



# **Bank of China Limited**

**H-Share Stock Code: 3988**

**2012 Annual Report**

The print version of the Bank's 2012 Annual Report, to be published in April 2013, will supersede this version.

# Introduction

Bank of China was formally established in February 1912 following the approval of Dr. Sun Yat-sen. From 1912 to 1949, the Bank served consecutively as the country's central bank, international exchange bank and specialised international trade bank. Fulfilling its commitment to serving the public and developing China's financial services sector, the Bank rose to a leading position in the Chinese financial industry and developed a good standing in the international financial community, despite many hardships and setbacks. After the founding of PRC, with a long history as the state-designated specialised foreign exchange and trade bank, the Bank became responsible for managing China's foreign exchange operations and provided tremendous support to nation's foreign trade development and economic infrastructure through its offering of international trade settlement, overseas fund transfer and other non-trade foreign exchange services. During China's reform and opening up period, the Bank seized the historic opportunity presented by the government's strategy of capitalising on foreign funds, advanced knowledge and equipments to boost economic development, and accomplished as the country's key foreign financing channel by building up its competitive advantages in foreign exchange business. In 1994, the Bank transformed from a specialised foreign exchange bank into a state-owned commercial bank, and then incorporated as Bank of China Limited in August 2004. The Bank was listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange in June and July 2006 respectively, becoming the first Chinese commercial bank to launch an A-Share and H-Share initial public offering and achieve a dual listing in both markets. In 2011 and 2012, the Bank was enrolled as a Global Systemically Important Financial Institution for two consecutive years, the only financial institution from China or any emerging economy to be recognised as such.

As China's most international and diversified bank, Bank of China provides a comprehensive range of financial services to customers across the Chinese mainland, Hong Kong, Macau, Taiwan and 36 overseas countries. The Bank's core business is commercial banking, including corporate banking, personal banking and financial markets services. BOC International Holdings Limited, a wholly owned subsidiary, is the Bank's investment banking arm. Bank of China Group Insurance Company Limited and Bank of China Insurance Company Limited, wholly owned subsidiaries, run the Bank's insurance business. Bank of China Group Investment Limited, a wholly owned subsidiary, undertakes the Bank's direct investment and investment management business. Bank of China Investment Management Co., Ltd., a controlled subsidiary, operates the Bank's fund management business. BOC Aviation Pte. Ltd., a wholly owned subsidiary, is in charge of the Bank's aircraft leasing business.

Bank of China has upheld the spirit of "pursuing excellence" throughout its hundred-year history. With adoration of the nation in its soul, integrity as its backbone, reform and innovation as its path forward and people first as its guiding principle, the Bank has built up an excellent brand image that is widely recognised within the industry and by its customers. With historic opportunities now arising, the Bank will striding forward through transformation and growing stronger through reforms, and strive to become a premier multinational bank.

# **Development Strategy**

## **Core Values**

Pursuing excellence — integrity, performance, responsibility, innovation and harmony

## **Strategic Goal**

To be a premier multinational bank, delivering growth and excellence

## **Strategic Positioning**

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

In 2013, according to the overall framework of striding forward through transformation and growing stronger through reforms, the Bank will focus on deepening business transformation to improve operational efficiency, enhancing operational management mechanisms to improve management efficiency, accelerating smart-bank construction to improve customer experience and strengthening risk management to improve the quality of its development, thus accelerate the building of a premier multinational bank.

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# Definitions

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

The Bank/the Group	Bank of China Limited or its predecessors and, except where the context otherwise requires, all of the subsidiaries of Bank of China Limited
Articles of Association	The performing Articles of Association of the Bank
Basis Point	0.01 of a percentage point
BOC Aviation	BOC Aviation Pte. Ltd.
BOC Insurance	Bank of China Insurance Company Limited
BOCG Insurance	Bank of China Group Insurance Company Limited
BOCG Investment	Bank of China Group Investment Limited
BOCG Life	BOC Group Life Assurance Co., Ltd.
BOCHK	Bank of China (Hong Kong) Limited, an authorised financial institution incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK (Holdings)
BOCHK (BVI)	BOC Hong Kong (BVI) Limited
BOCHK (Holdings)	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong and the ordinary shares of which are listed on the Hong Kong Stock Exchange
BOCI	BOC International Holdings Limited
BOCIM	Bank of China Investment Management Co., Ltd.
BOCI China	BOC International (China) Limited
CBRC	China Banking Regulatory Commission
Central and Southern China	The area including, for the purpose of this report, the branches of Henan, Hubei, Hunan, Guangdong, Shenzhen, Guangxi and Hainan
Company Law	The Company Law of PRC
Convertible Bonds	Corporate bonds that are vested for conversion to the A-Share stock of the Bank

CSRC	China Securities Regulatory Commission
Eastern China	The area including, for the purpose of this report, the branches of Shanghai, Jiangsu, Suzhou, Zhejiang, Ningbo, Anhui, Fujian, Jiangxi and Shandong
G-SIFI	Global Systemically Important Financial Institution
HKEx	Hong Kong Exchanges and Clearing Limited
Hong Kong Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Huijin	Central Huijin Investment Ltd.
Independent Director	Independent director under the listing rules of SSE and the Articles of Association, and independent non-executive director under the Hong Kong Listing Rules
MOF	Ministry of Finance, PRC
NCSSF	National Council for Social Security Fund
Northeastern China	The area including, for the purpose of this report, the branches of Heilongjiang, Jilin and Liaoning
Northern China	The area including, for the purpose of this report, the branches of Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia and Head Office
PBOC	The People's Bank of China, PRC
PRC	The People's Republic of China
RMB or Renminbi	Renminbi, the lawful currency of PRC
SAFE	State Administration of Foreign Exchange, PRC
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
SSE	The Shanghai Stock Exchange
Western China	The area including, for the purpose of this report, the branches of Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Ningxia, Qinghai, Tibet and Xinjiang

## Important Notice

The Board of Directors, the Board of Supervisors, directors, supervisors and senior management members of the Bank warrant that the information in this report is authentic, accurate and complete, contains no false record, misleading statement or material omission, and jointly and severally accept full responsibility for the information in this report.

The 2012 Annual Report of the Bank and its summary have been reviewed and approved at the meeting of the Board of Directors of the Bank held on 26 March 2013. The number of directors who should attend the meeting is fourteen, with all of the directors presented and exercised their voting rights. Eight supervisors attended the meeting as non-voting attendees.

The 2012 financial statements of the Bank prepared in accordance with Chinese Accounting Standards 2006 (“CAS”) were audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company and the 2012 financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) were audited by PricewaterhouseCoopers. Both auditors issued an unqualified opinion.

President LI Lihui, Executive Vice President responsible for the Bank’s finance and accounting WANG Yongli and General Manager of the finance and accounting department XIAO Wei warrant the authenticity, accuracy and completeness of the financial statements in this report.

The Board of Directors has recommended a final dividend for 2012 of RMB0.175 per share (before tax), subject to the approval of the shareholders at the forthcoming Annual General Meeting scheduled on 29 May 2013. No capitalisation of the capital reserve to share capital is proposed in this profit distribution.

During the reporting period, there was no misappropriation of the Bank’s funds by its controlling shareholder or its controlling shareholder’s related parties for non-operating purposes and no material guarantee business that violated the applicable regulations and the procedures.

This report may contain forward-looking statements that involve risks and future plans. These forward-looking statements are based on the Bank’s own information and information from other sources the Bank believes to be reliable. They relate to future events or the Bank’s future financial, business or other performance and are subject to a number of factors and uncertainties that may cause our actual results to differ materially. Investors should not place undue reliance on these forward-looking statements and any future plans mentioned do not constitute a commitment by the Bank to its investors. Investors should be aware of the investment risks.

The Bank is faced with risks arising from changes in the macroeconomic environment and from political and economic conditions in different countries and regions as well as risks arising from its day-to-day operations, including the risk arising from changes in the credit status of borrowers, adverse changes in the market price and operational risk, and shall at the same time meet regulatory and compliance requirements. The Bank actively adopted various measures to effectively manage all types of risks. Please refer to the section “Management Discussion and Analysis — Risk Management” for details.

# Honours and Awards

## **China Central Television**

Top Ten Corporate Governance

## **The Hong Kong Institute of Directors**

Top Ten Enterprises with Highest Corporate Governance Scores

## **Institute of Corporate Governance of Nankai University**

Best Corporate Governance

## ***The Banker***

Bank of the Year China

## ***Euromoney***

Best Debt House in China

Best Private Banking in China

Best Domestic Cash Manager in China

Best Domestic Debt Underwriter in China

## ***Global Finance***

Best Trade Finance Bank in China

The World's Best Foreign Exchange Providers in China

## ***Trade Finance***

Best Chinese Trade Bank

## ***The Asset***

The Asset Asia Trade Finance Bank Leadership Award

## ***FinanceAsia***

Private Bank Country Awards 2012 in China

## ***The Asian Banker***

Best Trade Finance Bank in China

Best Mobile Phone Banking Application in China

## ***FORTUNE***

Ranked 93rd in Fortune Global 500 (2012)

## **WPP Group**

The BrandZ Top 50 Most Valuable Chinese Brands

## **Interbrand**

2012 Top 50 Best Chinese Brands

## ***The Chinese Banker***

Best Financial Enterprise Image Award

## ***China Business News***

Wealth Management Brand of the Year (Banking Sector)

Private Bank of the Year

Best Charity Marketing Award

## ***Global Entrepreneur***

Best Cross-border RMB business

Best Private Banking

## ***Money Weekly***

Top Ten Popular Chinese Credit Card Brands

Best Financial Management Brand

## **ChinaHR.com**

Top 10 Best Employers in China

## ***21st Century Business Herald***

Best Socially Responsible Bank in Asia

## **Nanfang Media Group**

Top 100 Listed State-owned Enterprises by Corporate Social Responsibility

## **China Banking Association**

Most Socially Responsible Financial Institution Award

Social Responsibility — Best Charitable Contribution Award

## **China Next Generation Education Foundation**

Top Ten Caring Enterprises

## **League of American Communications Professionals**

2011 Annual Report — Gold Award

## **Galaxy Awards**

Gold Winner in the Asia/Pacific Region



# Financial Highlights



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

Unit: RMB million

	Note	2012	2011	2010	2009	2008
<b>Results of operations</b>						
Net interest income		256,964	228,064	193,962	158,881	162,936
Non-interest income	1	109,212	100,234	82,556	73,689	65,869
Operating income	2	366,176	328,298	276,518	232,570	228,805
Operating expenses		(160,022)	(140,815)	(122,409)	(107,307)	(97,749)
Impairment losses on assets		(19,387)	(19,355)	(12,993)	(14,987)	(45,031)
Operating profit		186,767	168,128	141,116	110,276	86,025
Profit before income tax		187,380	168,644	142,145	111,097	86,751
Profit for the year		145,522	130,502	109,820	85,531	65,560
Profit attributable to equity holders of the Bank		139,432	124,276	104,502	80,932	64,032
Total dividend		N.A.	43,268	40,756	35,537	32,999
<b>Financial position</b>						
Total assets		12,680,615	11,829,789	10,459,703	8,751,794	6,955,594
Loans, gross		6,864,696	6,342,814	5,660,621	4,910,358	3,296,146
Allowance for loan impairment losses		(154,656)	(139,676)	(122,856)	(112,950)	(106,494)
Investment securities	3	2,210,524	2,000,759	2,055,324	1,816,679	1,646,208
Total liabilities		11,819,073	11,072,652	9,782,441	8,205,392	6,460,894
Due to customers		9,173,995	8,817,961	7,733,537	6,716,823	5,226,204
Capital and reserves attributable to equity holders of the Bank		824,677	723,914	644,858	515,617	468,762
Share capital		279,147	279,147	279,147	253,839	253,839
<b>Per share</b>						
Basic earnings per share for profit attributable to equity holders of the Bank (RMB)		0.50	0.45	0.40	0.31	0.24
Dividend per share (before tax, RMB)	4	0.175	0.155	0.146	0.14	0.13
Net assets per share (RMB)	5	2.95	2.59	2.31	2.03	1.85
<b>Key financial ratios</b>						
Return on average total assets (%)	6	1.19	1.17	1.14	1.09	1.01
Return on average equity (%)	7	18.10	18.27	18.86	16.49	14.36
Net interest margin (%)	8	2.15	2.12	2.07	2.04	2.63
Non-interest income to operating income (%)	9	29.83	30.53	29.86	31.68	28.79
Cost to income (calculated under domestic regulations, %)	10	31.81	32.58	33.62	34.45	31.20
Loan to deposit ratio (%)	11	71.99	68.77	71.72	72.04	63.99
<b>Capital adequacy ratios</b>						
Core capital adequacy ratio (%)		10.54	10.08	10.11	9.09	10.83
Capital adequacy ratio (%)		13.63	12.98	12.60	11.16	13.45
<b>Asset quality</b>						
Identified impaired loans to total loans (%)	12	0.95	1.00	1.13	1.55	2.76
Non-performing loans to total loans (%)	13	0.95	1.00	1.10	1.52	2.65
Allowance for loan impairment losses to non-performing loans (%)	14	236.30	220.75	196.67	151.17	121.72
Credit cost (%)	15	0.29	0.32	0.29	0.38	0.55
<b>Human resources &amp; Organisations</b>						
Number of employees of the Group	16	302,016	289,951	272,558	256,553	243,303
Including: Number of employees in the Chinese mainland		279,899	268,830	250,976	236,056	222,829
Number of branches and outlets of the Group		11,277	10,951	10,767	10,659	10,554
Including: Number of branches and outlets in the Chinese mainland		10,644	10,365	10,074	9,988	9,983
<b>Exchange rate</b>						
USD/RMB year-end middle rate		6.2855	6.3009	6.6227	6.8282	6.8346
EUR/RMB year-end middle rate		8.3176	8.1625	8.8065	9.7971	9.6590
HKD/RMB year-end middle rate		0.8108	0.8107	0.8509	0.8805	0.8819

## Notes to Financial Highlights

1. Non-interest income = net fee and commission income + net trading gains/(losses) + net gains/(losses) on investment securities + other operating income
2. Operating income = net interest income + non-interest income
3. Investment securities include securities available for sale, securities held to maturity, securities classified as loans and receivables and financial assets at fair value through profit or loss.
4. Dividend per share = total dividend ÷ number of ordinary shares in issue at the year-end
5. Net assets per share = capital and reserves attributable to equity holders of the Bank at the year-end ÷ number of ordinary shares in issue at the year-end
6. Return on average total assets = profit for the year ÷ average total assets. Average total assets = (total assets at the beginning of the year + total assets at the year-end) ÷ 2
7. Return on average equity = profit after tax attributable to equity holders of the Bank ÷ average owner's equity. It is calculated according to *No. 9 Preparation and Reporting Rules of Information Disclosure of Public Offering Companies — Calculation and Disclosure of Return on Average Equity and Earnings per Share (Revised in 2010)* (CSRC Announcement [2010] No. 2) issued by CSRC.
8. Net interest margin = net interest income ÷ average balance of interest-earning assets; Average balance is average daily balance derived from the Bank's management accounts.
9. Non-interest income to operating income = non-interest income ÷ operating income
10. Cost to income ratio is calculated according to the *Measures of the Performance Evaluation of Financial Enterprises* (Cai Jin [2011] No.50) formulated by MOF.
11. Loan to deposit ratio = outstanding loans ÷ balance of deposits. It is calculated according to relevant provisions of PBOC. Of which, the balance of deposits include due to customers and due to financial institutions such as financial holding companies and insurance companies.
12. Identified impaired loans to total loans = identified impaired loans at the year-end ÷ total loans at the year-end
13. Non-performing loans to total loans = non-performing loans at the year-end ÷ total loans at the year-end. It is calculated according to the *Guidelines on the Corporate Governance and Supervision of State-owned Commercial Banks* (Y.J.F [2006] No.22).
14. Allowance for loan impairment losses to non-performing loans = allowance for loan impairment losses at the year-end ÷ non-performing loans at the year-end. It is calculated according to the *Guidelines on the Corporate Governance and Supervision of State-owned Commercial Banks* (Y.J.F [2006] No.22).
15. Credit cost = impairment losses on loans ÷ average balance of loans. Average balance of loans = (balance of loans at the beginning of the year + balance of loans at the year-end) ÷ 2
16. Number of employees of the Group includes temporary and contract staff.

# Corporate Information

**Registered Name in Chinese**

中國銀行股份有限公司 (“中國銀行”)

**Registered Name in English**

BANK OF CHINA LIMITED

(“Bank of China”)

**Vice Chairman and President**

LI Lihui

**Secretary to the Board of Directors**

FAN Yaosheng

**Office Address:**

No.1 Fuxingmen Nei Dajie, Beijing, China

Telephone: (86) 10-6659 2638

Facsimile: (86) 10-6659 4568

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

**Company Secretary**

YEUNG Cheung Ying

**Listing Affairs Representative**

LUO Nan

**Office Address:**

No.1 Fuxingmen Nei Dajie, Beijing, China

Telephone: (86) 10-6659 2638

Facsimile: (86) 10-6659 4568

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

**Registered Address of Head Office**

No.1 Fuxingmen Nei Dajie, Beijing, China

**Office Address**

No.1 Fuxingmen Nei Dajie,

Beijing, China, 100818

Telephone: (86) 10-6659 6688

Facsimile: (86) 10-6601 6871

Website: <http://www.boc.cn>

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

**Place of Business in Hong Kong**

Bank of China Tower, 1 Garden Road,

Central, Hong Kong

**Selected Newspapers for Information****Disclosure (A Share)**

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

**Website designated by CSRC to publish the Annual Report**

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

**Website designated by Hong Kong****Exchanges and Clearing Limited to publish the Annual Report**

<http://www.hkexnews.hk>

**Place where Annual Report can be obtained**

No.1 Fuxingmen Nei Dajie, Beijing, China

**Domestic Legal Advisor**

King & Wood Mallesons Lawyers

**Hong Kong Legal Advisor**

Allen & Overy

**Auditors****Domestic auditor**

PricewaterhouseCoopers Zhong Tian  
CPAs Limited Company

**Address:**

11th Floor, PricewaterhouseCoopers Center,  
2 Corporate Avenue, No.202 Hu Bin Road,  
Huangpu District, Shanghai, China

Certified Public Accountants who signed the  
auditor's report: WU Weijun and WANG Wei

**International auditor**

PricewaterhouseCoopers

**Address:**

22/F, Prince's Building,  
Central, Hong Kong

**Date of First Registration**

31 October 1983

**Authority of First Registration**

State Administration of Industry and  
Commerce, PRC

**Index of First Registration**

[www.saic.gov.cn](http://www.saic.gov.cn)

**Modified Registration Date**

26 August 2004 (joint stock restructuring)

26 May 2011 (increase in registered capital)

**Corporate Business Licence Serial Number**

100000000001349

**Financial Institution Licence Serial Number**

B0003H111000001

**Tax Registration Certificate Number**

Jingshuizhengzi 110102100001342

**Organisation Code**

10000134-2

**Securities Information****A Share**

Shanghai Stock Exchange

Stock Name: 中國銀行

Stock Code: 601988

**H Share**

The Stock Exchange of Hong Kong Limited

Stock Name: Bank of China

Stock Code: 3988

**A-Share Convertible Bonds**

Shanghai Stock Exchange

Securities Name: 中行轉債

Securities Code: 113001

## Message from the Chairman

The year 2012 marked the 100th anniversary of the founding of the Bank. Each employee faithfully inherits and carries forward the Bank's fine century-old traditions of "adoration of the nation, integrity as our paramount principle, constant reform and innovation, and a people first approach", diligently implements the development strategies of the Bank, and brings to life the principles of "streamlining structures, scaling up, managing risks and sharpening competitiveness". Through its insistence on customer-centric, market-oriented and technology-led progress, the Bank has vigorously promoted innovative, transformative and cross-border development, and achieved excellent business results.

In 2012, the Bank realised the objectives of the first stage of its strategic development plan smoothly. Since 2008, the Bank's strategic development plan has aimed to build "a premium multinational bank with a diversified and integrated cross-border business platform, based on a core business of commercial banking". By strengthening the management of strategy implementation, the Bank has achieved the objectives set forth in the plan. Its asset and liability scale expanded, business structure further optimised, operation efficiency steadily increased and asset quality constantly improved. Meanwhile, management quality was continuously enhanced, as the result of its progress in asset and liability management, comprehensive risk management, human resources management and cultivation of corporate culture to new heights. The Bank fulfilled its social responsibilities, thus increased its brand influence. The Bank has been listed in the Fortune Global 500 for 24 consecutive years, and became the only bank from an emerging economy being enrolled as a G-SIFI for two consecutive years.

During last year, the Bank continued to strengthen and hone its competitive advantages, adhered to orientation of specialised operations, centralised management and the integrated development of its domestic and overseas business, as well as accelerated its cross-border development and integrated operations. It improved its global service capabilities and achieved rapid development in overseas business. Operating income from its diversified business platform registered stable growth, contributing to an increasingly stronger market presence. In addition, the Bank vigorously developed its cross-border RMB business, leading the market in terms of cross-border RMB settlement volumes. It further improved its global RMB clearing system, with BOCHK, the Macau Branch, the Taipei Branch and Bank of China (Malaysia) Berhad were selected as the exclusive local RMB clearing banks. In line with its commitment to technology-led development, the Bank actively promoted the smart-bank construction. With the aim of creating the best customer experience, the Bank strived to provide customers with financial services "anytime, anywhere, any way".

The structure of the Bank's Board of Directors was improved, thus further reinforcing the Board's strength. Mr. CAI Haoyi resigned as Non-executive Director of the Bank due to a job transfer. Mr. Alberto TOGNI retired upon the expiry of his term of office. Mr. Nout WELLINK was newly appointed as an Independent Director of the Bank. On behalf of the Board of Directors, I would like to take this opportunity to express our sincere appreciation to Mr. CAI Haoyi and Mr. Alberto TOGNI for their remarkable contributions to the Bank, and express our warm welcome to Mr. Nout WELLINK as he joins us.

In 2013, the Bank will seize important strategic opportunities. With the scientific development as the theme and accelerating the transformation of development mode as main task, the Bank will unswervingly carry out its strategic development plan. It will continuously promote innovative, transformative and cross-border development, lead the century-old Bank to stride forward through transformation and to grow stronger through reforms, and accelerate pace of building a premier multinational bank.

At last, I would like to express my heartfelt gratitude to our customers, peers and the public for their constant guidance, to the Board of Directors, the Board of Supervisors and the management for their contribution of wisdom, and to our 300,000 employees across the globe for their diligent work. The solid foundation for the Bank's new journey rests on their effort and support. I believe that, with our concerted efforts, Bank of China will scale new heights in the journey ahead.

**XIAO Gang<sup>1</sup>**

*Chairman*

15 March 2013

<sup>1</sup> Mr. XIAO Gang ceased to serve as the Chairman of the Board of Directors as of 17 March 2013. Please refer to the announcement on the resignation of Chairman of the Board of Directors published on 17 March 2013 for details.

## Message from the President

In 2012, the Bank celebrated its centenary by recording another excellent performance. At the end of 2012, the Bank's total assets stood at RMB12.68 trillion, total liabilities were RMB11.82 trillion, and equity attributable to shareholders of the Bank was RMB824.677 billion, according to International Financial Reporting Standards. This represented increases of 7.19%, 6.74% and 13.92% respectively from the prior year-end. During the year, the Bank achieved a profit after tax of RMB145.522 billion, a year-on-year increase of 11.51%, and a profit attributable to equity holders of the Bank of RMB139.432 billion, an increase of 12.20%. Earnings per share increased by RMB0.05 to RMB0.50. The Board of Directors has proposed a dividend of RMB0.175 per share for 2012, pending for approval by the Annual General Meeting to be held in May 2013.

In 2012, the Bank's profit achieved a steady growth. This was driven primarily by an increase in net interest income and non-interest income, improvement of net interest margin, a decrease in credit cost and further enhancement of the input and output efficiency. Return on average total assets stood at 1.19%, a year-on-year increase of 0.02 percentage point. During the year, the Bank achieved a net interest income of RMB256.964 billion, an increase of 12.67% over the prior year, a net interest margin of 2.15%, an increase of 0.03 percentage point, and a non-interest income of RMB109.212 billion, an increase of 8.96% over the prior year. Non-interest income accounted for 29.83% of the Bank's operating income, which remained the highest among domestic peers. Asset quality remained stable with a non-performing loan ratio of 0.95%, down 0.05 percentage point from the prior year-end. The ratio of allowance for loan impairment losses to non-performing loans increased by 15.55 percentage points to 236.30%. Credit cost was 0.29%, a decrease of 0.03 percentage point from the prior year. Operating efficiency continued to improve, and the Bank's cost to income ratio fell to 31.81%, a year-on-year decrease of 0.77 percentage point.

In 2012, the Bank continued to implement its strategic development plan, adhered to focusing on efficiency and emphasising on streamlining structure and managing risks. It carried out its work diligently and continuously improved operational and management quality.

The Bank continued to streamline its structure. It adjusted its liability structure, vigorously expanded low-cost core deposits, and effectively controlled liability costs. It strengthened its efforts in adjusting credit structure, provided preferential support to China's key industries, strategic emerging industries, green industries and small and medium enterprises, and extends more personal loans and the proportion of highly-profitable assets increased. Its fee-based business grew persistently and the business structure was further optimised. The Bank consolidated and enhanced the competitive advantages arising from its international and diversified businesses and overseas institutions' assets grew by 13.05%. Together, domestic and overseas institutions undertook total cross-border RMB settlement business of nearly RMB2.5 trillion, an increase of 42% over the prior year, maintaining the Bank's leading position in the market. All of the Bank's subsidiaries vigorously promoted business coordination, cross-selling and product innovation, thus achieving steady growth in overall operating income.

The Bank effectively controlled risks. It strengthened regular risk investigation, risk classification re-inspection, risk early warning and post-lending management. It continued to intensify risk control in key areas such as local government financing vehicles, the real estate sector and overcapacity industries, thus maintaining stable credit asset quality. The Bank improved the structure of its domestic and foreign currency investments, and enhanced its management of market risk. It improved the overall balancing of assets and liabilities, performed liquidity management in a more precise manner, and improved interest rate pricing rules and strategy. Preparations for the implementation of the New Basel Capital Accord progressed smoothly. The



Bank strengthened the management of key areas, businesses and staff and put in place initiatives to prevent and control cases so as to eliminate potential risks.

The Bank enhanced its infrastructure construction. It began to implement the *Smart-bank Construction Plan* aimed at delivering a superior customer experience. It strengthened channel building, and enhanced its intelligence level and service capabilities. The Bank continually improved the functions of its core banking system and comprehensively launched the integration and transformation of its overseas information systems. It persistently improved its operational service quality and accelerated the construction of its operating platform for unified payment, customer service and logistics. The Bank reinforced team building, increased frontline staffing level, improved its overseas human resources management system in line with the demands of its cross-border operations and strengthened personnel training and talent cultivation.

The year 2013 will present further important strategic development opportunities for the Bank. China will focus on improving the quality and effectiveness of its economic growth, further deepen its reform and opening up, continuously enhance its capacity for innovation and strengthen macro-control. It is expected that the economy will maintain rapid growth. Meanwhile, the global economic recovery will continue to face uncertainty and instability, while the domestic economy will continue to experience imbalances and disharmonies. The Bank will also encounter new challenges arising from the financial and technological disintermediation of the banking industry's traditional business areas.

Faced with complex operating conditions, the Bank will comprehensively push forward all tasks according to the overall framework of striding forward through transformation and growing stronger through reforms. The Bank will focus on deepening business transformation to improve operational efficiency, enhancing operational management mechanisms to improve management efficiency, accelerating smart-bank construction to improve customer experience and strengthening risk management to improve the quality of its development. The Bank will continually enhance its operations and management through practical and effective measures to build a premier bank.

Due to the needs of national financial work, Mr. XIAO Gang resigned from his positions as the Chairman of the Board of Directors, Executive Director, Chairman and member of the Strategic Development Committee of the Board of Directors of the Bank on 17 March 2013. Sincere gratitude and high praise is hereby presented to Mr. XIAO Gang for his excellent contribution to the Bank's development during his term of office.

On behalf of the management, I would like to express our heartfelt gratitude to our colleagues across the Bank for your efforts and contribution, to all the directors and supervisors for your concern and guidance, and to our customers, investors and the public for your trust and assistance. Working shoulder to shoulder, let us persist in our committed efforts to forge another era of splendour for Bank of China.

**LI Lihui**  
*President*  
26 March 2013

## Message from the Chairman of the Board of Supervisors

During 2012, the Board of Supervisors earnestly performed its supervision duties in strict conformity with the provisions of state laws, the Bank's Articles of Association, development strategies and principles. By stepping up the transformation of its working methods and strengthening its supervision of the Bank's duty performance, finances, risk management and internal controls, the Board of Supervisors continuously improved and enhanced its supervision efficiency and effectiveness to promote the sustainable growth of the Bank.

In 2012, the Board of Supervisors earnestly conducted supervision on day-to-day duty performance and due diligence in line with regulatory requirements and objectively assessed the duty performance of directors and senior management members. It also bolstered financial supervision by carrying out comprehensive communication and inspection concerning the compilation, review and disclosure of financial reports and by providing independent supervisory opinions. The Board of Supervisors emphasised the Bank's working priorities and strengthened the supervision of the Bank's risk management and the development of a long-acting internal control mechanism. In addition, it initiated in-depth research into the critical issues affecting the Bank's development, and made constructive recommendations to enhance the operation and management of the Bank.

Thanks to the sound corporate governance mechanism of the Bank, the Board of Supervisors maintained efficient and beneficial communications, positive interacts, and effective checks and balances with the Board of Directors and the senior management, which in turn significantly enhanced the Bank's corporate governance.

**LI Jun**

*Chairman of the Board of Supervisors*

26 March 2013

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Economic and Financial Environment

In 2012, impacted by factors such as the European debt crisis and a slowdown in emerging economies' growth, the global economy experienced a soft recovery, with the annual growth rate down by 0.7 percentage point compared with 2011. Benefiting from uplift in its domestic real estate market and manufacturing industry, the United States economy appeared to be in a mild recovery. European economies slipped into a double-dip recession, with the divergence between core and peripheral Eurozone countries in terms of their economic direction and situation also becoming increasingly apparent. Emerging economies in general experienced a slowdown in growth, caused by continued weakness in external demand and internal structural problems. At the same time, growth in global trade and output continued to decline, while growth in transnational direct investments also slowed. In addition, unemployment rates continued to remain high in developed countries and monetary policies remained loose. The ongoing evolution of the European debt crisis has caused reverberations across global financial markets and increased stock market volatility worldwide. Government bond yields for many European countries remained at a high level. Risk aversion sentiment has also led to relatively high volatility in foreign exchange markets. The US dollar and Japanese yen continued to appreciate while the Euro experienced slight fluctuations at low levels. Emerging markets maintained net capital inflows. Prices of commodities such as crude oil and gold remained high and volatile.

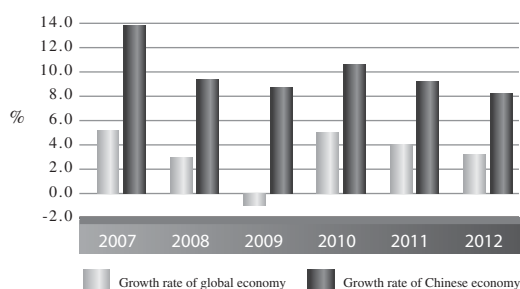
In 2012, China's economy achieved a stable and balance growth and performed well, as demonstrated by the important characteristics of stable growth, an upgraded economic structure and the improved wellbeing of the people. Gross domestic product ("GDP") grew by 7.8%, the consumer price index ("CPI") increased by 2.6%, total retail sales of consumer goods ("TRSCG") grew by 14.3%, total fixed asset investments ("TFAI") rose by 20.6% and the volume of foreign trade grew by 6.2%.

The Chinese government made its macro-control policies more targeted, flexible and forward-looking while reasonably controlling the intensity, pace and focus of policy implementation. Monetary policies were timely and appropriately fine-tuned and adjusted in a forward-looking manner, with the required reserve rate of deposit and benchmark interest rate of deposit and loan each lowered twice. Money supply maintained stable growth, with the broad money supply ("M2") growing by 13.8% as at the end of 2012, an increase of 0.2 percentage point compared with the prior year. RMB-denominated loans by financial institutions also increased by RMB8.2 trillion, an increase of RMB0.7 trillion compared with the prior year. The total scale of social financing was RMB15.76 trillion, an increase of RMB2.93 trillion compared with the prior year. The SSE Composite Index grew by 3.17%. The bond market maintained healthy growth and the scale of bond issuance expanded significantly. A total of RMB7.97 trillion of bonds (excluding central bank bills) were issued, an increase of RMB1.56 trillion or 24.3% compared with the prior year. The RMB remained generally stable against the US dollar.

The Chinese financial regulatory authorities actively encouraged commercial banks to increase their credit support to key national construction projects, SMEs and enterprises related to agriculture, farmers and rural areas. They also promoted credit structure upgrading to enhance the banking industry's capability for providing high quality support to the real economy. In addition, they continued to enhance risk prevention and control in key areas such as local government financing vehicles ("LGFVs") and real estate, thus maintaining stability across the entire banking industry. As at the end of 2012, total assets of Chinese banking institutions grew by 17.95% to RMB133.6 trillion, with the rate of growth approximately the same as the prior year. Commercial banks realised a profit after tax of RMB1,238.6 billion, up 18.96% compared with the same period of the prior year. The NPL balance of commercial banks stood at RMB492.9 billion as at the end of 2012, up RMB65.0 billion compared with the prior year-end. However, the NPL ratio continued to decline, falling from 1% as at the end of 2011 to 0.95% as at the end of 2012. The risk resistance capabilities of commercial banks were continuously enhanced. The ratio of allowance for loan impairment losses increased from 278.1% as at the end of 2011 to 295.51% as at the end of 2012, and the capital adequacy ratio climbed from 12.7% as at the end of 2011 to 13.25% as at the end of 2012.

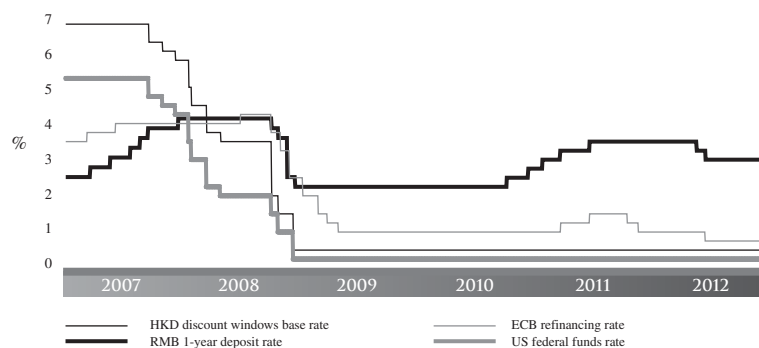
Slight rebound of global economic growth is expected in 2013. Protectionism will surface in various forms, and global trade will face downside risks. Developed countries will continue to adopt loose monetary policies, increasing the potential threat of inflation and asset bubbles. China will continue to achieve stable progress and focus on enhancing the quality and efficiency of its economic growth. It will further deepen its reform and opening up, push forward innovation, step up macro-control efforts and continue to implement a proactive fiscal policy and prudent monetary policy. It will also expand domestic demand, intensify the strategic adjustment of China's economic structure and endeavour to support and improve the people's wellbeing. The government will enhance China's vital, endogenous impetus for economic growth, maintain stable prices and achieve sound and sustainable economic development amid social stability and harmony. Faced with opportunities arising from the expansion of domestic demand, industrial transformation and upgrading, the expansion of "Going Global" efforts and mass urbanisation, the banking industry will accelerate structural adjustment, enhance risk control and realise sustainable development.

**Growth of Global and Chinese Economy from 2007 to 2012**



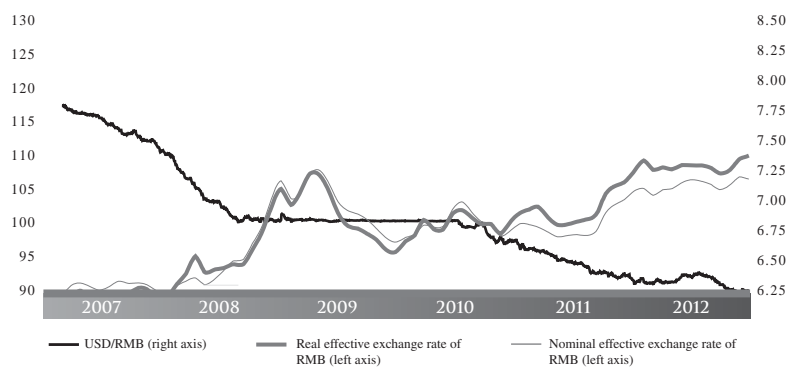
*Source: International Monetary Fund (IMF), National Bureau of Statistics of China*

## Changes in Benchmark Interest Rates of Major Countries/Regions from 2007 to 2012



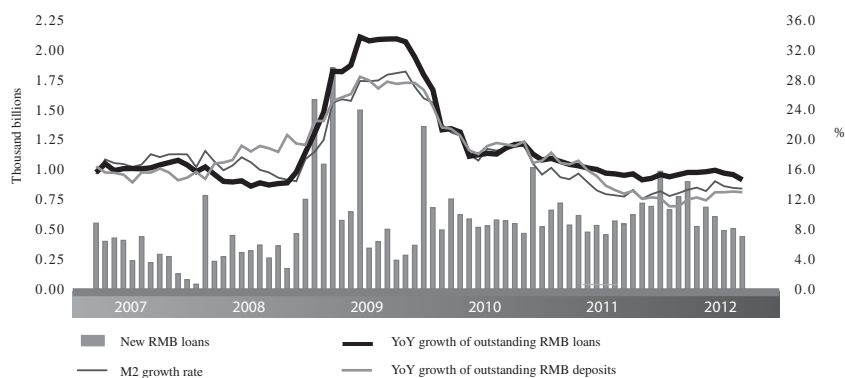
Source: Thomson Reuters EcoWin

## Movement of RMB Exchange Rate from 2007 to 2012



Source: Thomson Reuters EcoWin

## Growth of Chinese Money Supply and Loans from 2007 to 2012



Source: Thomson Reuters EcoWin

## Income Statement Analysis

In 2012, the Group achieved a profit after tax of RMB145.522 billion and a profit attributable to equity holders of the Bank of RMB139.432 billion, an increase of 11.51% and 12.20% respectively compared with the prior year. This represents an increase of 14.57% and 14.79% respectively after eliminating the one-off impact of BOCHK's Lehman Brothers related products<sup>2</sup> etc., in 2011. Return on average total assets ("ROA") was 1.19%, an increase of 0.02 percentage point compared with the prior year, and return on average equity ("ROE") was 18.10%, a decrease of 0.17 percentage point compared with the prior year.

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

Items	Unit: RMB million, except percentages			
	2012	2011	Change	Percentage change
Net interest income	<b>256,964</b>	228,064	28,900	12.67%
Non-interest income	<b>109,212</b>	100,234	8,978	8.96%
Including: net fee and commission income	<b>69,923</b>	64,662	5,261	8.14%
Operating income	<b>366,176</b>	328,298	37,878	11.54%
Operating expenses	<b>(160,022)</b>	(140,815)	(19,207)	13.64%
Impairment losses on assets	<b>(19,387)</b>	(19,355)	(32)	0.17%
Operating profit	<b>186,767</b>	168,128	18,639	11.09%
Profit before income tax	<b>187,380</b>	168,644	18,736	11.11%
Income tax expense	<b>(41,858)</b>	(38,142)	(3,716)	9.74%
Profit for the year	<b>145,522</b>	130,502	15,020	11.51%
Profit attributable to equity holders of the Bank	<b>139,432</b>	124,276	15,156	12.20%

### *Net Interest Income and Net Interest Margin*

In 2012, the Group earned a net interest income of RMB256.964 billion, an increase of RMB28.900 billion or 12.67% compared with the prior year. The domestic RMB business contributed a net interest income of RMB212.116 billion, an increase of RMB27.018 billion or 14.60% compared with the prior year. The domestic foreign currency-denominated business contributed a net interest income of USD1.906 billion, a decrease of USD0.528 billion or 21.69% compared with the prior year.

