect of the domestic customers and the overseas banks and non-bank financial institutions. The Group manages this risk by monitoring this exposure on a regular basis.

(j) Settlement risk

The Group's activities may give rise to settlement risk at the time of the settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement or clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

(2) 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, stock prices and other prices. Market risk arises from both the Group's trading and non-trading business. A trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book. Non-trading book records those financial instruments and commodities which are not included in the trading book.

The Risk Management Department is responsible for formulating standardised market risk management policies and rules and supervising the implementation of market risk management policies and rules of the Bank. The Asset and Liability Management Department (the "ALM") and the International Business Department are responsible for market risk management of the banking book and managing the size and structure of the assets and liabilities in response to non-trading market risk. The Financial Market Department manages the Head Office's RMB and foreign currency investment portfolios, conducts proprietary and customer-driven transactions, as well as implementing market risk management policies and rules. The Audit Department is responsible for regularly performing independent audits of the reliability and effectiveness of the processes constituting the risk management system.

The Group is primarily exposed to structural interest rate risk arising from interest generating commercial banking assets and interest bearing commercial banking liabilities. Interest rate risk is inherent in many of its businesses and largely arises from mismatches between the re-pricing dates of assets and liabilities. The Group manages this risk through regular interest rate gap analysis.

The Group's foreign exchange exposure mainly comprises exposures from foreign currency portfolios within treasury proprietary investments in debt securities and money market placements, and currency exposures from its overseas business. The Group manages its foreign exchange exposure by entering into cross currency interest rate swaps to hedge these exposures on a portfolio basis.

The Group is also exposed to market risk in respect of its customer driven derivatives portfolio and manages this risk by entering into back-to-back hedging transactions on a trade-by-trade basis with overseas banks and non-bank financial institutions.

The Group considers that the market risk arising from commodity or stock prices in respect of its investment portfolios is minimal.

The Group monitors market risk separately in respect of trading portfolios and non-trading portfolios. Trading portfolios include exchange rate and interest rate derivatives as well as trading securities. The historical simulation model for the Value-at-risk ("VaR") analysis is a major tool used by the Bank to measure and monitor the market risk of its trading portfolio and available-for-sale debt securities. Net interest income sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major tools used by the Group to monitor the market risk of its overall businesses.

(a) VaR analysis

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to movements in market interest rates, foreign exchange rates and other market prices over a specified time horizon and at a given level of confidence. The Risk Management Department calculates interest rates, foreign exchange rates and commodity prices VaR for the Bank's trading portfolio. By reference to historical movements in interest rates, foreign exchange rates and commodity prices, the Risk Management Department calculates VaR on a daily basis for the trading portfolio and monitors regularly. VaR is calculated at a confidence level of 99% and with a holding period of one day.

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(2) Market risk (continued)

(a) *VaR analysis (continued)*

A summary of the VaR of the Bank's trading portfolio as at the end of the reporting periods and during the respective periods is as follows:

	Six months ended 30 June 2012			
	30 June	**Average**	**Maximum**	**Minimum**
Risk valuation of trading portfolio	**89**	**57**	**116**	**26**
– Interest rate risk	**49**	**30**	**59**	**16**
– Foreign exchange risk[1]	**77**	**47**	**96**	**14**
– Commodity risk[2]	**4**	**7**	**80**	**–**

	Six months ended 30 June 2011			
	30 June	Average	Maximum	Minimum
Risk valuation of trading portfolio	79	65	127	12
– Interest rate risk	27	29	67	7
– Foreign exchange risk[1]	74	58	122	8

(1) The reporting of risk in relation to bullion is included in foreign exchange risk above.

(2) The group calculates the commodity risk since November 2011.

VaR for each risk factor is the independently derived largest potential loss in a specific holding period and within a certain confidence level due to fluctuations solely in that risk factor. The individual VaRs did not add up to the total VaR as there was diversification effect due to correlation amongst the risk factors.

The above average, maximum and minimum VaR for interest rate risk, foreign exchange risk and commodity risk of the trading portfolio represent a breakdown of the average, maximum and minimum VaR for the whole portfolio and not the individual average, maximum and minimum VaR for each risk within the portfolio.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

– A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations where there is severe market illiquidity for a prolonged period;

– A 99 percent confidence level does not reflect losses that may occur beyond this level. Within the model used there is one percent probability that losses could exceed the VaR;

– VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;

– The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and

– The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

(b) *Net interest income sensitivity analysis*

In monitoring interest rate risk on its overall non-derivative financial assets and liabilities, the Bank regularly measures its future net interest income sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position). An incremental 100 basis points parallel fall or rise in all yield curves, other than that applicable to balances with central banks, would increase or decrease planned net interest income for the next twelve months from the balance sheet date by RMB45,627 million (as at 31 December 2011: RMB37,516 million). Had the impact of yield curves movement for demand deposits from customers been excluded, the planned net interest income for the next twelve months from the balance sheet date would decrease or increase by RMB15,218 million (as at 31 December 2011: RMB21,061 million).

The above interest rate sensitivity is for illustration purposes only and is assessed based on simplified assumptions. The figures here indicate estimated net interest income movements under various predicted yield curve scenarios and subject to the Bank's current interest rate exposures. However, account has not been taken of the possible risk management measures that can be undertaken by the department who manage the interest related risk or related business departments to mitigate interest rate risk. In practice, the department who manage the interest related risk strives to reduce loss arising from interest rate risk while increasing its net income. These figures are estimated on the assumption that the interest rates on various maturities will move within similar ranges, and therefore do not reflect the potential net interest income changes in the event that interest rates on some maturities may change and others remain unchanged. Moreover, the above estimations are based on other simplified assumptions, including that all positions will be held to maturity and rolled over upon maturity.

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(2) Market risk (continued)

(c) Interest rate risk

Interest rate risk refers to the risk where the market interest rates, tenor and other factors may experience unfavourable fluctuations which impact the overall profitability and fair value resulting in losses to the banking book. The key determinants of the Group's interest rate risk arises from the mismatch between the maturity periods of the assets and liabilities, and inconsistent pricing basis, resulting in re-pricing risk and basis risk.

The ALM is responsible for regularly monitoring the interest rate risk positions and measuring the interest rate re-pricing gap. The main reason for measuring the interest rate re-pricing gap is to assist in analysing the impact of interest rate changes on net interest income.

The following tables indicate the effective interest rates for the respective period, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities as at the end of the reporting period.