<sup>2</sup> This includes the recovery in underlying assets related to BOCHK's exposure to Lehman Brothers minibonds, after deducting the related expenses.

The average balances<sup>3</sup> and average interest rates of the Group's major interest-earning assets and interest-bearing liabilities, as well as the year-on-year changes are summarised in the following table:

Items	2012		Unit: RMB million, except percentages			
	Average balance	Average interest rate	2011 Average balance	Average interest rate	Change Average balance	Average interest rate
<b>Group</b>						
<b>Interest-earning assets</b>						
Loans	6,707,626	5.54%	6,096,396	4.87%	611,230	67 Bps
Investment debt securities <sup>1</sup>	2,108,955	3.08%	1,924,479	2.95%	184,476	13 Bps
Balances with central banks <sup>2</sup>	2,104,028	1.28%	1,820,127	1.38%	283,901	(10) Bps
Due from banks and other financial institutions	1,046,204	4.13%	902,570	3.80%	143,634	33 Bps
Total	11,966,813	4.23%	10,743,572	3.85%	1,223,241	38 Bps
<b>Interest-bearing liabilities</b>						
Due to customers	9,095,330	2.05%	8,180,446	1.71%	914,884	34 Bps
Due to banks and other financial institutions and due to central banks	2,004,498	2.74%	1,732,766	2.21%	271,732	53 Bps
Other borrowed funds <sup>3</sup>	215,363	3.73%	184,981	3.73%	30,382	0 Bps
Total	11,315,191	2.21%	10,098,193	1.83%	1,216,998	38 Bps
<b>Net interest margin</b>		2.15%		2.12%		3 Bps
<b>Domestic RMB businesses</b>						
<b>Interest-earning assets</b>						
Loans	4,928,955	6.50%	4,405,534	5.80%	523,421	70 Bps
Investment debt securities	1,514,358	3.43%	1,378,485	3.11%	135,873	32 Bps
Balances with central banks	1,624,723	1.57%	1,418,663	1.58%	206,060	(1) Bps
Due from banks and other financial institutions	790,366	4.64%	740,399	3.96%	49,967	68 Bps
Total	8,858,402	4.90%	7,943,081	4.41%	915,321	49 Bps
<b>Interest-bearing liabilities</b>						
Due to customers	7,097,825	2.34%	6,526,238	1.96%	571,587	38 Bps
Due to banks and other financial institutions and due to central banks	1,101,976	4.51%	857,823	3.69%	244,153	82 Bps
Other borrowed funds	150,537	4.31%	136,395	4.12%	14,142	19 Bps
Total	8,350,338	2.66%	7,520,456	2.19%	829,882	47 Bps
<b>Net interest margin</b>		2.39%		2.33%		6 Bps

<sup>3</sup> Average balances of interest-earning assets and interest-bearing liabilities are average daily balances derived from the Group's management accounts (unaudited).

Items	2012		2011		Change	
	Average balance	Average interest rate	Average balance	Average interest rate	Average balance	Average interest rate
<b>Domestic foreign currency businesses</b>	Unit: USD million, except percentages					
<b>Interest-earning assets</b>						
Loans	82,030	3.42%	94,945	2.85%	(12,915)	57 Bps
Investment debt securities	22,348	1.72%	23,388	2.16%	(1,040)	(44) Bps
Due from banks and other financial institutions	67,319	0.76%	25,383	1.34%	41,936	(58) Bps
Total	171,697	2.16%	143,716	2.47%	27,981	(31) Bps
<b>Interest-bearing liabilities</b>						
Due to customers	75,040	1.15%	61,162	0.82%	13,878	33 Bps
Due to banks and other financial institutions and due to central banks	72,102	1.28%	57,468	1.05%	14,634	23 Bps
Other borrowed funds	105	8.57%	108	7.41%	(3)	116 Bps
Total	147,247	1.22%	118,738	0.94%	28,509	28 Bps
<b>Net interest margin</b>		1.11%		1.69%		(58) Bps

Notes:

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



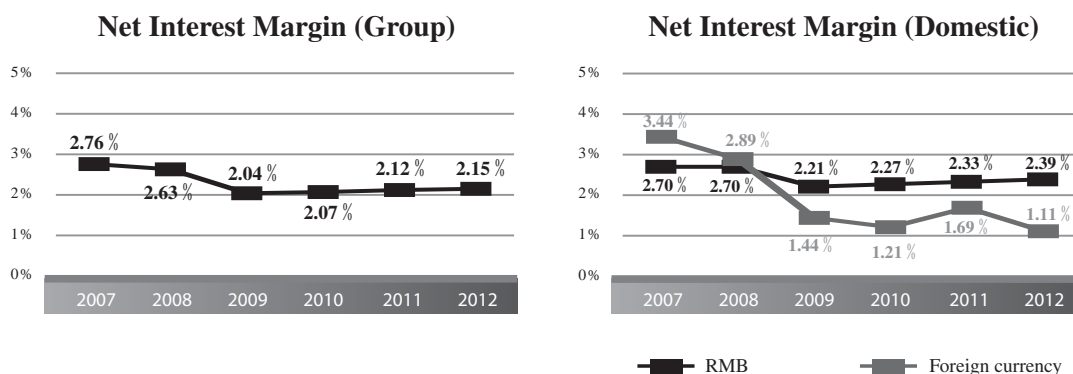
The impact of volume and interest rate changes on the consolidated interest income and expense of the Group, domestic RMB businesses and domestic foreign currency businesses is summarised in the following table:

Items	2012	2011	Change	Unit: RMB million Analysis of net interest income variances <sup>Note</sup>	
				Volume	Interest rate
<b>Group</b>					
<b>Interest income</b>					
Loans	371,394	296,913	74,481	29,767	44,714
Investment debt securities	64,973	56,728	8,245	5,442	2,803
Balances with central banks	26,996	25,177	1,819	3,918	(2,099)
Due from banks and other financial institutions	43,165	34,284	8,881	5,458	3,423
Total	506,528	413,102	93,426	44,585	48,841
<b>Interest expense</b>					
Due to customers	186,667	139,905	46,762	15,645	31,117
Due to banks and other financial institutions and due to central banks	54,858	38,227	16,631	6,005	10,626
Other borrowed funds	8,039	6,906	1,133	1,133	—
Total	249,564	185,038	64,526	22,783	41,743
<b>Net interest income</b>	<b>256,964</b>	<b>228,064</b>	<b>28,900</b>	<b>21,802</b>	<b>7,098</b>
<b>Domestic RMB businesses</b>					
<b>Interest income</b>					
Loans	320,237	255,447	64,790	30,358	34,432
Investment debt securities	51,988	42,832	9,156	4,226	4,930
Balances with central banks	25,540	22,435	3,105	3,256	(151)
Due from banks and other financial institutions	36,664	29,284	7,380	1,979	5,401
Total	434,429	349,998	84,431	39,819	44,612
<b>Interest expense</b>					
Due to customers	166,177	127,616	38,561	11,203	27,358
Due to banks and other financial institutions and due to central banks	49,652	31,666	17,986	9,009	8,977
Other borrowed funds	6,484	5,618	866	583	283
Total	222,313	164,900	57,413	20,795	36,618
<b>Net interest income</b>	<b>212,116</b>	<b>185,098</b>	<b>27,018</b>	<b>19,024</b>	<b>7,994</b>

Items	2012	2011	Change	Analysis of net interest income variances <sup>Note</sup>	
				Volume	Interest rate
<b>Domestic foreign currency businesses</b>				Unit: USD million	
<b>Interest income</b>					
Loans	<b>2,808</b>	2,705	103	(368)	471
Investment debt securities	<b>384</b>	505	(121)	(22)	(99)
Due from banks and other financial institutions	<b>512</b>	337	175	562	(387)
Total	<b>3,704</b>	3,547	157	172	(15)
<b>Interest expense</b>					
Due to customers	<b>866</b>	501	365	114	251
Due to banks and other financial institutions and due to central banks	<b>923</b>	604	319	154	165
Other borrowed funds	<b>9</b>	8	1	—	1
Total	<b>1,798</b>	1,113	685	268	417
<b>Net interest income</b>	<b>1,906</b>	2,434	(528)	(96)	(432)

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

In 2012, the Group's net interest margin was 2.15%, an increase of 0.03 percentage point compared with the prior year. Net interest margin of the domestic RMB businesses was 2.39%, an increase of 0.06 percentage point compared with the prior year, while that of the domestic foreign currency businesses was 1.11%, a decrease of 0.58 percentage point compared with the prior year.



The pace of China's interest rate and exchange rate liberalisation accelerated during 2012, with PBOC cutting benchmark of RMB deposit and loan interest rates twice and expanding the range of the floating band of the interest rates and exchange rates. At the same time, significant volatility in international financial markets, combined with the low interest rate policies and interest rate cuts of many central banks has adversely impacted returns from the foreign currency business. In view of the challenges related to overseas and domestic economies and financial environment, the Bank has proactively optimised its business structure. It has also taken tangible actions to increase net interest income and improve net interest margins that include the following:

First, rationally allocated credit resources and accelerated restructuring of the Bank's business and client structure. In 2012, RMB-denominated loans accounted for 91.19% of total domestic loans, an increase of 2.22 percentage points compared with the prior year-end. Personal loans made up 52.23% of total new domestic RMB-denominated loans, an increase of 18.11 percentage points compared with the prior year. RMB-denominated small enterprises loans issued by "BOC Credit Factory" increased by 37.67%, 31.28 percentage points higher than the growth rate for domestic RMB-denominated corporate loans.

Second, enhanced the Bank's active liability and pricing management, continued to develop low cost core deposits, controlled the deposits cost effectively, and increased loan pricing. The average interest rate of new domestic RMB-denominated loans increased by 19 basis points compared with the prior year, and the net interest spread between domestic RMB-denominated deposits and loans increased by 32 basis points compared with the prior year.

Third, proactively optimised the Bank's foreign currency assets structure and moderately increased the scale of its foreign currency loans and bond investment portfolios so as to improve returns from its foreign currency business in view of the low interest foreign currency market environment. Net interest margin for the domestic foreign currency business recovered steadily during the fourth quarter, an increase of 7 basis points compared with the third quarter.

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

Items	2012		Unit: RMB million, except percentages			
	Average balance	Average interest rate	2011	Average interest rate	Change	Average interest rate
<b>Domestic RMB businesses</b>						
<b>Loans</b>						
Corporate loans	3,271,931	6.77%	3,011,945	6.00%	259,986	77 Bps
Personal loans	1,516,848	5.89%	1,316,184	5.24%	200,664	65 Bps
Trade bills	140,176	6.65%	77,405	7.38%	62,771	(73) Bps
Total	4,928,955	6.50%	4,405,534	5.80%	523,421	70 Bps
Including:						
Medium and long term loans	3,347,769	6.39%	3,186,630	5.78%	161,139	61 Bps
Short term loans and others within 1 year	1,581,186	6.72%	1,218,904	5.85%	362,282	87 Bps
<b>Due to customers</b>						
Corporate demand deposits	1,918,084	0.83%	1,885,430	0.89%	32,654	(6) Bps
Corporate time deposits	1,624,196	3.31%	1,539,553	2.66%	84,643	65 Bps
Personal demand deposits	1,036,587	0.52%	913,279	0.54%	123,308	(2) Bps
Personal time deposits	1,954,651	3.42%	1,824,746	2.74%	129,905	68 Bps
Other <sup>Note</sup>	564,307	4.28%	363,230	4.09%	201,077	19 Bps
Total	7,097,825	2.34%	6,526,238	1.96%	571,587	38 Bps
<b>Domestic foreign currency businesses</b>						
<b>Loans</b>	82,030	3.42%	94,945	2.85%	(12,915)	57Bps
<b>Due to customers</b>						
Corporate demand deposits	24,439	0.24%	22,172	0.23%	2,267	1 Bps
Corporate time deposits	17,119	3.00%	7,253	2.10%	9,866	90 Bps
Personal demand deposits	11,705	0.06%	9,485	0.09%	2,220	(3) Bps
Personal time deposits	14,741	0.79%	15,631	0.73%	(890)	6 Bps
Other <sup>Note</sup>	7,036	2.43%	6,621	2.66%	415	(23) Bps
Total	75,040	1.15%	61,162	0.82%	13,878	33 Bps

Note: “Due to customers-other” item includes structured deposits.

### ***Non-interest Income***

The Group reported non-interest income of RMB109.212 billion in 2012, an increase of RMB8.978 billion or 8.96% compared with the prior year. Non-interest income represented 29.83% of operating income, a decrease of 0.70 percentage point. The principal components of non-interest income are discussed below.

#### ***Net Fee and Commission Income***

The Group earned a net fee and commission income of RMB69.923 billion, an increase of RMB5.261 billion or 8.14% compared with the prior year. On the one hand, the Bank strictly enforced the policy to reduce or waive the fee charged, adjusted and derated related commission fees actively, to increase its support to the development of the real economy. On the other hand, the Bank increased its efforts in product innovation as well as actively promoted the development of the capital-lite fee-based business, thus enhancing the structure of its fee-based business.

Bank card revenues grew by 39.13% as the Bank substantially increased bank card issuance and grew transaction volumes by accelerating bank card product innovation and improving service quality. The Bank also expanded its asset management and custody business and was the first bank to introduce cross-market and cross-border ETF products domestically which contributed to a 31.07% increase in custodian fees. The Bank consolidated its competitive advantage in international settlement and trade finance, intensified its focus on emerging businesses, such as the cross-border RMB business and supply-chain financing, and diligently expanded its settlement, agent and pension businesses, such that agency commission fees and settlement and clearing fee income increased by 16.74% and 13.42% respectively.

Items	Unit: RMB million, except percentages			
	2012	2011	Change	Percentage change
<b>Group</b>				
Bank card fees	14,952	10,747	4,205	39.13%
Agency commissions	14,171	12,139	2,032	16.74%
Settlement and clearing fees	14,051	12,389	1,662	13.42%
Credit commitment fees	11,099	13,268	(2,169)	(16.35%)
Spread income from foreign exchange business	6,808	8,545	(1,737)	(20.33%)
Consultancy and advisory fees	5,690	6,507	(817)	(12.56%)
Custodian and other fiduciary service fees	2,371	1,809	562	31.07%
Other	6,056	4,614	1,442	31.25%
<b>Fee and commission income</b>	<b>75,198</b>	<b>70,018</b>	<b>5,180</b>	<b>7.40%</b>
<b>Fee and commission expense</b>	<b>(5,275)</b>	<b>(5,356)</b>	<b>81</b>	<b>(1.51%)</b>
<b>Net fee and commission income</b>	<b>69,923</b>	<b>64,662</b>	<b>5,261</b>	<b>8.14%</b>
<b>Domestic</b>				
Bank card fees	12,014	8,126	3,888	47.85%
Agency commissions	10,013	6,887	3,126	45.39%
Settlement and clearing fees	12,165	10,905	1,260	11.55%
Credit commitment fees	7,899	10,480	(2,581)	(24.63%)
Spread income from foreign exchange business	6,011	7,695	(1,684)	(21.88%)
Consultancy and advisory fees	5,604	6,466	(862)	(13.33%)
Custodian and other fiduciary service fees	2,080	1,496	584	39.04%
Other	4,501	3,267	1,234	37.77%
<b>Fee and commission income</b>	<b>60,287</b>	<b>55,322</b>	<b>4,965</b>	<b>8.97%</b>
<b>Fee and commission expense</b>	<b>(1,715)</b>	<b>(1,690)</b>	<b>(25)</b>	<b>1.48%</b>
<b>Net fee and commission income</b>	<b>58,572</b>	<b>53,632</b>	<b>4,940</b>	<b>9.21%</b>

### *Other Non-interest Income*

The Group realised other non-interest income of RMB39.289 billion, an increase of RMB3.717 billion or 10.45% compared with the prior year. The Bank targeted strong market demand for precious metal products, devoted more resources to marketing and enriched its precious metal product offerings. Revenue from the sales of precious metals products increased by RMB2.421 billion or 34.81% over the prior year. The Bank also strengthened the intensity of its bancassurance strategic transformation, accelerated product and service innovation and strengthened the related business infrastructure development such that income from the insurance business increased by RMB1.448 billion or 18.86% compared with the prior year. Please refer to Notes V.3, 4 of the Consolidated Financial Statements for detailed information.

### *Operating Expenses*

Insisting managing costs thriftily, the Bank strictly controlled administrative and operating expenditures and optimised its expense structure to improve cost effectiveness. The growth in the Group's operating expenses slowed further in 2012 as the Group recorded operating expenses of RMB160.022 billion, an increase of RMB19.207 billion or 13.64% compared with the prior year. The Bank continued to promote branch transformation, channel construction and system redevelopment and upgrading as well as continued to invest resources into key focus areas, business frontlines, overseas entities and affiliated companies. Concurrently, the Bank continuously optimised its resource allocation mechanism and implement austerity measures to improve the efficiency of resource utilisation. The Group's cost to income ratio (calculated under domestic regulations) was 31.81%, decreased by 0.77 percentage point compared with the prior year. Please refer to Notes V.5, 6 to the Consolidation Financial Statements for detailed information of operating expenses.

Items	Unit: RMB million, except percentages			
	2012	2011	Change	Percentage change
Staff costs	<b>66,994</b>	60,793	6,201	10.20%
General operating and administrative expenses	<b>37,153</b>	35,461	1,692	4.77%
Depreciation and amortisation	<b>12,289</b>	10,651	1,638	15.38%
Business tax and surcharges	<b>22,925</b>	18,581	4,344	23.38%
Insurance benefits and claims	<b>8,721</b>	7,578	1,143	15.08%
Other	<b>11,940</b>	7,751	4,189	54.04%
Total	<b>160,022</b>	140,815	19,207	13.64%

### ***Impairment Losses on Assets***

#### ***Impairment Losses on Loans and Advances***

The Bank further strengthened its overall risk mitigation capability by further enhancing its comprehensive risk management system and continuously implementing a prudent risk provisioning policy. The Bank continuously enhanced its credit structure and strengthened credit asset quality management, thus ensuring stable credit asset quality.

In 2012, the impairment losses on loans and advances amounted to RMB19.086 billion. Credit cost was 0.29%, a decrease of 0.03 percentage point compared with the prior year. Specifically, collectively assessed impairment losses stood at RMB14.838 billion, a decrease of RMB4.243 billion compared with the prior year, while individually assessed impairment losses stood at RMB4.248 billion, an increase of RMB4.057 billion compared with the prior year. Please refer to the section “Risk Management — Credit Risk” and Note V.8 and Note VI.3 to the Consolidated Financial Statements for more information on loan quality and allowance for loan impairment losses.

#### ***Impairment Losses on Other Assets***

The Bank effectively managed against its exposure to sovereign debt risk as it continued to reduce its holdings of foreign currency-denominated structured debt. In 2012, the Group’s impairment loss on other assets was RMB301 million. Please refer to Note V.8 to the Consolidated Financial Statements for more details.

### ***Income Tax Expense***

In 2012, the Group incurred income tax of RMB41.858 billion, an increase of RMB3.716 billion or 9.74% compared with the prior year. The Group’s effective tax rate was 22.34%. The increase was primarily attributable to the growth in operating profit. The reconciliation of the statutory income tax rate to the effective income tax rate is set forth in Note V.9 to the Consolidated Financial Statements.

## Financial Position Analysis

As at the end of 2012, the Group's total assets amounted to RMB12,680.615 billion, an increase of RMB850.826 billion or 7.19% from the prior year-end. The Group's total liabilities amounted to RMB11,819.073 billion, an increase of RMB746.421 billion or 6.74% from the prior year-end.

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

Items	Unit: RMB million, except percentages			
	As at 31 December 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
<b>Assets</b>				
Loans, net	6,710,040	52.92%	6,203,138	52.44%
Investment securities <sup>1</sup>	2,210,524	17.43%	2,000,759	16.91%
Balances with central banks	1,934,297	15.25%	1,919,651	16.23%
Due from banks and other financial institutions	1,150,398	9.07%	1,147,497	9.70%
Other assets	675,356	5.33%	558,744	4.72%
<b>Total</b>	<b>12,680,615</b>	<b>100.00%</b>	<b>11,829,789</b>	<b>100.00%</b>
<b>Liabilities</b>				
Due to customers	9,173,995	77.62%	8,817,961	79.64%
Due to banks and other financial institutions and due to central banks	1,996,218	16.89%	1,718,237	15.51%
Other borrowed funds <sup>2</sup>	233,178	1.97%	196,626	1.78%
Other liabilities	415,682	3.52%	339,828	3.07%
<b>Total</b>	<b>11,819,073</b>	<b>100.00%</b>	<b>11,072,652</b>	<b>100.00%</b>

Notes:

- Investment securities include available for sale securities, held to maturity securities, loans and receivables, and financial assets at fair value through profit or loss.
- Other borrowed funds include bonds issued and other borrowings.

### *Loans and Advances to Customers*

The Bank intensified the optimisation of its credit structure and prioritised its support to national economically important industries, emerging industries and SMEs. The Bank also increased its support for personal loans, and maintained balanced growth in its loan portfolio.



As at the end of 2012, the Group's loans and advances to customers amounted to RMB6,864.696 billion, an increase of RMB521.882 billion or 8.23% compared with the prior year-end. This included RMB-denominated loans of RMB5,246.944 billion, which increased by RMB471.450 billion or 9.87% from the prior year-end, and foreign currency-denominated loans of USD257.379 billion, an increase of USD8.634 billion or 3.47% from the prior year-end.

The Bank closely monitored macroeconomic environment and strengthened proactive risk management. It strictly managed the total LGFV loan portfolio and strengthened controls over loans to overcapacity industries, real estate, photovoltaic and shipbuilding, effectively mitigated significant risk events. All of this helped to ensure that the balance and proportion of non-performing assets remained at relatively low levels and the ratio of allowance for loan impairment losses to non-performing loans continued to increase, thus enhancing the Bank's capability to mitigate risks.

As at the end of 2012, the balance of the Group's allowance for loan impairment losses reached RMB154.656 billion, an increase of RMB14.980 billion compared with the prior year-end. The ratio of allowance for loan impairment losses to non-performing loans was 236.30%, up by 15.55 percentage points from the prior year-end. Domestic institutions' ratio of allowance for loan impairment losses to total loans was 2.62%, up by 0.06 percentage point from the prior year-end. The balance of the Group's restructured loans decreased by RMB0.535 billion compared with the prior year-end to RMB10.518 billion.

### ***Investment Securities***

The Bank actively took advantage of market opportunities to make adjustments to the structure of its investment securities portfolio. The Bank moderately increased the size of its investment in domestic RMB-denominated bonds and expanded the proportion of its government bonds and debenture bonds. It continued to optimise its foreign currency-denominated investment structure and effectively managed sovereign debt risk. The Bank also strengthened the comprehensive management of the investment securities portfolios of its overseas entities and subsidiaries. All of this resulted in a stable improvement in the overall level of returns from the Group's investment securities portfolio.

As at the end of 2012, the Group held investment securities of RMB2,210.524 billion, an increase of RMB209.765 billion or 10.48% from the prior year-end. RMB-denominated investment securities amounted to RMB1,586.336 billion, an increase of RMB117.932 billion or 8.03% from the prior year-end. Foreign currency-denominated investment securities amounted to USD99.306 billion, an increase of USD14.817 billion or 17.54% from the prior year-end.

The Bank continued to reduce its exposure to high-risk European debt. As at the end of 2012, the total carrying value of debt securities issued by European governments and institutions held by the Group was RMB45.571 billion, of which RMB43.621 billion or 95.72% related to the United Kingdom, Germany, Netherlands, France and Switzerland. The Group did not hold any debt securities issued by governments and institutions in Greece, Portugal, Ireland, Italy or Spain.

The carrying value of US subprime mortgage-related debt securities, US Alt-A mortgage-backed securities and Non-Agency US mortgage-backed securities held by the Group amounted to USD1.103 billion, and the related impairment allowance was USD0.599 billion. The Group's carrying value of debt securities issued by US agencies Freddie Mac and Fannie Mae together with debt securities guaranteed by these two agencies amounted to USD0.046 billion.

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

Items	Unit: RMB million, except percentages			
	As at 31 December 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
Financial assets at fair value				
through profit or loss	71,590	3.24%	73,807	3.69%
Securities available for sale	686,400	31.05%	553,318	27.65%
Securities held to maturity	1,183,080	53.52%	1,074,116	53.69%
Securities classified as loans and receivables	269,454	12.19%	299,518	14.97%
Total	2,210,524	100.00%	2,000,759	100.00%

***Investment Securities by Issuer Type:***

Items	Unit: RMB million, except percentages			
	As at 31 December 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
<b>Debt securities</b>				
<b>Chinese mainland issuers</b>				
Government	786,167	35.55%	736,515	36.80%
Public sector and quasi-governmental bodies	20,810	0.94%	20,593	1.03%
Policy banks	350,077	15.84%	327,971	16.39%
Financial institutions	101,144	4.58%	46,160	2.31%
Corporates	244,223	11.05%	199,025	9.95%
China Orient Asset Management Corporation	160,000	7.24%	160,000	8.00%
Sub-total	1,662,421	75.20%	1,490,264	74.48%
<b>Overseas issuers</b>				
Governments	253,232	11.45%	182,801	9.14%
Public sector and quasi-governmental bodies	56,721	2.57%	53,037	2.65%
Financial institutions	162,388	7.35%	203,457	10.17%
Corporates	37,264	1.69%	32,642	1.63%
Sub-total	509,605	23.06%	471,937	23.59%
<b>Equity securities</b>	33,932	1.53%	34,146	1.71%
<b>Other</b>	4,566	0.21%	4,412	0.22%
<b>Total</b>	<b>2,210,524</b>	<b>100.00%</b>	<b>2,000,759</b>	<b>100.00%</b>

**Investment Securities by Currency:**

Items	Unit: RMB million, except percentages			
	As at 31 December 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
RMB	1,586,336	71.77%	1,468,404	73.39%
USD	356,597	16.13%	286,193	14.30%
HKD	133,992	6.06%	118,644	5.93%
Other	133,599	6.04%	127,518	6.38%
Total	2,210,524	100.00%	2,000,759	100.00%

Top ten financial bonds in scale held by the group:

Bond Name	Par Value	Unit: RMB million, except percentages		
		Annual Rate	Maturity Date	Impairment
Bond issued by policy banks in 2011	7,840	3.58%	2014-11-17	—
Bond issued by policy banks in 2005	6,800	3.42%	2015-08-02	—
Bond issued by policy banks in 2010	6,070	Term deposit for 1 year+0.52%	2017-01-26	—
Bond issued by policy banks in 2006	5,000	Term deposit for 1 year +0.60%	2016-12-12	—
Bond issued by policy banks in 2011	4,910	3.55%	2016-12-06	—
Bond issued by policy banks in 2010	4,750	Term deposit for 1 year +0.59%	2020-02-25	—
Bond issued by policy banks in 2009	4,660	Term deposit for 1 year +0.54%	2016-09-01	—
Bond issued by policy banks in 2011	4,400	3.83%	2018-11-24	—
Bond issued by policy banks in 2012	3,820	3.45%	2013-04-06	—
Bond issued by policy banks in 2005	3,600	4.67%	2020-03-29	—

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

**Due to Customers**

The Bank actively optimised its liability structure and developed its low-cost funding resources, to expand the scale of core deposit and reduce funding costs. Meanwhile, the Bank implemented the assessment on daily-averaged newly added deposit to improve the stability of its deposits.

As at the end of 2012, the Group's deposits from customers amounted to RMB9,173.995 billion, an increase of RMB356.034 billion or 4.04% from the prior year-end, and increased RMB753.104 billion or 9.12% if excluding the structured deposits. This included domestic deposits of RMB7,515.165 billion, an increase of RMB81.880 billion or 1.10% compared with the prior year-end, and increased RMB480.748 billion or 6.99% if excluding the structured deposits.

The principal components of deposits from customers for the Group and its domestic institutions are set out below:

Items	Unit: RMB million, except percentages			
	As at 31 December 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
<b>Group</b>				
Corporate deposits				
Demand deposits	2,506,854	27.32 %	2,451,185	27.80%
Time deposits	2,216,104	24.16 %	2,021,651	22.93%
Structured deposits	90,567	0.99 %	221,479	2.51%
Sub-total	4,813,525	52.47 %	4,694,315	53.24%
Personal deposits				
Demand deposits	1,634,545	17.82 %	1,423,524	16.14%
Time deposits	2,373,145	25.87 %	2,171,950	24.63%
Structured deposits	73,450	0.80 %	339,608	3.86%
Sub-total	4,081,140	44.49 %	3,935,082	44.63%
Certificates of deposit	226,867	2.47 %	138,880	1.57%
Other deposits	52,463	0.57 %	49,684	0.56%
Total	9,173,995	100.00 %	8,817,961	100.00%
<b>Domestic</b>				
Corporate deposits				
Demand deposits	2,197,757	29.25 %	2,199,660	29.59%
Time deposits	1,759,557	23.41 %	1,619,585	21.79%
Structured deposits	86,636	1.15 %	217,610	2.93%
Sub-total	4,043,950	53.81 %	4,036,855	54.31%
Personal deposits				
Demand deposits	1,235,417	16.44 %	1,086,552	14.62%
Time deposits	2,115,039	28.14 %	1,924,228	25.89%
Structured deposits	71,297	0.95 %	339,191	4.56%
Sub-total	3,421,753	45.53 %	3,349,971	45.07%
Other deposits	49,462	0.66 %	46,459	0.62%
Total	7,515,165	100.00 %	7,433,285	100.00%

**Customer Deposits by Currency:**

Items	Unit: RMB million, except percentages			
	As at 31 December 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
RMB	7,268,004	79.23 %	7,282,091	82.59%
USD	739,364	8.06 %	584,531	6.63%
HKD	720,594	7.85 %	608,878	6.90%
Other	446,033	4.86 %	342,461	3.88%
Total	9,173,995	100.00 %	8,817,961	100.00%

## ***Equity***

As at the end of 2012, the Group's total equity was RMB861.542 billion, an increase of RMB104.405 billion or 13.79% compared with the prior year-end. This change was primarily attributable to: (1) a profit after tax of RMB145.522 billion, with profit attributable to equity holders of the Bank of RMB139.432 billion in 2012; (2) a cash dividend of RMB43.268 billion paid in respect of the 2011 profit distribution plan approved at the Annual General Meeting. Please refer to the "Consolidated Statement of Changes in Equity" in the Consolidated Financial Statements for detailed information on equity movements.

## **Off-balance Sheet Items**

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

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

Contingent liabilities and commitments include legal proceedings and arbitrations, assets pledged, collaterals accepted, capital commitments, operating leases, treasury bonds redemption commitments, credit commitments and underwriting obligations, etc. Please refer to Note V.40 to the Consolidated Financial Statements for more detailed information on contingent liabilities and commitments.

## **Cash Flow Analysis**

As at the end of 2012, the balance of the Group's cash and cash equivalents was RMB1,072.283 billion, a net increase of RMB54.915 billion compared with the prior year-end.

Net cash flow from operating activities was an inflow of RMB263.924 billion, an increase of RMB49.567 billion compared with the prior year. Cash inflows decreased by RMB349.313 billion compared with the prior year, which was mainly attributable to a smaller net increase in due to customers and due to banks and other financial institutions. Cash outflows decreased by RMB398.880 billion, mainly due to a smaller net increase in loans and advances to customers, balances with central banks and due from banks and other financial institutions.

Net cash flow from investing activities was an outflow of RMB182.546 billion, while it was a net inflow of RMB55.774 billion in the prior year. This was mainly attributable to a decrease in proceeds from the disposal or maturity of investment securities and an increase in the purchase of investment securities.

Net cash flow from financing activities was an outflow of RMB25.092 billion, an increase of RMB12.132 billion compared with the prior year. This was mainly attributable to an increase in repayments of debts issued compared with the prior year.

## Segment Reporting by Geography

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

Items	Unit: RMB million									
	Chinese mainland		Hong Kong, Macau and Taiwan		Other countries		Elimination		Group	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Net interest income	224,622	201,021	23,024	21,018	9,318	6,025	—	—	256,964	228,064
Non-interest income	79,124	69,263	27,909	29,608	2,884	2,939	(705)	(1,576)	109,212	100,234
Including: net fee and commission income	58,572	53,632	9,259	9,167	2,743	2,396	(651)	(533)	69,923	64,662
Operating expenses	(133,853)	(118,751)	(23,390)	(20,103)	(3,484)	(2,807)	705	846	(160,022)	(140,815)
Impairment losses on assets	(17,396)	(18,112)	(1,460)	(1,752)	(531)	509	—	—	(19,387)	(19,355)
Profit before income tax	152,497	133,421	26,696	29,287	8,187	6,666	—	(730)	187,380	168,644
<b>As at the year-end</b>										
Assets	10,196,577	9,612,716	2,048,370	1,868,870	1,087,203	904,756	(651,535)	(556,553)	12,680,615	11,829,789
Liabilities	9,531,288	9,025,576	1,882,619	1,719,249	1,056,540	884,219	(651,374)	(556,392)	11,819,073	11,072,652

As at the end of 2012, total assets<sup>4</sup> of the Chinese mainland segment amounted to RMB10,196.577 billion, an increase of RMB583.861 billion or 6.07% from the prior year-end, representing 76.48% of the Group's total assets. In 2012, this segment recorded a profit before income tax of RMB152.497 billion, an increase of RMB19.076 billion or 14.30% compared with the prior year, representing 81.38% of the Group's profit before income tax for the year.

Total assets of the Hong Kong, Macau and Taiwan segment amounted to RMB2,048.370 billion, an increase of RMB179.500 billion or 9.60% compared with the prior year-end, representing 15.36% of the Group's total assets. This segment achieved a profit before income tax of RMB26.696 billion in 2012, a decrease of 8.85% compared with the prior year, representing 14.25% of the Group's profit before income tax for the year.

Total assets of the other countries segment amounted to RMB1,087.203 billion, an increase of RMB182.447 billion or 20.17% compared with the prior year-end, representing 8.16% of the Group's total assets. This segment achieved a profit before income tax of RMB8.187 billion in 2012, up by 22.82% compared with the prior year, representing 4.37% of the Group's profit before income tax for the year.

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

<sup>4</sup> The figures for segment assets, segment annual profit before income tax and their respective percentages are prior to intragroup elimination.

## Critical Accounting Estimates and Judgements

The Bank makes estimates and judgements that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The management believes that the accounting estimates and judgements made properly reflection of the Bank's operating environment. Please refer to Notes II and III to the Consolidated Financial Statements for more detailed information related to the Bank's accounting policies and accounting estimates.

## Fair Value Measurement

Movement of financial assets measured at fair value:

Items	Opening balance	Closing balance	Unit: RMB million	
			Change in the year	Impact on profit for the year
Financial assets at fair value through profit or loss				
Debt securities	64,475	64,773	298	
Fund investments	3,524	780	(2,744)	920
Loans	4,412	4,566	154	
Equity securities	1,396	1,471	75	
Investment securities available for sale				
Debt securities	524,092	654,719	130,627	
Fund investments and other	5,945	7,640	1,695	(157)
Equity securities	23,281	24,041	760	
Derivative financial assets	42,757	40,188	(2,569)	68
Derivative financial liabilities	(35,473)	(32,457)	3,016	
Due to customers at fair value	(561,087)	(164,017)	397,070	(31)
Short position in debt securities	(2,106)	(14,061)	(11,955)	(10)

The Bank has in place sound internal control systems related to fair value measurement. In accordance with the *Guidelines on Market Risk Management in Commercial Banks*, CAS and IFRS, with reference to the New Basel Capital Accord, and drawing on the best practices of leading international banks regarding valuations, the Bank formulated the *Bank of China Limited Policy for Valuation and Price Verification of Financial Instruments* to standardise the fair value measurement of financial instruments and enable timely and accurate financial information disclosure. Please refer to Note VI.6 to the Consolidated Financial Statements for more detailed information related to the fair value measurement.

## Other Financial Information

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

## BUSINESS REVIEW

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

Items	Unit: RMB million, except percentages			
	2012		2011	
	Amount	% of total	Amount	% of total
Commercial banking business				
Including: Corporate banking business	104,472	55.75%	101,887	60.42%
Personal banking business	39,344	21.00%	37,523	22.25%
Treasury operations	37,143	19.82%	19,166	11.36%
Investment banking and insurance	1,987	1.06%	2,674	1.59%
Others and elimination	4,434	2.37%	7,394	4.38%
Total	187,380	100.00%	168,644	100.00%



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

Items	Unit: RMB million, except percentages		
	As at 31 December 2012	As at 31 December 2011	Percentage change
<b>Corporate deposits</b>			
Domestic: RMB	3,755,626	3,842,173	(2.25%)
Foreign currency	288,324	194,682	48.10%
Hong Kong, Macau, Taiwan, and overseas operations:	769,575	657,460	17.05%
<b>Sub-total</b>	<b>4,813,525</b>	<b>4,694,315</b>	<b>2.54%</b>
<b>Personal deposits</b>			
Domestic: RMB	3,234,301	3,165,161	2.18%
Foreign currency	187,452	184,810	1.43%
Hong Kong, Macau, Taiwan, and overseas operations:	659,387	585,111	12.69%
<b>Sub-total</b>	<b>4,081,140</b>	<b>3,935,082</b>	<b>3.71%</b>
<b>Corporate loans</b>			
Domestic: RMB	3,452,004	3,244,573	6.39%
Foreign currency	488,518	573,882	(14.87%)
Hong Kong, Macau, Taiwan, and overseas operations:	1,039,877	906,850	14.67%
<b>Sub-total</b>	<b>4,980,399</b>	<b>4,725,305</b>	<b>5.40%</b>
<b>Personal loans</b>			
Domestic: RMB	1,617,123	1,390,343	16.31%
Foreign currency	1,037	896	15.74%
Hong Kong, Macau, Taiwan, and overseas operations:	266,137	226,270	17.62%
<b>Sub-total</b>	<b>1,884,297</b>	<b>1,617,509</b>	<b>16.49%</b>

## Commercial Banking Business

### *Domestic Commercial Banking Business*

In 2012, the Bank's domestic commercial banking business recorded an operating income of RMB301.223 billion, an increase of RMB31.530 billion or 11.69% compared with the prior year. The details are set forth below:

Items	Unit: RMB million, except percentages			
	2012		2011	
	Amount	% of total	Amount	% of total
Corporate banking business	167,788	55.70%	164,597	61.03%
Personal banking business	96,981	32.20%	86,445	32.05%
Treasury operations	36,172	12.01%	18,682	6.93%
Others	282	0.09%	(31)	(0.01%)
<b>Total operating income</b>	<b>301,223</b>	<b>100.00%</b>	269,693	100.00%

### Corporate Banking Business

The Bank maintained a keen focus on restructuring its corporate banking business. It continued to promote product innovation and expand its customer base, expedited the improvement of financial services delivery capability at the outlet level and enhanced the integration of its domestic and overseas corporate banking services to improve all aspects of its core competitiveness. In 2012, the domestic corporate banking business recorded an operating income of RMB167.788 billion, an increase of RMB3.191 billion or 1.94% compared with the prior year.

### *Corporate Deposits Business*

The Bank strengthened its proactive liability management and strived to improve its liability structure and consolidate the stable growth of its core deposits. It explored potential deposits from its key clients, and accelerated the expansion on upstream and downstream customers from related supply chains and industry chains. The Bank continuously optimised its business processes and improved the marketing and deposits sourcing capacity of its outlets. By leveraging its advantages in international settlement, cash management and cross-border RMB business, the Bank seized opportunities arising from corporate demand for direct financing to broaden its deposit sources. The bank constantly improved the products and service system for administrative institution and maintained a rapid growth on deposits from administrative institutions.

As at the end of 2012, RMB-denominated corporate deposits in the Bank's domestic operations (excluding structured deposits) totalled RMB3,669.252 billion, an increase of RMB40.763 billion, or 1.12%, compared with the prior year-end. The Bank's foreign currency-denominated corporate deposits (excluding structured deposits) reached USD45.830 billion, an increase of USD15.556 billion compared with the prior year-end, maintaining its leading position in terms of market share.

## *Corporate Loans Business*

The Bank continued to reinforce its financial support for the development of the real economy and expanded loans to major industries, including manufacturing, transportation, electric power and energy, and wholesale and retail, etc. In addition, it intensified its credit support for key geographical regions that identified by the government's economic development plan, earmarked for industrial upgrading in Eastern China and targeted for industrial migration to Central and Western China. It actively assisted the development of China's strategic emerging industries, cultural industries, consumer product industries and the industries related to agriculture, farmers and rural areas, etc. It stepped up business structure transformation and strengthened hierarchical customer management in order to give priority and stronger support to the financing needs of medium, small and micro-sized enterprises. The Bank also achieved robust development in low-carbon finance and "green credit", and strictly controlled loans to overcapacity industries, resulting in a decrease of 0.31 percentage point in the ratio of its credit balance in loans to those industries compared with the prior year-end. The Bank intensified the management of LGFVs, with a loan balance decrease of RMB8.3 billion compared with the prior year-end. It also optimised the structure of its real estate industry credit portfolio, with the credit of key customers of Head Office and branches accounted for over 70% in aggregate. In addition, the Bank pushed forward the development of an integrated global corporate finance service system, established a global service platform for corporate customers, rolled out a global customer manager model and actively supported the needs of "Going Global" customers. It has sponsored a total of 83 overseas M&A loan projects with contracts amounting to USD27.45 billion, 40 export buyer's credit projects with contracts amounting to USD5.62billion and 50 globally centralised credit projects with contracts amounting to USD29.94 billion.

As at the end of 2012, the Bank's domestic RMB-denominated corporate loans totalled RMB3,452.004 billion, representing an increase of RMB207.431 billion or 6.39% compared with the prior year-end. Domestic foreign currency-denominated corporate loans (including trade finance) totalled USD77.721 billion, maintaining the leading position in the market. The Bank was also recognised as the 2012 "Best Debt House in China" by *Euromoney*.

## *Domestic Settlement and Cash Management Business*

The Bank actively promoted the product and service innovation of its domestic settlement and cash management services in order to adapt to the diverse needs of its customers. The Bank launched products such as "Settlement Card for Corporate Customers", keenly developed the "Agency Service for Central Treasury" and ranked first in the evaluation of agency banks authorised to perform treasury centralised payments by MOF. The Bank continued to enhance its Global Cash Management System (GCMS), and realised a global account information query function and automatic funds centralisation function so as to supply efficient and convenient integrated global cash management services to its clients. The Bank took the lead to complete the first cross-border two-way funds allocation for the pilot enterprises under centralised management of foreign currency funds. The Bank was awarded with "Best Domestic Cash Manager in China" from *Euromoney* and "Best Cash Management Bank" from *TreasuryChina*, among other awards. The Bank's "Global Cash Management Platform" received the Silver Award in the Banking Technological Development Awards hosted by PBOC.

### *International Settlement and Trade Finance Business*

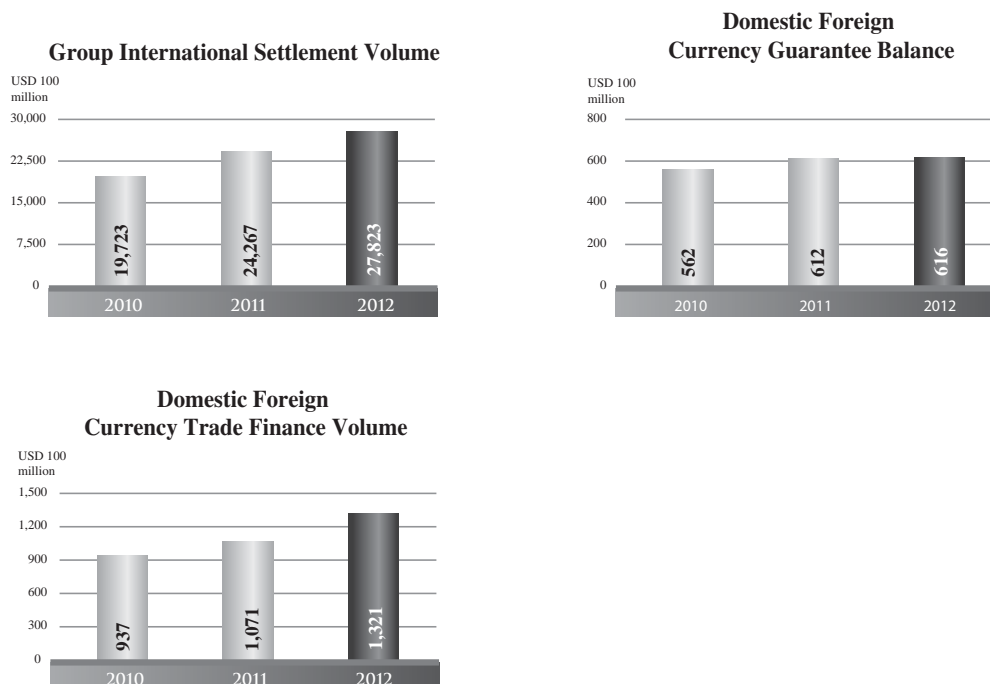
The Bank fully leveraged the advantages in its traditional businesses, such as international settlement and trade finance, and kept boosting product innovation. It developed a series of innovative products, including Import Collection par Aval and Import Factoring under Credit Insurance, in order to adapt to the diversified needs of customers. The Bank successfully launched Huo Li Da, Xiao Yi Da and accounts receivable pool financing with multiple factoring products, in order to further optimise its supply chain finance products system. It developed direct bank-enterprise connections project to provide convenient and efficient on-line trade finance services. Leveraging its group-wide integrated business platform, the Bank launched a pilot program for global supply chain finance, aiming to deliver one-stop services to enterprises with global businesses and operations. The Bank also actively engaged in developing effective commodity finance solutions, including Back-to-Back Letter of Credit and Two-factor Import Factoring. The Bank also improved the Bank of China Commodity Finance Unit (Singapore) and Bank of China Forfaiting Unit (Singapore), to enhance the professional service capabilities for customers.

The Bank's international settlement and trade finance business grew steadily and maintained a leading position in the market. In 2012, the transaction volume of the international settlement business conducted by the Group reached USD2.78 trillion, an increase of 14.66% over the prior year. For domestic institutions, the transaction volume of the Bank's international settlement business rose by 12.64% to reach USD1.51 trillion, among which the volume of international trade settlement increased by 15.55% to USD1.33 trillion, the highest among its peers. As at the end of 2012, the balance of foreign currency-denominated trade finance conducted by the Bank's domestic institutions was USD43.894 billion, and the balance of RMB-denominated trade finance totalled RMB306.825 billion, up 33.38% compared with the prior year-end.

The Bank's cross-border RMB business developed rapidly and maintained a leading position in the market. Fully taking its first-mover advantage and professional strengths in cross-border RMB business, the Bank continued to improve its cross-border RMB business and product scheme. In 2012, the Bank's cross-border RMB settlement volumes were approximately RMB2.5 trillion, an increase of 42% compared with the prior year.

The Bank further strengthened its leading position in the factoring and guarantee market, and attained historic breakthroughs in forfaiting business and supply chain finance. In 2012, the international factoring business conducted by the Bank's domestic institutions totalled USD45.744 billion, an increase of 54.55% compared with the prior year. Among this, the volume of "two-factor export factoring" was USD6.482 billion, which had a leading position in terms of volumes in the world for 58 consecutive months. The balances of foreign currency and RMB-denominated guarantees conducted by the Bank's domestic institutions were USD61.598 billion and RMB459.456 billion, an increase of 0.72% and 19.72% respectively compared with the prior year. Transaction volumes in the Bank's primary market forfaiting business exceeded RMB140 billion, and transaction volumes for supply chain finance exceeded RMB1 trillion, an increase of over 42% compared with the prior year.

In 2012, the Bank was recognised as the “Best Trade Finance Bank in China” by various local and international media, such as *Global Finance*, *The Asian Banker* and *Global Trade Review*. The Bank was also honoured with several other awards, including “The Asset Asia Trade Finance Bank Leadership Award” from *The Asset*, the “Top 10 Financial Product Marketing Award — Cross-border RMB” from *The Banker*, and the “Best International Settlement Bank” from *Investor Journal*, among others. In a first for China’s banking industry, a senior professional of the Bank was successfully elected to the Board of Directors of the International Forfaiting Association.



### Financial Institutions Business

The Bank further strengthened business cooperation with its global financial institutions customers. Having established correspondent relationships with over 1,600 financial institutions in 179 countries and regions, the Bank continued to lead its peers in terms of financial institutions customer coverage. In 2012, the Bank’s foreign currency deposits continued to lead the market, and the market share of its bancassurance and third party custodian business continued to rise. The business volume of its B-share clearance service ranked first in the market and the incoming international settlement business volume directed by overseas correspondent banks also ranked the top in the domestic market. Building on its extended correspondent banks network, the Bank provided global cash management services to its multinational corporate clients. The Bank’s Qualified Foreign Institutional Investors (QFII) clients increased to 17 and the scale of its custody business ranked among the top. The Bank signed Memorandum of Understanding regarding strategic cooperation with the Chicago Mercantile Exchange (CME) and commenced cooperation in fields such as clearing membership, settlement banking, offshore RMB depository services and overseas futures. The Bank also signed Memorandum of Understanding with NYSE Euronext to boost cooperation in syndicated loans, financial institutions deposits, RMB collateral and the development of RMB-denominated trading products.

## *Small Business Finance*

The Bank is committed to providing small-sized enterprise customers with efficient and convenient financial services. By steadily improving its service processes, enriching its product system, and increasing its risk control ability, “BOC Credit Factory” experienced a healthy and rapid increase in both number of customers and volume of outstanding loans. The Bank actively designed financial services model covering the entire industry chain, in order to develop related upstream and downstream micro and small-sized businesses of its key clients. It broadened funding sources for small-sized enterprises through corporate loans, bond issuance, IPO financing, industry funds and other channels, in order to help them solving financing problems. The Bank also customised special products and value-added services to various small-sized enterprises specialising in agriculture, high-tech and cultural innovation, based on a study of small-sized enterprise customers from local industries and featured industry clusters. It developed the innovative “Zhongguancun Model”, which applied “Tou Bao Dai” and intellectual property pledged loans to provide financial support to small high-tech enterprises. In addition, the Bank utilised multiple service channels such as internet and telephone to provide one-stop online services for small-sized enterprise. The Bank won the “Outstanding SME Service Products” award at the 2012 International Conference for the Outstanding SME Service Providers. It was also awarded “Annual Best Socially Responsible Financial Institutions (Enterprises) Serving Small and Micro Enterprises in 2012”.

As at the end of 2012, the Bank’s total amount of loans to domestic small-sized enterprises<sup>5</sup> was RMB822.520 billion, representing a growth rate of 10.44% compared with the prior year-end, which was higher than the average growth rate of all loans.

## *Investment Banking Business*

The Bank continuously strengthened investment banking product innovation and has established a comprehensive product line including the core products of structured financing and investing advisory service, financial advisory service, asset management and integrated investment banking service to better satisfy the clients’ diverse financial needs. The Bank launched new products such as “SIFA”, a structured investing and financing advisory service, and “Si Mu Tong”, a PE-linked product, which enabled the Bank to provide its clients with direct and structured financing services. In addition, the Bank vigorously promoted its bond underwriting, M&A advisory, financing referral advisory, pre-IPO advisory, and asset management businesses, etc. In 2012, the revenue of the Bank’s internal investment banking business<sup>6</sup> ex-subsidaries increased by 7.23% compared with the prior year to RMB18.8 billion. The brand reputation of the Bank’s investment banking business was also further enhanced. In 2012, the Bank was awarded “Best Bank in Investment Banking”, “Best Bank in Syndicated Financing”, “Best Bank in Cross-Border Financing” and “Best M&A Project” by the Securities Times.

<sup>5</sup> Small business loans statistical standards are executed in accordance with the *Issuance Announcement Related to Requirements of SMEs Categorization Standards* (The MIIT associated enterprise [2011] No.300) issued by four departments including the Ministry of Industry and Information Technology, covering small-sized enterprise loans, micro enterprise loans and individual operational loans. According to the above standards, the Bank’s total amount of loans to domestic small-sized enterprises was RMB744.745 billion, at the end of 2011.

<sup>6</sup> It mainly consists of financial advisory, stock brokerage, bond underwriting, syndicated loan arrangement and asset management.

### *Pension Business*

In an effort to support the development of the national social security system, the Bank continuously worked to enrich its pension-related product offerings and strengthen its business planning, system development and brand building. The service scope of the Bank's pension business has covered corporate pensions, occupational pensions, social security, employee welfare and other fields, thus better served the people's wellbeing comprehensively.

As at the end of 2012, the total number of individual pension accounts reached 1,793.5 thousand, capital in custody amounted to RMB53.599 billion, serving over 6,200 clients. Newly-opened individual pension accounts in 2012 reached 614.3 thousand, with new capital in custody amounting to RMB20.698 billion, an increase of 52.09% and 62.91% respectively compared with the prior year.

### *Personal Banking Business*

The Bank continued to deepen personal banking product and service innovation, to optimise service channel, to enhance the customer experience and to expand the customer base. As a result, the Bank's market competitiveness and operating performance improved steadily. In 2012, the Bank's domestic personal banking business realised an operating income of RMB96.981 billion, an increase of RMB10.536 billion or 12.19% compared with the prior year.

### *Personal Deposits Business*

The Bank actively promoted innovation in personal accounts and optimised customer structure and personal deposits structure, in order to develop its personal deposit business. It strongly promoted batch-processing businesses such as salary payment agency and strengthened its business expansion efforts in central and western China markets. By the end of 2012, the number of active domestic customers amounted to 172 million, an increase of 18.3816 million or 12.00% from the prior year. The domestic RMB-denominated personal deposits (excluding structured deposits) totalled RMB3,170.306 billion, an increased of RMB322.792 billion or 11.34% compared with the prior year-end. The domestic foreign currency-denominated personal deposits (excluding structured deposits) totalled USD28.661 billion, an increase of USD2.750 billion or 10.61% compared with the prior year-end, and the Bank's market share remained the top among its peers.



### *Personal Loans Business*

The Bank intensified its personal loans business restructuring and continued to enhance its residential mortgage loans business. It also promoted the development of other areas such as personal loans for commercial premises, personal business loans, personal student loans and personal consumer loans, effectively improving the overall profitability of its personal loan business. The Bank continued to enhance its personal loans systems and channel development, improve outlet function and employee structure and actively develop electronic channel for personal loans in order to enhance customer service quality. As at the end of 2012, the total amount of domestic RMB-denominated personal loans stood at RMB1,617.123 billion, an increase of RMB226.780 billion or 16.31% compared with the prior year-end. The Bank maintained the leading position in personal auto loans and sponsored student loans.

### *Wealth Management and Private Banking Business*

The Bank continued to improve its service platform for middle and high-end customers, and enlarged the scope of its investment products and value-added services, thus effectively enhanced its service capabilities and professional quality. The Bank accelerated the construction of its three-tier system of wealth management service channels. As at the end of 2012, it established 5,459 wealth management centres, 216 prestigious wealth management centres and 21 private banking centres in the Chinese mainland. The Bank also reinforced the construction of its overseas wealth management service network. It launched the Wealth Management Unit (Singapore) as a regional platform in Southeast Asia and set up wealth management centres in Sydney, Bangkok and London. As at the end of 2012, the Bank realised annual growth of over 9% in its middle and high-end client base.

The Bank continued to accelerate the development of its private banking business and devoted great efforts to the building of an integrated business platform comprising three important systems, including the exclusive product system, the value-added service system, and the cross-border service system. Leveraging the advantages arising from the Group's internationalised and integrated business resources, the Bank focused on the needs of ultra high net worth clients to provide the family financial management service. The number of the Group's private banking clients exceeded 40,000, and the scale of financial assets under managements for this segment has grown to over RMB450 billion. The Bank also won a number of awards, including "Best Private Banking Business" and "Best Wealth Management Brand in China" from *Euromoney*, *FinanceAsia* and other media.



### *Bank Cards Business*

The Bank continued to enrich credit card products, vigorously promoted key products such as Great Wall International Credit Cards and Platinum Cards, and continuously optimised customer structure. The Bank's credit card mobile service platform was enhanced and the near-field mobile payment products and mobile internet application products were promoted, which provided customers with safe and quick mobile payment and electronic self service solutions. The Bank enhanced product innovation and provided differentiated services such as chip-based "quick pass payment" to targeted youth segments. The Bank developed and promoted virtual cards to simplify the online payment process and effectively reduce online payment risks. The Bank expanded its instalment business to provide convenience for customers. The Bank optimised its global uniform card issuing platform and successfully issued IC credit cards in Australia, Thailand, Canada and Macau.

The Bank accelerated the innovation and research and development ("R&D") of its debit card and continuously enriched its debit card product system to facilitate stable growth of core deposits. It improved the customer experience for account opening, loss reporting, and account inquiry, among others. The Bank established a wellbeing financial service system, participated in more than 160 social insurance card projects in nearly 30 provinces and municipalities and was the first bank to issue an Armed Police Force social security card. The Bank and the Ministry of Health of PRC jointly issued China's first resident health card with financial functions. The Bank promoted the internationalisation process for debit cards, which can now be issued by 14 overseas branches.

As at the end of 2012, the issuance amount and transactions volumes of the Bank Cards of the Bank are set out below:

	Unit: millions card/RMB billion, except percentages		
	As at 31 December 2012	As at 31 December 2011	Change
Cumulative number of debit cards	<b>243.5021</b>	194.0761	25.47%
Cumulative number of credit cards	<b>36.2203</b>	30.8629	17.36%
Cumulative number of social security cards with financial functions	<b>20.7030</b>	7.7730	166.35%

	2012	2011	Change
Transaction amount of debit cards	<b>1,319.567</b>	838.162	57.44%
Transaction amount of credit cards	<b>710.934</b>	463.996	53.22%
RMB card merchant acquiring transaction amount	<b>2,433.119</b>	1,728.740	40.75%
Foreign currency card merchant acquiring transaction amount	<b>26.337</b>	26.139	0.76%

#### Financial Markets Business

The Bank continued to improve its business structure and enhance its innovation capabilities by leveraging its professional advantages in financial markets business. The Bank also committed itself to enhancing its capabilities in asset management, market financing, trading, custody service, investment performance and risk control, in order to improve the core competitiveness of its financial markets business.

#### *Investments*

Capturing market opportunities, the Bank moderately increased its investments in RMB-denominated bonds with reasonably arranged duration, and increased the proportion of government bonds and debenture bonds to an appropriate level, thereby enhancing the yield levels of its investment portfolios. The Bank continued to optimise the structure of its foreign currency-denominated investments by increasing the weighting of debenture bonds with high credit ratings and reducing its holdings of foreign currency-denominated structured bonds and high risk bonds, thus effectively mitigating sovereign debt risk. It improved its pre-investment quantitative analysis mechanism, enhanced credit analysis of issuers and strengthened the post-investment management of debenture bonds, so as to improve its investment-related operational abilities. The Bank strengthened the centralised management of its overseas entities and subsidiaries' bond investments, and continued to encourage overseas institutions to invest in the domestic inter-bank bond market, so as to broaden the placement channels for overseas RMB funds and improve the return on overseas funds.

## *Trading*

The Bank took full advantage of opportunities arising from the liberalisation of RMB interest rates and exchange rates. In order to adapt to customers' needs for better management of interest rate and exchange rate risks, the Bank integrated product functions and promoted RMB interest rate swap products, RMB-denominated option portfolios, spot/forward exchange of foreign currencies against RMB, foreign exchange swaps, foreign exchange options and risk-hedging portfolios comprised of other derivatives. The Bank actively fulfilled its obligations as one of the primary dealers in open market and a market maker in the inter-bank market, maintaining its strong position in terms of inter-bank market trading share. The Bank ranked first in market share based on RMB-denominated bond business volumes of RMB24.28 trillion. It also successfully completed the first inter-bank market bond deal as an agent for RQFII, and led the market in RMB-denominated bond deal business as an agent for overseas institutions. The Bank took the lead in launching the “RMB-margin Dual-way Forex Trading” product and the precious metal trading product “Paper Silver”. It proactively pushed forward its offshore RMB business, built up the offshore RMB quotation desk and pushed its overseas branches to achieve local dominance in offshore RMB quotation. In addition, it enriched the quotation business for emerging market currencies, and provided deliverable/undeliverable hedging products in the form of spot, forward and swap transactions, with quotation currencies covering Asia, Africa, Europe and South America countries. The Bank was one of the first market makers of direct RMB-Japanese Yen transactions on the domestic inter-bank market and experienced a substantial increase in RMB-denominated option transactions with a top ranking in market share. The Bank stepped up the development of key product lines, such as the exchange of foreign currencies against RMB and precious metals. As a result, its spot/forward exchange of foreign currencies against RMB business gained a market share of 24.09%, while the gold transaction volumes took up to 11.83% market share in the Shanghai Gold Exchange, both maintaining top ranking in the market.

## *Client Business*

The Bank steadily advanced product and business innovation to satisfy customers' diversified needs for asset management. It brought out “BOC Steady Growth wealth management schema”. The Bank also leveraged its advantages in bond underwriting to adapt to domestic and overseas customer's financing needs. In 2012, the Bank took the lead in terms of the market share as well as the number of the debt financing instruments issued. It was awarded “Best Domestic Debt Underwriter in China” by *Euromoney* and “2011-2012 Highest Yield Generator Award” by the *21st Century Business Herald*.

### *Custody Business*

The Bank continued to strengthen cooperation with key customers such as fund management companies, social security funds and insurance companies, and enhanced the comprehensive financial service capability of custodian business. It consistently developed innovative custodian products, and took the lead in launching custodian services for cross-market and cross-border ETFs. The Bank also made efforts to develop custody services for fund companies' segregated managed accounts. Paying keen attention to national welfare issues, the Bank provided asset management custody services for social security funds, insurance companies and enterprise annuities. The Bank developed custody services for client fund and cross-border institutions such as QDII, QFII and RQFII, and achieved remarkable performance in its domestic and overseas "one-stop" custody service. The Bank became the first domestic custodian bank to link itself directly to the system of China Government Securities Depository Trust & Clearing Co. Ltd ("CCDC"), and the total assets under custody amounted to RMB4 trillion as at the prior year-end, maintaining its leading position in the market. The Bank was recognised as "China's Best Custody Service Brand with the Highest Public Satisfaction" from *Economy*, the "Most Reliable Custody Service Bank as Voted by Chinese CFOs (2012)" from CFO, and "Gold Medal for the Annual Innovative Bank" from *Financial Money*.

### ***Innovation in Financial Markets Products***

In 2012, China's financial liberalisation reform accelerated, the RMB exchange rates fluctuate more significantly. The Bank made full use of its advantages to actively adapt to the new development trend. It developed products such as the exchange of foreign currencies against RMB, client business and RMB-denominated derivatives to adapt to customers' needs for value maintenance and appreciation of funds.

### ***Foreign Currency Business in Emerging Markets***

In recent years, China has had closer economic and trade ties with other emerging market countries as well as surrounding countries with a consistent growth on exports, imports and investment. The Bank took the lead to launch services targeted in emerging market currencies, and support Chinese enterprises "Going Global" by providing new channels of avoiding financial risks from emerging markets.

In 2010, the Bank launched quotation service for emerging market currencies. By the end of 2012, the quotation currencies include Russian Ruble, Polish Zloty, Turkish Lira, Hungarian Forint, South African Rand, Brazilian Real, Mexican Peso, Argentinean Peso, Chilean Peso and other currencies of emerging economies, as well as Korean Won, Thai Baht, Malaysian Ringgit, Philippine Peso, Indonesian Rupiah, Vietnamese Dong (VND) and other currencies of neighbouring countries. The Bank has provided exchange rate risk hedging services of emerging markets currencies for domestic leading enterprises in auto manufacturing, household appliance production, iron and steel and electric power design, and established long-term partnership with these enterprises.

In 2012, the Bank officially launched the RMB-VND quotation service for cross-border trade in Guangxi, signifying the further expansion of trading scope of the Bank. At the Shanghai-located China Foreign Exchange Trading System, the Bank became a main Russian Ruble market maker for the domestic inter-bank market.

### ***RMB-denominated Option Products***

In 2012, PBOC enlarged the fluctuation band of RMB-USD rate. The Bank promoted RMB-denominated option products and option portfolios to satisfy customers' demands for hedging against exchange rate risk. RMB-denominated vanilla option products of the Bank help customers avoid exchange rate risk at a minimal cost; while RMB-denominated option portfolios help customers lock the lowest currency exchange cost without paying any fees, which satisfied its demand for flexible management of cash flows and enriched the pool of means for value maintenance. Both products can help customers flexibly capture opportunities arising from future market fluctuations and have good effects in value preservation for customers, thus the product acceptance increased dramatically. In 2012, the transaction volume of RMB-denominated options conducted by the Bank increased significantly, helping the Bank maintain the leading position among peers.

### ***Asset Backed Securitisation ("ABS") Products***

In 2012, the Bank pushed forward ABS business at home and abroad. "BOC Credit Asset-backed Securities 2012 Issue I", the first domestic ABS product of the Bank, was issued on 26 November 2012 in the inter-bank market successfully. In the same month, New York Branch of the Bank successfully issued commercial mortgage backed security ("CMBS") in American market, achieving breakthrough of zero for overseas ABS business. The Bank made careful and thorough preparations in order to issue credit ABS products. These preparations included stepping up efforts in analysis of bond market conditions, having market dynamics in hand, and designing product structure and deal arrangement to satisfy various market demands in terms of business organisation, regulation formulation and deal arrangement. The issue of ABS products represented the Bank's attempt in optimising asset and liability structure, accelerating credit asset turnover, and exploring new capital management tools. Besides, through these products, the Bank formed an all-round service system that integrating the issue, underwriting and investment of ABS products, which can help the Bank transform operation mode and better cope with global competition.

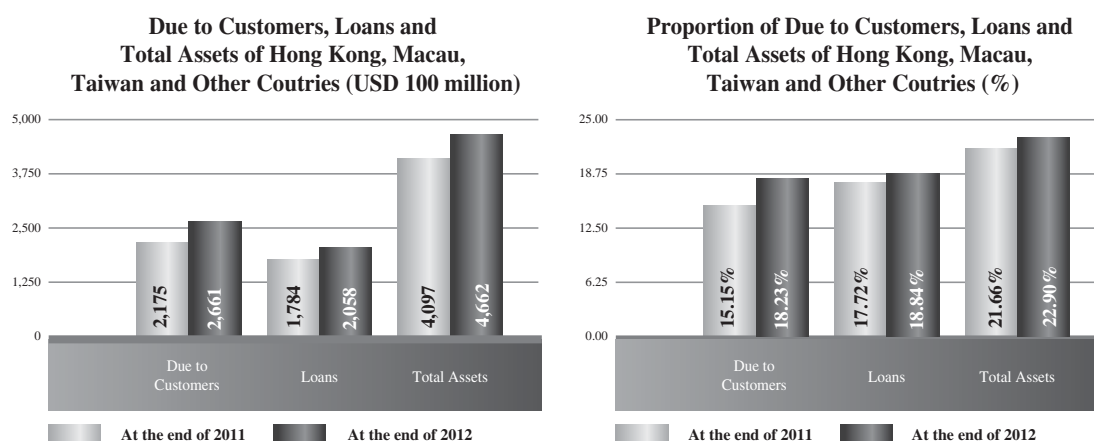
## Village Bank

The BOC Fullerton Community Banks were jointly established by the Bank and Fullerton Financial Holdings Pte. Ltd., which is controlled by Temasek Holdings (Private) Limited. With the aim of “focusing on county area development, supporting farmers and small-sized enterprises, and growing together with communities”, they are committed to providing modern financial services to farmers, small and micro enterprises, individual merchants and the wage-earning class. Adopting a “simple, convenient and fast” community banking mode, BOC village banks designed and introduced a series of attractive financing products, including “Amortization Loan for SME”, “Revolving Loan”, “Bullet Loan for SME” and a series of agricultural loans, etc. based on the growth cycle and capital needs of targeted customers. They also provided financial support to rural households and small and micro enterprises in rural areas through innovative mortgage products. 18 BOC Fullerton Community Banks and 4 sub-branches have been established in Shandong, Hubei, Anhui and Zhejiang. As at the end of 2012, the outstanding deposits of these banks reached RMB2.28 billion, an increase of 159.1% compared with the prior year-end. The balance of loans amounted to RMB1.98 billion, an increase of 330.4% compared with the prior year-end, and the NPL ratio was 0.03%, representative of the soundness of all financial indicators.

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

In 2012, facing complex and volatile international markets, the Bank accelerated the establishment of an integrated global service system and focused on improving its global service, management and support capacities by seizing opportunities arising from China’s “Going Global” strategy and the rapid progress of cross-border RMB business. It continued to expand and optimise its global network, thus sharpening the core competitiveness and sustainable development capacity of its overseas institutions.

*The Bank stably expanded its business size and substantially enhanced its overall strengths.* At the end of 2012, total assets and total liabilities of the Bank's commercial banking operations in Hong Kong, Macau, Taiwan and other countries reached USD466.186 billion and USD444.680 billion respectively, an increase of 13.78% and 13.57% compared with the prior year-end. The Bank's overseas businesses achieved a profit before tax of USD4.879 billion, an increase of 5.36% compared with the prior year. This represents an increase of 14.53% after eliminating the one-off impact of Lehman Brothers related products. The profit before tax of overseas institutions accounted for 16.43% of the Group's total profits before tax, maintaining a leading position among domestic banks. The overseas deposits realised rapid growth, fund sources were broadened and customer deposits reached USD266.121 billion, an increase of 22.34% compared with the prior year-end. The overseas loans amounted to USD205.782 billion, an increase of 15.36% compared with the prior year-end. The Bank took advantage of favourable market conditions for conducting financing activities in overseas markets and introduced various financing products. Its financing balance reached USD40.460 billion, an increase of 82% compared with the prior year-end, a strong indicator of the enhanced independent development capability of the Bank's overseas institutions.



*The Bank stepped up overseas network expansion to cover a wider range of services.* The Bank has established institutions in Hong Kong, Macau, Taiwan and 36 countries, and had a total of 613 overseas institutions at the end of 2012. The opening of the Taipei Branch saw the Bank become the first Chinese mainland commercial bank to establish an institution in Taiwan. The opening of the Stockholm Branch represented the first establishment of a business presence by a Chinese bank in Northern Europe. The opening of the Poland Branch further expanded the Bank's service network in Central and Eastern Europe. The newly launched Bank of China Middle East (Dubai) Limited is the Bank's first institution in the Middle East. In addition, the Bank established representative offices in Kenya and Angola and tier-two institutions in countries and regions such as Macau, Thailand, Cambodia, Australia, Russia, France, the US and Canada. The Singapore Branch obtained the Qualified Full Bank (QFB) license issued by the Monetary Authority of Singapore, making the Bank the ninth commercial bank to obtain this license among the 116 foreign banks in Singapore. In addition, the Bank has opened 6 new China Desks in Oman, Ghana, Peru, Finland, Turkey and Uganda, further expanding its service network.

*The Bank realised rapid growth on cross-border RMB business and maintained its leading market position.* Capitalising on the country's "Going Global" strategy and the trend towards RMB internationalisation, the Bank opened nearly 900 RMB clearing accounts for the correspondent banks and branches of the Bank in over 80 countries and regions across five continents. The Bank maintained its leading position in terms of cross-border RMB settlement volumes and the number of RMB clearing accounts opened. The Taipei Branch received approval to serve as the RMB clearing bank in Taiwan, meaning that the Bank is the only bank that serves as RMB clearing bank qualified for RMB business clearing in Hong Kong, Macau and, Taiwan and Malaysia simultaneously. The domestic and overseas institutions' cross-border RMB settlement volumes amounted to RMB1.2 trillion and RMB1.29 trillion respectively, an increase of 53% and 32% compared with the prior year. The Bank also became the main RMB clearing channel in Germany, France, Luxemburg, Japan, Korea, Indonesia, Malaysia, the Philippines and South Africa, among others. RMB bond underwriting and investment developed rapidly. In Hong Kong, the Bank participated in the issuance of RMB bonds amounting to RMB33.6 billion through its local business platform. Overseas RMB products and services were continuously enriched. The Bank's cash wholesale business covered the Asia Pacific, Europe, America and Africa regions, thus becoming the world's primary channel of offshore RMB cash supply. The Bank played a major role in the establishment of London RMB offshore trading centre.

*The Bank promoted the integrated development of its domestic and overseas businesses and enhanced its service capacity.* Based on the construction of its global customer service system, the Bank provided domestic "Going Global" customers and local middle and high-end customers with high quality financial services. Its overseas operations continued to leverage group-wide advantages in international settlement, trade finance and foreign exchange transactions. The Bank strengthened collaboration and in-depth cooperation between its domestic and overseas institutions and improved its customer development strategy. The Bank stepped up its overseas RMB market expansion and made great efforts to build product systems for trade finance, supply chain financing, commodity financing, factoring, syndicated loans, export credit and global cash management, etc. In 2012, the Bank's overseas operations conducted international settlement of USD1.27 trillion, representing year-on-year growth of 17.16%, while its trade finance balance (excluding BOCHK) reached USD33.672 billion, an increase of 33% compared with the prior year-end. The Bank actively improved its overseas personal financial product and service systems, focused on the development of bank cards, personal loans and wealth management business. It actively pushed forward R&D in wealth management products and accelerated the construction of its business platform and sales network. The Bank built up its overseas institutions wealth management centres and expanded the overseas wealth management business. The Bank delivered bank cards business in Hong Kong, Macau and 14 countries and issued 95 thousand new overseas credit cards, bringing the number of cards up to 320 thousand at the end of 2012, an increase of 26.35% compared with the prior year-end.



## BOCHK

BOCHK maintained its balanced growth strategy and captured opportunities for business growth. It continued to optimise its asset-liability structure and further improve its service capabilities and profitability. BOCHK's key financial ratios and risk indicators remained solid. It was recognised as the world's second strongest bank by *Bloomberg Markets*.

BOCHK proactively managed its assets and liabilities and strengthened its core competencies. Owing to its sound judgement and quick response to market trends, coupled with its flexible deposit strategy, both customer deposits and loans grew satisfactorily. BOCHK maintained its leading position in new mortgage loans and China UnionPay card issuance business in Hong Kong and remained the top mandated arranger in the Hong Kong-Macau syndicated loan market. It reinforced its management of loan pricing and funding costs, which led to a solid growth in net interest margin. BOCHK's loan quality remained sound and its capital base remained solid. Both its classified or impaired loan ratio and consolidated capital adequacy ratio outperformed the market average in Hong Kong.

BOCHK enhanced its business innovation and reinforced its leading position in the offshore RMB business in Hong Kong. It successfully arranged the first 100% RMB-denominated syndicated loan in Hong Kong. BOCHK introduced the first-of-its-kind "Multi-currency Shipping Finance" product and was granted the "Innovation Award — Business Innovation" by Lloyd's List Global Awards 2012. BOCHK closely collaborated with the Bank in cross-border business. This included the launch of product packages that bundled offshore RMB exchange rate and interest rate products with deposits, loans and trade finance, thus lowering customers' exchange rate risk and financing costs. It led the market in RMB deposits, RQFII funds distribution and RMB insurance business.

BOCHK further improved its product and overall service capabilities. The asset management business continued to enrich its product offerings and launched a number of self-branded funds. The private banking service platform was successfully launched to provide unique wealth management services to high-net-worth customers. BOCHK's service capabilities in cash management business were enhanced with the introduction of an intra-day cash pooling service to adapt to customers' cash management needs. Intra-group linkages within the Group's global cash management platform were completed, thus upgrading BOCHK's cross-border cash management capabilities. It also continued to extend its RMB banknotes global network.

BOCHK deepened its customer relationship management by optimising service channels and streamlining processes. It implemented the "Global Relationship Manager Programme" and established the business model of "Integrated Branches for Commercial Business". It also launched the "Business Integrated Account" to provide one-stop financial solutions for corporate customers to manage their multiple bank accounts. BOCHK consolidated its wealth management service platform, equipping its brand new wealth management centre with advanced banking service technologies in order to enhance customer experience of BOCHK's wealth management services. BOCHK's customer service hotline was extended to customers in Chinese mainland. A new service was launched to allow high-net-worth customers of BOCHK and those of the Bank's branches in Guangdong province to perform designated cross-border services in selected branches in either region subject to appointments. BOCHK received for the fifth consecutive year the "SME's Best Partner Award" presented by the Hong Kong General Chamber of Small and Medium Business Limited.

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

## **Diversified Business Platform**

The Bank's subsidiaries earnestly implemented the Group's integrated operational reform and development plan, fully leveraged their professional advantages, and pushed forward customer development, business cooperation, cross-selling and product innovation so as to promote the synergy and maximise profit for the Group.

### ***Investment Banking Business***

BOCI

The Bank operates its investment banking business through BOCI. As at the end of 2012, BOCI had total assets of HKD68.496 billion and net assets of HKD8.744 billion, and realised annual profit after tax of HKD1.052 billion.

BOCI continued to maintain a leading position in the equity underwriting and financial advisory markets. It completed eight IPOs, nine equity placements and four financial advisory deals, ranked the 4th in the Hong Kong IPO market. BOCI also acted as the sole bookrunner and placing agent for the first global equity placement denominated in offshore RMB.

BOCI's bond underwriting business reached a new height and the scale of assets under management had increased significantly. BOCI led 32 deals in bond offerings, certificate of deposit and advisory, ranked the first in the Chinese corporate offshore G3 currency investment grade bond underwriting market in 2012, and was the only Chinese investment bank participated in the offshore USD bond offerings of the three largest petroleum companies in China. Assets under management of its private banking business had been steadily growing, and its banking and securities businesses continued to lead the market. BOCI-Prudential Asset Management Ltd., its asset management company, had increased its total assets under management by 24% compared to the prior year-end, and obtained QFII status.

BOCI's Private Equity business grew rapidly, while the development of global commodities sped up the global expansion. BOCI officially launched the principal investment business. China Culture Industrial Investment Fund, which was initiated by BOCI, achieved strong performance. Bohai Industrial Investment Fund and BOCI Infrastructure Fund also continuously performed well. After obtaining memberships in LME and ICE in 2012, BOCI became the first Chinese financial institution to hold multiple clearing memberships from the world's major commodity exchanges. BOCI also launched commodities repo business.

BOCI had won a series of awards in 2012, including "Hong Kong Investment Management Company of the year 2012" from *World Finance*, "Best local brokerage in Hong Kong" from *AsiaMoney*, "Best Small Cap Equity Underwriter" and "Best Investment Grade Bond" from *FinanceAsia*, "Best Structured Product Equity-Linked" from *The Asset*, "Best Hong Kong MPF Manager (Five Years), Stable Fund" and "Best Hong Kong MPF Manager Since Launch, Stable Fund" from *Asia Asset Management*, etc.

## BOCI China

The Bank operates its domestic securities business through BOCI China. As at the end of 2012, BOCI China had total assets of RMB14.099 billion and net assets of RMB4.931 billion, and realised a profit after tax of RMB423 million, an increase of 14.4% compared with the prior year.

BOCI China leveraged the Group's strengths to provide services in various capital markets. In addition to maintaining its competitive edge in large-scale IPO underwriting projects, BOCI China also actively developed its SME client base, and optimised the structure of its bond underwriting business. The company is currently ranked ninth in lead underwriting volume for bonds and fifth in lead underwriting volume for corporate bonds.