Group

		30 June 2012						
	Note	Effective interest rate (i)	Non-interest bearing	Within three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks		1.49%	241,004	2,250,588	–	–	–	2,491,592
Deposits and placements with banks and non-bank financial institutions		3.84%	75	560,886	139,310	3,533	43	703,847
Financial assets held under resale agreements		4.39%	–	312,043	9,012	–	–	321,055
Loans and advances to customers	(ii)	6.37%	–	2,008,224	4,768,366	31,948	68,042	6,876,580
Investments	(iii)	3.55%	24,004	340,884	483,679	1,073,943	908,980	2,831,490
Other assets		–	281,181	–	–	–	–	281,181
Total assets		4.71%	546,264	5,472,625	5,400,367	1,109,424	977,065	13,505,745
Liabilities								
Borrowings from central banks		1.31%	–	2,438	350	–	–	2,788
Deposits and placements from banks and non-bank financial institutions		3.20%	–	1,031,549	68,362	36,461	–	1,136,372
Financial liabilities at fair value through profit or loss		1.62%	17,719	19,283	1,799	–	–	38,801
Financial assets sold under repurchase agreements		4.61%	–	2,203	1,004	–	–	3,207
Deposits from customers		2.03%	50,317	7,873,922	2,024,566	984,724	7,308	10,940,837
Debt securities issued		3.50%	–	30,741	54,368	29,930	98,589	213,628
Other liabilities		–	300,707	–	–	–	–	300,707
Total liabilities		2.18%	368,743	8,960,136	2,150,449	1,051,115	105,897	12,636,340
Asset-liability gap		2.53%	177,521	(3,487,511)	3,249,918	58,309	871,168	869,405

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(2) Market risk (continued)

(c) Interest rate risk (continued)

Group (continued)

	Note	Effective interest rate (i)	Non-interest bearing	Within three months	Between three months and one year	Between one year and five years	More than five years	Total
		31 December 2011						
Assets								
Cash and deposits with central banks		1.54%	197,288	2,182,521	–	–	–	2,379,809
Deposits and placements with banks and non-bank financial institutions		2.75%	–	279,079	105,486	1,151	76	385,792
Financial assets held under resale agreements		4.03%	–	198,966	1,079	–	–	200,045
Loans and advances to customers	(ii)	5.69%	–	3,485,517	2,746,432	26,964	66,281	6,325,194
Investments	(iii)	3.27%	24,811	258,463	465,984	1,098,204	896,357	2,743,819
Other assets		–	247,175	–	–	–	–	247,175
Total assets		4.27%	469,274	6,404,546	3,318,981	1,126,319	962,714	12,281,834
Liabilities								
Borrowings from central banks		0.98%	–	2,220	–	–	–	2,220
Deposits and placements from banks and non-bank financial institutions		2.35%	–	948,479	58,520	37,955	–	1,044,954
Financial liabilities at fair value through profit or loss		1.33%	12,683	11,669	9,304	–	–	33,656
Financial assets sold under repurchase agreements		5.67%	–	9,543	918	–	–	10,461
Deposits from customers		1.61%	44,435	7,185,234	2,057,323	692,825	7,633	9,987,450
Debt securities issued		3.41%	–	18,100	20,518	31,123	98,571	168,312
Other liabilities		–	218,120	–	–	–	–	218,120
Total liabilities		1.70%	275,238	8,175,245	2,146,583	761,903	106,204	11,465,173
Asset-liability gap		2.57%	194,036	(1,770,699)	1,172,398	364,416	856,510	816,661

Notes:

(i) Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.

(ii) For loans and advances to customers, the "within three months" category includes overdue amounts (net of allowances for impairment losses) of RMB40,006 million as at 30 June 2012 (31 December 2011: RMB25,121 million).

(iii) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investment, debt securities classified as receivables and interests in associates and jointly controlled entities.

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(2) Market risk (continued)

(c) Interest rate risk (continued)

Bank

	Note	Effective interest rate (i)	Non-interest bearing	Within three months	Between three months and one year	Between one year and five years	More than five years	Total
		30 June 2012						
Assets								
Cash and deposits with central banks		1.49%	232,544	2,249,041	–	–	–	2,481,585
Deposits and placements with banks and non-bank financial institutions		3.80%	70	578,383	144,093	1,500	43	724,089
Financial assets held under resale agreements		4.39%	–	312,029	9,012	–	–	321,041
Loans and advances to customers	(ii)	6.42%	–	1,875,571	4,736,802	27,241	67,834	6,707,448
Investments	(iii)	3.57%	23,394	335,471	477,213	1,070,008	906,639	2,812,725
Other assets		–	296,190	–	–	–	–	296,190
Total assets		4.73%	552,198	5,350,495	5,367,120	1,098,749	974,516	13,343,078
Liabilities								
Borrowings from central banks		1.37%	–	2,438	320	–	–	2,758
Deposits and placements from banks and non-bank financial institutions		3.17%	–	1,012,276	50,873	35,011	–	1,098,160
Financial liabilities at fair value through profit or loss		1.62%	17,719	16,572	1,799	–	–	36,090
Financial assets sold under repurchase agreements		4.54%	–	744	1,004	–	–	1,748
Deposits from customers		2.04%	45,911	7,817,341	2,011,506	981,934	7,062	10,863,754
Debt securities issued		3.62%	–	26,026	46,129	28,211	98,589	198,955
Other liabilities		–	283,686	–	–	–	–	283,686
Total liabilities		2.18%	347,316	8,875,397	2,111,631	1,045,156	105,651	12,485,151
Asset-liability gap		2.55%	204,882	(3,524,902)	3,255,489	53,593	868,865	857,927

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(2) Market risk (continued)

(c) Interest rate risk (continued)

Bank (continued)

	Note	Effective interest rate (i)	Non-interest bearing	Within three months	Between three months and one year	Between one year and five years	More than five years	Total
		31 December 2011						
Assets								
Cash and deposits with central banks		1.54%	192,636	2,180,857	–	–	–	2,373,493
Deposits and placements with banks and non-bank financial institutions		2.80%	–	277,365	112,959	24	46	390,394
Financial assets held under resale agreements		4.03%	–	198,966	1,079	–	–	200,045
Loans and advances to customers	(ii)	5.72%	–	3,371,429	2,729,704	22,166	66,064	6,189,363
Investments	(iii)	3.26%	23,949	253,680	460,878	1,093,014	894,834	2,726,355
Other assets		–	259,240	–	–	–	–	259,240
Total assets		4.27%	475,825	6,282,297	3,304,620	1,115,204	960,944	12,138,890
Liabilities								
Borrowings from central banks		0.98%	–	2,210	–	–	–	2,210
Deposits and placements from banks and non-bank financial institutions		2.30%	–	941,999	37,133	36,555	–	1,015,687
Financial liabilities at fair value through profit or loss		1.33%	12,683	11,669	6,614	–	–	30,966
Financial assets sold under repurchase agreements		4.85%	–	10,676	918	–	–	11,594
Deposits from customers		1.61%	40,221	7,119,711	2,047,688	691,184	7,289	9,906,093
Debt securities issued		3.52%	–	14,904	15,573	29,002	98,571	158,050
Other liabilities		–	207,713	–	–	–	–	207,713
Total liabilities		1.70%	260,617	8,101,169	2,107,926	756,741	105,860	11,332,313
Asset-liability gap		2.57%	215,208	(1,818,872)	1,196,694	358,463	855,084	806,577

Notes:

(i) Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.

(ii) For loans and advances to customers, the "within three months" category includes overdue amounts (net of allowances for impairment losses) of RMB39,406 million as at 30 June 2012 (31 December 2011: RMB24,664 million).

(iii) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, debt securities classified as receivables and investments in subsidiaries.

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(2) Market risk (continued)

(d) Currency risk

The Group's foreign exchange exposure mainly comprises exposures that arise from the foreign currency portfolio within the treasury's proprietary investments, and currency exposures originated by the Group's overseas businesses.

The Group manages other currency risk by spot and forward foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives (principally foreign exchange swaps and cross currency swaps) in the management of its own foreign currency asset and liability portfolios and structural positions.