BOCI China enhanced its sales service capacity and outperformed peers in its brokerage business. The company integrated its sales resources by focusing on middle and high-end customers, and expanded its institutional sales business, it also saw success in implementing hierarchical and divisional management of its business units, thus facilitating the transition of its brokerage business towards wealth management and integrated marketing channels. Its brokerage business enlarged market share against prevailing market trends and its core business outperformed peers.

BOCI China's assets under management expanded rapidly. It focused on growing its directional wealth management business, with assets under management for this segment amounting to RMB24.7 billion. Its market share in terms of collective wealth management net assets improved to the 10th position. Moreover, the company's proprietary equity trading business saw a rise in income contribution to more than 20%, thanks to its prudent asset allocation and investment strategy. Furthermore, its futures and direct investment business realised a profit. Its futures business subsidiary actively developed institutional and intermediary businesses. The establishment of a subsidiary named "BOC equity fund for SMEs" was also approved.

BOCI China pushed forward business and product innovation. It made strides in product innovation for secondary markets. The company also launched other innovative businesses such as SME private debt, margin trading and short selling, pledged bonds repurchase and securities trading with repurchase agreements.

## BOCIM

The Bank operates its fund business through BOCIM. As at the end of 2012, BOCIM had total assets of RMB822 million and net assets of RMB723 million, and realised a profit after tax of RMB179 million, increasing 4.3% from the prior year.

BOCIM exerted the Group's integrated operational advantages, strengthened business cooperation with the Bank and recorded excellent achievements both in terms of assets under management and investment performance. By the end of 2012, assets under management in its open-ended fund reached RMB100.1 billion, which exceeded 100 billion mark, up 130% from the prior year-end and representing a remarkable increase in market share. BOCIM also achieved excellent investment performance in its equity and fixed income funds, ranking among the industry's top firms. BOCIM received eight awards from *China Securities Journal*, *Securities Times*, *Shanghai Securities News* and *Morningstar*, further enhancing its brand image and corporate reputation.

### ***Insurance Business***

#### **BOCG Insurance**

The Bank operates its insurance business within Hong Kong through BOCG Insurance. BOCG Insurance owns three branches and one business centre, whose business volume ranked the forefront of general insurance market in Hong Kong. As at the end of 2012, the company had total assets of HKD7.085 billion and net assets of HKD3.867 billion. It recorded a gross written premium of HKD1.632 billion, an increase of 0.78% compared with the prior year, and a profit after tax of HKD74 million, an increase of 1.49% compared with the prior year.

BOCG Insurance strengthened the cooperation with correspondent banks, tailored insurance products to fit the customers' needs and highly promoted the quality personal insurance products in low risk. BOCG Insurance collaborated with BOC Credit Card (International) Limited to provide value added services for BOC business card customers. In addition, BOCG Insurance will expand its overseas market and business channels. Moreover, it would develop a new sales platform to promote insurance products through online and mobile channels.

#### **BOCG Life**

The Bank operates its life insurance business in Hong Kong through BOCG Life. In 2012, BOCG Life's gross premium income was HKD11.9 billion, profit after tax was HKD615 million, a 14-times growth compared with the prior year, maintaining its leading position in the Hong Kong RMB insurance market.

BOCG Life optimised its product mix and introduced the "IncomeGrowth Annuity Insurance Plan", which provides customers with life insurance coverage and guaranteed annuity payments. Meanwhile, products such as "Target 5 Years Insurance Plan Series", "Multi-Plus Savings Insurance Plan" and "RMB Universal Life Insurance Plan" continued to be well received by customers. BOCG Life revamped its operating system to improve customer service quality, creating a solid foundation for future business development.

## BOC Insurance

The Bank operates its property insurance business in the Chinese mainland through BOC Insurance. As at the end of 2012, BOC Insurance recorded total assets of RMB7.263 billion and net assets of RMB2.386 billion. Its premium income stood at RMB4.145 billion, representing an increase of 43.28% compared with the prior year and surpassing the market average by approximately 28%. Profit after tax was RMB322 million, an increase of 648.31% compared with the prior year.

BOC Insurance expanded its product innovation and introduced seven new innovative products including enterprise loan performance guarantee insurance and personal secured loan guarantee insurance. It was also the first insurance company to introduce “single-purpose commercial prepaid card performance guarantee insurance”, becoming one of the first batch insurance companies to have such a product approved by the Ministry of Commerce of PRC. BOC Insurance improved technology standards, implemented its back-office function centralisation project and introduced innovative service modes, launched a customer service micro-blog platform and completed the development of the basic functionalities of its mobile loss assessment capability. It also introduced a domestic trade credit insurance product to adapt to the insurance needs of the Bank’s “Going Global” enterprises and SME customers, and became insurance institution of domestic trade credit insurance premium subsidy programme of China in 2012.

## ***Investment Business***

### BOCG Investment

The Bank operates its direct investment and investment management business through BOCG Investment. Its business scope includes private equity investment, fund investment and management, non-performing asset (NPA) investment, and real estate investment and management. As at the end of 2012, BOCG Investment recorded total assets of HKD77.157 billion, net assets of HKD45.083 billion, and a profit after tax of HKD1.562 billion.

BOCG Investment strengthened its coordinated development with other business units within the Group and actively promoted business model innovation and transformation. The scale of BOCG Investment’s assets under management grew steadily as its asset-backed structured financing business, financial consultancy and advisory services, attempt on establishment of fund-of-funds and USD-denominated fund developed rapidly. BOCG Investment seized the opportunities provided by economic restructuring, asset upgrades and industrial consolidation to increase the scope of its corporate financing, project leverage financing and third-party financing, while at the same time introducing innovative financing modes. It continuously enhanced its investment structure and realised innovative diversified sources of investment returns in response to capital market trends. It achieved a total investment contribution of HKD5.153 billion and generated a total investment income of HKD4.447 billion for the year.

## BOC Aviation

The Bank operates its aircraft leasing business through BOC Aviation. In 2012, BOC Aviation took delivery of 27 aircraft, adding to its fleet of 203 aircraft, of which 177 were self-owned, 24 were managed on behalf of other parties and 2 were on finance leases at the year-end. These aircraft were in service with 56 airlines in 33 countries worldwide. As at 31 December 2012, BOC Aviation had total assets of USD9.1 billion and net assets of USD1.8 billion. It recorded a profit after tax of USD225 million, an increase of 12% compared with the prior year.

BOC Aviation strengthened its coordinated development and cooperation with the Group and facilitated the Group's offering of comprehensive financial services to numerous overseas and domestic airlines and aircraft manufacturers. This included new purchase agreements for 20 aircrafts of C919. BOC Aviation is rated A by Fitch Ratings and BBB by Standard & Poor's.

## Channel Development

### *Outlet Development*

The Bank continued to strengthen network channel construction and optimise the strategic distribution of its outlets, in order to improve customer experience and enhance the comprehensive efficiency. It accelerated the construction of outlets in new towns, new communities, new business and innovation parks and targeted important counties. It also promoted business transformation at the outlets level, expanding the scope of its corporate financial services business and the business coverage of its personal loan, credit card and small-sized enterprise loan businesses. This has comprehensively improved the service capabilities of its grassroots outlets. The Bank also enhanced service efficiency by optimising outlet business processes and improving its level of automation. It standardised outlet service criteria globally in order to enhance customer service experience. By the end of 2012, the number of domestic commercial banking outlets reached 10,521, of which over 1,800 were middle to large-sized fully functional outlets.

The Bank built more self-service facilities and developed their functions. New functions such as interbank transfers through ATMs and business settlement card acceptance were added, and the Bank promoted the rollout of the financial IC card acceptance function to all self-service facilities. As at the end of 2012, the Bank had 39,100 domestic ATMs, 20,900 self-service terminals and 11,800 self-service banks in operation, an increase of 27%, 35% and 25% respectively compared with the previous year, further enhancing the Bank's self-service capabilities.

## *E-Banking*

The Bank further developed and enhanced its e-banking channels, including online banking, telephone banking, mobile banking, self-service banking and home banking. It also optimised product functions and service processes to improve customer service experience. As a result, the number of e-banking customers increased rapidly and the ability of e-banking channels to replace traditional channels continued to strengthen. As at the end of 2012, the Bank's e-banking transaction volumes reached RMB91 trillion, an increase of 32.9% compared with the prior year. The growth in the Bank's e-banking customers is shown in the table below:

Items	Unit: million, except percentages		
	As at 31 December 2012	As at 31 December 2011	Percentage Change
Number of Corporate Online Banking Customers	1.8017	1.0845	66.13%
Number of Personal Online Banking Customers	91.4236	55.7201	64.08%
Number of Mobile Banking Customers	41.8250	17.0541	145.25%
Number of Telephone Banking Customers	76.3675	57.9826	31.71%

The Bank further enriched the product functionalities of its online banking system. It introduced new services to corporate clients such as supply chain financing, corporate pensions, structured wealth management, corporate fund transfers to personal accounts and asset custody services while also optimising service functions such as account inquiry, remittance and wealth management in order to satisfy customer demands. Innovations in online personal banking were strengthened. The Bank enhanced innovation on personal online banking service by introducing a series of products, such as financial IC card, non-card payment, remittance by password, and new services such as remittance packages and reservations at outlets. It further introduced customised online banking service, thus comprehensively improving customer experience.

The Bank continued to promote innovation in mobile banking in order to satisfy customers' diversified financial services needs. The Bank comprehensively optimised user interface design and functionality to enhance customer experience, explored new applications for mobile banking and introduced new enterprise mobile banking services to corporate customers in order to provide cross-channel financial services anytime and anywhere. The Bank maintained basic coverage for all mainstream mobile end-user devices by being the first bank in China to introduce a mobile banking client application for use on the Windows Phone system.

The Bank continued to strengthen its e-Business service capabilities. For personal customers, the Bank introduced new products such as online instalment payment services and significantly enhanced its B2C agreement payment product. For corporate customers, the Bank introduced new products such as the B2B agreement payment product and strengthened the "BOC e-Commerce" service capability. It also provided settlement solutions for large-scale electronic commodities trading, suitable for industries such as the energy, iron and steel and chemical industries.



The Bank further expanded the scope of its overseas e-Banking services and continuously enriched their functionalities. It launched its online global personal account management service in nine overseas countries, including Australia, Germany, France, South Africa and Indonesia, while upgrading its online banking services in Singapore, Malaysia and Japan. The Bank's online banking service now covers 29 overseas countries and regions.

In 2012, the Bank received awards such as “Best Mobile Phone Banking Application” from *The Asian Banker*, “Excellent e-Banking Competence in 2012” from *China Business Journal*, and “Best Online Banking” from *Securities Times*.

### **Information Technology Development**

The Bank continued to follow the lead of information technology and adapt to the technological development trends. It has a steadfast commitment to technology-driven development and technology-guided financial innovation. The Bank applied new thinking, new methods and new technologies to promote innovation in its business, management and technology, and to improve its competitiveness, service capability and profitability.

Building on the successful implementation of its domestic IT Blueprint project, the Bank continuously devoted its efforts towards the functional optimisation of its new core banking system. With the core objective of enhancing customer experience, the Bank emphasised improving the completeness of the functionality, operational flexibility, processing timeliness and risk control effectiveness of its current information system. It also optimised its IT infrastructure and operational maintenance system, thus improving the security of its IT operations and global service capability.

The Bank launched an overseas information system consolidation and transformation project in order to extend the results and advantage of IT Blueprint implementation globally. It also strived to unify its core banking systems and information systems on a global basis, transformed and upgraded overseas information system to a “customer-centric” service model. The Bank aims to promote global channel sharing and establish a global financial service support capability, globally-centralised operating model, global decision-making support and risk control capability as soon as possible.



## **Smart-Bank Construction**

Digitalisation, interactivity, virtualisation and intelligence are the primary characteristics of innovation in information technology. These innovations have deeply impacted human society in terms of socio-organisational structure, business models and lifestyle. They are also sculpting the development of a new operational model for the banking industry. In order to meet the development needs of the intelligent, interactive and internet-connected era, the Bank has strongly promoted smart-bank development and strived to provide its customers with financial services anytime, anywhere and any way in order to create the best customer experience.

To realise smart-bank development, the Bank must combine the full application of advanced technology with its own profound operational management experience. This will forge a core competitiveness, based on optimised customer experience, more intelligent customer service and the satisfaction of diverse customer demands. The construction of the smart-bank system is a long and complex project. It will be founded on three key innovative achievements: First, realise a single-point access and fully responsive service channel. This will greatly enhance the service capabilities of the Bank's electronic channels, promote physical channel transformation, accelerate the construction of emerging channels, strengthen integration and synergies between channels, meet customer demands for "anytime, anywhere" access and provide concise, friendly and high-quality services to customers. Second, build an integrated, interactive, highly efficient and convenient service platform for global enterprise customers. This platform, which is centred on customer relationship managers, will be effectively convey the needs of corporate finance customers and serve as the vehicle to deliver products and services to global markets through the integrated application of new technologies, such as mobile internet smartphones, and consolidating the full scope information resources from corporate customers, industries, products and channels. Third, establish an agilely, responsive and highly flexible innovation mechanism that creates a framework for innovation discovery, conceptualisation and pilot application. This mechanism will stimulate a passion for innovation among customers, employees and partners, foster a culture of innovation and strengthen the sustainability of the Bank's innovation capabilities.

In 2012, according to the overall plan for smart-bank development, the Bank started to construct a global service platform for corporate customers and established a new department responsible for innovation and R&D. It also established an online electronic innovation platform and organised the inaugural "Innovation Week". In addition, the Bank strengthened the management of new products and pushed forward the construction of its "Future Banking Laboratory" and improved the efficiency and quality of product innovation, with a view of responding to rapidly changes in the market and the personalised needs of customers. The Bank remained steadfast in its commitment to R&D and promotion as well as accelerated the promotion and application of R&D results.

## **RISK MANAGEMENT**

In 2012, the Bank further strengthened its comprehensive risk management, to continuously enhance the capability, quality and efficiency of risk management. It actively strengthened risk prevention and control in response to changes in the macroeconomic environment. The Bank continued to build a precise, streamlined and proactive risk management and internal control system by optimising risk management methods and procedures.

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

The risk management framework of the Bank is comprised of the Board of Directors and its Risk Policy Committee, the Risk Management and Internal Control Committee (which is in charge of the Anti-Money Laundering Committee, the Securities Investment and Management Committee and the Asset Disposal Committee), the Risk Management Unit, the Financial Management Department and other related departments. The Board of Directors of the Bank is responsible for approving the overall risk management strategy and risk appetite, and supervising senior management in its implementation of the strategy. The senior management is responsible for implementing the risk management strategy, risk preferences and policies determined by the Board of Directors, as well as monitoring the risks arising from the Bank's business undertakings. Dedicated departments within the risk management function are responsible for the daily management of various risks, including identifying, measuring, monitoring, reporting and controlling those risks. The Bank manages risk at the branch level through a vertical management model, manages risk at the business department level through a window management model, represents its risk management requirements and manages risk at the subsidiaries level through the subsidiaries' boards of directors and their risk policy committees.

## **Credit Risk Management**

Closely following changes in the macroeconomic and financial situation and changes to regulatory requirements, the Bank further improved its credit risk management policies, pushed forward the adjustment of its credit structure, reinforced the management of credit asset quality and took a proactive and forward-looking stance on risk management.

The Bank continuously optimised its credit structure. With the aim of advancing strategic implementation, optimising the credit structure and balancing risks, capital and return, the Bank stepped up the application of the New Basel Capital Accord and improved the management of its credit portfolios. Meanwhile, in line with the government's macro-control measures and industrial policies, the Bank put in place guidelines for industrial lending and implemented three-year plans for its industrial policies so as to fully support the building of an industrial policy system.

The Bank strengthened its credit asset quality management. Adhering to the general principle of “stabilising quality through pragmatic and forward-looking management”, the Bank kept a close eye on changes in the economic situation, built a risk management accountability system for major customers, intensified efforts to exit or reduce loans to potential high-risk customers and enhanced the supervision of asset quality in key areas. The Bank has already developed a comprehensive asset quality monitoring and management system covering post-lending management, risk classification, the reporting of material risk events and regular risk investigation.

In terms of corporate banking, the Bank further strengthened risk identification and control in key fields, strengthened the management of loans to LGFVs, strictly controlled the gross scale and preference of loans through limit management, and regulated the management of newly increased loans, exited loans and existing loans to LGFVs. The Bank earnestly implemented the government's macro-control policies and regulatory measures in the real estate sector and enhanced its follow-up studies on such policies and the market. It conducted stress testing on real estate sector loans, examined risks in a timely manner and controlled the concentration risk arising from large-scale real estate enterprises.

In terms of personal banking, the Bank further improved its management policies for personal business loans and personal credit guarantee partners. It also strictly implemented differentiated policies for personal housing mortgage loans, resulting in the healthy development of its personal housing mortgage loan business. The Bank monitored and analysed personal credit asset quality on a regular basis, continuously utilised an early warning and suspension mechanism for personal loans and strengthened risk control on personal credit.

The Bank closely monitored the quality of its overseas credit assets and further emphasised country risk management for potentially high-risk countries and regions.

The Bank also stepped up the collection and disposal of NPLs with a focus on innovating disposal modes, improving disposal efficiency and refining the accountability mechanism. With emphasis on efficiency, the Bank improved the centralisation, delicacy and professionalism in off-balance sheet assets such as written-off bad debts' management and disposal. In order to improve its professional collateral management, the Bank strengthened the management of loans extended to borrowers' counterparties, enhanced and improved the building and operation of the Collateral Assessment Centre, and continuously advanced internal assessment and value re-inspection of collaterals.

The Bank comprehensively enhanced its risk management expertise. It has built competence and qualification models for staffs engaged in customer rating, risk classification, credit approval and credit execution, enhanced the qualifications and professional capabilities of risk management practitioners and expedited the training of specialist employees through independently developed courses.

The Bank measured and managed the quality of its credit assets based on the *Guideline for Loan Credit Risk Classification* issued by CBRC, which requires Chinese commercial banks to classify loans into the following five categories: pass, special-mention, substandard, doubtful and loss, among which loans classified as substandard, doubtful and loss are regarded as NPLs. In order to optimise delicacy management of its credit asset risk, the Bank uses a 13-tier risk classification criterion for corporate loans to domestic companies and dynamically adjusts credit assets in response to major changes in risk status. In 2012, the Head Office and tier-one branches continued to take charge of approving and certifying the classification of corporate loan risk on a centralised basis for domestic branches of the Bank. In addition, the Bank strengthened the management of loan terms, set stricter standards for loan classification, gradually improved monitoring methods and strived to build an asset quality monitoring system combining post-lending management, risk classification, material risk event reporting and regular risk investigation. The Bank emphasised the dynamic tracking of customers in the real estate, photovoltaic and shipbuilding sectors so as to reflect risk status in a timely manner, adjust risk classification in due course and therefore effectively prevent concentrated risk. *The Guideline for Loan Credit Risk Classification* is also applicable to overseas operations of the Bank. However, the Bank will classify credit assets in line with local applicable rules and requirements if they are stricter.

As at the end of 2012, the Group's NPLs totalled RMB65.448 billion, representing an increase of RMB RMB2.174 billion compared with the prior year-end. The NPL ratio decreased to 0.95%, down 0.05 percentage point compared with the prior year-end. The Group's allowance for impairment losses on loans and advances was RMB154.656 billion, representing an increase of RMB14.980 billion from the prior year-end. The coverage ratio of allowance for loan impairment losses to NPLs was 236.30%, up 15.55 percentage points from the prior year-end. NPLs of domestic institutions totalled RMB62.756 billion, an increase of RMB1.830 billion compared with the prior year-end. The domestic NPL ratio decreased to 1.13%, down 0.04 percentage point compared with the prior year-end. The Group's outstanding special-mention loans amounted to RMB207.535 billion, an increase of RMB15.031 billion compared with the prior year-end, accounting for 3.02% of total outstanding loans, down 0.01 percentage point from the prior year-end.

### Five-category Loan Classification

Items	Unit: RMB million, except percentages			
	As at 31 December 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
<b>Group</b>				
Pass	6,591,713	96.03%	6,087,036	95.97%
Special-mention	207,535	3.02%	192,504	3.03%
Substandard	28,643	0.42%	26,153	0.41%
Doubtful	24,276	0.35%	24,584	0.39%
Loss	12,529	0.18%	12,537	0.20%
Total	6,864,696	100.00%	6,342,814	100.00%
NPLs	65,448	0.95%	63,274	1.00%
<b>Domestic</b>				
Pass	5,300,574	95.36%	4,966,201	95.33%
Special-mention	195,352	3.51%	182,567	3.50%
Substandard	27,210	0.49%	24,964	0.48%
Doubtful	23,254	0.42%	23,621	0.45%
Loss	12,292	0.22%	12,341	0.24%
Total	5,558,682	100.00%	5,209,694	100.00%
NPLs	62,756	1.13%	60,926	1.17%

### Migration Ratio

Items	Unit: %		
	2012	2011	2010
Pass	2.61	2.56	2.02
Special-mention	15.31	12.94	5.13
Substandard	44.55	55.42	23.05
Doubtful	8.48	5.68	15.66

In accordance with International Accounting Standard No. 39 (“IAS 39”), loans and advances to customers are considered impaired, and allowances are made accordingly, if there is objective evidence of impairment resulting in a measurable decrease in estimated future cash flows from loans and advances. As at the end of 2012, the Group reported identified impaired loans of RMB65.455 billion, an increase of RMB2.149 billion compared with the prior year-end. The Group’s impaired loans to total loans ratio was 0.95%, a decrease of 0.05 percentage point from the prior year-end. Domestic institutions reported identified impaired loans of RMB62.844 billion, an increase of RMB1.685 billion compared with the prior year-end. The domestic impaired loans to total loans ratio decreased by 0.04 percentage point to 1.13% from the prior year-end. The Bank’s operations in Hong Kong, Macau, Taiwan and other countries reported identified impaired loans of RMB2.611 billion and impaired loans to total loans ratio of 0.20%, up RMB0.464 billion and 0.01 percentage point compared with the prior year-end, respectively.

### *Movement of Identified Impaired Loans*

Unit: RMB million			
Items	2012	2011	2010
<b>Group</b>			
Balance at the beginning of the year	63,306	63,876	76,006
Increase during the year	28,246	20,804	20,780
Reduction during the year	(26,097)	(21,374)	(32,910)
Balance at the end of the year	65,455	63,306	63,876
<b>Domestic</b>			
Balance at the beginning of the year	61,159	62,211	73,680
Increase during the year	26,387	19,726	20,020
Reduction during the year	(24,702)	(20,778)	(31,489)
Balance at the end of the year	62,844	61,159	62,211

### *Loans and Identified Impaired Loans by Currency*

Unit: RMB million						
Items	2012		As at 31 December		2010	
	Loans	Impaired loans	Loans	Impaired loans	Loans	Impaired loans
<b>Group</b>						
RMB	5,246,944	52,301	4,775,494	50,541	4,149,806	54,583
Foreign currency	1,617,752	13,154	1,567,320	12,765	1,510,815	9,293
Total	6,864,696	65,455	6,342,814	63,306	5,660,621	63,876
<b>Domestic</b>						
RMB	5,069,127	52,226	4,634,915	50,056	4,127,410	54,359
Foreign currency	489,555	10,618	574,779	11,103	631,175	7,852
Total	5,558,682	62,844	5,209,694	61,159	4,758,585	62,211

The Bank makes adequate and timely allowances for impairment losses in accordance with prudent and authentic principles. Allowances for impairment losses on loans consist of individually assessed and collectively assessed allowances. Please refer to Notes II.4 and VI.3 to the Consolidated Financial Statements for further discussion of the accounting policy in relation to allowances for impairment losses.

In 2012, the Group's impairment losses on loans and advances stood at RMB19.086 billion, a decrease of RMB0.186 billion compared with the prior year, and the credit cost was 0.29%, a decrease of 0.03 percentage point compared with the prior year. Of this, domestic institutions registered impairment losses on loans and advances of RMB17.812 billion, a decrease of RMB1.115 billion compared with the prior year, and the credit cost was 0.33%, a decrease of 0.05 percentage point compared with the prior year.

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

Unit: %

<b>Main regulatory ratios</b>	<b>Regulatory standard</b>	<b>As at 31 December 2012</b>	<b>As at 31 December 2011</b>	<b>As at 31 December 2010</b>
Loan concentration ratio of the largest single borrower	≤10	2.6	3.1	2.9
Loan concentration ratio of the ten largest borrowers	≤50	16.9	18.9	20.2

Notes:

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

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

The following table shows the top ten individual borrowers as at 31 December 2012:

Unit: RMB million, except percentages			
	<b>Industry</b>	<b>Outstanding loans</b>	<b>% of total loans</b>
Customer A	Water conservancy, environment and public facilities management industry	25,542	0.37%
Customer B	Manufacturing	21,862	0.32%
Customer C	Water conservancy, environment and public facilities management industry	20,000	0.29%
Customer D	Mining	17,900	0.26%
Customer E	Power, mining and agriculture	15,987	0.23%
Customer F	Transportation and logistics	14,341	0.21%
Customer G	Business, services	13,911	0.20%
Customer H	Business, services	12,763	0.19%
Customer I	Production and supply of electric power, gas and water	12,365	0.18%
Customer J	Transportation and logistics	12,308	0.18%

### Market Risk Management

The Bank continued to intensify market risk monitoring and early warning at the Group level and improved the market risk management in trading book and banking book. Through the implementation of the New Basel Capital Accord, the Bank continuously optimised its limit structure and risk monitoring process, hence further enhancing the Group's market risk management.

In line with the principle of centralised management, the Bank intensified risk monitoring and analysis of the Group's overall trading business, improved market risk management of the trading business of domestic and overseas branches and subsidiaries, and refined monitoring and information reporting system. It improved the market risk limit framework, expanded limit coverage, and strengthened limit monitoring, early warning and reporting. In addition, the Bank enhanced its forward-looking market analysis and proactive risk management by closely following regulatory and market development. For more details regarding market risks, please refer to Note VI.4 to the Consolidated Financial Statements.

The Bank continued to upgrade the IT system of internal model approach ("IMA") for market risk at the Group level, boosted new financial markets business and met the latest consolidation requirements as set forth in the *Administrative Measures for the Capital of Commercial Banks (Trial)*. It also completed the biennial comprehensive validation of internal models, ensuring the accuracy of IMA measurement. The IMA system for market risk won the Silver Award in the Banking Technological Development Awards hosted by PBOC.



The Bank assessed the interest rate risk in the banking book mainly through analysis of interest rate re-pricing gaps, made timely adjustments to the structure of assets and liabilities based on changes in the market situation, and controlled the fluctuation of net interest income within an acceptable level. Meanwhile, it also conducted quantitative assessment on the investment banking risks in the banking book through value at risk (“VaR”), stress testing and sensitivity indicators, in full consideration of the influence of risks on the bond price. It further reinforced the centralised management of the Group’s bond portfolio and built a uniform mechanism for managing the risk appetite and risk profile of its subsidiaries’ bond investments through the Securities Investment and Management Committee. The Bank conducted stress tests related to the European debt crisis and developed corresponding risk emergency plans. In addition, the Bank adjusted its bond investment strategy in a timely manner and strengthened the risk management on bond investments.

Assuming that the yield curves of all major currencies were to shift up or down 25 basis points in parallel, the Group’s banking book sensitivity analysis of net interest income on major currencies is as follows<sup>7</sup>:

Unit: RMB million

	<b>As at 31 December 2012</b>			As at 31 December 2011		
<b>Items</b>	<b>RMB</b>	<b>USD</b>	<b>HKD</b>	RMB	USD	HKD
Up 25 bps	<b>(1,193)</b>	<b>(78)</b>	<b>(226)</b>	(2,184)	301	43
Down 25 bps	<b>1,193</b>	<b>78</b>	<b>226</b>	2,184	(301)	(43)

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

### **Liquidity Risk Management**

The scale, structure and maturity of the Bank’s assets and liabilities are determined according to the principle of balanced development. In order to achieve the appropriate balance of “liquidity, safety and profitability”, the Bank enhanced asset liquidity and financing resource stability and maintained liquidity at a reasonable level.

<sup>7</sup> This analysis is based on the approach prescribed by CBRC, which includes all off-balance sheet positions. It is presented for illustrative purposes only, and is based on the Group’s gap position as at the end of 2012 without taking into account any change in customer behavior, basis risks or any prepayment options on debt securities. The table has only shown the potential impact on the Group’s net interest rates moving up or down 25 basis points.

The Bank enhanced its forward-looking capability on liquidity risk management by paying close attention to changes in the domestic and overseas economic situation and capital conditions in the market, establishing a comprehensive liquidity risk limit indicators and early warning system and optimising its rolling cash flow forecast mechanisms. The Bank refined the Group's financing strategy so that the core deposit absorption was intensified and the stability of financing resources was improved. The Bank seized the opportunity presented by lower interest rates in overseas markets to expand the funding source and optimise its funding source structure.

The Bank conducted quarterly liquidity stress testing to evaluate its liquidity risk tolerance under different distressed scenarios. The testing results showed that the Bank has adequate ability to mitigate stress in distressed scenarios.

As at the end of 2012, the Bank's liquidity position, as shown in the table below, met regulatory requirements. (Liquidity ratio is the indicator of the Group's liquidity; excess reserve ratio and inter-bank ratios are the indicators of liquidity of the Bank's domestic operations)

			Unit: %		
Major regulatory ratios		Regulatory standard	As at 31 December 2012	As at 31 December 2011	As at 31 December 2010
Liquidity ratio	RMB	≥25	49.8	47.0	43.2
	Foreign currency	≥25	65.2	56.2	52.2
Excess reserve ratio	RMB	—	3.2	2.9	2.1
	Foreign currency	—	27.7	24.3	14.6
Inter-bank ratio	Inter-bank borrowings ratio	≤8	1.6	0.82	1.00
	Inter-bank loans ratio	≤8	2.6	2.25	1.08

Notes:

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

Liquidity gap analysis is one of the methods used by the Bank to assess liquidity risk. Liquidity gap results are periodically calculated and monitored and used for sensitivity analysis and stress testing. As at the end of 2012, the Bank's liquidity gap situation was as follows: (for details of the liquidity position, please refer to Note VI.5 to the Consolidated Financial Statements.)

Unit: RMB million

Items	As at	As at
	31 December 2012	31 December 2011
Overdue	13,178	12,777
On demand	(4,299,722)	(3,886,641)
Up to 1 month	771,977	625,317
1–3 months (inclusive)	(224,823)	(407,214)
3–12 months (inclusive)	378,843	372,733
1–5 years (inclusive)	1,339,994	1,418,664
Over 5 years	2,882,095	2,621,501
Total	861,542	757,137

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

## Reputational Risk Management

The Bank implemented the *Guidelines for Reputational Risk Management of Commercial Banks* formulated by CBRC and followed its policy on reputational risk management. It stepped up the consolidated management of reputational risk and improved reputational risk management processes, regularly conducting judgement, identification, assessment and control of reputational risk and exploring the capital measurement of reputational risk. The Bank closely monitored, reported and responded to relevant public opinions and dealt effectively with reputational risk events. The Bank actively strengthened brand marketing and communications with clients through new social media. It organised reputational risk management training at the Group level, cultivated a reputational risk management culture, and tried to construct a long-acting prevention mechanism for reputational risk.

## Internal Control and Operational Risk Management

### Internal Control

The Board of Directors, the senior management and their special committees earnestly performed their duties regarding internal control and supervision, emphasised risk early warning and prevention and improved its forward-looking capability on internal control.

Branches, business departments and staff at various levels of the Bank are the Group's first line of defence of internal control, responsible for internal control when undertaking business development. Alongside the transformation of corporate financial businesses in its branch outlets, the Bank continuously streamlined business processes and improved operational rules and post-restriction mechanisms in its branch outlets, to increase their mid-event risk control capability.

The Risk Management Unit and the business management departments are the second line of defence of internal control. They are responsible for the overall planning of internal control policies, and for directing, examining, monitoring and assessing the work of the first line of defence. The Bank established and implemented a risk management accountability system

with a focus on key areas, businesses and staff. It carried out risk investigations, strengthened rectifications and accountability system, improved the emergency response mechanism, reinforced the management of key businesses and key employees and supervised and directed the first line of defence in its exercise of self-control. The Bank intensified data analysis and conducted targeted inspections by making full use of its massive data system so as to strengthen the enforcement of the first line of defence.

The Bank's internal audit function is the third line of defence of internal control. It fully performed this role by dynamically assessing and improving the appropriateness and effectiveness of the Bank's risk management, internal control and corporate governance. The Bank vigorously promoted transformation and improvements of its internal audit function, accelerated risk response at the group level, continued to reinforce the audit and supervision of the Bank's strategically critical and highly regulated business lines and institutions and strengthened the inspection and assessment of the Group's comprehensive risk management and internal control, so as to continuously build and enhance a long-acting internal control mechanism and support the Group's development.

The Bank continued to push forward the implementation of the *Basic Standard for Enterprise Internal Control* and relevant guides, prepared and released the *Work Plan for Implementation of Internal Control Standard in 2012*, launched and applied internal control policies, mechanisms, tools and systems within the Group, and provided more guidance to overseas institutions and subsidiaries on implementation of internal control. Emphasis was placed on developing and applying information technology, enhancing the Bank's ability to predict risk and promoting automatic, delicate and professional internal control.

The Bank established and implemented a systematic financial accounting policy system in accordance with the relevant accounting laws and regulations. Accordingly, the Bank's accounting basis was solidified and the level of standardisation and elaboration of financial accounting management was continuously improved. In 2012, the Bank focused on accounting information quality management, continued its research into the drafting and amendment of various accounting policies as well as comprehensively promoting the management of branches by accounting codes and the basic development of an accounting management system complementing the IT Blueprint. The Bank also strengthened the consolidated financial statement management of its subsidiaries and effectively guarded against consolidation risk. In addition, it developed standardised procedures for the preparation of financial statements, continued to push forward the construction of a financial information system, completed the system upgrading and application of its financial reporting system and continuously improved the automation level of its financial statement preparation. Through these measures, the Bank ensured the effectiveness of its internal controls over the financial reporting process, prepared financial statements in accordance with the appropriate accounting standards and accounting policies and ensured that the accounting information disclosed in its financial statements presented a true and fair view of the Bank's financial position, operating performance and cash flows.

### ***Operational Risk Management***

The Bank has established an operational risk management system suitable for its business nature, scale and product complexity. This system comprises an operational risk governance

framework, risk policies and procedures, risk management tools application, capital measurement mechanisms and risk management IT systems. The Bank continued to improve its internal control and operational risk management system and standardised its reporting mechanism by building a group-wide operational risk governance framework covering all levels, based on a clearly defined division of duties. The Bank has established operational risk policies and regulations at the group-level, further improved management processes and mechanisms for risk classification, identification, assessment, mitigation, monitoring and reporting, and standardised the economic capital management system and management assessment system for operational risk.

The Bank promoted the application of operational risk management tools and improved its operational risk management IT system. The Risk and Control Assessment (“RACA”) tool was applied in the annual assessment of potential risks and risk controls in business processes. Other assessments were triggered by material operational risk events, major changes in systems or procedures, new products, new businesses and other special circumstances. The Bank further refined its key risk indicators (“KRI”) monitoring system, re-inspected and updated the existing indicator system, monitored key risks and significant controls on a quantitative basis and conducted timely investigations and corrections based on early warning information. It conducted operational Loss Data Collection (“LDC”), analysed and reported on the distribution of risk events, reasons and procedures, and regularly validated data. The Bank conducted operational risk management assessment and capital measurement to further refine its operational management. The Bank optimised its operational risk management information system to support operational risk management of overseas institutions. The Bank actively promoted the building of a group operational risk monitoring and analysis platform, integrated its monitoring resources, and improved its monitoring mechanism.

The Bank placed great emphasis on enhancing risk prevention and control related to fraud and proactively identified, assessed, controlled and mitigated risks. In 2012, the Bank succeeded in preventing 127 external cases valued at RMB0.285 billion, and maintained a low occurrence of fraud risk and other operational risk events.

### ***Compliance Management***

The Bank proactively monitored the compliance risk and enhanced the Group’s overall compliance risk management capabilities so as to increase the Group’s overall level of compliance. It monitored compliance information such as the latest regulatory requirements, sanctions, inspections and assessments imposed on the Group, carried out comprehensive assessment and research into compliance risk and established a prevention and control mechanism for regulatory sanctions by coordinating the business departments and legal and compliance departments of its institutions at all levels. It stressed the importance of group-wide sharing of compliance information, ensured the timely circulation and reporting of the Group’s overall compliance risk profile and material risk events and conducted assessments of the compliance management capacities of its subsidiaries.

The Bank continued to enhance its domestic anti-money laundering (“AML”) monitoring and analysis system and analysed the differentiated demands of its overseas AML system. It closely tracked international trends and changes in the sanction compliance requirements of related countries and regions, and adjusted its business policies in a timely manner. It advanced the money laundering risk grading of customers, continued to conduct off-site monitoring of suspicious transactions, established a transaction monitoring mechanism for high-risk customers and continuously upgraded its monitoring models and procedures for suspicious transactions. In addition, the Bank strengthened the cultivation of AML expertise and improved the AML capabilities of its employees and branch management.

The Bank intensified the management of its related transactions and internal transactions. It updated databases of the Group’s related parties and enhanced the management quality and efficiency of related party information. It pushed forward the launch and optimise of the related transactions monitoring IT system and gradually improved the continuous monitoring mechanism for related transactions. Following the administrative measures for internal transactions, the Bank built up an information reporting platform to support the regular reporting of the Group’s internal transactions.

### **New Basel Capital Accord Implementation**

In line with the principles of “adaptability and applicability”, the Bank simultaneously undertook implementation of Basel II & III and the construction of the G-SIFI system. The Bank enhanced its risk management capabilities and advanced transformative development by following the *Administrative Measures for the Capital of Commercial Banks (Trial)* promulgated by CBRC.

The Bank has basically completed the first-phase work for the New Basel Capital Accord implementation and has achieved the coordinated advancement of Pillars I, II and III. It has also rectified problems identified by CBRC’s assessment and cooperated with CBRC’s regulatory inspections. The Bank has applied to CBRC to implement advanced capital management approaches. Specifically, the Bank has sought approval to apply a foundation internal rating based (“FIRB”) approach to non-retail credit risk, an internal rating based (“IRB”) approach to retail credit risk, an internal model approach to market risk and a standardised approach to operational risk. The Bank will accelerate preparations for the implementation of an advanced IRB approach for non-retail credit risk and an advanced measurement approach (“AMA”) for operational risk.

The Bank made great efforts to apply the New Basel Capital Accord across the five core application fields and six advanced application fields required by CBRC, as well as the Bank's unique application fields, with a focus on the quantification and communication of risk appetite. The Bank completed the quantification of the Group's risk appetite, improved its risk quantification and analysis report system and expanded the application of stress testing. The Bank strengthened the communication of the Group's risk appetite, advanced the construction of the economic capital model under the New Basel Capital Accord, deepened its performance appraisal of economic capital and included such indicators as risk-adjusted return on capital (RAROC) and economic value added (EVA) into the performance appraisal system of the branches and business lines of the Bank. The Bank also substantially reinforced the use of various risk measurement tools across the entire credit procedure, including the two-dimensional rating matrix, the RAROC/EVA analysis matrix, the RAROC measurement tool, risk mitigation measurement tool, and trade finance and letter of guarantee measurement tool, in order to support the Bank's transformative development.

## **Capital Management**

The Bank strictly conformed to supervisory regulations, firmly established the developmental concept of "capital-efficient profitability", continuously enhanced capital planning management and asset structure optimisation and proactively explored various channels for replenishing capital to ensure that the capital adequacy ratio satisfied the regulatory requirements, accommodated to change in its risk situation and supported the Bank's sustainable development.

Guided by latest capital regulations, the Bank has continuously optimised its on-and off-balance asset structure. It introduced a bank-wide capital constraint concept and encouraged proactive efforts to optimise business structure by intensifying capital budgeting and assessment. Specific measures included increasing capital allocation to the capital-lite businesses, devoting great efforts to developing fee-based business, reasonably controlling the rise of off-balance sheet risk assets, strictly limiting the size of high-risk-weighted assets, and requiring more guarantee and pledge risk mitigation during the credit process, etc., so as to efficiently reduce capital charges.

The Bank successfully issued RMB23 billion of subordinated bonds in China's inter-bank bond market on 27 November 2012. The Bank has been paying close attention to capital regulations, promoting research on innovative capital instruments, and proactively exploring financing channels to replenish capital under new capital regulations.

As at the end of 2012, the Bank's capital adequacy ratio, core capital adequacy ratio and leverage ratio stood at 13.63%, 10.54% and 5.15% respectively, all within the target range. The return on economic capital increased steadily. The Bank has satisfied regulatory requirements and realised a sustained appreciation in shareholders' value at the same time. Please refer to Note VI.7 to the Consolidated Financial Statements for more details.

### **Re-enrolment as a G-SIFI**

The Financial Stability Board (“FSB”) has twice announced lists of Global Systemically Important Financial Institutions (“G-SIFIs”) on 4 November 2011 and 1 November 2012. The Bank was enrolled for both times as the only financial institution from China or any emerging economy to be recognised as such. The G-SIFIs list is determined by the FSB and the Basel Committee on Banking Supervision (“BCBS”). The Bank’s inclusion as a G-SIFI is recognition of China’s economic development and financial reform by the international community, and recognition of the Bank’s business performance by international financial regulators.

Being selected as a G-SIFI has provided opportunities for the Bank to deepen its reform and step up its development. Meanwhile, as a G-SIFI, the Bank is subject to stricter international supervision and higher regulatory requirements, and is faced with fiercer global competition. The Board of Directors and the senior management of the Bank have paid close attention to G-SIFIs related work and integrated such work with the New Basel Capital Accord implementation in order to push forward related work. The Bank set up a special team to formulate its recovery and resolution plan and was cooperative in regulatory assessments and estimations. The Bank continuously strengthened its capabilities in risk management, consolidated management at the Group level and updated its risk identification and measurement tools. It continuously improved its cross-border and trans-sector data integration ability, so as to consolidate its databases.

In response to the G-SIFIs programme, the Bank will push forward its development strategies, comprehensively enhance its risk management and internal control and continue to improve its market competitiveness, customer service capability and sustained profitability. Moreover, it will highlight its business features, expand its brand reach and accelerate towards its goal of becoming a premier multinational bank, with the aim of safeguarding global financial stability and development.



## ORGANISATIONAL MANAGEMENT, HUMAN RESOURCES DEVELOPMENT AND MANAGEMENT

### Organisational Management

As at the end of 2012, the Bank had a total of 11,277 domestic and overseas branches, subsidiaries and outlets, including 10,664 branches, subsidiaries and outlets in Chinese mainland and 613 branches, subsidiaries and representative offices in Hong Kong, Macau, Taiwan and other countries. Its domestic commercial banking business has 37 tier-one and direct branches, 300 tier-two branches and 10,183 outlets.

In 2012, the Bank further improved its global organisational structure and optimised institution layout. The Bank set up Shanghai RMB Trading Unit to support the construction of Shanghai international finance centre, and established the Innovation and R&D Department in Head Office to enhance its product innovation capability and push forward innovative, transformative and cross-border development.

### Geographic distribution of organisations and employees:

Unit: RMB million/unit/person, except percentages

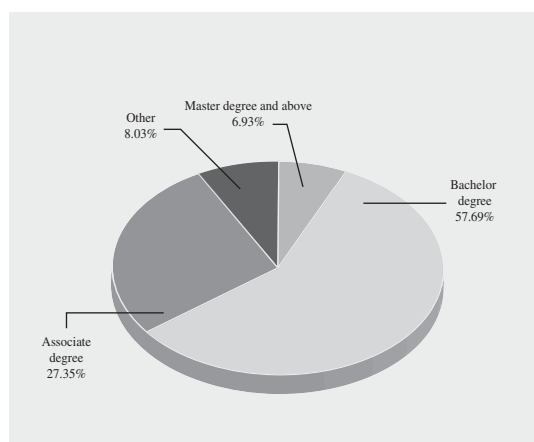
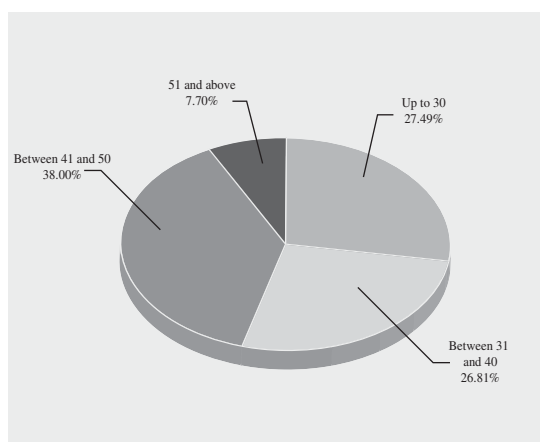
Items	Assets		Organisations		Employees	
	Total assets	% of total	Number	% of total	Number	% of total
Northern China	5,105,055	33.61%	1,704	15.11%	54,279	17.97%
Northeastern China	614,058	4.04%	941	8.34%	26,107	8.64%
Eastern China	3,035,879	19.98%	3,568	31.64%	92,989	30.79%
Central and Southern China	2,212,224	14.56%	2,767	24.54%	69,059	22.87%
Western China	1,090,088	7.17%	1,684	14.93%	37,465	12.40%
Hong Kong, Macau and Taiwan	2,048,370	13.48%	509	4.52%	18,446	6.11%
Other countries	1,087,203	7.16%	104	0.92%	3,671	1.22%
Elimination	(2,512,262)					
Total	12,680,615	100.00%	11,277	100.00%	302,016	100.00%

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

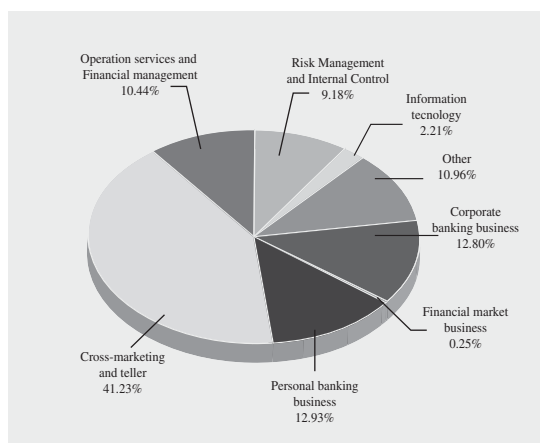
### Human Resources Development and Management

As at the end of 2012, the Bank had 302,016 employees. There were 279,899 employees in the Chinese mainland, which included 275,637 (containing 59,573 external contractual staff) in the domestic commercial banks; and 22,117 employees in Hong Kong, Macau, Taiwan and other countries. As at the end of 2012, the Bank had incurred retirement expenses for a total of 6,520 retirees.

Composition of contracted staff in the Bank's domestic commercial banking business by age group and education level were as follows:



Composition of staff in the Bank's domestic commercial banking business by job function was as follows:



In 2012, in line with the Group's development strategy and annual priorities, and followed the guidelines of serving strategy, adjusting structure, innovating systems and promoting development, the Bank focused on pragmatic innovation and prioritising grassroots and frontline operations, further optimised human resources allocation, strengthened talent development and training, deepened system reforms and continued to improve its strategic, professional and service-oriented human resources management system.

In terms of human resources allocation and management mechanisms, the Bank continuously optimised its staff structure with an emphasis on grassroots operations. It increased staffing at the grassroots level and encouraged a strong flow of talent within the Group. With a focus on operating efficiency, the Bank improved its globally integrated performance management system, optimised its performance-based staff cost distribution mechanism, intensified “incentive and restraint” measures and promoted the realisation of the Group’s operational objectives. The Bank continued to adopt a “position-related and performance-based” employee remuneration mechanism, paid reasonable compensation according to employee’s responsibility, competency and performance, based on related management.

In terms of talent cultivation and team building, the Bank improved the “ladder system” of training courses by introducing different tiers and course types, strengthened the cultivation of business management at all levels, reinforced core professional team building, and carried out key talent development projects such as the “Golden Collar Project” for internationalised financial talents, the “Elite Project” for overseas business talents and the “Extended Project” for the diversified operation business talents. In 2012, the Bank held 58,844 training courses with 2,167,487 class participants.

In 2012, the Bank pushed forward the reform of human resources management in its overseas institutions, formulated relevant policies and measures and improved the human resources management service models that appropriately for overseas operational management. The Bank assigned more employees to work abroad, strengthened the reserve of such employees, and diversified talent exchange models. Through these measures, the Bank continuously improved the personnel quality of its overseas institutions to support their business development. The Bank further enhanced the human resource management of its subsidiaries and established a differentiated human resource management mechanism according to the “one subsidiary one policy” principle, and strengthened the development and retention of employees with diversified capabilities. The Bank’s subsidiaries have 4,898 employees who are involved in diversified business activities.

## **OUTLOOK**

In 2013, China is expected to continue making economic progress while maintaining stability. The proactive fiscal policies and prudent monetary policies will be implemented and the national economy is expected to keep a relatively rapid growth. Strategic economic restructuring and market mechanism liberalisation reforms will significantly impact the banking sector. Meanwhile, the global economic recovery will be weak, the imbalance in domestic economic structure will be difficult to solve in a short period of time and some enterprises will be faced with operating difficulties. These will increase the risk for the Bank’s operations. The Bank will also encounter greater pressure due to the financial and technological disintermediation on the traditional business areas of the banking industry. Moreover, the increasingly stringent financial regulations will require the banking management to adapt to higher demands.

The Bank will firmly seize this important strategic development opportunity. Drawing fully upon the Bank's internationalised, diversified and intelligent nature, it will unwaveringly implement the Bank's development strategy. According to the overall framework of striding forward through transformation and growing stronger through reforms, the Bank will be realistic, pragmatic, diligent and strive for progress to accelerate the building of a premier multinational bank.

**Focus on deepening business transformation to improve operational efficiency.** The Bank will continue to devote equal attention to large, medium and small-sized enterprises and build a more balanced customer structure. The Bank will also vigorously explore and expand lower-cost and relatively stable sources of funding. It will diligently optimise its asset structure to achieve the mutual matching and dynamic balance of risk, capital and yield. The Bank will further consolidate its differentiating competitive advantages and devote significant efforts towards the development of its overseas business, trade finance business, cross-border RMB business, financial market business, and diversified business. The Bank's domestic RMB-denominated loan portfolio is expected to grow by about 12% during 2013.

**Enhance operational management mechanisms to improve management efficiency.** The Bank will continue to enhance its incentive, restraint and resource allocation mechanisms. By emphasising its strategic direction, focusing on differentiated management and optimising its multi-dimensional appraisal management system, the Bank will guide and push all units to improve operation performances. Guided by business results, it will optimise employee structure by streamlining management personnel and bolstering outlet and frontline headcount.

**Accelerate smart-bank construction to improve customer experience.** The Bank will comprehensively strengthen channel construction, continuously improve customer experience and maintain integration effectiveness. It will also diligently optimise its network structure and accelerate the intelligent transformation of its outlets to strengthen their integrated service capabilities. The Bank will also push forward the development of its e-banking business to build a consolidated cross-channel service system. It will continue to improve its "agilely responsive and flexible" innovation mechanism, focus on efficiency to promote its service platforms and business products innovation. The Bank will also continuously optimise its information technology systems based on the principles of technological advancement and reliable operation.

**Strengthen risk management pragmatically to improve the development quality.** The Bank will continue to strengthen credit risk management and stabilise its credit cost. It will also conduct in-depth analysis of market dynamics, rapidly comprehend policy changes and take the initiative to adjust its credit policy and optimise its credit orientation. It will also strengthen risk surveillance and measurement in order to identify and mitigate potential risks in a timely manner. The Bank will continue to actively adapt to progress in interest rate and exchange rate liberalisation while strengthening its market risk management. It will continue to implement the New Basel Capital Accord and support the construction of the G-SIFI system. The Bank will continue to diligently implement various internal control measures by strengthening its operational risk management, case prevention and control and AML control.

# Corporate Social Responsibilities

In 2012, the Bank continued to uphold its commitment of “promoting social welfare and contributing to a prosperous nation”. The Bank fully supported the people’s livelihood and worked closely with all stakeholders to support the sustainable development of a harmonious society.

## **Supporting the development of the real economy**

The Bank earnestly implemented state economic and financial policies. It strictly capped the scale and pace of its lending, applied its credit policies sensibly to support industrial structural adjustment, and extended more loans to key industrial fields and vulnerable sectors, thus promoting the sustainable development of the real economy.

## **Providing global financial services**

The Bank continuously expanded its global service network, enhanced its integrated service capability through IT systems integration, helped domestic enterprises and individuals “Going Global”, and provided customers with integrated financial services on a global basis.

## **Fulfilling corporate citizenship responsibilities**

The Bank is dedicated to serving, contributing and repaying society by actively supporting the development of education and making important contributions to poverty alleviation and the development of culture, arts and sports.

The Bank stepped up its efforts to support educational undertakings. It launched the “Centennial BOC Rainbow Bridge” programme, supporting 50 outstanding Chinese and American students to take cross-border cultural exchange. The Bank also assisted with the “Training Programme for Primary School Presidents in Ethnic Minority Areas”, improving educational development in those areas. Meanwhile, it continued to extend government-sponsored student loans to millions of students from 474 universities and colleges across China. In 2012, the Bank granted new student loans of RMB1.369 billion, bringing its total student loans to RMB18.96 billion.

The Bank continued to increase supports for cultural and sports development. It embarked on a second round of strategic cooperation with the National Centre for the Performing Arts to support the development of classic culture and arts, sponsored the Lincoln Centre for the Performing Arts for the third consecutive year so as to facilitate art exchanges between China and foreign countries, and supported the first Asian Beach Games held in China.

The Bank explored new ways for the financial industry to alleviate poverty. It assisted in tackling poverty in response to local conditions. It continued to support a poverty alleviation programme in four counties located in the north of Xianyang, Shaanxi Province, namely, Yongshou, Changwu, Xunyi and Chunhua, thus boosting harmonious socioeconomic development.

## **Promoting ecological sustainability**

In order to help build a “resource-conserving and environment-friendly” society, the Bank remained committed to low-carbon development and proactively fought against global climate change. It actively stuck to “green finance”, thus protecting ecological environment and further promoting sustainable development. It strictly controlled lending to industries characterised by high pollution, high energy consumption and overcapacity. The Bank also set up a “green credit” approval mechanism, strictly reviewing lending applications and exercising “one-vote veto” principle in terms of environment protection for construction projects.

The Bank’s fulfilment of its social responsibilities was widely recognised by the society. In the industry-wide appraisal of social responsibility reports in the Chinese banking industry sponsored by the China Banking Association, the Bank received the “Most Socially Responsible Financial Institution Award” and the “Social Responsibility — Best Charitable Contribution Award”. It also awarded the “2012 Best Socially Responsible Bank in Asia” by the *21st Century Business Herald*, the “Best Charity Marketing Award” by the *China Business News*, the “Top 100 Listed State-owned Enterprises by Corporate Social Responsibility” by Nanfang Media Group and the “Top Ten Caring Enterprises” by China Next Generation Education Foundation, etc.

The full text of the Bank’s 2012 Corporate Social Responsibility Report has been published on the websites of SSE ([www.sse.com.cn](http://www.sse.com.cn)), HKEx ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Bank ([www.boc.cn](http://www.boc.cn)).

# Changes in Share Capital and Shareholdings of Substantial Shareholders

## Disclosure of Shareholding under A-Share Regulation

### Changes in Share Capital during the Reporting Period

Unit: Share

	1 January 2012		Increase/decrease during the reporting period					31 December 2012	
	Number of shares	Percentage	Issuance of new shares	Bonus shares	Shares transferred from the surplus reserve	Others	Sub-total	Number of shares	Percentage
<b>I. Shares subject to selling restrictions</b>	-	-	-	-	-	-	-	-	-
1. State-owned shares									
2. Shares held by state-owned legal persons									
3. Shares held by other domestic investors									
4. Shares held by foreign investors									
<b>II. Shares not subject to selling restrictions</b>	<b>279,147,333,579</b>	<b>100.00%</b>	-	-	-	9,686	9,686	<b>279,147,343,265</b>	<b>100.00%</b>
1. RMB-denominated ordinary shares	195,525,057,184	70.04%	-	-	-	9,686	9,686	195,525,066,870	70.04%
2. Domestically listed foreign shares									
3. Overseas listed foreign shares	83,622,276,395	29.96%	-	-	-	-	-	83,622,276,395	29.96%
4. Others									
<b>III. Total</b>	<b>279,147,333,579</b>	<b>100.00%</b>	-	-	-	9,686	9,686	<b>279,147,343,265</b>	<b>100.00%</b>

Notes:

- As at 31 December 2012, the Bank had issued a total of 279,147,343,265 shares, including 195,525,066,870 A Shares and 83,622,276,395 H Shares.
- As at 31 December 2012, none of the Bank's A Shares and H Shares were subject to selling restrictions.
- During the reporting period, 9,686 shares were converted from the A-Share Convertible Bonds of the Bank.
- "Shares subject to selling restrictions" refers to shares held by shareholders who are subject to restrictions on selling in accordance with laws, regulations and rules or undertakings.

## **Issuance and Listing of Securities in the Last Three Years**

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

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

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

In addition to the increase in number of shares due to the rights issues mentioned above, the converting period of the Convertible Bonds commenced from 2 December 2010. As at 31 December 2012, an aggregate of 6,720 Convertible Bonds had been converted into A Shares of the Bank, representing an aggregate of 180,534 A Shares.

As of the end of the reporting period, as a result of the rights issues mentioned above and the conversion of the Convertible Bonds, the issued share capital of the Bank has increased to RMB279,147,343,265, with 279,147,343,265 shares.

For details of the issuance and listing of the A-Share Convertible Bonds, A Share and H Share rights issues and the changes in shareholding structure of the Bank, please refer to the related announcements on the websites of SSE, HKEx and the Bank.

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

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

No shares of the Bank have been specifically issued to its employees.



## Number of Shareholders and Shareholdings

Number of shareholders as at 31 December 2012: 1,050,591 (including 818,139 A-Share Holders and 232,452 H-Share Holders)							
Number of shareholders as at the end of the fifth trading day before the disclosure of this Report: 1,033,657 (including 808,146 A-Share Holders and 225,511 H-Share Holders)							
<b>Top ten shareholders as at 31 December 2012</b>							Unit: Share
No.	Name of shareholder	Number of shares held as at the end of reporting period	Percentage of total share capital	Number of shares subject to selling restrictions	Number of shares pledged or frozen	Type of shareholder	Type of shares
1	Central Huijin Investment Ltd.	189,052,193,085	67.72%	–	None	State	A
2	HKSCC Nominees Limited	81,644,559,295	29.25%	–	Unknown	Foreign legal person	H
3	The Bank of Tokyo-Mitsubishi UFJ Ltd.	520,357,200	0.19%	–	Unknown	Foreign legal person	H
4	China Life Insurance Company Limited — dividend — personal dividend — 005L — FH002Shanghai	295,437,114	0.11%	–	None	State-owned legal person	A
5	Sino Life Insurance Co., Ltd. — dividend — group dividend	165,543,425	0.06%	–	None	Domestic non state-owned legal person	A
6	Sino Life Insurance Co., Ltd. — traditional — ordinary insurance products	162,383,310	0.06%	–	None	Domestic non state-owned legal person	A
7	Shenhua Group Corporation Limited	99,999,900	0.04%	–	None	State-owned legal person	A
7	Aluminum Corporation of China	99,999,900	0.04%	–	None	State-owned legal person	A
9	China Southern Power Grid Co., Ltd.	90,909,000	0.03%	–	None	State-owned legal person	A
10	China Universal CSI Index Securities Investment Fund	62,950,203	0.02%	–	None	Domestic non state-owned legal person	A

During the reporting period, Central Huijin Investment Ltd. increased its shareholding of the Bank by 350,773,544 shares.

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

HKSCC Nominees Limited acted as the nominee for all institutional and individual investors that maintain an account with it as at 31 December 2012. The aggregate number of H Shares held by HKSCC Nominees Limited included the shares held by NCSSF.

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

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

## Convertible Bonds

### Issuance of Convertible Bonds

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

### Convertible Bondholders and Guarantors

Number of Convertible Bondholders as at 31 December 2012		16,303	
Guarantor of the Bank’s Convertible Bonds		None	
Top ten convertible bondholders as at 31 December 2012			
No.	Name of convertible bondholder	Amount of Convertible Bonds held as at the end of the reporting period (RMB)	Percentage of total unconverted Convertible Bonds
1	An-Bang Insurance Group Co., Ltd. — traditional insurance products	2,198,342,000	5.50%
2	China Life Insurance Company Limited — dividend — personal dividend — 005L — FH002Shanghai	1,677,220,000	4.19%
3	CMF Anying Principal Guaranteed Mixed Securities Investment Fund	1,140,732,000	2.85%
4	China Credit Trust Co., Ltd. — BoComm Fixed Income Stand Alone Trust	1,097,373,000	2.74%
5	China Life Insurance Company Limited — traditional — ordinary insurance products — 005L — CT001Shanghai	1,000,000,000	2.50%
6	JiangXi International Trust Co., Ltd. — Gold Lion No.158 Fund Trust Contract	976,051,000	2.44%
7	CMF Industrial Debt Securities Investment Fund	946,937,000	2.37%
8	Bosera Convertible Bond Enhanced Debt Securities Investment Fund	756,292,000	1.89%
9	Guotai Junan Securities Co., Ltd.	739,625,000	1.85%
10	Fullgoal Convertible Bond Securities Investment Fund	718,052,000	1.80%

## Changes in Convertible Bonds during the Reporting Period

Unit: RMB

Name of Convertible Bonds	Before the change	Increase/decrease				After the change
		Conversion	Redemption	Back-sell	Others	
Bank of China A-Share Convertible Bond	39,999,362,000	34,000	–	–	–	39,999,328,000

## Accumulated Conversion of Convertible Bonds during the Reporting Period

Amount of conversion during the reporting period (RMB)	34,000
Number of converted shares during the reporting period (share)	9,686
Accumulated converted shares (share)	180,534
Proportion of accumulated converted shares to total shares before conversion	0.000066%
Amount of unconverted Convertible Bonds (RMB)	39,999,328,000
Proportion of unconverted Convertible Bonds to total issued Convertible Bonds	99.9983%

## Previous Adjustments of Conversion Price

Effective date of adjusted conversion price	Conversion price after adjustment	Disclosure date	Reasons of adjustments	Media of disclosure
4 June 2010	RMB3.88 per share	31 May 2010	2009 profit distribution	<i>China Securities Journal</i> , <i>Shanghai Securities News</i> , <i>Securities Times</i> , <i>Securities Daily</i> and the websites of SSE, HKEx and the Bank
16 November 2010	RMB3.78 per share	11 November 2010	A Share rights issue	
16 December 2010	RMB3.74 per share	13 December 2010	H Share rights issue	
10 June 2011	RMB3.59 per share	3 June 2011	2010 profit distribution	
13 June 2012	RMB3.44 per share	6 June 2012	2011 profit distribution	
Conversion price at the end of the reporting period		RMB3.44 per share		

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

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

Dagong International Credit Rating Co., Ltd. has evaluated the Bank's Convertible Bonds and provided an updated credit rating report (Da Gong Bao SD[2012]No.157) which reaffirmed an AAA credit rating on the Bank's Convertible Bonds. Dagong International Credit Rating Co., Ltd. believes that the Bank is able to provide significantly strong support to the repayment of its Convertible Bonds issued in 2010.

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

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

## Disclosure of Shareholding under H-Share Regulation

### Substantial Shareholder Interests

The register maintained by the Bank pursuant to section 336 of the SFO recorded that, as at 31 December 2012, the following entities were substantial shareholders (as defined in the SFO) having the following interests in the Bank:

Name of shareholder	Capacity	Number of shares held/ Number of underlying shares (unit: share)	Type of shares	Percentage of total issued A Shares	Percentage of total issued H Shares	Percentage of total issued share capital
Central Huijin Investment Ltd. <sup>1</sup>	Beneficial owner	188,553,352,005	A	96.43%	–	67.55%
National Council for Social Security Fund	Beneficial owner	8,357,384,041	H	–	9.99%	2.99%
BlackRock, Inc. <sup>2</sup>	Interest of controlled corporations	6,221,288,229	H	–	7.44%	2.23%
		1,096,121,446(S) <sup>4</sup>	H	–	1.31%	0.39%
JPMorgan Chase & Co. <sup>3</sup>	Beneficial owner	598,318,179	H	–	0.72%	0.21%
		132,612,149 (S) <sup>4</sup>	H	–	0.16%	0.05%
	Investment Manager	581,310,115	H	–	0.70%	0.21%
	Custodian corporation/ approved lending agent	3,017,861,927(P) <sup>4</sup>	H	–	3.61%	1.08%
	Total	4,197,490,221	H	–	5.02%	1.50%
		132,612,149(S) <sup>4</sup>	H	–	0.16%	0.05%
		3,017,861,927(P) <sup>4</sup>	H	–	3.61%	1.08%

Notes:

- 1 The above interest of Huijin reflects its latest disclosure of interest made pursuant to the SFO, which does not reflect the increase in its holding of the Bank's A Shares in 2011 and 2012.
- 2 BlackRock, Inc. holds the entire issued share capital of BlackRock Holdco 2 Inc., which in turn holds the entire issued share capital of BlackRock Financial Management, Inc. Accordingly, BlackRock, Inc. and BlackRock Holdco 2 Inc. are deemed to have the same interests in the Bank as BlackRock Financial Management, Inc. under the SFO. BlackRock, Inc. holds a long position of 6,221,288,229 H Shares and a short position of 1,096,121,446 H Shares of the Bank through BlackRock Financial Management, Inc. and other corporations controlled by it. Among the aggregate long positions of 6,221,288,229 H Shares held by BlackRock, Inc., 6,193,000 H Shares are held through derivatives.
- 3 JPMorgan Chase & Co. holds the entire issued share capital of JPMorgan Chase Bank, N.A. Accordingly, JPMorgan Chase & Co. is deemed to have the same interests in the Bank as JPMorgan Chase Bank, N.A. under the SFO. JPMorgan Chase & Co. holds a long position of 4,197,490,221 H Shares and a short position of 132,612,149 H Shares of the Bank through JPMorgan Chase Bank, N.A. and other corporations controlled by it. Among the aggregate interests in the long position of 4,197,490,221 H Shares, 3,017,861,927 H Shares are held in the lending pool and 79,113,000 H Shares are held through derivatives. Among the aggregate interests in the short position of 132,612,149 H Shares, 99,612,149 H Shares are held through derivatives.
- 4 "S" denotes short position, "P" denotes lending pool.

All the interests stated above represented long positions except where otherwise stated. Save as disclosed above, as at 31 December 2012, no other interests or short positions were recorded in the register maintained by the Bank under section 336 of the SFO.

## **Controlling Shareholder of the Bank**

### **Central Huijin Investment Ltd.**

Huijin is a state-owned investment company established under the Company Law. Established on 16 December 2003, Huijin has a registered capital of RMB828.209 billion and a paid-in capital of RMB828.209 billion. Its legal representative is Mr. LOU Jiwei. Its organisation code is 71093296-1. Wholly-owned by China Investment Corporation, Huijin makes equity investments in key state-owned financial institutions, as authorised by the State. To the extent of its capital contribution, Huijin exercises the rights and fulfils the obligations as an investor on behalf of the State, in accordance with applicable laws aimed at preserving and enhancing the value of state-owned financial assets. Huijin neither engages in other business activities nor intervenes in the daily operation of the key state-owned financial institutions under its control.

As at 31 December 2011<sup>8</sup>, the total assets, liabilities and equity of Huijin amounted to RMB2,020,950,210.8 thousand, RMB148,784,181.0 thousand and RMB1,872,166,029.8 thousand respectively. Huijin achieved a net profit of RMB337,478,750.8 thousand for the year 2011. The net cash flow from Huijin's operating activities, investment activities and financing activities was RMB-37,693,774.5 thousand in 2011.

<sup>8</sup> The consolidated financial statements of Huijin cannot be audited until the audited financial statements of all companies controlled or held by Huijin are available.

As at 31 December 2012, the basic information of companies directly held by Huijin is as follows:

No.	Company name	Proportion of the total capital held by Huijin
1	China Development Bank Corporation	47.63%
2	Industrial and Commercial Bank of China Limited ★☆	35.46%
3	Agricultural Bank of China Limited ★☆	40.21%
4	Bank of China Limited ★☆	67.72%
5	China Construction Bank Corporation ★☆	57.21%
6	China Everbright Bank Company Limited ★	48.37%
7	China Export & Credit Insurance Corporation	73.63%
8	China Reinsurance (Group) Corporation	84.91%
9	New China Life Insurance Company Limited ★☆	31.23%
10	China Jianyin Investment Limited	100.00%
11	China Galaxy Financial Holding Co., Ltd.	78.57%
12	Shenyin & Wanguo Securities Co., Ltd.	55.38%
13	China International Capital Corporation Limited	43.35%
14	China Securities Co., Ltd.	40.00%
15	China Investment Securities Co., Ltd.	100.00%
16	UBS Securities Company Limited	14.01%
17	China Everbright Industry Group Limited	100.00%
18	Jiantou & Zhongxin Assets Management Limited	70.00%
19	Guotai Junan Investment Management Co., Ltd.	14.54%

Notes:

- ★ denotes A Share listed company and ☆ denotes H Share listed company.
- For the companies directly held by Huijin, the proportion of Huijin's voting rights is consistent with that of its shareholdings.
- As at 31 December 2012, the industrial and commercial processes for the investment to China Export & Credit Insurance Corporation by Huijin were in progress.

Please refer to the *Announcement on Matters related to the Incorporation of China Investment Corporation* published on 9 October 2007 by the Bank and the information on the website of China Investment Corporation ([www.china-inv.cn](http://www.china-inv.cn)) for the details of China Investment Corporation.

As at 31 December 2012, no other legal-person shareholders held 10% or more of the shares issued by the Bank (excluding HKSCC Nominees Limited).

# Directors, Supervisors and Senior Management Members

## Basic Information

### Incumbent Directors, Supervisors and Senior Management Members

Name	Year of birth	Gender	Position	Term of office
LI Lihui	1952	Male	Vice Chairman and President	From August 2004 to the date of the Annual General Meeting in 2013
LI Zaohang	1955	Male	Executive Director and Executive Vice President	From August 2004 to the date of the Annual General Meeting in 2013
WANG Yongli	1964	Male	Executive Director and Executive Vice President	From February 2012 to the date of the Annual General Meeting in 2015
SUN Zhijun	1955	Female	Non-executive Director	From October 2010 to the date of the Annual General Meeting in 2013
LIU Lina	1955	Female	Non-executive Director	From October 2010 to the date of the Annual General Meeting in 2013
JIANG Yansong	1963	Female	Non-executive Director	From October 2010 to the date of the Annual General Meeting in 2013
ZHANG Xiangdong	1957	Male	Non-executive Director	From July 2011 to the date of the Annual General Meeting in 2014
ZHANG Qi	1972	Male	Non-executive Director	From July 2011 to the date of the Annual General Meeting in 2014
Anthony Francis NEOH	1946	Male	Independent Director	From August 2004 to the date of the Annual General Meeting in 2013
HUANG Shizhong	1962	Male	Independent Director	From August 2007 to the date of the Annual General Meeting in 2013
HUANG Danhan	1949	Female	Independent Director	From November 2007 to the date of the Annual General Meeting in 2013
CHOW Man Yiu, Paul	1946	Male	Independent Director	From October 2010 to the date of the Annual General Meeting in 2013
Jackson TAI	1950	Male	Independent Director	From March 2011 to the date of the Annual General Meeting in 2014
Nout WELLINK	1943	Male	Independent Director	From October 2012 to the date of the Annual General Meeting in 2015
LI Jun	1956	Male	Chairman of the Board of Supervisors	From March 2010 to the date of the Annual General Meeting in 2013
WANG Xueqiang	1957	Male	Supervisor	From August 2004 to the date of the Annual General Meeting in 2013

<b>Name</b>	<b>Year of birth</b>	<b>Gender</b>	<b>Position</b>	<b>Term of office</b>
LIU Wanming	1958	Male	Supervisor	From August 2004 to the date of the Annual General Meeting in 2013
DENG Zhiying	1959	Male	Employee Supervisor	From August 2010 to the date of 2013 Employee Delegates' Meeting
LIU Xiaozhong	1956	Male	Employee Supervisor	From August 2012 to the date of 2015 Employee Delegates' Meeting
XIANG Xi	1971	Female	Employee Supervisor	From August 2012 to the date of 2015 Employee Delegates' Meeting
MEI Xingbao	1949	Male	External Supervisor	From May 2011 to the date of the Annual General Meeting in 2014
BAO Guoming	1951	Female	External Supervisor	From May 2011 to the date of the Annual General Meeting in 2014
ZHANG Lin	1956	Female	Secretary of Party Discipline Committee	From August 2004
CHEN Siqing	1960	Male	Executive Vice President	From June 2008
ZHU Shumin	1960	Male	Executive Vice President	From August 2010
YUE Yi	1956	Male	Executive Vice President	From August 2010
CHIM Wai Kin	1960	Male	Chief Credit Officer	From March 2007
LIU Yanfen	1953	Female	Chief Audit Officer	From December 2011
FAN Yaosheng	1968	Male	Secretary to the Board of Directors	From September 2012

Note: During the reporting period, no director, supervisor or senior management member held any share or convertible bond of the Bank.

### **Directors, Supervisors and Senior Management Members Leaving Their Posts**

<b>Name</b>	<b>Year of birth</b>	<b>Gender</b>	<b>Position held before leaving the post</b>	<b>Term of office</b>
XIAO Gang	1958	Male	Chairman	From August 2004 to March 2013
CAI Haoyi	1954	Male	Non-executive Director	From August 2007 to November 2012
Alberto TOGNI	1938	Male	Independent Director	From June 2006 to May 2012
JIANG Kuiwei	1967	Male	Employee Supervisor	From May 2008 to February 2012
LI Chunyu	1959	Male	Employee Supervisor	From December 2004 to August 2012
ZHANG Bingxun	1949	Male	Secretary to the Board of Directors	From May 2008 to September 2012

Note: No director, supervisor or senior management member leaving their posts held any share or convertible bond of the Bank during their terms of office.



## Remuneration of Directors, Supervisors and Senior Management Members Paid in 2012

### Incumbent Directors, Supervisors and Senior Management Members

Unit: RMB ten thousand

Name	Fees	Remuneration paid	Contribution by the employer to compulsory insurances, housing allowances, etc	Total remuneration before tax for 2012 (see notes)	Remuneration received from controlling shareholder
LI Lihui	–	71.48	29.83	101.31	–
LI Zaohang	–	68.58	28.68	97.26	–
WANG Yongli	–	67.75	26.71	94.46	–
SUN Zhijun	–	–	–	–	75.00
LIU Lina	–	–	–	–	75.00
JIANG Yansong	–	–	–	–	75.00
ZHANG Xiangdong	–	–	–	–	78.00
ZHANG Qi	–	–	–	–	75.00
Anthony Francis NEOH	55.00	–	–	55.00	–
HUANG Shizhong	–	–	–	–	–
HUANG Danhan	37.93	–	–	37.93	–
CHOW Man Yiu, Paul	42.58	–	–	42.58	–
Jackson TAI	35.00	–	–	35.00	–
Nout WELLINK	6.47	–	–	6.47	–
LI Jun	–	69.50	26.73	96.23	–
WANG Xueqiang	–	57.51	24.86	82.37	–
LIU Wanming	–	57.51	24.31	81.82	–
DENG Zhiying	–	74.02	24.86	98.88	–
LIU Xiaozhong	–	38.49	11.22	49.71	–
XIANG Xi	–	52.77	5.86	58.63	–
MEI Xingbao	18.00	–	–	18.00	–
BAO Guoming	26.00	–	–	26.00	–
ZHANG Lin	–	66.82	28.01	94.83	–
CHEN Siqing	–	67.11	27.34	94.45	–
ZHU Shumin	–	66.98	28.68	95.66	–
YUE Yi	–	66.98	29.12	96.10	–
CHIM Wai Kin	–	522.88	73.18	596.06	–
LIU Yanfen	–	94.61	26.23	120.84	–
FAN Yaosheng	–	24.51	6.82	31.33	–

## Directors, Supervisors and Senior Management Members Leaving Their Posts

Unit: RMB ten thousand

Name	Fees	Remuneration paid	Contribution by the employer to compulsory insurances, housing allowances, etc	Total remuneration before tax for 2012 (see notes)	Remuneration received from controlling shareholder
XIAO Gang	–	79.42	30.89	110.31	–
CAI Haoyi	–	–	–	–	71.50
Alberto TOGNI	39.99	–	–	39.99	–
LI Chunyu	–	23.80	11.23	35.03	–
JIANG Kuiwei	–	23.51	2.28	25.79	–
ZHANG Bingxun	–	46.68	18.01	64.69	–

2012 total remuneration for Chairman of the Board of Directors, Chairman of the Board of Supervisors, executive directors and senior management members has not been finalised in accordance with the government regulations. The Bank will make announcement for further disclosure.

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

Notes:

- 1 Non-executive directors receive remuneration in accordance with the Resolution of the 2007 Annual General Meeting. External supervisors receive remuneration in accordance with the Resolution of the 2009 Annual General Meeting. Remuneration for supervisors representing shareholders is in accordance with the relevant remuneration scheme of the Bank and approved by the shareholders' meeting. Employee supervisors receive remuneration as staff in accordance with the staff remuneration scheme of the Bank.
- 2 Non-executive Directors Mr. CAI Haoyi, Ms. SUN Zhijun, Ms. LIU Lina, Ms. JIANG Yansong, Mr. ZHANG Xiangdong and Mr. ZHANG Qi and Independent Director Mr. HUANG Shizhong signed an agreement in 2012 to waive their 2012 director's fees.
- 3 The above persons' remuneration is calculated on the basis of their actual time working as the directors, supervisors or senior management members of the Bank in 2012.
- 4 "Remuneration received from controlling shareholder" refers to the Non-executive Director's remuneration received from Huijin for whose fulfilments of the responsibilities as Non-executive Director of the Bank during the reporting period.

The Bank has incurred RMB2,387 ten thousand in remuneration to its directors, supervisors and senior management members' services in 2012.

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

From 1 January 2012 to 19 November 2012, Non-executive Director Mr. CAI Haoyi served as Director of the Bank of China Equity Investment Management Division of Banking Institutions Department I, Huijin. Non-executive Director Mr. ZHANG Xiangdong began to serve as Director of the Bank of China Equity Investment Management Division of Banking Institutions Department I, Huijin as of 19 November 2012.

Save as disclosed above, in 2012, none of the Bank's directors, supervisors or senior management members held any position in the shareholding companies of the Bank.