The currency exposures of the Group's and the Bank's assets and liabilities as at the end of the reporting period are as follows:

Group

		30 June 2012			
	Note	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and deposits with central banks		2,316,560	80,906	94,126	2,491,592
Deposits and placements with banks and non-bank financial institutions	(i)	903,060	77,011	44,831	1,024,902
Loans and advances to customers		6,410,020	289,344	177,216	6,876,580
Investments		2,773,503	27,376	30,611	2,831,490
Other assets		242,801	29,468	8,912	281,181
Total assets		12,645,944	504,105	355,696	13,505,745
Liabilities					
Borrowings from central banks		36	2,752	–	2,788
Deposits and placements from banks and non-bank financial institutions	(ii)	861,858	146,902	130,819	1,139,579
Financial liabilities at fair value through profit or loss		30,613	7,512	676	38,801
Deposits from customers		10,521,570	246,663	172,604	10,940,837
Debt securities issued		157,424	37,428	18,776	213,628
Other liabilities		262,662	16,136	21,909	300,707
Total liabilities		11,834,163	457,393	344,784	12,636,340
Net position		811,781	46,712	10,912	869,405
Net notional amount of derivatives		17,574	(15,016)	(1,969)	589

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(2) Market risk (continued)

(d) Currency risk (continued)

Group (continued)

	Note	31 December 2011 RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and deposits with central banks		2,253,657	45,133	81,019	2,379,809
Deposits and placements with banks and non-bank financial institutions	(i)	536,807	25,609	23,421	585,837
Loans and advances to customers		5,955,730	245,419	124,045	6,325,194
Investments		2,672,309	29,090	42,420	2,743,819
Other assets		218,568	22,703	5,904	247,175
Total assets		11,637,071	367,954	276,809	12,281,834
Liabilities					
Borrowings from central banks		16	2,203	1	2,220
Deposits and placements from banks and non-bank financial institutions	(ii)	856,133	81,819	117,463	1,055,415
Financial liabilities at fair value through profit or loss		22,323	8,545	2,788	33,656
Deposits from customers		9,690,386	164,752	132,312	9,987,450
Debt securities issued		132,920	20,399	14,993	168,312
Other liabilities		182,299	8,305	27,516	218,120
Total liabilities		10,884,077	286,023	295,073	11,465,173
Net position		752,994	81,931	(18,264)	816,661
Net notional amount of derivatives		44,469	(79,952)	36,194	711

Notes:

(i) Including financial assets held under resale agreements.

(ii) Including financial assets sold under repurchase agreements.

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(2) Market risk (continued)

(d) Currency risk (continued)

Bank

	Note	30 June 2012 RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and deposits with central banks		**2,314,995**	**80,899**	**85,691**	**2,481,585**
Deposits and placements with banks and non-bank financial institutions	(i)	**907,050**	**89,433**	**48,647**	**1,045,130**
Loans and advances to customers		**6,328,070**	**253,587**	**125,791**	**6,707,448**
Investments		**2,770,259**	**25,463**	**17,003**	**2,812,725**
Other assets		**262,703**	**28,610**	**4,877**	**296,190**
Total assets		**12,583,077**	**477,992**	**282,009**	**13,343,078**
Liabilities					
Borrowings from central banks		**6**	**2,752**	**–**	**2,758**
Deposits and placements from banks and non-bank financial institutions	(ii)	**829,159**	**141,692**	**129,057**	**1,099,908**
Financial liabilities at fair value through profit or loss		**27,902**	**7,512**	**676**	**36,090**
Deposits from customers		**10,513,381**	**232,406**	**117,967**	**10,863,754**
Debt securities issued		**147,892**	**35,998**	**15,065**	**198,955**
Other liabilities		**264,420**	**15,512**	**3,754**	**283,686**
Total liabilities		**11,782,760**	**435,872**	**266,519**	**12,485,151**
Net position		**800,317**	**42,120**	**15,490**	**857,927**
Net notional amount of derivatives		**24,068**	**(12,105)**	**(11,554)**	**409**

	Note	31 December 2011 RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Assets					
Cash and deposits with central banks		2,252,012	45,133	76,348	2,373,493
Deposits and placements with banks and non-bank financial institutions	(i)	543,655	30,651	16,133	590,439
Loans and advances to customers		5,898,547	220,940	69,876	6,189,363
Investments		2,671,599	27,916	26,840	2,726,355
Other assets		234,948	22,717	1,575	259,240
Total assets		11,600,761	347,357	190,772	12,138,890
Liabilities					
Borrowings from central banks		6	2,203	1	2,210
Deposits and placements from banks and non-bank financial institutions	(ii)	832,280	84,504	110,497	1,027,281
Financial liabilities at fair value through profit or loss		22,323	8,545	98	30,966
Deposits from customers		9,675,116	150,321	80,656	9,906,093
Debt securities issued		131,796	17,442	8,812	158,050
Other liabilities		193,377	7,920	6,416	207,713
Total liabilities		10,854,898	270,935	206,480	11,332,313
Net position		745,863	76,422	(15,708)	806,577
Net notional amount of derivatives		44,785	(69,562)	25,439	662

Notes:

(i) Including financial assets held under resale agreements.

(ii) Including financial assets sold under repurchase agreements.

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(3) Liquidity risk

Liquidity risk is the type of risk that occurs when, despite its debt servicing ability, the Group cannot obtain sufficient funds in time, or obtain sufficient funds at a reasonable cost, to meet the needs of asset growth or repay liabilities when they are due. It is caused by mismatches of assets and liabilities in terms of their amounts and maturity dates. In accordance with liquidity policies, the Group monitors the future cash flows to ensure that an appropriate level of highly liquid assets is maintained.

At the Group level, liquidity is managed and coordinated through the ALM. The ALM is responsible for formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- adopting a prudent strategy and ensuring sufficient funds are available at any moment to satisfy any payment request;
- optimising the Group's asset and liability structure, diversifying and stabilizing the source of funds, and reserving an appropriate proportion of highly credit-rated and liquid asset portfolio; and
- managing and utilising centrally the Bank's liquid funds.

The Group uses a variety of methods including liquidity index analysis, analysis of remaining contractual maturities and undiscounted cash flow analysis to measure the liquidity risk. Gap analysis is used to predict the cash flow within one year. Various types of scenario analysis are then applied to assess the impact of liquidity risk.

(a) Maturity analysis

The following tables provide an analysis of the assets and liabilities of the Group and the Bank based on the remaining periods to repayment as at the end of the reporting period:

Group

	30 June 2012							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks	2,041,000	450,592	–	–	–	–	–	2,491,592
Deposits and placements with banks and non-bank financial institutions	–	31,772	337,684	191,505	132,310	10,533	43	703,847
Financial assets held under resale agreements	–	–	261,059	50,984	9,012	–	–	321,055
Loans and advances to customers	31,029	143,672	242,184	507,353	1,792,591	1,605,104	2,554,647	6,876,580
Investments								
– Financial assets at fair value through profit or loss	8,077	–	434	1,029	5,924	7,999	788	24,251
– Available-for-sale financial assets	21,563	–	17,544	38,822	114,719	336,093	169,367	698,108
– Held-to-maturity investments	2,166	–	14,627	33,247	207,470	874,379	674,818	1,806,707
– Debt securities classified as receivables	368	–	–	6,469	14,683	74,338	204,261	300,119
– Investments in associates and jointly controlled entities	2,305	–	–	–	–	–	–	2,305
Other assets	145,399	40,817	20,673	34,973	29,077	6,502	3,740	281,181
Total assets	2,251,907	666,853	894,205	864,382	2,305,786	2,914,948	3,607,664	13,505,745
Liabilities								
Borrowings from central banks	–	6	320	2,112	350	–	–	2,788
Deposits and placements from banks and non-bank financial institutions	–	488,331	437,182	78,035	68,363	64,461	–	1,136,372
Financial liabilities at fair value through profit or loss	–	17,719	1,481	17,802	1,799	–	–	38,801
Financial assets sold under repurchase agreements	–	–	1,790	413	1,004	–	–	3,207
Deposits from customers	–	5,604,232	1,016,347	1,000,079	2,324,759	985,578	9,842	10,940,837
Debt securities issued								
– Certificates of deposit issued	–	–	9,528	21,213	54,368	6,948	708	92,765
– Bonds issued	–	–	–	–	–	993	–	993
– Subordinated bonds issued	–	–	–	–	–	21,989	97,881	119,870
Other liabilities	368	134,524	73,427	17,161	56,679	15,096	3,452	300,707
Total liabilities	368	6,244,812	1,540,075	1,136,815	2,507,322	1,095,065	111,883	12,636,340
Long/(short) position	2,251,539	(5,577,959)	(645,870)	(272,433)	(201,536)	1,819,883	3,495,781	869,405
Notional amount of derivatives								
– Interest rate contracts	–	–	19,282	23,441	166,008	45,967	23,105	277,803
– Exchange rate contracts	–	–	180,433	207,302	574,150	52,077	9,149	1,023,111
– Other contracts	–	–	2,829	2,127	3,539	1,179	–	9,674
Total	–	–	202,544	232,870	743,697	99,223	32,254	1,310,588