### **Working Experience and Other Positions held by Directors, Supervisors and Senior Management Members**

#### **Directors**

##### **LI Lihui**

##### **Vice Chairman and President**

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

**LI Zaohang****Executive Director and Executive Vice President**

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

**WANG Yongli****Executive Director and Executive Vice President**

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

**SUN Zhijun****Non-executive Director**

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

**LIU Lina****Non-executive Director**

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

**JIANG Yansong****Non-executive Director**

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

**ZHANG Xiangdong****Non-executive Director**

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

**ZHANG Qi****Non-executive Director**

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

**Anthony Francis NEOH****Independent Director**

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

**HUANG Shizhong**  
**Independent Director**

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

**HUANG Danhan**  
**Independent Director**

Independent Director of the Bank since November 2007. Ms. HUANG graduated from the Law School of Robert Schuman University of Strasbourg, France with a State Doctor's degree in Law in 1987, being the first PRC scholar receiving such a degree in France in a social science discipline. Since her return to China, Ms. HUANG has worked successively in the Ministry of Foreign Trade and Economic Cooperation (now the Ministry of Commerce), universities, law firms and state-owned foreign trade companies and financial institutions, including as General Manager of the Legal Department of China Construction Bank from August 1999 to March 2001, and General Counsel of China Galaxy Securities Company Limited from April 2001 to September 2004. Ms. HUANG also served as a member of the First Session of the Public Offering Examination and Approval Commission under CSRC from 1993 to 1995 and as Senior Expert for Trade in Services to the EU-China Trade Project (2004-2009). Ms. HUANG is currently Key Expert for Trade in Services to the EU-China Trade Project II (2010-2015), and a Senior Advisor of Sinobridge PRC Lawyers. Ms. HUANG has been serving as PRC Director of West African Development Bank since September 2007 and her current term of office will expire in August 2013. She is an Independent Non-executive Director of Shenyin & Wanguo Securities Co., Ltd. since December 2012 with a term of office of three years.

**CHOW Man Yiu, Paul**  
**Independent Director**

Independent Director of the Bank since October 2010. Mr. CHOW was an executive director and Chief Executive of Hong Kong Exchanges and Clearing Limited from April 2003 to January 2010. Hong Kong Exchanges and Clearing Limited is listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. CHOW currently serves as the Treasurer and a member of the Council and the Court of the University of Hong Kong, Chairman of Hong Kong Cyberport Management Company Limited and the Chairman of Plan International Hong Kong. Mr. CHOW also serves as a member of Asian Advisory Committee of AustralianSuper Pty. Ltd. Mr. CHOW served as the Chief Executive, Asia Pacific Region (ex-Japan) of HSBC Asset Management (Hong Kong) Limited from 1997 to 2003. From 1992 to 1997 and 2003 to January 2010, Mr. CHOW was a member of the Standing Committee on Company Law Reform of the



Government of the Hong Kong Special Administrative Region (“HKSAR Government”). Mr. CHOW also served as a Director of the World Federation of Exchanges from 2003 to January 2010 and became Chairman of its Working Committee in 2007 and 2008 and then its Vice-chairman in 2009. From 2001 to 2007, he was a member of the Advisory Committee of the Hong Kong Securities and Futures Commission. Mr. CHOW graduated from the University of Hong Kong with a Bachelor’s degree in Science (Engineering) in 1970. He obtained a Diploma in Management Studies and a Master’s degree in Business Administration in 1979 and 1982, respectively, from the University of Hong Kong. He also obtained a Diploma in Finance (Distinction) from the Chinese University of Hong Kong in 1987, and was conferred the Doctor of Social Science, honoris causa by the Open University of Hong Kong in 2010. He was awarded the title of Justice of the Peace, the Silver Bauhinia Star and the Gold Bauhinia Star by the HKSAR Government in 2003, 2005 and 2010, respectively. Mr. CHOW is a Distinguished Fellow of the Hong Kong Computer Society, an Honorary University Fellow of the University of Hong Kong, an Honorary Fellow of the Hong Kong University of Science and Technology, a Fellow of the Hong Kong Institute of Chartered Secretaries, a Fellow of the Institute of Chartered Secretaries and Administrators, an Honorary Fellow of Hong Kong Securities Institute and a Certified General Accountant (Honorary) of the Canadian Certified General Accountants Association of Hong Kong.

**Jackson TAI**  
**Independent Director**

Independent Director of the Bank since March 2011. Mr. TAI has over 35 years of experience in the banking industry. He held various key positions in DBS Group Holdings Limited (“DBS Group”) and DBS Bank Limited (“DBS Bank”) including Vice Chairman and Chief Executive Officer of DBS Group and DBS Bank from 2002 to 2007, President and Chief Operating Officer of DBS Group and DBS Bank from 2001 to 2002, and Chief Financial Officer of DBS Bank from 1999 to 2001. He was also a Director of DBS Bank (China) Limited from 2007 to 2008. Prior to that, he was with J.P. Morgan & Co. Incorporated from 1974 to 1999. He was Managing Director in the Investment Banking Division and had held various management positions in New York, Tokyo and San Francisco. Mr. TAI was a director of ING Group from 2008 to 2010, and a director of CapitaLand from 2001 to 2010. He currently serves as a director of a number of companies listed in New York and Singapore, including director of Singapore Airlines since 2011, director of Royal Philips Electronics since 2011, director of NYSE Euronext since 2010 and director of MasterCard Incorporated since 2008. Mr. TAI is non-executive chairman of privately-held Brookstone, Inc., and a director of privately-held VaporStream. Mr. TAI is also currently a member of the Asia-Pacific Advisory Board of Harvard Business School, and trustee of Rensselaer Polytechnic Institute, a director of Merlin USA, and a director and member of the Committee of 100. Mr. TAI graduated from Rensselaer Polytechnic Institute with a Bachelor of Science degree in 1972, and from Harvard University with a Masters of Business Administration degree in 1974.



**Nout WELLINK**  
**Independent Director**

Independent Director of the Bank since October 2012. Mr. WELLINK has served as a member of the Executive Board of the Dutch Central Bank ("DNB") for almost 30 years, the last 14 years as its President. He retired from DNB on 1 July 2011. DNB is since 1999 an integral part of the European System of Central Banks, but at the same time the national prudential supervisor of banks, pension funds and insurance companies. Since the establishment of the European Monetary Union, Mr. WELLINK served as a member of the Governing Council of the European Central Bank. Starting from 1997, Mr. WELLINK served as a member of the Board of Directors of the Bank for International Settlements, which he chaired from 2002 to 2006. From 2006 to 2011, he also chaired the Basel Committee on Banking Supervision. From 1997 to 2011, Mr. WELLINK was a member of the Group of Ten Central Bank Governors and a Governor of the International Monetary Fund. Prior to his appointment in 1982 as an executive director of DNB, Mr. WELLINK held several posts in the Dutch Ministry of Finance, including as the Treasurer General from 1977 to 1982. After studying Dutch law at Leyden University from 1961 to 1968 with a Master's degree obtained, Mr. WELLINK obtained a doctor's degree in economics at the Rotterdam Erasmus University in 1975. In 2008 he received an honorary doctorate from Tilburg University. From 1988 to 1998, Mr. WELLINK was an Extraordinary Professor at the Free University in Amsterdam. Mr. WELLINK is currently the chairman of the Supervisory Board of the Leyden University, and had many secondary functions in the past, including member of the Supervisory Board of a bank and other enterprises on behalf of the Dutch authorities, chairman of the Board of Supervisors of the Netherlands Open Air Museum, member and treasurer of the Royal Picture Gallery Mauritshuis and the Westeinde Hospital in The Hague. He was awarded a Knighthood in the Order of the Netherlands Lion in 1980 and is since 2011 Commander of the Order of Orange-Nassau.

**Supervisors**

**LI Jun**  
**Chairman of the Board of Supervisors**

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

**WANG Xueqiang**  
**Supervisor**

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

**LIU Wanming**  
**Supervisor**

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

**DENG Zhiying**  
**Employee Supervisor**

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

**LIU Xiaozhong**  
**Employee Supervisor**

Employee Supervisor of the Bank since August 2012. Mr. LIU is currently Executive Deputy Director of the Labour Union Working Committee of the Bank. He previously held various positions in the Bank, including General Manager (in charge of SME business) of the Corporate Banking Unit of the Head Office from July 2008 to May 2011, Deputy General Manager of the Credit Management Department of the Head Office, Deputy General Manager of the Risk Management Department of the Head Office, Deputy General Manager and General Manager of the Shaanxi Branch from October 1998 to July 2008. From July 1983 to October 1998, he was cadre and Deputy Director of the Aerospace Industry Ministry, Deputy Director and Director of Aerospace Materials Supply and Marketing Corporation, Deputy Manager of the Fixed Assets Investment Department and Deputy Director General of the Capital Construction Bureau of Aerospace Industry Corporation. Mr. LIU graduated from the Glass Fiber Reinforced Plastics Department of Harbin Construction Engineering College in 1983.

**XIANG Xi**  
**Employee Supervisor**

Employee Supervisor of the Bank since August 2012. Ms. XIANG is currently Deputy General Manager and Chief Financial Officer of the Suzhou Branch of the Bank. She previously held various positions in the Bank, including member of the CPC Committee, Deputy General Manager and Chief Financial Officer of the Suzhou Branch from July 2005 to March 2010, Assistant to General Manager of the Suzhou Branch from March 2003 to July 2005, Deputy General Manager and General Manager of High-tech Industrial Development Zone Sub-branch of the Suzhou Branch from October 2000 to July 2005, cadre, deputy group chief, section chief, Deputy Director and Deputy General Manager of the International Trade Settlement Division of the Suzhou Branch from July 1993 to October 2000. Ms. XIANG graduated from the Department of English of East China University of Science and Technology in 1993, and obtained an MBA Degree jointly conferred by Fudan University and University of Washington in December 2004.

**MEI Xingbao**  
**External Supervisor**

External Supervisor of the Bank since May 2011. Mr. MEI is now a member of the 12th CPPCC National Committee. From October 2003 to May 2010, Mr. MEI served as Vice President and President of China Orient Asset Management Corporation. He previously served as Vice Mayor of People's Municipal Government of Zhangjiajie in Hunan Province, Deputy Director General of Economic and Trade Commission of Hunan Province, Head of the Science and Education Group of the Research Office of the General Office of the CPC Central Committee, Director General of the General Office of the Central Financial Working Commission, and Director General of the Propaganda Department of CBRC. Majoring in agricultural economic management, Mr. MEI graduated from Renmin University of China in 1982 with a Bachelor's degree in Economics. He obtained his Doctorate in Management from Renmin University of China in 1999.

**BAO Guoming**  
**External Supervisor**

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

**Senior Management**

**LI Lihui**  
**Vice Chairman and President**

Please refer to the section "Directors".

**LI Zaohang**  
**Executive Director and Executive Vice President**

Please refer to the section "Directors".

**ZHANG Lin**  
**Secretary of Party Discipline Committee**

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

**WANG Yongli**  
**Executive Director and Executive Vice President**

Please refer to the section "Directors".

**CHEN Siqing**  
**Executive Vice President**

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

**ZHU Shumin**  
**Executive Vice President**

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

**YUE Yi**  
**Executive Vice President**

Executive Vice President of the Bank since August 2010. Mr. YUE joined the Bank in 1980 and served as Global Head of Financial Markets Business of the Bank from March 2009 to July 2010. From March 2008 to March 2009, Mr. YUE served as Global Head of Personal Banking Business of the Bank. From February 2005 to August 2008, Mr. YUE served as General Manager of the Personal Banking Department of the Bank. Mr. YUE previously held various positions in the Retail Banking Department of the Head Office, the Seoul Branch and the Beijing Branch of the Bank. Mr. YUE has been serving as Chairman of Bank of China (UK) Limited since September 2010, and as Chairman of the Board of Directors of BOCI since November 2011. Mr. YUE has been serving as Chairman of Bohai Industry Investment Management Ltd. since March 2012. He received his Master's degree in Finance from Wuhan University in 1999.

**CHIM Wai Kin**  
**Chief Credit Officer**

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

**LIU Yanfen**  
**Chief Audit Officer**

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

**FAN Yaosheng**  
**Secretary to the Board of Directors**

Secretary to the Board of Directors of the Bank since September 2012. Mr. FAN joined the Bank in 1994 and has held various positions, including Deputy General Manager of the Corporate Banking Department and Corporate Banking Unit of the Bank, Deputy General Manager of the IT Blueprint Implementation Office and the Business Process Reengineering Steering Office of the Head Office and General Manager of the Board Secretariat. Mr. FAN graduated from the Law School of Peking University with a Bachelor's degree in 1990, obtained a Master's degree in law from University of Gottingen, Germany in 1993 and a Master's degree in law from Nanjing University in 1994. Mr. FAN is qualified to practice law in China.

## **Changes in Directors, Supervisors and Senior Management Members**

Changes in the Bank's directors were as follows:

Mr. WANG Yongli began to serve as Executive Director and a member of the Risk Policy Committee of the Bank as of 15 February 2012.

Mr. Alberto TOGNI ceased to serve as Independent Director, Chairman of the Connected Transactions Control Committee and a member of the Strategic Development Committee, the Audit Committee, the Risk Policy Committee and the Connected Transactions Control Committee of the Bank as of 31 May 2012.

Mr. Nout WELLINK began to serve as Independent Director and a member of the Strategic Development Committee, the Audit Committee and the Risk Policy Committee of the Bank as of 25 October 2012.

Mr. CAI Haoyi ceased to serve as Non-executive Director and a member of the Strategic Development Committee and the Personnel and Remuneration Committee of the Bank as of 19 November 2012.

Mr. XIAO Gang ceased to serve as the Chairman of the Board of Directors, Executive Director, Chairman and member of the Strategic Development Committee of the Bank as of 17 March 2013.

The Board Meeting convened on 30 January 2013 considered and approved the proposal for nomination and appointment of Mr. WANG Shiqiang as Non-executive Director. The proposal was submitted to the 2013 First Extraordinary General Meeting for review and approval. Please refer to the notice of 2013 First Extraordinary General Meeting disclosed on 7 February 2013 for details.

The Board Meeting convened on 26 March 2013 considered and approved the proposal for nomination of Mr. LU Zhengfei and Mr. LEUNG Cheuk Yan as candidates for independent directors of the Bank. The proposal will be submitted to the 2012 Annual General Meeting for review and approval.

Changes in the Bank's Supervisors were as follows:

Mr. JIANG Kuiwei ceased to serve as Employee Supervisor of the Bank as of 21 February 2012.

Mr. LIU Xiaozhong and Ms. XIANG Xi began to serve as Employee Supervisors and Mr. LI Chunyu ceased to serve as Employee Supervisor of the Bank as of 19 August 2012.

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

Mr. FAN Yaosheng began to serve as Secretary to the Board of Directors of the Bank and Mr. ZHANG Bingxun ceased to serve as Secretary to the Board of Directors of the Bank as of 20 September 2012.



# Corporate Governance

The Bank considers excellent corporate governance as an important goal. During 2012, the Bank strictly complied with the state laws and regulations, relevant regulatory requirements and listing rules of the Chinese mainland and Hong Kong, closely observed trends in regulatory changes in China and abroad, and continuously improved its corporate governance.

1. Ensuring legal compliance by virtue of a sound and scientific corporate governance framework in order to meet all capital market regulatory requirements

The Bank abided by the regulatory rules of Chinese mainland and Hong Kong, adhering to the stricter regulation in each case and consistently improved its corporate governance framework, which mainly consists of the shareholders' meeting, the Board of Directors, the Board of Supervisors, and the senior management. This framework operated smoothly and achieved comprehensive compliance based on a clear division of duties.

2. Providing support to the corporate governance and shaping excellent corporate governance culture by virtue of a comprehensive and rational corporate governance system

The Bank attached importance to the strengthening of its corporate governance systems. It continued to revise and improve its corporate governance normative documents based on regulatory requirements and the Bank's development, and acted in strict accordance with those documents. During the reporting period, the Bank amended the Articles of Association, revised and improved relevant provisions concerning the operation of the Board of Directors, independent directors and profit distribution, thus making its corporate governance system more comprehensive and rational.

3. Enhancing the corporate governance efficiency continuously by virtue of the coordinated operations of an efficient and pragmatic corporate governance mechanism

Focusing on scientific decision-making, the Bank's Board of Directors is rationally structured with members of various backgrounds and a sound operational mechanism. Directors performed their duties diligently and the Board meeting attendance was high. The Board of Directors fully communicated with the senior management on major proposals, which effectively ensured the scientific decision-making of the Board of Directors and continuously improved efficiency. The Bank continued to improve its information disclosure mechanisms and strengthened information disclosure management, thus improving the transparency and quality of information disclosure.



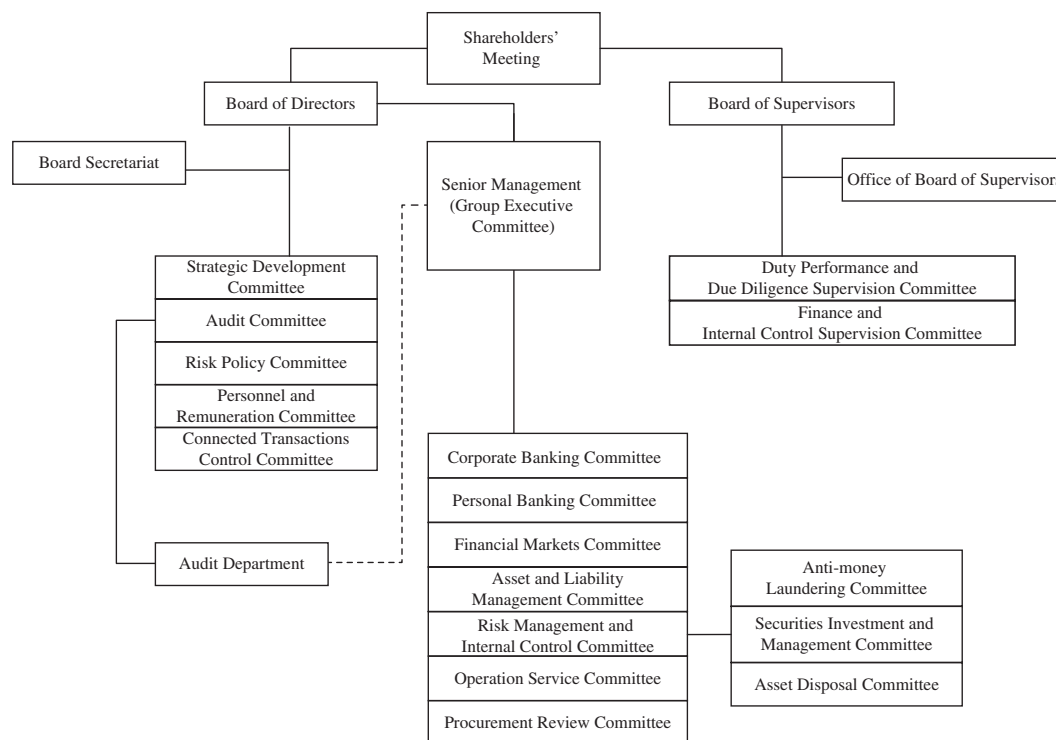
4. Exploring and developing the best practice of corporate governance by virtue of initiative and innovative corporate governance, striving for excellent corporate governance

The Bank actively explored the use of innovative corporate governance practices. The Bank reinforced its efforts in exploring the corporate governance at the Group level and effectively improved Group-level management and control. The Bank treated all shareholders equally, and ensured that all shareholders, especially minority shareholders, were properly informed and able to participate and make decisions. The annual shareholders' meetings were held in Beijing and Hong Kong by way of video conference, allowing shareholders from both places to attend in person. The Bank also continued to improve its stakeholder mechanism. It was responsible for shareholders, society, clients, the Bank, and for the staff, and actively assumed social responsibilities. The Bank focused closely on exploring forward-looking issues and strived for corporate governance excellence.

In 2012, progress in the Bank's corporate governance continued to be recognised by the capital markets and society. The Bank received, among other awards, "Top Ten Corporate Governance" by China Central Television, "Top Ten Enterprises with Highest Corporate Governance Scores" by The Hong Kong Institute of Directors, "Best Corporate Governance" by Institute of Corporate Governance of Nankai University, "Excellence of Listed Enterprises Award" by *Capital Weekly* of Hong Kong, "Achievement Award for Listed Companies" by *China Business News*, "Best Board of Directors of Main Board Listed Companies in China" by *Money Weekly*.

## Corporate Governance Framework

The Bank's corporate governance framework is shown below:



## Corporate Governance Compliance

During the reporting period, the Bank's corporate governance was fully in line with the Company Law and the relevant provisions of CSRC.

During the reporting period, the Bank strictly observed the *Corporate Governance Code* (the "Code") as set out in Appendix 14 to the Hong Kong Listing Rules. The Bank has complied with all provisions of the *Code* and has substantially complied with most of the recommended best practices set out in the *Code*. The Bank had already started to observe the amendments to the *Code* before 1 April 2012 when the amendments took effect and had proactively adopted the recommended best practices specified by the amended *Code*.

## Amendments to the Articles of Association

The 2012 First Extraordinary General Meeting considered and approved a proposal to amend the Articles of Association to specify that "the independent directors shall account for at least one third of the total board members". This amendment to the Articles of Association has been approved by CBRC.

The 2011 Annual General Meeting considered and approved a proposal for amendments to the Articles of Association, the key components of which were: “any vote of shareholders at the shareholders’ meeting shall be taken by poll”, the directors shall “take an active interest in the Bank’s affairs and follow up anything untoward that comes to their attention”, the Board of Directors’ function and power shall include the responsibility “to develop and review the corporate governance policies of the Bank”, “persons in charge of Personnel and Remuneration Committee and Connected Transactions Control Committee shall be independent directors”, and a clarification of the function and power of the Audit Committee and the Personnel and Remuneration Committee. Please refer to the notice of the 2011 Annual General Meeting disclosed on 12 April 2012 and announcement regarding the resolutions of the 2011 Annual General Meeting disclosed on 30 May 2012 for details. These amendments of the Articles of Association have been approved by CBRC.

The Board of Directors’ Meeting on 25 October 2012 considered and approved a proposal to amend the Articles of Association to specify the profit distribution principles and policy of the Bank. The amendments to the Articles of Association are subject to approval by the 2013 First Extraordinary General Meeting. Please refer to the section “Report of the Board of Directors — Formulation and Implementation of Cash Dividend Policy” and the notice of the 2013 First Extraordinary General Meeting disclosed on 7 February 2013 for the details.

### **Shareholders and Shareholders’ Rights**

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

### **Shareholders’ right to convene an extraordinary shareholders’ meeting and a meeting of shareholders of different categories**

According to the Articles of Association, shareholders individually or in aggregate holding a total of 10% or more of the shares of the Bank have the right to make a written request to the Board of Directors to convene an extraordinary shareholders’ meeting. Two or more shareholders holding a total of 10% or more of the shares carrying voting rights of the Bank may sign one or more written requests of identical form and substance requesting the Board of Directors to convene a meeting of shareholders of different categories and stating the subject of the meeting. If the Board of Directors fails to issue a notice of such a meeting within 30 days after having received a written request for convening an extraordinary shareholders’ meeting or a meeting of shareholders of different categories submitted by the proposing shareholders, the proposing shareholders may themselves convene the meeting within four months after the Board of Directors received the request. The procedures according to which they convene such meeting shall, to the extent possible, be identical to the procedures according to which shareholders’ meetings are convened by the Board of Directors. Where the proposing shareholders convene

and hold a meeting because the Board of Directors failed to convene such meeting pursuant to a request as mentioned above, the reasonable expenses incurred by such shareholders shall be borne by the Bank and shall be deducted from the sums owed by the Bank to the negligent directors.

### **Shareholders' right to propose resolutions at shareholders' meetings**

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

### **Shareholders' right to present enquiries**

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

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

### **Shareholders' Meeting**

The Bank held its 2012 First Extraordinary General Meeting in Beijing on 6 January 2012. This meeting considered and approved three proposals including a proposal to elect Mr. WANG Yongli as Executive Director of the Bank, the remuneration plan for the Chairman, executive directors, Chairman of the Board of Supervisors and shareholder representative supervisors of 2010, and a proposal to amend the Articles of Association. The proposal to amend the Articles of Association was a special resolution.

On 30 May 2012, the Bank held its 2011 Annual General Meeting in Beijing and Hong Kong by way of video conference. This meeting considered and approved eight proposals including the 2011 work report of the Board of Directors, the 2011 work report of the Board of Supervisors, the 2011 annual financial statements, the 2011 profit distribution plan, the 2012 annual budget, the re-appointment of PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers as external auditors for 2012, the proposal to elect Mr. Nout WELLINK as an Independent Director of the Bank, and the proposal to amend the Articles of Association. The proposal to amend the Articles of Association was a special resolution.

On 25 October 2012, the Bank held its 2012 Second Extraordinary General Meeting in Beijing. This meeting considered and approved two proposals including the remuneration plan for the Chairman, executive directors, Chairman of the Board of Supervisors and shareholder representative supervisors of 2011 and a proposal regarding the appointment of Ernst & Young Hua Ming as the Bank's external auditor for 2013.

All of the aforementioned meetings were convened and held in strict compliance with the relevant laws and regulations as well as the listing rules of the Chinese mainland and Hong Kong. The Bank's directors, supervisors and senior management members attended the meetings and communicated with shareholders on issues of their concern.

The Bank published announcements on the resolutions and legal opinions of the aforementioned shareholders' meetings on 6 January 2012, 30 May 2012 and 25 October 2012 respectively, pursuant to regulatory requirements. Please refer to the websites of SSE, HKEx and the Bank.

### **Directors' Attendance at Shareholders' Meetings**

During the reporting period, the attendance rate of each director is given below:

<b>Director</b>	<b>Number of meetings attended in person/ Number of meetings convened during term of office</b>
XIAO Gang	2/3
LI Lihui	2/3
LI Zaohang	3/3
WANG Yongli	2/2
CAI Haoyi	3/3
SUN Zhijun	3/3
LIU Lina	3/3
JIANG Yansong	3/3
ZHANG Xiangdong	3/3
ZHANG Qi	3/3
Anthony Francis NEOH	2/3
Alberto TOGNI	0/2
HUANG Shizhong	2/3
HUANG Danhan	3/3
CHOW Man Yiu, Paul	2/3
Jackson TAI	2/3
Nout WELLINK	1/1

Notes:

- 1 Please refer to the section “Directors, Supervisors and Senior Management Members — Changes in Directors, Supervisors and Senior Management Members” for changes in directors.
- 2 Rule I (C) of *Corporate Governance Report*, as set out in Appendix 14 to the Hong Kong Listing Rules, requires that the corporate governance reports shall disclose each director’s attendance at shareholders’ meetings. This rule took effect on 1 April 2012.

### **Implementation of the Resolutions Passed at the Shareholders’ Meeting by the Board of Directors**

The Board of Directors earnestly and fully implemented the resolutions passed at the shareholders’ meetings during the reporting period.

The 2012 First Extraordinary General Meeting and the 2011 Annual General Meeting considered and approved a proposal to amend the Articles of Association. The relevant amendments have been approved by CBRC, and the amended Articles of Association has been published on the websites of SSE, HKEx and the Bank. All activities of the Bank are in line with the amended Articles of Association.

Proposals to elect directors were approved by the 2012 First Extraordinary General Meeting and the 2011 Annual General Meeting. The relevant approval and filing procedures have been completed with regulatory authorities.

As approved by the 2011 Annual General Meeting, the Board of Directors diligently carried out the 2011 profit distribution plan, distributed dividends to shareholders in a timely manner and effectively served the shareholders’ interests. The profit distribution was completed in July 2012.

As approved by the 2011 Annual General Meeting, the Bank has completed the re-appointment of PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers as external auditors for 2012.

### **The Board of Directors**

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

updates the Articles of Association and the Bank's corporate governance policies and systems in accordance with the applicable laws and regulations, relevant regulatory requirements and listing rules, and ensures the compliance with such policies and systems.

The Board of Directors has set up the Strategic Development Committee, Audit Committee, Risk Policy Committee, Personnel and Remuneration Committee, and Connected Transactions Control Committee to assist the Board in performing different aspects of its functions. The positions of Chairman and President of the Bank are assumed by two persons. The Bank renewed the directors and officers' liability insurance for members of the Board in 2012 to provide protection against claims arising from the lawful discharge of duties by the directors, thus encouraging the directors to fully perform their duties.

Currently, the Board of Directors comprises fourteen members. There are three executive directors, five non-executive directors and six independent directors. The Bank's directors are elected at the shareholders' meeting, with a term of office of three years starting from the date when the Bank receives the approval of the appointment of CBRC. A director may serve consecutive terms by re-election and re-appointment unless otherwise specified by laws, regulations and supervisory requirements. For detailed background and an explanation of recent changes to the Board members, please refer to the section "Directors, Supervisors and Senior Management Members".

### **Convening of Board Meetings**

In 2012, the Bank convened six on-site meetings of the Board of Directors on 29 March, 26 April, 30 May, 23 August, 25 October and 13 December, respectively. At these meetings, the Board of Directors reviewed and approved 39 proposals related to the 2011 internal control self-assessment report, the 2011 corporate social responsibility report, the 2011 work report of the Board of Directors, the Bank's regular reports, the profit distribution plan, the appointment of directors, the adjustment of the composition of special committees of the Board of Directors, the amendments to the Articles of Association, the appointment of auditor for 2013 and matters concerning expenses. It also listened to 10 reports, including reports related to the consolidated management and other matters.

In 2012, the Bank convened twelve meetings of the Board of Directors via written resolutions. At these meetings, the Board of Directors approved the Rules Governing Persons with *Knowledge of Inside Information of Bank of China Limited (Version 2012)*, the Announcement Regarding the Surveillance Credit Rating Results on the Convertible Bonds of Bank of China Limited and other proposals.

During the reporting period, the attendance rate of each director of the Board of Directors and Special Committees is given below:

Number of meetings attended in person/Number of meetings convened during term of office

Directors	Board of Directors	Special Committees				
		Strategic Development Committee	Audit Committee	Risk Policy Committee	Personnel and Remuneration Committee	Connected Transactions Control Committee
XIAO Gang	17/18	2/2	—	—	—	—
LI Lihui	18/18	2/2	—	—	—	—
LI Zaohang	18/18	—	—	—	—	4/4
WANG Yongli	16/17	—	—	6/7	—	—
CAI Haoyi	15/15	1/2	—	—	4/4	—
SUN Zhijun	18/18	2/2	6/6	—	—	—
LIU Lina	18/18	2/2	—	8/8	—	—
JIANG Yansong	18/18	2/2	—	8/8	—	—
ZHANG Xiangdong	18/18	2/2	6/6	—	—	—
ZHANG Qi	18/18	2/2	—	—	4/4	—
Anthony Francis NEOH	18/18	—	6/6	8/8	4/4	4/4
Alberto TOGNI	6/7	1/1	2/2	2/4	—	1/1
HUANG Shizhong	18/18	—	6/6	6/8	4/4	4/4
HUANG Danhan	18/18	—	6/6	—	4/4	4/4
CHOW Man Yiu, Paul	18/18	—	6/6	8/8	2/2	4/4
Jackson TAI	18/18	2/2	6/6	—	—	4/4
Nout WELLINK	4/4	0/0	1/1	1/1	—	—
Average Attendance Rate	99%	95%	100%	90%	100%	100%

Notes:

- 1 Please refer to the section “Directors, Supervisors and Senior Management Members — Changes in Directors, Supervisors and Senior Management Members” for changes in directors.
- 2 In 2012, the Bank’s Board of Directors convened a total of eighteen meetings, comprising six on-site meetings and twelve meetings via written resolutions.
- 3 Independent Director Mr. Alberto TOGNI was not able to attend the Board Meeting in person on 30 May 2012. He authorised another director to attend and vote at the meeting as his proxy.
- 4 Chairman Mr. XIAO Gang and Executive Director Mr. WANG Yongli were not able to attend the Board Meeting in person on 13 December 2012 due to other business engagements. They authorised other directors to attend and vote at the meeting as their proxies.
- 5 Non-executive Director Mr. CAI Haoyi was not able to attend the Strategic Development Committee Meeting in person on 22 August 2012. He authorised another director to attend and vote at the meeting as his proxy.



## **The Strategic Development Committee**

The Strategic Development Committee comprises eight members, including Executive Director Mr. LI Lihui, Non-executive Directors Ms. SUN Zhijun, Ms. LIU Lina, Ms. JIANG Yansong, Mr. ZHANG Xiangdong, Mr. ZHANG Qi and Independent Directors Mr. Jackson TAI and Mr. Nout WELLINK.

The committee is mainly responsible for reviewing the strategic development plans presented by the senior management and advising the Board accordingly; reviewing the annual budget of the Bank in accordance with the strategic development plan, and advising the Board accordingly; reviewing decisions on strategic capital allocation (policies on capital structure, capital adequacy ratio and risk-reward trade-off) and the objectives of asset-liability management, and advising the Board accordingly; coordinating strategy on the overall development of the various financial businesses, and advising the Board accordingly; designing and formulating key investment and financing plans, reviewing and approving the plans presented by senior management under the Board's authorisation, and advising the Board accordingly.

The Strategic Development Committee held two meetings in 2012. At these meetings, it mainly approved the 2011 profit distribution plan, a proposal to turn the Bangkok Branch to a subsidiary, a report on the progress of the village bank project and requests for instructions on relevant issues.

## **The Audit Committee**

The Audit Committee comprises eight members, including Non-executive Directors Ms. SUN Zhijun, Mr. ZHANG Xiangdong and Independent Directors Mr. Anthony Francis NEOH, Mr. HUANG Shizhong, Ms. HUANG Danhan, Mr. CHOW Man Yiu, Paul, Mr. Jackson TAI and Mr. Nout WELLINK. Independent Director Mr. HUANG Shizhong serves as Chairman of the Audit Committee. The committee is mainly responsible for reviewing financial reports and other significant accounting policies and regulations formulated by the senior management; reviewing the external auditors' audit opinion, annual audit plan and recommendations for management; approving the Internal Audit Charter, Internal Audit Development Plan, annual audit priorities, annual audit plan and budget; appraising the duty performance and work quality of the external auditors and internal audit and monitoring their independence; recommending the engagement, reappointment, replacement and audit fee of the external auditors; recommending the appointment and dismissal and appraising the performance of the Chief Audit Officer; overseeing the Bank's internal control function, reviewing significant deficiencies in internal control design and execution by the senior management and investigating fraud cases, reviewing the employee reporting system and urging the Bank to conduct fair investigations and take appropriate measures regarding matters reported by the employees.

The Audit Committee held six meetings in 2012. It mainly reviewed such proposals as the Bank's quarterly, interim and annual financial reports, the annual self-assessment report on internal control and the 2011 internal audit work summary. It reviewed and approved the internal audit's work plan and budget for 2012, the internal audit priorities for 2013, the work plan for implementation of internal control standards in 2012, the overall work plan for external auditor rotation in 2013, the appointment and audit fee of the external auditor for 2013 and audit plan for external auditor transition in 2013. It also listened to a report on internal audit related to anti-money laundering, a report on internal audit requirements arising from the implementation of the *Administrative Measures for the Capital of Commercial Banks (Trial)* and corresponding countermeasures, and a report on cases in 2012. It also followed up on the implementation progress of an internal rating system for credit risk under the New Basel Capital Accord, the working practices of a risk accountability system and the building of an integrated monitoring platform for operational risk at the Group level.

According to the *Procedure Rules on the Preparation of Annual Report of the Board Audit Committee of Bank of China Limited*, prior to the start of audit field work by the auditors, the Audit Committee confirmed with the auditors the details of the 2012 audit plan, including areas of focus for auditing the 2012 Annual Report, risk assessment and identification methods, the application of accounting standards, tests of internal control and fraud related procedures, and the allocation of human resources. In particular, the committee reminded the auditors to report any differences of judgment between the auditors and the senior management during the audit, as well as the process and results of reconciling such differences.

The Audit Committee listened to and reviewed reports from the senior management concerning the Bank's business performance and major financial data. The committee also requested that the senior management submit the annual financial statements to the auditors in a timely manner, to ensure sufficient time for the annual audit. During the audit, the committee maintained independent discussions with the auditors and arranged independent meetings between the auditors and the independent directors. At its first meeting of 2013, the Audit Committee reviewed and approved the Bank's 2012 financial statements and submitted them to the Board of Directors for approval.

In accordance with the *Policies of Selection, Rotation and Dismissal for External Auditors of Bank of China Limited*, a summary report was submitted by the external auditors and appraised by the Bank's senior management. Based on this appraisal, the Audit Committee conducted its own assessment on the auditors' performance, effectiveness and independence in 2012.

According to the relevant requirements of MOF on the tenure of service of an external auditor engaged by a financial institution, the service term of the Bank's current external auditors will reach the prescribed time limit soon. As a result, the Bank launched the rotation of external auditors. Following the selection and engagement procedures required by the relevant regulations, the Audit Committee proposed to engage Ernst & Young Hua Ming as the Bank's external auditor for auditing its financial statements and internal control in 2013. This proposal has been reviewed and approved by the Board of Directors and the Extraordinary General Meeting of the Bank.

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

The Board proactively promotes and attaches great importance to the establishment of the Group's long-acting internal control system and regularly reviews reports from senior management concerning operational management, risk management, case prevention and control and internal control enhancement and assessment. The Board has taken responsibility for establishing, improving and conducting effective internal control and has made great efforts towards providing guidance to the Bank's internal control and compliance work, the Group's risk mitigation ability and level of operational compliance have been continuously enhanced.

The Audit Committee of the Board of Directors closely tracked changes in the overseas and domestic economic and financial environment and paid close attention to the overall condition of the Group's internal control, including the establishment and operation of its internal control systems for financial and non-financial reporting, as well as the Bank's progress in implementing the *Basic Standard for Enterprise Internal Control* and its supporting guidelines. The Audit Committee guided the internal audit function to follow the implementation of the Group's strategies, focused on mitigating systemic and material risks, set inspection priorities and conducted inspection work based on the philosophy of comprehensive risk management and risk assessment results, thus improving the effectiveness and efficiency of the Group's operations and enhancing its corporate governance.

The Audit Committee heard and reviewed, on a regular and ad hoc basis, reports on internal audit and inspections, the assessment opinions on internal control, the progress of rectification measures related to the external auditor's recommendations for the improvement of internal control and the prevention and control of fraud cases and non-compliance, with a view to encouraging the senior management to continually improve the internal control system. The Audit Committee continued to guide the internal audit function to closely track the overall process of the New Basel Capital Accord implementation and provided independent suggestions and opinions on internal control improvement.

During the reporting period, the Bank followed the relevant requirements set forth in the *Basic Standard for Enterprise Internal Control* and its supporting guidelines, and performed internal control self-assessment in accordance with the *Standards of Internal Control Assessment of Bank of China Limited* and the *Standards of Recognising Internal Control Deficiencies of Bank of China Limited*, with no material deficiency identified in the internal control systems of the Bank, including both financial and non-financial reporting. Please refer to the announcement of the Bank dated 26 March 2013 for the relevant reports.

## **The Risk Policy Committee**

The Risk Policy Committee of the Bank comprises seven members, including Executive Director Mr. WANG Yongli, Non-executive Directors Ms. LIU Lina and Ms. JIANG Yansong, and Independent Directors Mr. Anthony Francis NEOH, Mr. HUANG Shizhong, Mr. CHOW Man Yiu, Paul and Mr. Nout WELLINK. Independent Director Mr. Anthony Francis NEOH serves as the Chairman of the committee. The committee is mainly responsible for reviewing the Bank's risk management strategies, major risk management policies, procedures and systems, and providing suggestions to the Board of Directors; reviewing the Bank's major risk activities, and

exercising its veto power in a reasonable manner over any transaction that will or may lead to debts to the Bank and/or expose the Bank to market risk in excess of the single transaction risk limit or the accumulated transaction risk limit approved by the Risk Policy Committee or the Board of Directors; monitoring the implementation of the Bank's risk management strategies, policies and procedures, and providing suggestions to the Board of Directors; reviewing the Bank's risk management situation, regularly assessing the duty performance of risk management and internal control by the senior management, departments and institutions of the Bank, including regularly hearing reports and requesting improvements.

The Risk Policy Committee held eight meetings in 2012, in which it mainly reviewed and approved a compliance plan for advanced risk measurement approach and capital adequacy ratio, an assessment and rectification plan for the implementation of the New Basel Capital Accord, an internal rating policy for credit risk, securities investment policy, market risk limits and credit proposals whose amounts exceeded the approval authority of senior management. The committee also regularly reviewed progress reports regarding the Bank's implementation of the New Basel Capital Accord and reports on Group's risk assessment.