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(3) Liquidity risk (continued)

(a) *Maturity analysis (continued)*

Group (continued)

	31 December 2011							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks	1,996,932	382,877	–	–	–	–	–	2,379,809
Deposits and placements with banks and non-bank financial institutions	–	32,603	151,071	95,405	98,454	8,183	76	385,792
Financial assets held under resale agreements	–	–	185,613	13,353	1,079	–	–	200,045
Loans and advances to customers	33,363	104,292	236,117	456,647	1,647,945	1,674,416	2,172,414	6,325,194
Investments								
– Financial assets at fair value through profit or loss	8,722	–	2	201	6,382	6,326	1,463	23,096
– Available-for-sale financial assets	22,308	–	7,678	42,776	136,627	314,230	151,439	675,058
– Held-to-maturity investments	2,004	–	24,140	22,928	156,543	911,631	626,323	1,743,569
– Debt securities classified as receivables	368	–	–	750	17,944	57,259	223,706	300,027
– Investments in associates and jointly controlled entities	2,069	–	–	–	–	–	–	2,069
Other assets	138,347	31,518	14,631	25,221	28,087	4,689	4,682	247,175
Total assets	2,204,113	551,290	619,252	657,281	2,093,061	2,976,734	3,180,103	12,281,834
Liabilities								
Borrowings from central banks	–	2,220	–	–	–	–	–	2,220
Deposits and placements from banks and non-bank financial institutions	–	445,029	320,833	156,922	57,350	64,820	–	1,044,954
Financial liabilities at fair value through profit or loss	–	12,682	8,460	3,182	9,304	–	28	33,656
Financial assets sold under repurchase agreements	–	–	2,469	7,074	918	–	–	10,461
Deposits from customers	–	5,396,360	844,136	896,678	2,145,634	694,911	9,731	9,987,450
Debt securities issued								
– Certificates of deposit issued	–	–	7,258	10,842	20,518	9,138	695	48,451
– Subordinated bonds issued	–	–	–	–	–	21,985	97,876	119,861
Other liabilities	358	134,242	11,632	14,833	40,171	12,495	4,389	218,120
Total liabilities	358	5,990,533	1,194,788	1,089,531	2,273,895	803,349	112,719	11,465,173
Long/(short) position	2,203,755	(5,439,243)	(575,536)	(432,250)	(180,834)	2,173,385	3,067,384	816,661
Notional amount of derivatives								
– Interest rate contracts	–	–	2,471	8,976	69,553	74,121	28,539	183,660
– Exchange rate contracts	–	–	165,801	181,875	334,292	48,370	10,399	740,737
– Other contracts	–	–	399	59	3,969	584	–	5,011
Total	–	–	168,671	190,910	407,814	123,075	38,938	929,408

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

Bank

	30 June 2012							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks	2,039,561	442,024	–	–	–	–	–	2,481,585
Deposits and placements with banks and non-bank financial institutions	–	34,004	337,857	203,492	140,193	8,500	43	724,089
Financial assets held under resale agreements	–	–	261,045	50,984	9,012	–	–	321,041
Loans and advances to customers	30,272	142,535	227,791	481,447	1,751,278	1,552,064	2,522,061	6,707,448
Investments								
– Financial assets at fair value through profit or loss	–	–	306	813	4,196	5,104	756	11,175
– Available-for-sale financial assets	19,191	–	15,656	35,756	111,402	334,146	168,366	684,517
– Held-to-maturity investments	2,166	–	14,628	33,207	207,470	874,040	673,944	1,805,455
– Debt securities classified as receivables	368	–	–	6,469	14,683	74,119	203,795	299,434
– Investments in subsidiaries	12,144	–	–	–	–	–	–	12,144
Other assets	161,322	43,213	20,282	34,561	28,191	4,881	3,740	296,190
Total assets	2,265,024	661,776	877,565	846,729	2,266,425	2,852,854	3,572,705	13,343,078
Liabilities								
Borrowings from central banks	–	6	320	2,112	320	–	–	2,758
Deposits and placements from banks and non-bank financial institutions	–	491,097	432,812	60,367	50,873	63,011	–	1,098,160
Financial liabilities at fair value through profit or loss	–	17,719	1,481	15,091	1,799	–	–	36,090
Financial assets sold under repurchase agreements	–	–	331	413	1,004	–	–	1,748
Deposits from customers	–	5,590,892	1,004,594	962,009	2,313,878	982,785	9,596	10,863,754
Debt securities issued								
– Certificates of deposit issued	–	–	8,388	17,638	46,129	5,229	708	78,092
– Bonds issued	–	–	–	–	–	993	–	993
– Subordinated bonds issued	–	–	–	–	–	21,989	97,881	119,870
Other liabilities	25	133,880	72,014	14,456	45,085	14,774	3,452	283,686
Total liabilities	25	6,233,594	1,519,940	1,072,086	2,459,088	1,088,781	111,637	12,485,151
Long/(short) position	2,264,999	(5,571,818)	(642,375)	(225,357)	(192,663)	1,764,073	3,461,068	857,927
Notional amount of derivatives								
– Interest rate contracts	–	–	19,222	23,344	160,187	43,403	23,105	269,261
– Exchange rate contracts	–	–	135,964	167,858	502,675	51,607	9,149	867,253
– Other contracts	–	–	2,578	2,076	2,895	–	–	7,549
Total	–	–	157,764	193,278	665,757	95,010	32,254	1,144,063

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

Bank (continued)

	31 December 2011							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with central banks	1,995,697	377,796	–	–	–	–	–	2,373,493
Deposits and placements with banks and non-bank financial institutions	–	30,093	148,930	98,343	105,958	7,024	46	390,394
Financial assets held under resale agreements	–	–	185,613	13,353	1,079	–	–	200,045
Loans and advances to customers	32,274	103,938	230,801	443,386	1,613,532	1,628,225	2,137,207	6,189,363
Investments								
– Financial assets at fair value through profit or loss	–	–	2	201	4,332	2,748	1,432	8,715
– Available-for-sale financial assets	20,284	–	6,791	40,350	132,784	312,415	150,959	663,583
– Held-to-maturity investments	2,004	–	24,141	22,888	156,503	911,447	625,359	1,742,342
– Debt securities classified as receivables	368	–	–	750	17,944	57,047	223,656	299,765
– Investments in subsidiaries	11,950	–	–	–	–	–	–	11,950
Other assets	154,043	30,666	14,212	24,889	27,432	3,316	4,682	259,240
Total assets	2,216,620	542,493	610,490	644,160	2,059,564	2,922,222	3,143,341	12,138,890
Liabilities								
Borrowings from central banks	–	2,210	–	–	–	–	–	2,210
Deposits and placements from banks and non-bank financial institutions	–	447,667	322,533	146,309	35,808	63,370	–	1,015,687
Financial liabilities at fair value through profit or loss	–	12,682	8,460	3,182	6,614	–	28	30,966
Financial assets sold under repurchase agreements	–	–	3,161	7,515	918	–	–	11,594
Deposits from customers	–	5,378,414	819,917	869,435	2,135,490	693,169	9,668	9,906,093
Debt securities issued								
– Certificates of deposit issued	–	–	5,719	9,185	15,573	7,017	695	38,189
– Subordinated bonds issued	–	–	–	–	–	21,985	97,876	119,861
Other liabilities	23	133,015	10,765	13,154	34,286	12,082	4,388	207,713
Total liabilities	23	5,973,988	1,170,555	1,048,780	2,228,689	797,623	112,655	11,332,313
Long/(short) position	2,216,597	(5,431,495)	(560,065)	(404,620)	(169,125)	2,124,599	3,030,686	806,577
Notional amount of derivatives								
– Interest rate contracts	–	–	1,798	6,532	68,583	67,200	28,539	172,652
– Exchange rate contracts	–	–	132,742	149,261	291,538	47,107	10,399	631,047
– Other contracts	–	–	298	–	2,839	–	–	3,137
Total	–	–	134,838	155,793	362,960	114,307	38,938	806,836

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(3) Liquidity risk (continued)

(b) *Contractual undiscounted cash flow*

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and off balance sheet credit commitments of the Group and the Bank as at the end of the reporting period. The Group's and the Bank's expected cash flows on these instruments may vary significantly from this analysis.

Group

	30 June 2012							
	Carrying amount	**Gross cash outflow**	**Repayable on demand**	**Within one month**	**Between one month and three months**	**Between three months and one year**	**Between one year and five years**	**More than five years**
Non-derivative financial liabilities								
Borrowings from central banks	**2,788**	**2,794**	**6**	**320**	**2,117**	**351**	**–**	**–**
Deposits and placements from banks and non-bank financial institutions	**1,136,372**	**1,157,601**	**488,820**	**437,658**	**79,213**	**70,590**	**81,320**	**–**
Financial liabilities at fair value through profit or loss	**38,801**	**39,247**	**17,719**	**1,502**	**18,141**	**1,885**	**–**	**–**
Financial assets sold under repurchase agreements	**3,207**	**3,260**	**–**	**1,798**	**415**	**1,047**	**–**	**–**
Deposits from customers	**10,940,837**	**11,215,966**	**5,605,431**	**1,026,842**	**1,018,226**	**2,409,564**	**1,143,510**	**12,393**
Debt securities issued								
– Certificates of deposit issued	**92,765**	**93,890**	**–**	**9,535**	**21,262**	**54,936**	**7,228**	**929**
– Bonds issued	**993**	**1,080**	**–**	**–**	**–**	**32**	**1,048**	**–**
– Subordinated bonds issued	**119,870**	**163,316**	**–**	**–**	**736**	**4,744**	**42,104**	**115,732**
Other financial liabilities	**118,885**	**118,885**	**57,974**	**59,568**	**169**	**667**	**–**	**507**
Total	**12,454,518**	**12,796,039**	**6,169,950**	**1,537,223**	**1,140,279**	**2,543,816**	**1,275,210**	**129,561**
Off-balance sheet loan commitments and credit card commitments (Note)		**716,292**	**553,523**	**45,190**	**23,727**	**61,908**	**29,833**	**2,111**
Guarantees, acceptances and other financial facilities (Note)		**1,314,153**	**–**	**273,599**	**266,937**	**474,237**	**213,229**	**86,151**

	31 December 2011							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	2,220	2,220	2,220	–	–	–	–	–
Deposits and placements from banks and non-bank financial institutions	1,044,954	1,068,048	445,050	322,102	159,237	59,685	81,974	–
Financial liabilities at fair value through profit or loss	33,656	33,684	12,682	8,476	3,192	9,305	–	29
Financial assets sold under repurchase agreements	10,461	10,615	–	2,480	7,175	960	–	–
Deposits from customers	9,987,450	10,201,224	5,400,418	851,975	915,887	2,217,601	802,755	12,588
Debt securities issued								
– Certificates of deposit issued	48,451	49,133	–	7,261	10,859	20,655	9,432	926
– Subordinated bonds issued	119,861	164,820	–	–	1,504	3,976	42,488	116,852
Other financial liabilities	52,449	52,449	48,745	140	160	2,896	–	508
Total	11,299,502	11,582,193	5,909,115	1,192,434	1,098,014	2,315,078	936,649	130,903
Off-balance sheet loan commitments and credit card commitments (Note)		745,224	557,208	53,318	25,953	76,123	30,629	1,993
Guarantees, acceptances and other financial facilities (Note)		1,236,725	–	251,994	258,931	403,962	226,551	95,287

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(3) Liquidity risk (continued)

(b) Contractual undiscounted cash flow (continued)

Bank

	30 June 2012							
	Carrying amount	**Gross cash outflow**	**Repayable on demand**	**Within one month**	**Between one month and three months**	**Between three months and one year**	**Between one year and five years**	**More than five years**
Non-derivative financial liabilities								
Borrowings from central banks	2,758	2,763	6	320	2,117	320	–	–
Deposits and placements from banks and non-bank financial institutions	1,098,160	1,117,797	491,587	433,165	60,917	52,529	79,599	–
Financial liabilities at fair value through profit or loss	36,090	36,536	17,719	1,502	15,430	1,885	–	–
Financial assets sold under repurchase agreements	1,748	1,794	–	332	415	1,047	–	–
Deposits from customers	10,863,754	11,138,634	5,592,076	1,015,081	980,098	2,398,558	1,140,674	12,147
Debt securities issued								
– Certificates of deposit issued	78,092	78,965	–	8,394	17,678	46,561	5,403	929
– Bonds issued	993	1,080	–	–	–	32	1,048	–
– Subordinated bonds issued	119,870	163,316	–	–	736	4,744	42,104	115,732
Other financial liabilities	103,434	103,434	42,580	59,532	153	662	–	507
Total	12,304,899	12,644,319	6,143,968	1,518,326	1,077,544	2,506,338	1,268,828	129,315
Off-balance sheet loan commitments and credit card commitments (Note)		687,520	553,523	19,684	22,766	59,891	29,545	2,111
Guarantees, acceptances and other financial facilities (Note)		1,324,435	–	275,821	275,751	474,107	212,605	86,151

	31 December 2011							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	2,210	2,210	2,210	–	–	–	–	–
Deposits and placements from banks and non-bank financial institutions	1,015,687	1,036,867	447,688	323,783	148,369	36,736	80,291	–
Financial liabilities at fair value through profit or loss	30,966	30,993	12,682	8,476	3,192	6,614	–	29
Financial assets sold under repurchase agreements	11,594	11,779	–	3,189	7,630	960	–	–
Deposits from customers	9,906,093	10,119,604	5,382,466	827,734	888,559	2,207,347	800,974	12,524
Debt securities issued								
– Certificates of deposit issued	38,189	38,766	–	5,721	9,199	15,681	7,239	926
– Subordinated bonds issued	119,861	164,820	–	–	1,504	3,976	42,488	116,852
Other financial liabilities	44,024	44,024	40,341	139	149	2,887	–	508
Total	11,168,624	11,449,063	5,885,387	1,169,042	1,058,602	2,274,201	930,992	130,839
Off-balance sheet loan commitments and credit card commitments (Note)		718,317	557,208	29,473	25,051	74,233	30,359	1,993
Guarantees, acceptances and other financial facilities (Note)		1,238,467	–	251,967	259,571	405,377	226,265	95,287

Note: The off-balance sheet loan commitments and credit card commitments may expire without being drawn upon. Guarantees, acceptances and other financial facilities do not represent the amount to be paid.