In addition, the committee paid constant attention to critical risk issues, such as the Bank's securities investments and loans to certain industries, in response to changes in overseas and domestic economic and financial conditions and adjustments of the government's macro policies. The committee members offered important opinions and recommendations regarding the improvement of the Bank's risk governance mechanism and the effective prevention and control of risks, including credit risk, market risk, operational risk, legal and compliance risk, liquidity risk, etc.

### **The Personnel and Remuneration Committee**

The Personnel and Remuneration Committee comprises five members, including Non-executive Director Mr. ZHANG Qi, and Independent Directors Mr. Anthony Francis NEOH, Mr. HUANG Shizhong, Ms. HUANG Danhan and Mr. CHOW Man Yiu, Paul. Independent Director Mr. CHOW Man Yiu, Paul serves as the Chairman of the committee. The committee is mainly responsible for assisting the Board of Directors in reviewing the Bank's human resources and remuneration strategies and overseeing their implementations; reviewing the structure, size and composition of the Board of Directors on an annual basis, and making suggestions to the Board regarding the scale and composition of the Board of Directors; studying and reviewing the standards and procedures for selecting, nominating and appointing directors, members of the Board committees and senior management, and making recommendations to the Board of Directors; identifying individuals suitably qualified to become directors and making recommendations to the Board of Directors on the selection of individuals nominated for directorships; performing preliminary review of the candidates for the members of the senior management and the Chairman of the Board committees, selecting and nominating candidates for different Board committees, and reporting to the Board of Directors for approval; reviewing and monitoring the remuneration and incentive policies of the Bank; considering and examining the remuneration plan of directors, supervisors and senior management members, and making recommendations to the Board of Directors; and setting the performance appraisal standards for the senior management of the Bank, evaluating the performance of the directors, supervisors and members of the senior management, and making recommendations to the Board of Directors.

The Personnel and Remuneration Committee held three on-site meetings and one meeting by written resolution in 2012. At these meetings, the committee mainly approved proposals on the performance evaluation and remuneration distribution plan for the Chairman, executive directors and senior management members for 2011, the 2012 performance targets for the Group, the 2012 performance targets for the Chairman, the President and the senior management members, a proposal for the nomination and appointment of an independent director, a proposal for adjustments to the composition of the Board committees and a proposal on the nomination and appointment of the Secretary to the Board of Directors. The committee also reviewed the remuneration distribution plan for the Chairman and members of the Board of Supervisors in 2011. The committee put forward important opinions and recommendations on further improving the Bank's performance evaluation management in line with regulatory requirements.

The procedures and methods for the nomination of directors and the specific requirements for nominating independent directors are specified in the Articles of Association. For details, please refer to articles 59, 103 and 135 of the Articles of Association, which can be found on the websites of SSE, HKEx and the Bank. During the reporting period, the Bank appointed Mr. WANG Yongli as an Executive Director and Mr. Nout WELLINK as an Independent Director in strict compliance with the Articles of Association.

#### **The Connected Transactions Control Committee**

The Connected Transactions Control Committee comprises six members, including Executive Director Mr. LI Zaohang, and Independent Directors Mr. Anthony Francis NEOH, Mr. HUANG Shizhong, Ms. HUANG Danhan, Mr. CHOW Man Yiu, Paul and Mr. Jackson TAI. Independent Director Ms. HUANG Danhan serves as the Chairman of the committee. The committee is mainly responsible for administering connected transactions of the Bank in accordance with relevant laws, regulations and normative documents, and formulating administrative regulations with regard to connected transactions; confirming the Bank's connected parties according to laws, regulations and normative documents, and reporting the relevant confirmation to the Board of Directors and the Board of Supervisors; defining connected transactions of the Bank in accordance with laws, regulations and normative documents; examining connected transactions of the Bank pursuant to relevant laws, regulations and normative documents, as well as the business principles of justice and fairness; and examining information disclosure matters related to the significant connected transactions of the Bank.

The Connected Transactions Control Committee held four meetings in 2012, in which the committee reviewed and approved several proposals, including the *Procedural Rules for Connected Transactions Control Committee of the Board of Directors of Bank of China Limited (2012)*, the report on 2012 connected transactions management of the Bank, and the report on the confirmation of connected parties list of the Bank. It also reviewed proposals related to the special report on funds occupied by controlling shareholders and other related parties in 2011, the declaration on connected transactions of the Bank in 2011, the report on transactions between the Bank and Fullerton Financial Holdings Pte. Ltd. and the report on the connected transactions monitoring system.

## **Independent Directors**

There are currently six independent directors on the Board of Directors. This exceeds one-third of the total number of directors and is in compliance with the quorum requirement specified in the Articles of Association and relevant regulatory requirements. For the professional backgrounds and other details of the independent directors, please refer to the section “Directors, Supervisors and Senior Management Members”. The independent directors serve as members of the special committees under the Board of Directors and the Chairmen of the Audit Committee, Risk Policy Committee, Personnel and Remuneration Committee and Connected Transactions Control Committee, respectively. As stipulated in relevant domestic regulatory requirements and Rule 3.13 of the Hong Kong Listing Rules, the Bank has received the annual confirmation in writing from each independent director with regard to his/her independence. Based on these confirmations and relevant information in possession of the Board of Directors, the Bank confirms their independent status.

In 2012, the Bank’s independent directors attended meetings of the Board of Directors, reviewed proposals, participated in discussions and offered their professional opinions independently, objectively and diligently, in accordance with the Articles of Association, the *Procedural Rules for Board of Directors of Bank of China Limited* and the *Work Rules of Independent Directors of Bank of China Limited*. Please refer to the section “Convening of Board Meetings” for the attendance of independent directors at Board meetings and refer to the “Directors’ Attendance at Shareholders’ Meetings” for the attendance of independent directors at shareholders’ meetings.

In 2012, independent directors put forward recommendations on the Bank’s strategic planning, capital management, overseas development, human resources allocation, financial markets business, New Basel Capital Accord implementation, the appointment of external auditors and many other aspects. The recommendations were adopted and seriously implemented by the Bank.

In 2012, the independent directors did not raise any objection to the resolutions of the Board of Directors or its special committees.

## **Expertise Enhancement of Directors**

In 2012, the Board of Directors paid much attention to enhancing directors’ expertise, focused on and actively arranged for relevant trainings. All directors of the Bank fully observed Rule A6.5 of the *Corporate Governance Code* as set out in Appendix 14 to the Hong Kong Listing Rules and regulatory requirements of Chinese mainland and participated in many special training sessions, focusing on such topics as risk management in the financial industry, the supervision of G-SIFIs, latest changes in laws and regulatory requirements for companies listed in Hong Kong, domestic regulatory rules on the insider trading of securities, the application of economic capital under the New Basel Capital Accord, and the new price-sensitive information disclosure regime of Hong Kong, among others. All directors have also propelled their own progress in professional skills through various ways, including writing and publishing professional articles and books, attending forums and seminars, special trainings and public lectures, and conducting on-site research exercises at the international leading banks and the Bank’s domestic and abroad branches.



## **Specific Explanation and Independent Opinions of Independent Directors on the Guarantee Business of the Bank**

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

The guarantee business is one of the Bank's ordinary business activities. It has been approved by PBOC and CBRC and does not fall within the scope of guarantees as defined in the *Circular on Regulating Guarantee Businesses of Listed Companies*. The Bank has formulated specific management measures, operational processes and approval procedures in light of the risks of the guarantee business and carried out this business accordingly. The Bank's guarantee business principally comprises letters of guarantee. As at 31 December 2012, the outstanding amount of letters of guarantee issued by the Bank was RMB846.627 billion.

## **Supervisors and Board of Supervisors**

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

The Board of Supervisors currently comprises eight members. Other than the Chairman of the Board of Supervisors, there are two supervisors representing shareholders, three employee supervisors and two external supervisors. According to the Bank's Articles of Association, a supervisor has a term of office of three years and may serve consecutive terms by re-election and re-appointment. Supervisors representing shareholders and external supervisors are elected or replaced by the shareholders' meeting.

The Board of Supervisors has set up the Duty Performance and Due Diligence Supervision Committee and the Finance and Internal Control Supervision Committee to assist it in performing its authorised duties. The special committees mentioned above are responsible to the Board of Supervisors, members of which are supervisors, and each committee shall have at least three members.

In 2012, the Board of Supervisors and its special committees earnestly performed their supervisory responsibilities and reviewed relevant proposals through detailed discussion. The Board of Supervisors held six meetings and made related resolutions. The Duty Performance and Due Diligence Supervision Committee held one meeting, while the Finance and Internal Control Supervision Committee held four meetings. For the performance of, and supervisory opinions from the Board of Supervisors within the reporting period, please refer to the section "Report of the Board of Supervisors".

## Senior Management

The senior management is the executive organ of the Bank. It is headed by the President, with Executive Vice Presidents and other senior management members assisting the President's work. The main responsibilities of the President include: presiding over the Bank's daily administrative, business and financial management; organising the implementation of business plan and investment schemes; drafting basic management regulations and specific rules; nominating candidates for other senior management members; and reviewing employees' remuneration, benefit, reward and punishment measures.

In 2012, the senior management of the Bank drove forward the Bank's operations in accordance with the powers bestowed upon them by the Articles of Association and the authorisations of the Board of Directors, and carried out the Bank's development strategy based on the annual performance objectives approved by the Board of Directors. Following the principles of "streamlining structures, scaling up, managing risks and sharpening competitiveness", the senior management adhered to focusing on efficiency and emphasising on streamlining structure and managing risks, propelled the sound development of various businesses, and hence continuously enhanced the Bank's performance.

During the reporting period, the senior management of the Bank held twenty-five regular meetings, in which it discussed and decided upon a series of significant matters, including the Bank's business development, asset and liability management, risk management, IT application, product innovation, human resources and performance management. It also convened one hundred and forty-three special meetings to arrange for matters relating to corporate banking, personal banking, financial markets, risk management and internal control, overseas development and integrated operations.

In 2012, in response to actual operational management needs, the senior management established the Asset and Liability Management Committee to take charge of the review of management policies on asset allocation, asset and liability business pricing, liquidity management, interest rate and exchange rate risk management, etc. The senior management of the Bank presides over the Corporate Banking Committee, the Personal Banking Committee, the Financial Markets Committee, the Asset and Liability Management Committee, the Risk Management and Internal Control Committee (which governs the Anti-money Laundering Committee, the Securities Investment and Management Committee and the Asset Disposal Committee), the Operation Service Committee and the Procurement Review Committee. During the reporting period, all of the committees diligently fulfilled their duties and responsibilities as per the powers specified in their committee charters and the rights delegated by the Group Executive Committee, and strived to push forward the sound development of various operations of the Bank.

## Securities Transactions by Directors and Supervisors

Pursuant to domestic and overseas securities regulatory requirements, the Bank formulated and implemented the *Management Measures on Securities Transactions by Directors, Supervisors and Senior Management Personnel of Bank of China Limited* (the "Management Rules") to govern securities transactions by directors, supervisors and senior management members of the Bank. The terms of the *Management Rules* are more stringent than the mandatory standards set



out in the *Model Code for Securities Transactions by Directors of Listed Issuers* contained in Appendix 10 to the Hong Kong Listing Rules (the “*Model Code*”). All directors and supervisors confirmed that they have complied with the standards set out in both the *Management Rules* and the *Model Code* throughout the reporting period.

### **Responsibility Statement of Directors on Financial Reports**

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

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

### **Appointment of External Auditors**

At the 2011 Annual General Meeting of the Bank, shareholders of the Bank approved the appointments of PricewaterhouseCoopers Zhong Tian CPAs Limited Company as its domestic auditor and internal control auditor for 2012, and PricewaterhouseCoopers as its international auditor for 2012.

Fees paid to PricewaterhouseCoopers and its member firms for the audit of the financial statements of the Group, including those of the Bank’s overseas subsidiaries and branches, were RMB222 million for the year ended 31 December 2012, of which the fees for internal control audit totalled RMB15 million.

PricewaterhouseCoopers was not engaged in significant non-auditing services with the Bank in 2012. The Bank incurred RMB6 million for non-auditing services performed by PricewaterhouseCoopers for the year ended 31 December 2012.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers have provided audit services to the Bank for 10 years. Mr. WU Weijun and Mr. WANG Wei are the certified public accountants that signed the auditor’s report on the Group’s financial statements prepared in accordance with the CAS for the year ended 31 December 2012. Mr. WU Weijun has provided audit services to the Bank for two consecutive years.

Upon the approval of the 2012 Second Extraordinary General Meeting, the Bank engaged Ernst & Young Hua Ming as its external auditor for auditing its financial statements and internal control in 2013.

## Investor Relations and Information Disclosure

In 2012, following the 2011 annual results and 2012 interim results announcements, the Bank successfully organised non-deal roadshows in which the senior management explained the Bank's strategies and operating performance to investors from different countries and regions including the Chinese mainland, Hong Kong, Europe and North America. The senior management listened earnestly to market concerns and feedback and were warmly welcomed by investors. Furthermore, the Bank proactively enhanced investor relations activities by actively participating in influential investor conferences, successfully holding corporate day events and earnestly communicating with investors and analysts regarding critical issues such as interest rate liberalisation, cross-border RMB business and risk management. Through these activities, the Bank actively highlighted its differentiated competitive advantages to the market. During the reporting period, the Bank's senior management and representatives of major departments held and attended over 200 meetings with domestic and overseas institutional investors and analysts, effectively promoting the investment community's understanding of the Bank's investment value. The investor relations team of the Bank also continually updates its investor relations webpage and improves other communication channels including telephone hotline and email, providing timely information to individual investor.

In the meantime, the Bank continued to enhance management of its external credit rating affairs, closely tracked the influence of its credit rating on the market and relevant institutions, and proactively researched rating methodologies and rating reports, and strengthened its integrated credit rating management, thereby further improving its management capability. In 2012, in the face of a complicated global financial and economic environment, the Bank's investor relations department fostered effective and more frequent communication with rating agencies at multiple levels, in respect of the Bank's risk profile, operating performance and development strategy. During the reporting period, the Bank's credit ratings have been reaffirmed by the major rating agencies.

In 2012, the Bank further improved its information disclosure management system by optimising the working procedure for its regular reports, revising the *Rules Governing Persons with Knowledge of Inside Information of Bank of China Limited* published on the websites of SSE, HKEx and the Bank and formulating the rules of disclosure for material provisional reports. During the reporting period, the Bank prepared and disclosed its regular reports and provisional reports strictly in line with the principles of truthfulness, accuracy, completeness, timeliness and fairness in order to enhance transparency. The Bank strictly complied with regulatory requirements and internal regulations, conducted the registration of persons with knowledge of inside information and self-inspection to prevent the occurrence of insider trading. The Bank reinforced the accountability systems and information correspondence mechanism across the Head Office departments, domestic and overseas branches and subsidiaries, organised training sessions for employees involved in the information correspondence mechanism and included information disclosure effectiveness as part of the Group's internal control assessment. Moreover, the Bank has further enhanced its information disclosure management ability and compliance by paying close attention to the relevant laws and regulations, and conducting case studies on information disclosure. The Bank has established the *Management Measures on Responsibility Investigation on Material Information Disclosure Errors of Regular Reports of Bank of China Limited*. During the reporting period, no material disclosure error in the Bank's regular reports was found.

In 2012, the Bank once again received wide recognition for its investor relations and information disclosure performance. The Bank was recognised as a “Top 100 Listed Company by Capital Capacity” jointly by China Center for Market Value Management and Chinese Financial Research Center of Tsinghua University. The 2011 Annual Report of the Bank was honoured with a “Gold Award” in the overall category of the LACP (League of American Communications Professionals) and recognised as one of the “Top 25 Chinese Annual Reports” and “Top 50 Annual Reports in the Asia-Pacific Region”. It was also awarded “Gold Winner in the Asia/Pacific Region” by Galaxy Awards.

# Report of the Board of Directors

The Board of Directors is pleased to present its report together with the audited Consolidated Financial Statements of the Bank and its subsidiaries (the “Group”) for the year ended 31 December 2012.

## Principal Activities

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

## Major Customers

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

## Results and Profit Distribution

The results of the Group for 2012 are set out in the financial statements and notes thereof. The Board of Directors has recommended a final dividend for 2012 of RMB0.175 per share (before tax), subject to the approval of the shareholders at the forthcoming Annual General Meeting scheduled on Wednesday, 29 May 2013. If approved, the 2012 final dividend of the Bank will be denominated and declared in RMB and paid in RMB or Hong Kong dollars. For such conversion, RMB will be converted into Hong Kong dollars based on the average exchange rate as announced by PBOC prevailing one week before 29 May 2013 (inclusive), being the date of the Bank’s Annual General Meeting. No capitalisation of the capital reserve to share capital is proposed in this profit distribution.

At the 2011 Annual General Meeting held on 30 May 2012, a final dividend for 2011 of RMB0.155 per share (before tax) was approved for payment. The distribution plan was accomplished in July 2012 and the actual distributed amount was RMB43.268 billion. No interim dividend was paid for the period ended on 30 June 2012 by the Bank. The Bank did not propose any capitalisation of the capital reserve to share capital in 2012.

## Dividend Payout and Capitalisation of the Capital Reserve to Share Capital for the Past Three Years

	2011	2010	2009
Amount per share (before tax) (Unit: RMB)	0.155	0.146	0.14
Total dividend (Unit: RMB million)	43,268	40,756	35,537
Payout ratio	35%	39%	44%
Capitalisation of the capital reserve to share capital	Nil	Nil	Nil

Notes:

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

## **Formulation and Implementation of Cash Dividend Policy**

In 2009, the Bank amended its Articles of Association by stating that the Bank should maintain the continuity and stability of its profit distribution policy. The Board of Directors held a meeting on 24 March 2011 to amend the dividend distribution policy. The independent directors fully expressed their opinions. The Board of Directors agreed that the dividend would be distributed at 35% – 45% of the Group's yearly net profits from year 2010 to 2013. This resolution was duly disclosed. The procedure to amend the dividend distribution policy was compliant and transparent, in line with the provisions of the Articles of Association and other rules and regulations.

The dividend distribution plan of the Bank is approved by the shareholder's meeting. The legitimate rights and interests of minority shareholders are fully respected and protected.

On 25 October 2012, the Board of Directors of the Bank considered and approved the proposal to amend the Articles of Association, and amended relevant profit distribution provisions thereof based on the requirements and recommendations of CSRC and CSRC Beijing Bureau. The independent directors fully expressed their opinions. This amendment specified the Bank's profit distribution principles, policy and adjustment procedures, the consideration of the profit distribution plan and other affairs. The amendment stated that, except under special circumstances, the Bank shall adopt cash as the form of dividend distribution where there is profit in that year and the accumulated undistributed profit is positive, and that the cash distribution of the dividend shall not be less than 10% of the profit after tax attributable to the shareholders of the Bank. This amendment to the Articles of Association will be submitted to the 2013 First Extraordinary General Meeting for review and approval. Please refer to the notice of the 2013 First Extraordinary General Meeting disclosed on 7 February 2013 for the full text of this amendment.

In 2012, the Bank distributed dividends for year 2011 in strict compliance with its Articles of Association, dividend distribution policy and the shareholders' meeting resolution on profit distribution.

## **Closure of Register of H-Share Holders**

The H-Share register of members of the Bank will be closed from Tuesday, 11 June to Monday, 17 June 2013 (both days inclusive) for the purpose of determining the list of shareholders entitled to the final dividend. For such entitlements, H-Share Holders who have not registered the related transfer documents are required to lodge them, together with the relevant share certificates, with the H-Share Registrar of the Bank, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 10 June 2013. The ex-dividend date of the Bank's shares will be on Friday, 7 June 2013.

## **Donations**

Charitable and other donations made by the Group during the reporting period amounted to approximately RMB44.579 million.

## **Share Capital**

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

## **Reserves**

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

## **Distributable Reserves**

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

## **Fixed Assets**

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

## **Financial Summary**

Please refer to the section "Financial Highlights" for the summary of the annual results, assets and liabilities of the Bank for the last five years.

## **Connected Transactions**

Under the Hong Kong Listing Rules, transactions between the Bank and its connected persons (as defined under the Hong Kong Listing Rules) constitute connected transactions to the Bank. Such transactions are monitored and administered by the Bank in accordance with the Hong Kong Listing Rules. In 2012, the Bank has regularly engaged in a number of connected transactions with its connected persons in the ordinary and usual course of its business. Such transactions are exempted from the reporting, annual review, announcement and independent shareholders' approval requirements according to the Hong Kong Listing Rules 14A.31 or 14A.33.

## **Directors' Interests in Competing Businesses**

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

## **Remuneration of Directors, Supervisors and Senior Management Members**

Please refer to the section "Directors, Supervisors and Senior Management Members" for the details of the remuneration of directors, supervisors and senior management members.

## Directors' and Supervisors' Service Contracts

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

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

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

## Directors' and Supervisors' Rights to Acquire Shares

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

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

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

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

Save as disclosed above, to the best knowledge of the Bank, as at 31 December 2012, none of the directors or supervisors of the Bank or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Bank pursuant to Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the *Model Code for Securities Transactions by Directors of Listed Issuers* as set out in Appendix 10 of the Hong Kong Listing Rules.

## **Financial, Business and Family Relations among Directors**

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

## **Substantial Shareholder Interests**

Please refer to the section “Changes in Share Capital and Shareholdings of Substantial Shareholders” for the details of the Bank’s substantial shareholder interests.

## **Management Contracts**

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

## **Share Appreciation Rights Plan and Share Option Scheme**

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

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

## **Purchase, Sale or Redemption of the Bank’s Shares**

As at 31 December 2012, approximately 5.17 million shares of the Bank were held as treasury shares. Please refer to Note V.36 to the Consolidated Financial Statements for details of the purchase, sale or redemption of the Bank’s shares by the Bank and its subsidiaries.

## **Pre-emptive Rights**

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

## **Use of Raised Funds**

All proceeds raised from the IPOs, the issuances of subordinated bonds and Convertible Bonds and the rights issue of A Shares and H Shares of the Bank have been used to replenish the Bank’s capital and step up capital adequacy levels. During the reporting period, with the approval of CBRC and PBOC, the Bank issued RMB23 billion of subordinated bonds in the national inter-bank bond markets on 27 November 2012. The funds raised from the issuance have been used to replenish the supplementary capital of the Bank.



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

## **Tax Relief**

Shareholders are taxed in accordance with the following tax regulations and the amendments thereof from time to time. They shall enjoy possible tax relief according to the actual situation. Shareholders should seek professional advice from their tax and legal advisors. The following cited laws, regulations and stipulations are all relevant provisions issued before 31 December 2012.

### **A-Share Holders**

In accordance with the *Notice on Implementing Differentiated Individual Income Tax Policy for Stock Dividends of Listed Companies* (Caishui [2012] No. 85) (the “Notice”) issued jointly by MOF, State Administration of Taxation, PRC and CSRC, for shares of listed companies obtained by individuals from public offerings or the market, where the holding period is less than one month (inclusive), the dividends shall be counted as taxable income in the full amount; where the holding period is more than one month and less than one year (inclusive), 50% of the dividends shall be counted as taxable income on a provisional basis; and where the holding period exceeds one year, 25% of the dividends shall be counted as taxable income on a provisional basis. The individual income tax rate of 20% shall be applicable for all incomes mentioned above. The individual income tax levied on stock dividends obtained by equity investment funds from listed companies is also calculated in accordance with the aforementioned rules.

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

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

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

## H-Share Holders

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

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

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

## Auditors

Please refer to the section “Corporate Governance — Appointment of External Auditors” for the details of the Bank’s external auditors.

On behalf of the Board of Directors

**LI Lihui**

*Vice Chairman*

26 March 2013

# Report of the Board of Supervisors

## Meetings of the Board of Supervisors

In 2012, the Bank convened six on-site meetings of the Board of Supervisors on 18 January, 29 March, 26 April, 16 July, 23 August, and 25 October, respectively, and two meetings of the Board of Supervisors via written resolutions. At these meetings, the Board of Supervisors reviewed and approved 20 proposals, including the Bank's periodic reports, 2011 profit distribution plan, 2011 internal control self-assessment report, the 2011 work report of the Board of Supervisors, the 2012 work plan of the Board of Supervisors, evaluation opinions on the duty performance of the directors and the senior management members for 2011, a work report on self-inspection and self-correction for operational compliance and member adjustment of special committees of the Board of Supervisors, etc.

In 2012, the attendance rate of each supervisor attending the meeting of the Board of Supervisors is given below:

Supervisor	Number of meetings attended in person/ Number of meetings convened during term of office
LI Jun	8/8
WANG Xueqiang	8/8
LIU Wanming	8/8
DENG Zhiying	8/8
LI Chunyu	4/4
LIU Xiaozhong	4/4
XIANG Xi	4/4
MEI Xingbao	8/8
BAO Guoming	7/8
The average attendance rate	98%

Notes:

- 1 Please refer to the section "Directors, Supervisors and Senior Management Members — Changes in Directors, Supervisors and Senior Management Members" for the changes in supervisors.
- 2 In 2012, the Board of Supervisors convened eight meetings, including six on-site meetings and two meetings via written resolutions.
- 3 Supervisor Ms. BAO Guoming was not able to attend the meeting of the Board of Supervisors on 16 July 2012 in person. She authorised another supervisor to attend and vote at the meeting as her proxy.

In 2012, the Duty Performance and Due Diligence Supervision Committee of the Board of Supervisors held one meeting, in which it reviewed and approved a proposal on evaluation opinions on the duty performance of the directors and the senior management members for 2011, and other proposals. The Finance and Internal Control Supervision Committee of the Board of Supervisors held four meetings, in which it reviewed and approved the Bank's periodic reports, 2011 profit distribution plan, the 2011 internal control self-assessment report and other proposals.

## **Performance of Supervision and Inspection by the Board of Supervisors**

In 2012, the Board of Supervisors earnestly conducted supervision of duty performance, finances, risk management and internal control in line with the provisions of the Company Law, relevant regulatory requirements, the Articles of Association and the Bank's development strategy. The Board of Supervisors continuously enhanced the efficiency of its supervision of the Bank's corporate governance, business development, operational management, risk management and internal control, to safeguard the interests of shareholders and the Bank.

**Intensifying the supervision and evaluation of duty performance to promote the effective duty performance of the directors and the senior management members.** In strict compliance with the *Measures on Duty Performance Evaluation for Directors of Commercial Banks (Trial)* promulgated by CBRC, the Board of Supervisors maintained an in-depth understanding of the implementation of the Bank's development strategy, the Bank's major business decisions and the resolutions of the shareholders' meeting and the Board meetings. It strengthened its supervision of the day-to-day duty performance of directors and senior management members by various means, such as attending meetings of the Board of Directors, special committees and the senior management as non-voting attendees, analysing the keynote speeches, instructions and meeting minutes of directors and senior management members and composing analysis reports. The Board of Supervisors also interviewed directors and senior management members to communicate frankly with them regarding the important issues and major problems of their work, listened to their opinions and provided recommendations. Based on routine supervisory information, duty performance reports and duty performance interviews, the Board of Supervisors objectively and fairly evaluated the duty performance and formed evaluation opinions on the annual duty performance of the Board of Directors and the senior management and their members, including setting out ratings on the duty performance of directors, so as to encourage the Board of Directors to better fulfil its decision-making role and senior management to continuously improve its execution.

**Earnestly conducting financial supervision and providing review opinions and recommendations.** The Board of Supervisors carefully reviewed the Bank's periodic reports, profit distribution plan and other financial information, holding seven meetings with relevant departments of the Head Office and external auditors with regard to the compilation, review and disclosure of the periodic reports. It also heard reports on the Bank's business performance, financial report compilation, audit plans and findings, paying special attention to the Bank's asset quality, provisioning, returns on assets, development of deposits, cost and expense control and other aspects. It also provided review opinions on periodic reports and relevant supervision recommendations.

**Strengthening the supervision of risk management and internal control to enhance the risk management level of the Bank.** By attending meetings regarding risk management and internal audit, hearing reports, conducting off-site monitoring and on-site investigations, the Board of Supervisors paid close attention to the integration and functioning of the Bank's comprehensive risk management framework and maintaining in-depth understanding of the Bank's progress towards its major tasks of risk management. On this basis, it strengthened supervision of risk management and internal control in key industries and fields, reinforced its coordination with

management departments, pushed forward the planning and implementation of significant decisions concerning risk management and internal control, and enhanced the synergy of internal supervision. In addition, the Board of Supervisors urged the senior management and branches to follow the inspection opinions and circulated requirements of regulators, visited relevant branches to supervise their rectification of problems in risk management and internal control, and reviewed rectification reports submitted by senior management on problems identified by CBRC in its on-site inspections of the Bank's internal risk management and internal control.

**Completing various special investigations and providing constructive recommendations to promote the sustainable development of the Bank.** The Board of Supervisors continued to deepen the transformation of its supervision function by means of special investigations. The investigation team of the Board of Supervisors visited 22 domestic and overseas branches and institutions and conducted special investigations on the net interest margin of RMB business, asset and liability management, the construction of the Shanghai RMB Trading Unit, the enhancement of competitiveness and the balance between the use and sources of funding of overseas institutions. It focused on the priorities and difficulties involved in the business development of the Bank, weaknesses in operational management and in the effectiveness of risk management and internal control, analysed the causes of such problems, put forward suggestions for improvement and composed several investigation reports. The relevant opinions and recommendations were valued and adopted by the Board of Directors and senior management. Positive interaction has been achieved between the supervision, formulation and implementation of decisions. Taking advantages of their expertise and extensive investigations, members of the Board of Supervisors actively provided constructive recommendations at the meetings of the Board of Directors and senior management, which promoted the Bank's sound and sustainable development.

**Conducting self-inspection and self-correction of the Bank's operational compliance to improve its corporate governance mechanism.** In accordance with regulatory requirements, the Board of Supervisors launched its first self-inspection and self-correction programme for operational compliance of listed companies. Based on this self-inspection, the Board of Supervisors conducted comprehensive analysis and objective assessment of the Bank's corporate governance, summarised the achievements and lessons learned from working practice and identified existing weaknesses. The Board of Directors, senior management and the Board of Supervisors proposed rectification measures for existing deficiencies in the Bank's corporate governance in a timely manner.

**Strengthening self-building and improving professional skills and quality.** In response to both regulatory requirements and the actual operational management of the Bank, the Board of Supervisors organised two supervision seminars, to study the supervision focuses and explore ways to improve supervision and inspections. Members of the Board of Supervisors actively participated in intensive training sessions and discussions organised by regulators, carefully studied the latest theories and best practices concerning corporate governance, and continuously improved their expertise and duty performance. In addition, the Board of Supervisors completed the adjustment of the member of special committees and employee supervisors, further strengthening the human resources of the Board of Supervisors.

The work of the Board of Supervisors was well recognised and supported by the Board of Directors and the senior management in 2012. The Board of Supervisors fully realised its role as an effective check and balance within the Bank's structure, which further enhanced the Bank's corporate governance capacity.

During the reporting period, the Board of Supervisors held no objections to such matters under its supervision regarding the Bank's operational and legal compliance, financial position, use of capital raised, purchase and sale of assets, connected transactions and internal control.

# Significant Events

## **Material Litigation, Arbitration and Issues of Media Interest**

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

During the reporting period, there was no issue attracting negative media interest.

## **Purchase and Sale, and Merger and Acquisition of Assets**

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

## **Implementation of Stock Incentive Plan during the Reporting Period**

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

## **Significant Related Party Transactions**

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

## **Major Contracts and the Enforcement thereof**

### ***Material Custody, Sub-contracts and Leases***

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

### ***Material Guarantee Business***

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

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

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

### **Undertakings**

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

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

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

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

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



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

### Investment Securities

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

No.	Type of securities	Securities code	Company/ securities name	Initial investment cost (unit: RMB)	Securities held at period beginning	Securities held at period end	Carrying value at period end (unit: RMB)	Proportion of the total investment securities at period end	Gains/(losses) during the reporting period (unit: RMB)
1	Stock	MA	MasterCard Inc.	—	55,679	55,679	171,909,704	6.17%	41,137,868
2	Stock	941 HK	China Mobile	117,676,917	285,024	1,739,500	127,287,391	4.57%	9,603,855
3	Stock	1038 HK	CKI Holdings	74,683,743	323,271	1,998,199	76,794,624	2.76%	2,353,673
4	Stock	939 HK	CCB	72,826,590	43,024,334	15,220,809	76,761,219	2.76%	13,432,937
5	Stock	2 HK	CLP Holdings	76,650,742	150,850	1,431,425	75,213,889	2.70%	2,792,431
6	Convertible Bond	XS0283693447	Sinopec Corp.	71,913,180	10,000	7,500	72,363,900	2.60%	2,314,631
7	Convertible Bond	XS0301648738	Sherson Ltd.	49,666,926	—	500	49,813,524	1.79%	1,177,971
8	Convertible Bond	XS0630257474	Wharf Finance(2014) Ltd.	49,350,269	20	30	49,256,100	1.77%	1,313,208
9	Stock	3983 HK	China Bluechem	46,159,207	1,955	11,308,086	47,585,015	1.71%	1,426,183
10	Stock	857 HK	Petrochina	42,583,658	449,400	5,246,151	46,584,530	1.67%	2,350,698
Other investment securities held at period end				1,532,238,412	—	—	1,991,043,211	71.50%	381,724,085
Gains/(losses) of investment securities sold during the reporting period				—	—	—	—	—	(313,196,402)
Total				2,133,749,644	—	—	2,784,613,107	100.00%	146,431,138

Notes:

- 1 The table lists the top ten investment securities held by the Group in descending order according to their carrying value at period end.
- 2 Investment securities listed in this table include stocks, warrants, convertible bonds and open-ended and close-ended funds, which are classified under financial assets at fair value through profit or loss.
- 3 “Other investment securities held at period end” refers to investment securities other than the top ten investment securities listed above held by the Group by the end of the reporting period.
- 4 The units of measures are “share” for stocks, “unit” for funds and “issue” for convertible bonds.

### *Stocks of Other Listed Companies Held by the Group*

Stock code	Company name	Initial investment cost (unit: RMB)	Stocks held at period beginning (unit: share)	Proportion of total capital of the invested company at period beginning	Stocks held at period end (unit: share)	Proportion of total capital of the invested company at period end	Carrying value at period end (unit: RMB)	Gains during the reporting period (unit: RMB)	Increase/ (decrease) of equity during the reporting period (unit: RMB)	Accounting classification	Source of shares
2008 HK	Phoenix Satellite Television Holdings Ltd.	316,010,545	412,000,000	8.30%	412,000,000	8.30%	831,783,504	14,030,083	183,727,280	Available for sale equity investment	Joint-stock reform
549 HK	Jilin Qifeng Chemical Fiber Co., Ltd.	56,050,159	94,841,726	10.95%	94,841,726	10.95%	31,835,636	—	(11,073,265)	Available for sale equity investment	Joint-stock reform
Total		<u>372,060,704</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>863,619,140</u>	<u>14,030,083</u>	<u>172,654,015</u>	—	—

Notes:

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

### *Equity Investments in Unlisted Financial Companies Held by the Group*

Company name	Initial investment cost (unit: RMB)	Equity held at period beginning (unit: share)	Proportion of total capital of the invested company at period beginning	Equity held at period end (unit: share)	Proportion of total capital of the invested company at period end	Carrying value at period end (unit: RMB)	Gains during the reporting period (unit: RMB)	Increase of the equity during the reporting period (unit: RMB)	Accounting classification	Source of shares
JCC Financial Company Limited	97,225,363	—	20%	—	13%	225,860,038	37,721,636	—	Investment in associates and joint ventures	Investment
China Bond Insurance Co., Ltd.	989,317,890	—	14%	—	14%	1,163,747,625	—	107,355,843	Available for sale equity investment	Investment
The Debt Management Company Limited	13,459	1,660	11%	1,660	11%	13,459	—	—	Available for sale equity investment	Investment
Hunan Valin Iron & Steel Group Finance Co., Ltd	58,360,089	—	10%	—	10%	94,897,383	8,020,963	—	Investment in associates and joint ventures	Investment
Total	<u>1,144,916,801</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,484,518,505</u>	<u>45,742,599</u>	<u>107,355,843</u>	—	—

Notes:

- 1 Financial companies include securities firms, commercial banks, insurance companies, futures companies, trust companies, etc.
- 2 The table lists equity investments in unlisted financial companies in which the Group held a proportion of 5% or more of the total shares.
- 3 Carrying value is value after the reduction of impairment allowance.
- 4 “Gains during the reporting period” refers to the relevant investment’s contribution to the Group’s consolidated profits for the reporting period.

### *Trading of Stocks of Other Listed Companies during the Reporting Period*

	Shares held at period beginning (unit: share)	Shares purchased during the reporting period (unit: share)	Shares sold during the reporting period (unit: share)	Shares held at period end (unit: share)	Amount of funds used (unit: RMB)	Gains during the reporting period (unit: RMB)
Trading of stocks of other listed companies	1,250,385,708	599,648,220	(422,191,752)	1,427,842,176	4,023,879,226	399,353,748



羅兵咸永道

## **Independent Auditor's Report**

### **To the shareholders of Bank of China Limited**

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

We have audited the consolidated financial statements of Bank of China Limited (the "Bank") and its subsidiaries (together, the "Group") set out on pages 149 to 394, which comprise the consolidated and the Bank's statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Directors' Responsibility for the Consolidated Financial Statements**

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

### **Auditor's Responsibility**

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

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



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

### **Opinion**

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

### **Other Matters**

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

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 26 March 2013

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# BANK OF CHINA LIMITED

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2012	2011 (Restated)*
Interest income	V.1	506,528	413,102
Interest expense	V.1	(249,564)	(185,038)
<b>Net interest income</b>		<b>256,964</b>	<b>228,064</b>
Fee and commission income	V.2	75,198	70,018
Fee and commission expense	V.2	(5,275)	(5,356)
<b>Net fee and commission income</b>		<b>69,923</b>	<b>64,662</b>
Net trading gains	V.3	8,451	7,858
Net gains on investment securities		2,288	3,442
Other operating income	V.4	28,550	24,272
<b>Operating income</b>		<b>366,176</b>	<b>328,298</b>
Operating expenses	V.5	(160,022)	(140,815)
Impairment losses on assets	V.8	(19,387)	(19,355)
<b>Operating profit</b>		<b>186,767</b>	<b>168,128</b>
Share of results of associates and joint ventures	V.19	613	516
<b>Profit before income tax</b>		<b>187,380</b>	<b>168,644</b>
Income tax expense	V.9	(41,858)	(38,142)
<b>Profit for the year</b>		<b>145,522</b>	<b>130,502</b>
<b>Attributable to:</b>			
Equity holders of the Bank		139,432	124,276
Non-controlling interests		6,090	6,226
		<b>145,522</b>	<b>130,502</b>
Earnings per share for profit attributable to equity holders of the Bank during the year (Expressed in RMB per ordinary share)	V.10		
— Basic		0.50	0.45
— Diluted		0.48	0.43

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

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

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



# BANK OF CHINA LIMITED

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012 (Amount in millions of Renminbi, unless otherwise stated)

	<b>Year ended 31 December</b>	
	<b>2012</b>	<b>2011</b>
		(Restated)*
<b>Profit for the year</b>	<b>145,522</b>	<b>130,502</b>
<b>Other comprehensive income:</b>		
Fair value gains on available for sale financial assets:		
Amount recorded in equity	7,123	2,642
Less: related income tax impact	(1,361)	(546)
Amount transferred to income statement	(1,520)	(3,228)
Less: related income tax impact	435	555
Subtotal	4,677	(577)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(57)	254
Less: related income tax impact	2	—
Subtotal	(55)	254
Exchange differences from the translation of foreign operations	670	(6,493)
Less: net amount transferred to income statement from other comprehensive income	311	647
Subtotal	981	(5,846)
Other	101	106
<b>Other comprehensive income/(losses) for the year, net of tax</b>	<b>5,704</b>	<b>(6,063)</b>
<b>Total comprehensive income for the year</b>	<b>151,226</b>	<b>124,439</b>
<b>Total comprehensive income attributable to:</b>		
Equity holders of the Bank	144,021	119,699
Non-controlling interests	7,205	4,740
	<b>151,226</b>	<b>124,439</b>

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

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

# BANK OF CHINA LIMITED

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012 (Amount in millions of Renminbi, unless otherwise stated)

		As at 31 December	
	Note	2012	2011 (Restated)*
ASSETS			
Cash and due from banks and other financial institutions	V.11	775,574	590,964
Balances with central banks	V.12	1,934,297	1,919,651
Placements with and loans to banks and other financial institutions	V.13	447,299	618,366
Government certificates of indebtedness for bank notes issued	V.26	70,554	56,108
Precious metals		150,534	95,907
Financial assets at fair value through profit or loss	V.14	71,590	73,807
Derivative financial assets	V.15	40,188	42,757
Loans and advances to customers, net	V.16	6,710,040	6,203,138
Investment securities	V.17	2,138,934	1,926,952
— available for sale		686,400	553,318
— held to maturity		1,183,080	1,074,116
— loans and receivables		269,454	299,518
Investment in associates and joint ventures	V.19	12,382	13,293
Property and equipment	V.20	150,324	138,234
Investment properties	V.21	17,142	14,616
Deferred income tax assets	V.34	21,292	19,264
Other assets	V.22	140,465	116,732
Total assets		12,680,615	11,829,789

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

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

# BANK OF CHINA LIMITED

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 31 December 2012 (Amount in millions of Renminbi, unless otherwise stated)

		As at 31 December	
	Note	2012	2011 (Restated)*
<b>LIABILITIES</b>			
Due to banks and other financial institutions	V.24	1,553,192	1,370,943
Due to central banks	V.25	130,022	81,456
Bank notes in circulation	V.26	70,733	56,259
Placements from banks and other financial institutions	V.27	313,004	265,838
Derivative financial liabilities	V.15	32,457	35,473
Due to customers	V.28	9,173,995	8,817,961
— at amortised cost		9,009,978	8,256,874
— at fair value		164,017	561,087
Bonds issued	V.29	199,133	169,902
Other borrowings	V.30	34,045	26,724
Current tax liabilities	V.31	34,994	29,353
Retirement benefit obligations	V.32	5,642	6,086
Deferred income tax liabilities	V.34	3,838	2,966
Other liabilities	V.35	268,018	209,691
<b>Total liabilities</b>		<b>11,819,073</b>	<b>11,072,652</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Bank</b>			
Share capital	V.36.1	279,147	279,147
Capital reserve	V.36.1	115,451	115,403
Treasury shares	V.36.2	(15)	(25)
Statutory reserves	V.37.1	65,362	52,165
General and regulatory reserves	V.37.2	131,909	81,243
Undistributed profits		242,899	210,599
Reserve for fair value changes of available for sale securities	V.38	7,276	3,642
Currency translation differences		(17,352)	(18,260)
		824,677	723,914
<b>Non-controlling interests</b>	V.39	<b>36,865</b>	<b>33,223</b>
<b>Total equity</b>		<b>861,542</b>	<b>757,137</b>
<b>Total equity and liabilities</b>		<b>12,680,615</b>	<b>11,829,789</b>

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

Approved and authorised for issue by the Board of Directors on 26 March 2013.