57 Risk Management (continued)

(4) Operational risk

Operational risk represents the risk of loss due to deficient and flawed internal processes, personnel and information system, or other external events.

The Group has continued to further strengthen the operational risk management processes to ensure operational stability and business as usual, by enhancing the self-assessment of operational risk, establishing key risk controls and examination, accelerating development of operational risk tools and systems, streamlining and reviewing important system parameters, performing emergency drills to ensure continuous business operations in adverse scenarios and promoting business continuity management:

- continuous self-assessment of operational risk – The Group continuously improves and expands the scope of self-assessment, placing particular focus on off-balance sheet related items to enhance respective regulations, processes and services;

- establishment of examination of key risk controls – The Group carries out examination over key risk controls, and continues to refine, expand and re-examine the scope and contents of the monitoring checks, placing particular focus on key business areas and preventive checks on major operational risk areas;

- strengthening the centralized operational risk management evaluation system – The Group refines the operational risk indicators with respect to corporate and personal credit businesses, which assists and drives branches' evaluation of the operational risks;

- improvement in segregation of duties – The Group continues to improve and review the roles and responsibilities of its key staff positions to ensure adequate segregation of duties (responsibilities), further strengthening the system of checks and balances;

- steady progress in business continuity management – The Group conducts emergency operational drills in pilot branches, which improves the strategies and mechanisms of the Tier 2 institutions and networks in response to natural disasters;

- strengthening major risks and unforeseen events reporting process – The Group formalizes the supervision and monitoring over major risks and unforeseen events by prescribing the information recording and reporting processes. Clear information channels have also been established to increase the ability of the Bank to address these risks and events;

- streamline and review of important system parameters – The Group continues to evaluate management system parameters and timely remediates deficiency to ensure secured and smooth system operations; and

- the Group has implemented laws, rules and regulations concerning anti-money laundering (AML). The Group continued to improve its internal control system relating to AML. The Group follows "know-your-customer" principle in identifying and recording customers' identities and transactions diligently, and proactively identifies and reports significant, suspicious and suspected terrorist-related transactions. Training and publicity for AML has also been enhanced. All these measures are put in place to effectively fulfill the statutory AML obligations.

(5) Fair value

(a) Financial assets

The Group's financial assets mainly include cash and deposits with central banks, deposits and placements with banks and non-bank financial institutions, financial assets at fair value through profit or loss, financial assets held under resale agreements, loans and advances to customers, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements are mainly priced at market interest rates and mature within one year. Accordingly, the carrying values approximate the fair values.

Loans and advances to customers

Majority of the loans and advances to customers are repriced at least annually to the market rate. Accordingly, their carrying values approximate the fair values.

Investments

Available-for-sale financial assets and financial assets at fair value through profit or loss are stated at fair value in the financial statements. The following table shows the carrying values and the fair values of the debt securities classified as receivables and held-to-maturity investments which are not presented in the statement of financial position at their fair values.

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(5) Fair value (continued)

(a) *Financial assets (continued)*

Group

	Carrying value		Fair value	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Debt securities classified as receivables	**300,119**	300,027	**287,772**	291,829
Held-to-maturity investments	**1,806,707**	1,743,569	**1,831,255**	1,753,842
Total	**2,106,826**	2,043,596	**2,119,027**	2,045,671

Bank

	Carrying value		Fair value	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Debt securities classified as receivables	**299,434**	299,765	**287,096**	291,569
Held-to-maturity investments	**1,805,455**	1,742,342	**1,830,002**	1,752,585
Total	**2,104,889**	2,042,107	**2,117,098**	2,044,154

(b) *Financial liabilities*

The Group's financial liabilities mainly include borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial liabilities at fair value through profit or loss, financial assets sold under repurchase agreements, deposits from customers, and debt securities issued. The carrying values of financial liabilities approximated their fair values at the balance sheet date, except for the subordinated bonds issued.

The carrying value and fair value of subordinated bonds issued of the Group and the Bank are presented as follows:

	Carrying value		Fair value	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
Subordinated bonds issued	**119,870**	119,861	**120,174**	117,969

(6) Capital management

The Group has implemented a comprehensive capital management policy, covering the management of regulatory capital, economic capital and accounting capital, including but not limited to management of capital adequacy ratio, capital planning, capital raising and economic capital.

Capital adequacy ratio is a reflection of the Group's ability to run stable operations and resist adverse risks. The CBRC requires commercial banks to maintain the capital adequacy ratio at or above minimum of 8% and the core capital adequacy ratio at or above minimum of 4%. Supplementary capital of a commercial bank cannot exceed 100% of its core capital, and long-term subordinated debts qualified for inclusion in the supplementary capital cannot exceed 50% of the core capital. Any amount in excess of the balance of the trading book over 10% of total on and off-balance sheet assets or RMB8,500 million will be subject to provision for market risk in the computation of capital adequacy ratio. The Group timely monitors, analyses and reports capital adequacy ratio level to exercise effective management of capital adequacy ratio. The Group adopts various measures such as controlling asset growth, adjusting the structure of risk assets, accumulating capital internally and raising capital through external channels, to ensure that the capital adequacy ratio and core capital adequacy ratio of the Group and the Bank are in full compliance with regulatory requirements and meet internal management needs. This helps insulate against potential risks as well as support the healthy business development. The Group now fully complies with all regulatory requirements in this respect.

The Group's capital planning has taken the regulatory requirements, the Group's development strategy and risk appetite into consideration, and based on those factors the Group projects the capital usage and need. The Group regularly compares its position with its capital adequacy ratio target to ensure capital will be adequate for future or otherwise to plan for supplementation of capital.

The capital raising management of the Group involves reasonable utilisation of various capital instruments to ensure that both external regulatory and internal capital management objectives are met, taking into account capital planning and operating environment. This helps to optimize the Group's total capital and structure, as well as improve the competitiveness of the Group's cost of capital.

(Expressed in millions of RMB, unless otherwise stated)

57 Risk Management (continued)

(6) Capital management (continued)

The Group's consolidated regulatory capital positions calculated in accordance with the guidance issued by the CBRC as at the end of reporting period are as follows:

	Note	30 June 2012	31 December 2011
Core capital adequacy ratio	(a)	**11.19%**	10.97%
Capital adequacy ratio	(b)	**13.82%**	13.68%
Components of capital base			
Core capital:			
– Share capital		**250,011**	250,011
– Capital reserve, investment revaluation reserve and exchange reserve	(c)	**131,157**	130,562
– Surplus reserve and general reserve		**147,737**	134,918
– Retained earnings	(c),(d)	**285,744**	229,649
– Non-controlling interests		**5,085**	5,520
		819,734	750,660
Supplementary capital:			
– General provision for doubtful debts		**72,564**	66,180
– Positive changes in fair value of financial instruments at fair value through profit or loss		**6,086**	3,675
– Subordinated bonds issued		**120,000**	120,000
		198,650	189,855
Total capital base before deductions		**1,018,384**	940,515
Deductions:			
– Goodwill		**(1,483)**	(1,662)
– Unconsolidated equity investments		**(15,688)**	(12,402)
– Others	(e)	**(1,437)**	(1,945)
Net capital		**999,776**	924,506
Risk-weighted assets	(f)	**7,236,586**	6,760,117

Notes:

(a) Core capital adequacy ratio is calculated by dividing the net amount of core capital, which is after deductions of 100% of goodwill and 50% of unconsolidated equity investments and other items, by risk-weighted assets.

(b) Capital adequacy ratio is calculated by dividing the net capital by risk-weighted assets.

(c) The investment revaluation reserve arising from the accumulated net positive changes in the fair value of available-for-sale financial assets is excluded from the core capital and 50% of the balance is included in the supplementary capital. In addition, the unrealised accumulated net positive changes in fair value of financial instruments at fair value through profit or loss, net of income tax, are excluded from the core capital and included in the supplementary capital.

(d) The dividend proposed after the reporting period has been deducted from retained earnings.

(e) Others mainly represent investments in those asset backed securities specified by CBRC which required reduction.

(f) The balances of risk-weighted assets include an amount equal to 12.5 times the Group's market risk capital.

58 Events after the reporting period

There are no significant events after the reporting period.

59 Ultimate parent

As stated in Note 1, the immediate and ultimate parent of the Group is Huijin and CIC respectively.

60 Possible impact of amendments, new standards and interpretations issued but not yet effective

Up to the date of issue of the financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the period ended 30 June 2012 and which have not been adopted in the financial statements.

- Amendments to IFRS 7, “Financial Instruments: Disclosures”
- IFRS 9, “Financial Instruments”
- IFRS 10, “Consolidated Financial Statements”
- IFRS 11, “Joint Arrangements”
- IFRS 12, “Disclosure of Interests in Other Entities”
- IFRS 13, “Fair Value Measurement”

The Group is in the process of making assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group’s results of operations and financial position except for IFRS 9, “Financial instruments”, which may have an impact on the Group’s results and financial position.

China Construction Bank Corporation
Consolidated statement of comprehensive income
For the nine months ended 30 September 2012
(Expressed in millions of Renminbi, unless otherwise stated)

	Nine months ended 30 September		Three months from 1 July to 30 September	
	2012	2011	2012	2011
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest income	448,166	348,353	152,733	124,895
Interest expense	(187,142)	(125,343)	(61,401)	(47,591)
Net interest income	261,024	223,010	91,332	77,304
Fee and commission income	71,923	70,808	21,398	21,917
Fee and commission expense	(2,002)	(2,016)	(720)	(796)
Net fee and commission income	69,921	68,792	20,678	21,121
Net trading gain	971	1,557	621	888
Dividend income	159	88	70	27
Net gain arising from investment securities	2,300	1,227	486	297
Other operating income, net	8,063	3,143	1,439	934
Operating income	342,438	297,817	114,626	100,571
Operating expenses	(113,828)	(96,630)	(39,258)	(34,073)
	228,610	201,187	75,368	66,498
Impairment losses on:				
- Loans and advances to customers	(22,989)	(20,023)	(8,263)	(6,128)
- Others	(131)	(807)	(119)	(777)
Impairment losses	(23,120)	(20,830)	(8,382)	(6,905)
Share of profit of associates and jointly controlled entities	16	59	8	34
Profit before tax	205,506	180,416	66,994	59,627
Income tax expense	(46,987)	(41,209)	(14,969)	(13,373)
Net profit	158,519	139,207	52,025	46,254

China Construction Bank Corporation
Consolidated statement of comprehensive income (continued)
For the nine months ended 30 September 2012
(Expressed in millions of Renminbi, unless otherwise stated)

	Nine months ended 30 September		Three months from 1 July to 30 September	
	2012	2011	2012	2011
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Other comprehensive income:				
Losses of available-for- sale financial assets	(1,548)	(10,675)	(9,105)	(8,023)
Less: Income tax relating to available-for-sale financial assets	378	2,739	2,264	2,055
Reclassification adjustments	(389)	(118)	346	392
	(1,559)	(8,054)	(6,495)	(5,576)
Exchange difference on translating foreign operations	73	(1,243)	(230)	(680)
Others	32	23	27	1
Other comprehensive income for the period, net of tax	(1,454)	(9,274)	(6,698)	(6,255)
Total comprehensive income for the period	157,065	129,933	45,327	39,999
Net profit attributable to:				
Equity shareholders of the Bank	158,191	139,012	51,908	46,187
Non-controlling interests	328	195	117	67
	158,519	139,207	52,025	46,254
Total comprehensive income attributable to:				
Equity shareholders of the Bank	156,747	129,805	45,234	39,947
Non-controlling interests	318	128	93	52
	157,065	129,933	45,327	39,999
Basic and diluted earnings per share (in RMB Yuan)	0.63	0.56	0.21	0.18

China Construction Bank Corporation
Consolidated statement of financial position
As at 30 September 2012
(Expressed in millions of Renminbi, unless otherwise stated)

	30 September 2012	31 December 2011
	(Unaudited)	(Audited)
Assets:		
Cash and deposits with central banks	2,347,707	2,379,809
Deposits with banks and non-bank financial institutions	540,512	276,752
Precious metals	31,945	22,718
Placements with banks and non-bank financial institutions	121,765	109,040
Financial assets at fair value through profit or loss	38,234	23,096
Positive fair value of derivatives	14,937	14,127
Financial assets held under resale agreements	70,938	200,045
Interest receivable	68,725	56,776
Loans and advances to customers	7,074,190	6,325,194
Available-for-sale financial assets	672,864	675,058
Held-to-maturity investments	1,841,225	1,743,569
Debt securities classified as receivables	295,535	300,027
Interests in associates and jointly controlled entities	2,351	2,069
Fixed assets	102,416	94,222
Land use rights	15,998	16,457
Intangible assets	1,357	1,660
Goodwill	1,662	1,662
Deferred tax assets	26,688	21,410
Other assets	27,433	18,143
Total assets	13,296,482	12,281,834

China Construction Bank Corporation
Consolidated statement of financial position (continued)
As at 30 September 2012
(Expressed in millions of Renminbi, unless otherwise stated)

	30 September 2012 (Unaudited)	31 December 2011 (Audited)
Liabilities:		
Borrowings from central banks	383	2,220
Deposits from banks and non-bank financial institutions	690,322	966,229
Placements from banks and non-bank financial institutions	90,186	78,725
Financial liabilities at fair value through profit or loss	27,980	33,656
Negative fair value of derivatives	12,680	13,310
Financial assets sold under repurchase agreements	31,492	10,461
Deposits from customers	11,058,503	9,987,450
Accrued staff costs	34,739	35,931
Taxes payable	41,657	47,189
Interest payable	115,064	80,554
Provisions	5,373	5,180
Debt securities issued	219,381	168,312
Deferred tax liabilities	366	358
Other liabilities	50,672	35,598
Total liabilities	12,378,798	11,465,173

China Construction Bank Corporation
Consolidated statement of financial position (continued)
As at 30 September 2012
(Expressed in millions of Renminbi, unless otherwise stated)

	30 September 2012 (Unaudited)	31 December 2011 (Audited)
Equity:		
Share capital	250,011	250,011
Capital reserve	135,210	135,178
Investment revaluation reserve	4,834	6,383
Surplus reserve	67,576	67,576
General reserve	80,236	67,342
Retained earnings	375,435	289,266
Exchange reserve	(4,542)	(4,615)
Total equity attributable to equity shareholders of the Bank	908,760	811,141
Non-controlling interests	8,924	5,520
Total equity	917,684	816,661
Total liabilities and equity	13,296,482	12,281,834

Approved and authorised for issue by the Board of Directors on 26 October 2012.

Zhang Jianguo	Wong Kai-Man	Jenny Shipley
Vice chairman, executive director and president	*Independent non-executive director*	*Independent non-executive director*

China Construction Bank Corporation
Statement of financial position
As at 30 September 2012
(Expressed in millions of Renminbi, unless otherwise stated)

	30 September 2012	31 December 2011
	(Unaudited)	(Audited)
Assets:		
Cash and deposits with central banks	2,337,556	2,373,493
Deposits with banks and non-bank financial institutions	542,631	279,861
Precious metals	31,945	22,718
Placements with banks and non-bank financial institutions	127,964	110,533
Financial assets at fair value through profit or loss	26,671	8,715
Positive fair value of derivatives	14,203	13,073
Financial assets held under resale agreements	70,833	200,045
Interest receivable	67,938	56,420
Loans and advances to customers	6,910,515	6,189,363
Available-for-sale financial assets	657,682	663,583
Held-to-maturity investments	1,839,247	1,742,342
Debt securities classified as receivables	294,497	299,765
Investments in subsidiaries	15,188	11,950
Fixed assets	98,870	93,369
Land use rights	15,945	16,404
Intangible assets	879	1,176
Deferred tax assets	27,231	22,003
Other assets	44,728	34,077
Total assets	13,124,523	12,138,890

China Construction Bank Corporation
Statement of financial position (continued)
As at 30 September 2012
(Expressed in millions of Renminbi, unless otherwise stated)

	30 September 2012	31 December 2011
	(Unaudited)	(Audited)
Liabilities:		
Borrowings from central banks	321	2,210
Deposits from banks and non-bank financial institutions	693,919	970,033
Placements from banks and non-bank financial institutions	58,846	45,654
Financial liabilities at fair value through profit or loss	24,879	30,966
Negative fair value of derivatives	12,215	12,354
Financial assets sold under repurchase agreements	30,547	11,594
Deposits from customers	10,964,766	9,906,093
Accrued staff costs	34,076	35,182
Taxes payable	41,244	46,950
Interest payable	114,368	80,312
Provisions	5,373	5,180
Debt securities issued	203,853	158,050
Deferred tax liabilities	25	23
Other liabilities	37,314	27,712
Total liabilities	12,221,746	11,332,313

China Construction Bank Corporation
Statement of financial position (continued)
As at 30 September 2012
(Expressed in millions of Renminbi, unless otherwise stated)

	30 September 2012	31 December 2011
	(Unaudited)	(Audited)
Equity:		
Share capital	250,011	250,011
Capital reserve	135,183	135,178
Investment revaluation reserve	4,920	6,472
Surplus reserve	67,576	67,576
General reserve	79,390	66,645
Retained earnings	366,413	281,491
Exchange reserve	(716)	(796)
Total equity	902,777	806,577
Total liabilities and equity	13,124,523	12,138,890

Approved and authorised for issue by the Board of Directors on 26 October 2012.

Zhang Jianguo	Wong Kai-Man	Jenny Shipley
Vice chairman, executive director and president	*Independent non-executive director*	*Independent non-executive director*

China Construction Bank Corporation
Consolidated statement of cash flows
For the nine months ended 30 September 2012
(Expressed in millions of Renminbi, unless otherwise stated)

	Nine months ended 30 September	
	2012	2011
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Profit before tax	205,506	180,416
Adjustments for:		
– Impairment losses	23,120	20,830
– Depreciation and amortisation	10,066	9,378
– Unwinding of discount	(1,233)	(1,017)
– Revaluation loss on financial instruments at fair value through profit or loss	284	171
– Share of profit of associates and jointly controlled entities	(16)	(59)
– Dividend income	(159)	(88)
– Unrealised foreign exchange loss	17	2,125
– Interest expense on bonds issued	4,133	2,415
– Net gain on disposal of investment securities	(2,300)	(1,227)
– Net gain on disposal of fixed assets and other long-term assets	(33)	(407)
	239,385	212,537

China Construction Bank Corporation
Consolidated statement of cash flows (continued)
For the nine months ended 30 September 2012
(Expressed in millions of Renminbi, unless otherwise stated)

	Nine months ended 30 September	
	2012	2011
	(Unaudited)	(Unaudited)
Cash flows from operating activities (continued)		
Changes in operating assets:		
Net increase in deposits with central banks and with banks and non-bank financial institutions	(192,723)	(333,457)
Net decrease /(increase) in placements with banks and non-bank financial institutions	8,263	(21,866)
Net increase in loans and advances to customers	(772,736)	(687,366)
Net decrease in financial assets held under resale agreements	129,107	114,336
Increase in other operating assets	(45,979)	(204,151)
	(874,068)	(1,132,504)
Changes in operating liabilities:		
Net (decrease) /increase in borrowings from central banks	(1,835)	151
Net increase in placements from banks and non-bank financial institutions	11,559	77,218
Net increase in deposits from customers and from banks and non-bank financial institutions	796,467	726,525
Net increase in financial assets sold under repurchase agreements	21,031	30,679
Net increase in certificates of deposit issued	50,189	30,972
Income tax paid	(56,601)	(42,002)
Increase in other operating liabilities	38,559	24,661
	859,369	848,204
Net cash from /(used in) operating activities	224,686	(71,763)

China Construction Bank Corporation
Consolidated statement of cash flows (continued)
For the nine months ended 30 September 2012
(Expressed in millions of Renminbi, unless otherwise stated)

	Nine months ended 30 September	
	2012	2011
	(Unaudited)	(Unaudited)
Cash flows from investing activities		
Proceeds from sale and redemption of investments	429,235	902,051
Dividend received	153	88
Proceeds from disposal of fixed assets and other long-term assets	582	795
Purchase of investment securities	(519,282)	(806,788)
Purchase of fixed assets and other long-term assets	(17,704)	(9,494)
Acquisition of associates and jointly controlled entities	(265)	(997)
Net cash (used in) /from investing activities	(107,281)	85,655
Cash flows from financing activities		
Issue of bonds	993	-
Capital contribution by non-controlling interests	3,136	686
Dividend paid	(58,981)	(53,078)
Interest paid on bonds issued	(2,241)	(2,241)
Cash paid for other financing activities	(5)	(51)
Net cash used in financing activities	(57,098)	(54,684)

China Construction Bank Corporation
Consolidated statement of cash flows (continued)
For the nine months ended 30 September 2012
(Expressed in millions of Renminbi, unless otherwise stated)

	Nine months ended 30 September	
	2012	2011
	(Unaudited)	(Unaudited)
Effect of exchange rate changes on cash and cash equivalents	(289)	(1,591)
Net increase /(decrease) in cash and cash equivalents	60,018	(42,383)
Cash and cash equivalents as at 1 January	558,463	301,299
Cash and cash equivalents as at 30 September	618,481	258,916
Cash flows from operating activities include:		
Interest received	433,854	331,093
Interest paid, excluding interest expense on bonds issued	(150,377)	(110,153)

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