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

**LI Lihui**  
Director

**WANG Yongli**  
Director

**BANK OF CHINA LIMITED****STATEMENT OF FINANCIAL POSITION**

As at 31 December 2012 (Amount in millions of Renminbi, unless otherwise stated)

		As at 31 December	
	Note	2012	2011
ASSETS			
Cash and due from banks and other financial institutions	V.11	745,593	576,155
Balances with central banks	V.12	1,859,362	1,785,152
Placements with and loans to banks and other financial institutions	V.13	435,483	577,233
Government certificates of indebtedness for bank notes issued	V.26	3,314	2,691
Precious metals		145,174	91,642
Financial assets at fair value through profit or loss	V.14	29,654	31,887
Derivative financial assets	V.15	15,939	20,969
Loans and advances to customers, net	V.16	5,990,570	5,546,805
Investment securities	V.17	1,731,688	1,587,371
— available for sale		307,010	271,364
— held to maturity		1,163,416	1,025,620
— loans and receivables		261,262	290,387
Investment in subsidiaries	V.18	87,274	83,789
Investment in associates and joint ventures	V.19	55	48
Property and equipment	V.20	81,223	74,529
Investment properties	V.21	1,474	1,280
Deferred income tax assets	V.34	22,084	19,648
Other assets	V.22	93,233	79,638
Total assets		11,242,120	10,478,837

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

# BANK OF CHINA LIMITED

## STATEMENT OF FINANCIAL POSITION (Continued)

As at 31 December 2012 (Amount in millions of Renminbi, unless otherwise stated)

		As at 31 December	
	Note	2012	2011
LIABILITIES			
Due to banks and other financial institutions	V.24	1,516,858	1,273,561
Due to central banks	V.25	118,262	73,847
Bank notes in circulation	V.26	3,494	2,842
Placements from banks and other financial institutions	V.27	313,116	304,309
Derivative financial liabilities	V.15	16,382	17,387
Due to customers	V.28	8,111,074	7,806,900
— at amortised cost		7,953,141	7,249,861
— at fair value		157,933	557,039
Bonds issued	V.29	178,438	148,271
Current tax liabilities	V.31	32,900	26,527
Retirement benefit obligations	V.32	5,642	6,086
Deferred income tax liabilities	V.34	186	124
Other liabilities	V.35	172,364	133,769
Total liabilities		10,468,716	9,793,623
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Share capital	V.36.1	279,147	279,147
Capital reserve	V.36.1	113,671	113,670
Statutory reserves	V.37.1	63,562	50,487
General and regulatory reserves	V.37.2	126,663	76,515
Undistributed profits		191,079	166,950
Reserve for fair value changes of available for sale securities	V.38	1,099	604
Currency translation differences		(1,817)	(2,159)
Total equity		773,404	685,214
Total equity and liabilities		11,242,120	10,478,837

Approved and authorised for issue by the Board of Directors on 26 March 2013.

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

**LI Lihui**  
Director

**WANG Yongli**  
Director

# BANK OF CHINA LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012 (Amount in millions of Renminbi, unless otherwise stated)

Attributable to equity holders of the Bank											
		Share capital	Capital reserve	Statutory reserves	General and regulatory reserves	Undistributed profits	Reserve for fair value changes of available for sale securities	Currency translation differences	Treasury shares	Non-controlling interests	Total
	Note										
As at 1 January 2012 as restated		279,147	115,403	52,165	81,243	210,599	3,642	(18,260)	(25)	33,223	757,137
Profit for the year		-	-	-	-	139,432	-	-	-	6,090	145,522
Other comprehensive income		-	47	-	-	-	3,634	908	-	1,115	5,704
Total comprehensive income for the year		-	47	-	-	139,432	3,634	908	-	7,205	151,226
Appropriation to statutory reserves	V.37.1	-	-	13,187	-	(13,187)	-	-	-	-	-
Appropriation to general reserve and regulatory reserve	V.37.2	-	-	-	50,667	(50,667)	-	-	-	-	-
Dividends	V.37.3	-	-	-	-	(43,268)	-	-	-	(3,571)	(46,839)
Exercise of subsidiary share options		-	-	-	-	-	-	-	-	2	2
Net change in treasury shares	V.36.2	-	-	-	-	-	-	-	10	-	10
Other		-	1	10	(1)	(10)	-	-	-	6	6
As at 31 December 2012		279,147	115,451	65,362	131,909	242,899	7,276	(17,352)	(15)	36,865	861,542

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

# **BANK OF CHINA LIMITED**

## **CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)**

For the year ended 31 December 2012 (Amount in millions of Renminbi, unless otherwise stated)

Attributable to equity holders of the Bank (Restated)*											
							Reserve for fair value changes of available for sale securities	Currency translation differences	Treasury shares	Non- controlling interests	Total
	Note	Share capital	Capital reserve	Statutory reserves	General and regulatory reserves	Undistributed profits					
As at 1 January 2011 as previously reported		279,147	114,988	40,227	71,195	148,355	4,015	(13,624)	(138)	31,985	676,150
Adoption of IAS 12 Amendment		-	36	-	-	690	-	(33)	-	419	1,112
As at 1 January 2011 as restated		<u>279,147</u>	<u>115,024</u>	<u>40,227</u>	<u>71,195</u>	<u>149,045</u>	<u>4,015</u>	<u>(13,657)</u>	<u>(138)</u>	<u>32,404</u>	<u>677,262</u>
Profit for the year as restated		-	-	-	-	124,276	-	-	-	6,226	130,502
Other comprehensive income/(losses) as restated		-	400	-	-	(1)	(373)	(4,603)	-	(1,486)	(6,063)
Total comprehensive income for the year as restated		-	400	-	-	124,275	(373)	(4,603)	-	4,740	124,439
Appropriation to statutory reserves	V.37.1	-	-	11,922	-	(11,922)	-	-	-	-	-
Appropriation to general reserve and regulatory reserve	V.37.2	-	-	-	10,054	(10,054)	-	-	-	-	-
Dividends	V.37.3	-	-	-	-	(40,756)	-	-	-	(3,978)	(44,734)
Net change in treasury shares	V.36.2	-	-	-	-	-	-	-	113	-	113
Other		-	(21)	16	(6)	11	-	-	-	57	57
As at 31 December 2011 as restated		<u>279,147</u>	<u>115,403</u>	<u>52,165</u>	<u>81,243</u>	<u>210,599</u>	<u>3,642</u>	<u>(18,260)</u>	<u>(25)</u>	<u>33,223</u>	<u>757,137</u>

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

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

# BANK OF CHINA LIMITED

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2012	2011
<b>Cash flows from operating activities</b>			
Profit before income tax		187,380	168,644
Adjustments:			
Impairment losses on assets		19,387	19,355
Depreciation of property and equipment		11,757	10,301
Amortisation of intangible assets and other assets		2,318	1,956
Net gains on disposal of property and equipment, intangible assets and other long-term assets		(395)	(372)
Net gains on disposal of investment in subsidiaries, associates and joint ventures		(441)	(7)
Share of results of associates and joint ventures		(613)	(516)
Interest income arising from investment securities		(62,941)	(54,600)
Dividends arising from investment securities		(287)	(188)
Net gains on de-recognition of investment securities		(2,288)	(3,442)
Interest expense arising from bonds issued		7,359	6,554
Net changes in operating assets and liabilities:			
Net increase in balances with central banks		(7,845)	(356,193)
Net decrease/(increase) in due from and placements with and loans to banks and other financial institutions		45,789	(88,624)
Net increase in precious metals		(54,634)	(9,689)
Net decrease/(increase) in financial assets at fair value through profit or loss		3,216	(597)
Net increase in loans and advances to customers		(525,682)	(683,599)
Net increase in other assets		(28,922)	(14,303)
Net increase in due to banks and other financial institutions		182,249	95,129
Net increase in due to central banks		48,566	8,041
Net increase in placements from banks and other financial institutions		47,166	35,037
Net increase in due to customers		356,034	1,084,424
Net increase in other borrowings		7,321	7,225
Net increase in other liabilities		67,370	17,810
Cash inflow from operating activities		301,864	242,346
Income tax paid		(37,940)	(27,989)
Net cash inflow from operating activities		<b>263,924</b>	<b>214,357</b>

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



**BANK OF CHINA LIMITED**

**CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)**

For the year ended 31 December 2012 (Amount in millions of Renminbi, unless otherwise stated)

		<b>Year ended 31 December</b>	
	<b>Note</b>	<b>2012</b>	<b>2011</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		2,019	3,949
Proceeds from disposal of investment in subsidiaries, associates and joint ventures		2,737	471
Dividends received		416	380
Interest income received from investment securities		59,754	54,882
Proceeds from disposal/maturity of investment securities		1,211,882	1,336,845
Increase in investment in subsidiaries, associates and joint ventures		(1,028)	(1,200)
Purchase of property and equipment, intangible assets and other long-term assets		(29,490)	(32,455)
Purchase of investment securities		<u>(1,428,836)</u>	<u>(1,307,098)</u>
Net cash (outflow)/inflow from investing activities		<u><b>(182,546)</b></u>	<u><b>55,774</b></u>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of bonds		43,522	36,841
Repayments of debts issued		(15,342)	(793)
Cash payments for interest on bonds issued		(6,451)	(4,444)
Dividend payments to equity holders of the Bank		(43,268)	(40,756)
Dividend payments to non-controlling interests		(3,571)	(3,978)
Other net cash flows from financing activities		<u>18</u>	<u>170</u>
Net cash outflow from financing activities		<u><b>(25,092)</b></u>	<u><b>(12,960)</b></u>
Effect of exchange rate changes on cash and cash equivalents		<u>(1,371)</u>	<u>(9,174)</u>
<b>Net increase in cash and cash equivalents</b>		<b>54,915</b>	<b>247,997</b>
Cash and cash equivalents at beginning of year		<u>1,017,368</u>	<u>769,371</u>
Cash and cash equivalents at end of year	V.41	<u><b>1,072,283</b></u>	<u><b>1,017,368</b></u>

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

# **BANK OF CHINA LIMITED**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

### **I GENERAL INFORMATION AND PRINCIPAL ACTIVITIES**

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

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

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

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

The parent company is Central Huijin Investment Limited (“Huijin”), a wholly owned subsidiary of China Investment Corporation (“CIC”), which owned 67.72% of the ordinary shares of the Bank as at 31 December 2012 (31 December 2011: 67.60%).

These consolidated financial statements have been approved by the Board of Directors on 26 March 2013.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES**

**1 Basis of preparation**

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

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

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

***1.1 Standards, amendments and interpretations effective in 2012***

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

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

In 2012, the Group adopted IAS 12 Amendment — Deferred Tax: Recovery of Underlying Assets. Pursuant to the amendment, the Group restated the deferred tax assets and liabilities related to investment properties measured using the fair value model under IAS 40 Investment Property retrospectively. For the impact of the retrospective application, refer to Note II.23.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

## 1 Basis of preparation (Continued)

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

The standards, amendments and interpretations noted below are relevant to the Group but are not yet effective and have not been early adopted by the Group in 2012.

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**1 Basis of preparation (Continued)**

***1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2012 (Continued)***

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**1 Basis of preparation (Continued)**

***1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2012 (Continued)***

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

IFRS 10, IFRS 11, IFRS 12 Amendments provide additional transition relief to IFRS 10, IFRS 11 and IFRS 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

IFRS 10, IFRS 12 and IAS 27 Amendments apply to a particular class of business that qualifies as investment entities. Investment entity refers to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. The amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**2 Consolidation**

**2.1 Subsidiaries**

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**2 Consolidation (Continued)**

**2.1 Subsidiaries (Continued)**

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

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

The Group sponsors the formation of special purpose entities ("SPEs") primarily to provide structured products to investors. SPEs are consolidated if their relationship indicates they are controlled by the Group. When assessing whether the Group has in substance control over the SPEs, the Group evaluates a range of factors, including whether:

- the activities of the SPEs are being conducted on behalf of the Group and according to the Group's specific business needs so that the Group obtains benefits from the SPEs' operations;
- the Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPEs, or by setting up an "autopilot" mechanism, the Group has delegated these decision-making powers;
- the Group has rights to obtain the majority of the benefits of the SPEs and therefore may be exposed to risks incident to the activities of the SPEs; or
- the Group retains the majority of the residual or ownership risks related to the SPEs or its assets in order to obtain benefits from its activities.

The Group performs a re-assessment of consolidation where there is a change in the substance of the relationship between the Group and a SPE.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**2 Consolidation (Continued)**

**2.2 Associates and joint ventures**

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

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

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

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

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

**2.3 Transactions with non-controlling interests**

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**3 Foreign currency translation**

**3.1 *Functional and presentation currency***

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

**3.2 *Transactions and balances***

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**3 Foreign currency translation (Continued)**

**3.2 Transactions and balances (Continued)**

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

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) income and expenses for each income statement are translated at exchange rates at the date of the transactions, or a rate that approximates the exchange rates of the date of the transaction; and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of deposit taken and other currency instruments designated as hedges of such investments are taken to other comprehensive income. When a foreign entity is disposed, these exchange differences are recognised in the income statement. The effect of exchange rate changes on cash and cash equivalent is presented individually in the statement of cash flows.

**4 Financial instruments**

**4.1 Classification**

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**4 Financial instruments (Continued)**

**4.1 Classification (Continued)**

Financial liabilities are classified into two categories:

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

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

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

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**4 Financial instruments (Continued)**

**4.1 Classification (Continued)**

*(2) Held to maturity investments*

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

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

*(3) Loans and receivables*

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

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

*(4) Available for sale investments*

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

*(5) Other financial liabilities*

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**4 Financial instruments (Continued)**

**4.2 Initial recognition**

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

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

**4.3 Subsequent measurement**

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

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

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

**4.4 Determination of fair value**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**4 Financial instruments (Continued)**

**4.4 Determination of fair value (Continued)**

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

**4.5 De-recognition of financial instruments**

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

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

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

**4.6 Impairment of financial assets**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**4 Financial instruments (Continued)**

**4.6 Impairment of financial assets (Continued)**

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (iv) it becoming probable that the borrower will enter into bankruptcy or other financial re-organisation;
- (v) the disappearance of an active market for that financial asset because of financial difficulties;
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property price for the mortgages in the relevant area or national or local economic conditions that correlate with defaults on the assets in the group;
- (vii) any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered;
- (viii) a significant or prolonged decline in the fair value of an equity instrument is an indicator of impairment in such investments where a decline in the fair value of equity instrument below its initial cost by 50% or more; or fair value below cost for one year or longer. An impairment is also indicated by a decline in fair value of 20% or more below initial cost for six consecutive months or longer or where fair value is below initial cost by 30% or more over a short period of time (i.e., one month); or
- (ix) other objective evidence indicating impairment of the financial asset.

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



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**4 Financial instruments (Continued)**

**4.6 Impairment of financial assets (Continued)**

*(1) Assets carried at amortised cost*

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

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar and relevant credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

When a financial asset is uncollectible, it is written off against the related allowance for impairment after all the necessary procedures have been completed. Subsequent recoveries of amounts previously written off are recognised in the income statement.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**4 Financial instruments (Continued)**

**4.6 Impairment of financial assets (Continued)**

*(1) Assets carried at amortised cost (Continued)*

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account and recognised in the income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

*(2) Assets classified as available for sale*

If objective evidence of impairment exists for available for sale financial assets, the cumulative loss recognised in "Reserve for fair value changes of available for sale securities" is reclassified from equity to the income statement and is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the previously recognised impairment loss is reversed through the income statement.

With respect to equity instruments, impairment losses recognised in the income statement are not subsequently reversed through the income statement. If there is objective evidence that an impairment loss has been incurred on an unquoted equity investment that is not carried at fair value because its fair value cannot be reliably measured, the impairment loss is not reversed.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**4 Financial instruments (Continued)**

***4.7 Derivative financial instruments and hedge accounting***

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow analysis and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profit or loss on the date of transaction.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. For derivatives not designated or qualified as hedging instruments, including those are intended to provide effective economic hedges of specific interest rate and foreign exchange risks, but do not qualify for hedge accounting, changes in the fair value of these derivatives are recognised in “Net trading gains” in the income statement.

The Group documents, at inception, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. These criteria should be met before a hedge can be qualified to be accounted for under hedge accounting.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**4 Financial instruments (Continued)**

**4.7 Derivative financial instruments and hedge accounting (Continued)**

*(1) Fair value hedge*

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect income statement.

The changes in fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in fair value of the hedged item attributable to the hedged risk. The net result is included as ineffectiveness in the income statement.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. If the hedged item is de-recognised, the unamortised carrying value adjustment is recognised immediately in the income statement.

*(2) Cash flow hedge*

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction that could ultimately affect income statement.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in equity in the “Capital reserve”. The ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the same periods when the hedged item affects the income statement.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**4 Financial instruments (Continued)**

**4.7 Derivative financial instruments and hedge accounting (Continued)**

**(2) Cash flow hedge (Continued)**

When a hedging instrument expires or is sold, or the hedge designation is revoked or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument existing in equity at that time remains in equity and is reclassified to the income statement when the forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity is immediately transferred to the income statement.

**(3) Net investment hedge**

Net investment hedge is a hedge of a net investment in a foreign operation.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of as part of the gain or loss on the disposal.

**4.8 Embedded derivatives**

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the hybrid (combined) instrument vary in a way similar to a stand-alone derivative.

The Group separates embedded derivatives from the host contract and accounts for these as derivatives, if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

These embedded derivatives separated from the host contract are measured at fair value with changes in fair value recognised in the income statement.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**4 Financial instruments (Continued)**

**4.9 Convertible bonds**

Convertible bonds comprise of the liability and equity components. The liability component, representing the obligation to make fixed payments of principal and interest, is classified as liability and initially recognised at the fair value, calculated using the market interest rate of a similar liability that does not have an equity conversion option, and subsequently measured at amortised cost using the effective interest method. The equity component, representing an embedded option to convert the liability into common shares, is initially recognised in “Capital reserve” as the difference between the proceeds received from the convertible bonds as a whole and the amount of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds.

On conversion of the bonds into shares, the amount transferred to Share capital is calculated as the par value of the shares multiplied by the number of shares converted. The difference between the carrying value of the related component of the converted bonds and the amount transferred to Share capital is recognised in capital surplus under “Capital reserve”.

**4.10 Offsetting financial instruments**

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

**5 Precious metals and precious metals swaps**

Precious metals comprise gold, silver and other precious metals. The Group retains all risks and rewards of ownership related to precious metals deposited with the Group as precious metals deposits, including the right to freely pledge or transfer, and it records the precious metals received as an asset. A liability to return the amount of precious metals deposited is also recognised. Precious metals that are not related to the Group’s precious metals market making and trading activities are initially measured at acquisition cost and subsequently measured at lower of cost and net realisable value. Precious metals that are related to the Group’s market making and trading activities are initially recognised at fair value and subsequent changes in fair value included in “Net trading gains” are recognised in the income statement.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**5 Precious metals and precious metals swaps (Continued)**

Consistent with the substance of the transaction, if the precious metals swaps are for financing purpose, they are accounted for as precious metals subject to collateral agreements. Precious metals collateralised are not de-recognised and the related counterparty liability is recorded in “Placements from banks and other financial institutions”. If precious metal swaps are for trading purpose, they are accounted for as derivatives transactions.

**6 Repurchase agreements, agreements to re-sell and securities lending**

Securities and bills sold subject to repurchase agreements (“Repos”) continue to be recognised, and are recorded as “Investment securities”. The counterparty liability is included in “Placements from banks and other financial institutions” and “Due to central banks”. Securities and bills purchased under agreements to re-sell (“Reverse repos”) are not recognised. The receivables are recorded as “Placements with and loans to banks and other financial institutions” or “Balances with central banks”, as appropriate.

The difference between purchase and sale price is recognised as “Interest expense” or “Interest income” in the income statement over the life of the agreements using the effective interest method.

Securities lending transactions are generally secured, with collateral taking the form of securities or cash. Securities lent to counterparties by the Group are recorded in the consolidated financial statements. Securities borrowed from counterparties by the Group are not recognised in the consolidated financial statements of the Group. Cash collateral received or advanced is recognised as a liability or an asset in the consolidated financial statements.

**7 Property and equipment**

The Group’s fixed assets mainly comprise buildings, equipment and motor vehicles, aircraft and construction in progress. When the costs attributable to the land use rights cannot be reliably measured and separated from that of the building at inception, the costs are included in the cost of properties and buildings and recorded in “Property and equipment”.

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Such initial cost includes expenditure that is directly attributable to the acquisition of the assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

## 7 Property and equipment (Continued)

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

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

Property and equipment are reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the income statement.

7.1 *Buildings, equipment and motor vehicles*

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

Type of assets	Estimated useful lives	Estimated residual value rate	Annual depreciation rate
Buildings	15–50 years	3%	1.9%–6.5%
Equipment	3–15 years	3%	6.4%–32.4%
Motor vehicles	4–6 years	3%	16.1%–24.3%



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**7 Property and equipment (Continued)**

**7.2 Aircraft**

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase to an estimated residual value rate varying from 0% to 15%.

**7.3 Construction in progress**

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

**8 Leases**

**8.1 Lease classification**

Leases of assets where substantially all the risks and rewards of ownership have been transferred are classified as finance leases. Title may or may not eventually be transferred. All leases other than finance leases are classified as operating leases.

**8.2 Finance leases**

When the Group is a lessee under finance leases, the leased assets are capitalised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in "Other liabilities". Finance charges are charged over the term of the lease using an interest rate which reflects a constant rate of return.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**8 Leases (Continued)**

**8.2 Finance leases (Continued)**

The Group adopts the same depreciation policy for the finance leased assets as those for which it has title rights. If the Group can reasonably determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over their useful life. If there is no reasonable certainty that the Group can determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over the shorter of the lease term and useful life.

When the Group is a lessor under finance leases, the present value of the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognised as a receivable. The difference between the receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using an interest rate which reflects a constant rate of return.

**8.3 Operating leases**

When the Group is the lessee under an operating lease, rental expenses are charged to “Operating expenses” in the income statement on a straight-line basis over the period of the lease.

When the Group is the lessor under operating leases, the assets subject to the operating lease are accounted for as the Group’s assets. Rental income is recognised as “Other operating income” in the income statement on a straight-line basis over the lease term net of any incentives given to lessees.

**9 Investment properties**

Investment properties, principally consisting of office buildings, are held to generate rental income or earn capital gains or both and is not occupied by the Group. Investment properties are carried at fair value and changes in fair value are recorded in the income statement, representing the open market value determined periodically by independent appraisers.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**10 Intangible assets**

Intangible assets are identifiable non-monetary assets without physical substance, including computer software and other intangible assets.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the income statement.

The value of intangible assets is reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The recoverable amount of an intangible asset is the higher of the asset's fair value less costs to sell and value in use.

**11 Repossessed assets**

Repossessed assets are initially recognised at fair value plus related costs when they are obtained as the compensation for the loans principal and interest. When there are indicators that the recoverable amount is lower than carrying amount, the carrying amount is written down immediately to its recoverable amount.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**12 Employee benefits**

***12.1 Defined contribution plans***

In accordance with the policies of relevant state and local governments, employees in Chinese mainland participate in various defined contribution retirement schemes administered by local Labour and Social Security Bureaus. Operations in Chinese mainland contribute to pension and insurance schemes administered by the local pension and insurance agencies using applicable contribution rates stipulated in the relevant local regulations. Upon retirement, the local Labour and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees. In addition to these basic staff pension schemes, employees in Chinese mainland who retire after 1 January 2004 can also voluntarily participate in a defined contribution plan established by the Bank (“the Annuity Plan”). The Bank contributes to the Annuity Plan based on certain percentages of the employees’ gross salaries.

All eligible employees in operations in Hong Kong, Macau, Taiwan and other countries and regions participate in local defined contribution schemes. The above operations contribute to these defined contribution plans based on certain percentages of the employees’ basic salaries.

Contributions made by the Group to the retirement schemes described above are recognised as “Operating expenses” in the income statement as incurred. Forfeited contributions by those employees who leave the schemes prior to the full vesting of their contributions are used to reduce the existing level of contributions or retained in the retirement schemes in accordance with the requirements of the respective defined contribution plans.

***12.2 Retirement benefit obligations***

The Group pays supplemental retirement benefits to employees in Chinese mainland who retired prior to 31 December 2003 and early retirement benefits to those employees who accepted an early retirement arrangement.

Supplemental retirement benefits include supplemental pension payments and medical expense coverage.

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**12 Employee benefits (Continued)**

***12.2 Retirement benefit obligations (Continued)***

The liability related to the above supplemental benefit obligations and early retirement obligations existing at each financial reporting date, is calculated by independent actuaries using the projected unit credit method and is recorded as a liability under “Retirement benefit obligations” in the statement of financial position. The present value of the liability is determined through discounting the estimated future cash outflows using interest rates of RMB treasury bonds which have terms to maturity approximating the terms of the related liability. The gains or losses including those arising from the changes in actuarial assumptions and amendments to pension plans are charged or credited to the income statement immediately as “Operating expenses” when they occur.

***12.3 Housing funds***

Pursuant to local government regulations, all employees in Chinese mainland participate in various local housing funds administered by local governments. Operations in Chinese mainland contribute on a monthly basis to these funds based on certain percentages of the salaries of the employees. These payments are recognised as “Operating expenses” in the income statement as incurred.

***12.4 Share-based compensation***

***(1) Equity-settled share-based compensation schemes***

The fair value of the employee services received in exchange for the grant of the options under these schemes is recognised as an expense over the vesting period, with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. The fair value of the equity instruments is measured at grant date, and is not subsequently re-measured. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each financial reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement over the remaining vesting period, with a corresponding adjustment to equity.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**12 Employee benefits (Continued)**

**12.4 Share-based compensation (Continued)**

*(1) Equity-settled share-based compensation schemes (Continued)*

The proceeds received net of any directly attributable transaction costs are credited to “Share capital” (nominal value) and “Capital reserve” when the options are exercised.

*(2) Cash-settled share-based compensation scheme*

The related cost of services received from the employees and the liability to pay for such services are measured at fair value and recognised over the vesting period as the employees render services. Fair value is established at the grant date, re-measured at each financial reporting date with any changes in fair value recognised as “Operating expenses” in the income statement for the period and de-recognised when the liability is settled.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the rights granted, excluding the impact of any non-market vesting conditions. Non-market conditions are included in the assumptions about the number of rights that are expected to vest. At each financial reporting date, the Group revises its estimates of the number of rights that are expected to vest. It recognises the impact of the revision to original estimates, if any, as “Operating expenses” in the income statement, with a corresponding adjustment to liability.

**12.5 Bonus plans**

The Group recognises a liability and an expense for bonuses, taking into consideration its business performance and profit attributable to the Bank’s equity holders. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**13 Provisions**

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

**14 Insurance contracts**

***14.1 Insurance contracts classification***

The Group's insurance subsidiaries issue insurance contracts that transfer significant insurance risk. The Group perform significant insurance risk test at the contract initial recognition date. Insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. The Group issues non-life insurance contracts, which cover casualty and property insurance risk, and life insurance contracts, which insure events associated with human life (for example death, or survival) over a long duration.

The Group does not separately measure embedded derivatives that itself meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

***14.2 Insurance contracts recognition and measurement***

***(1) Non-life insurance contracts***

Premiums on non-life insurance contracts are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the financial reporting date is reported as the unearned premium liability in "Other liabilities".

Claims and loss adjustment expenses are charged to the income statement as "Operating expenses" when incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the financial reporting date even if they have not yet been reported to the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**14 Insurance contracts (Continued)**

***14.2 Insurance contracts recognition and measurement (Continued)***

***(2) Life insurance contracts***

Premiums on life insurance contracts are recognised as revenue when they become payable by the contract holders. Benefits and claims are recorded as an expense when they are incurred. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised. For certain long-term insurance contracts (linked long-term insurance contracts) with embedded derivatives linking payments on the contract to units of an investment fund set up by the Group with the consideration received from the contract holders, the liability is adjusted for all changes in the fair value of the underlying assets, and includes a liability for contractual benefits that are expected to be incurred in the future which is recorded when the premiums are recognised.

***14.3 Liability adequacy test***

At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities (including unearned premium in the case of non-life insurance contracts). In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the income statement and reported as “Operating expenses”, with a provision established for losses arising from the liability adequacy test.

**15 Treasury shares**

Where the Bank or other members of the Group purchase the Bank’s ordinary shares, “Treasury shares” are recorded at the amount of consideration paid and deducted from total equity holders’ equity until they are cancelled, sold or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in capital and reserves attributable to equity holders of the Bank.

**16 Contingent liabilities**

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



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**17 Financial guarantee contracts**

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies to secure customer loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement less amortisation calculated and the best estimate of the expenditure required to settle any financial obligation arising at the financial reporting date. Any increase in the liability relating to guarantees is taken to the income statement. These estimates are determined based on experience of similar transactions, historical losses and by the judgement of management.

**18 Fiduciary activities**

The Group acts as a custodian, trustee or in other fiduciary capacities, that result in its holding or placing of assets on behalf of individuals, securities investment funds, social security funds, insurance companies, qualified foreign institutional investors, annuity schemes and other customers. These assets are not included in the statement of financial position of the Group, as they are not assets of the Group.

The Group also administers entrusted loans on behalf of third-party lenders. In this regard, the Group grants loans to borrowers, as an intermediary, at the direction of third-party lenders, who fund these loans. The Group has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans, including their purposes, amounts, interest rates, and repayment schedule. The Group charges a commission related to its activities in connection with the entrusted loans, but the risk of loss is borne by the third-party lenders. Entrusted loans are not recognised in the statement of financial position of the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**19 Interest income and expense**

Interest income and expense for all interest-bearing financial instruments, except derivatives, are recognised within “Interest income” and “Interest expense” in the income statement using the effective interest method. Interest income and expense for derivatives is recognised in “Net trading gains” in the income statement.

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

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

**20 Fee and commission income**

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

**21 Income taxes**

Income taxes comprise current income tax and deferred income tax. Tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In these cases, tax is also recognised in other comprehensive income or directly in equity, respectively.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**21 Income taxes (Continued)**

**21.1 Current income tax**

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the financial reporting date, and any adjustment to tax payable in respect of previous years.

**21.2 Deferred income tax**

Deferred income tax is provided in full, and recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the financial reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from asset impairment allowances, revaluation of certain financial assets and financial liabilities including derivative contracts, revaluation of investment properties, depreciation of property and equipment, provisions for pension, retirement benefits and salary payable.

“Deferred income tax assets” are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised except the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

For deductible temporary differences associated with investment in subsidiaries, associates and joint ventures, a deferred tax asset is recognised to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilised.

Deferred tax liabilities shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**21 Income taxes (Continued)**

**21.2 Deferred income tax (Continued)**

Deferred income tax liabilities on taxable temporary differences arising from investment in subsidiaries, associates and joint ventures are recognised, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of income tax losses available for carrying forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

**22 Segment reporting**

The Group reviews the internal reporting in order to assess performance and allocate resources. Segment information is presented on the same basis as the Group's management and internal reporting.

**23 Comparatives**

As mentioned in Note II.1.1, in 2012, the Group adopted IAS 12 Amendment — Deferred Tax: Recovery of Underlying Assets. Pursuant to the Amendment, retrospective adjustments were made to certain assets and liabilities, and items in equity as at 31 December 2011 and 1 January 2011, and income tax expense for the year ended 31 December 2011 were restated. Comparative financial statements are presented based on the restated figures.

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)****23 Comparatives (Continued)**

Items in the Group's consolidated statement of financial position as at 31 December 2011 and 1 January 2011, and the consolidated income statement, basic and diluted earnings per share for the year ended 31 December 2011 affected by the adoption of IAS 12 Amendment, are as follows:

**Group**

	<b>As at 31 December 2011</b>		
	<b>Before restatement</b>	<b>Impact of restatement</b>	<b>Restated</b>
<b>ASSETS</b>			
Deferred income tax assets	19,516	(252)	19,264
Other assets	116,757	(25)	116,732
Other	11,693,793	—	11,693,793
<b>Total assets</b>	<b>11,830,066</b>	<b>(277)</b>	<b>11,829,789</b>
<b>LIABILITIES</b>			
Deferred income tax liabilities	4,486	(1,520)	2,966
Other	11,069,686	—	11,069,686
<b>Total liabilities</b>	<b>11,074,172</b>	<b>(1,520)</b>	<b>11,072,652</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Bank</b>			
Capital reserve	115,359	44	115,403
Undistributed profits	209,816	783	210,599
Currency translation differences	(18,185)	(75)	(18,260)
Other	416,172	—	416,172
	723,162	752	723,914
<b>Non-controlling interests</b>	<b>32,732</b>	<b>491</b>	<b>33,223</b>
<b>Total equity</b>	<b>755,894</b>	<b>1,243</b>	<b>757,137</b>
<b>Total equity and liabilities</b>	<b>11,830,066</b>	<b>(277)</b>	<b>11,829,789</b>

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

**23 Comparatives (Continued)**

**Group**

	<b>As at 1 January 2011</b>		
	<b>Before restatement</b>	<b>Impact of restatement</b>	<b>Restated</b>
<b>ASSETS</b>			
Deferred income tax assets	24,041	(136)	23,905
Other assets	100,272	(26)	100,246
Other	10,335,552	—	10,335,552
<b>Total assets</b>	<b>10,459,865</b>	<b>(162)</b>	<b>10,459,703</b>
<b>LIABILITIES</b>			
Deferred income tax liabilities	3,919	(1,274)	2,645
Other	9,779,796	—	9,779,796
<b>Total liabilities</b>	<b>9,783,715</b>	<b>(1,274)</b>	<b>9,782,441</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Bank</b>			
Capital reserve	114,988	36	115,024
Undistributed profits	148,355	690	149,045
Currency translation differences	(13,624)	(33)	(13,657)
Other	394,446	—	394,446
	644,165	693	644,858
<b>Non-controlling interests</b>	<b>31,985</b>	<b>419</b>	<b>32,404</b>
<b>Total equity</b>	<b>676,150</b>	<b>1,112</b>	<b>677,262</b>
<b>Total equity and liabilities</b>	<b>10,459,865</b>	<b>(162)</b>	<b>10,459,703</b>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

#### 23 Comparatives (Continued)

##### Group

	Year ended 31 December 2011		
	Before restatement	Impact of restatement	Restated
Profit before income tax	168,644	—	168,644
Income tax expense	(38,325)	183	(38,142)
<b>Profit for the year</b>	<b>130,319</b>	<b>183</b>	<b>130,502</b>
<b>Attributable to:</b>			
Equity holder of the Bank	124,182	94	124,276
Non-controlling interests	6,137	89	6,226
	<b>130,319</b>	<b>183</b>	<b>130,502</b>
Earnings per share for profit attributable to equity holders of the Bank during the year (Expressed in RMB per ordinary share)			
— Basic	0.44	0.01	0.45
— Diluted	<b>0.43</b>	<b>—</b>	<b>0.43</b>

The effects of adoption of IAS 12 Amendment to the consolidated income statement and both basic and diluted earnings per share for the year ended 31 December 2012 were not material.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

The Group makes estimates and judgements that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group has taken into consideration the impact of the economic environment on the industries and territories in which the Group operates when determining critical accounting estimates and judgements in applying accounting policies.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred below.

**1 Impairment allowances on loans and advances**

The Group reviews its loans and advances to assess impairment on a periodic basis, unless known circumstances indicate that impairment may have occurred as of an interim date.

In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements and assumptions when calculating loan impairment allowances related to loans and advances. These allowances, which reflect the difference between the carrying amount of a loan, or a portfolio of similar loans, and the present value of estimated future cash flows, are assessed individually, for significant loans, and collectively, for smaller portfolios of similar loans.

The estimate of future cash flows is most significantly related to impaired loans for which the impairment loss is assessed individually. Factors affecting this estimate include, among other things, the granularity of financial information related to specific borrowers, the availability of meaningful information related to industry competitors and the relevance of sector trends to the future performance of individual borrowers. China continues to experience economic growth and these facts are not as well established as those in more developed markets. The effect of these factors requires significant judgement to be applied in the estimation of future cash flows. This is especially true in emerging sectors.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)**

**1 Impairment allowances on loans and advances (Continued)**

Significant judgement is also applied to the calculation of collectively assessed impairment allowances. The Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and advances before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The Group has considered the impact of the changes and uncertainty in the macro-economic environments in which the Group operates when assessing the methodology and assumptions used for loss estimates and made adjustments where appropriate.

**2 Fair value of derivatives and other financial instruments**

The Group establishes fair value of financial instruments with reference to a quoted market price in an active market or, if there is no active market, using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. Whenever possible these models use observable market inputs and data including, for example, interest rate yield curves, foreign currency rates and option volatilities. The results of using valuation techniques are calibrated against industry practice and observable current market transactions in the same or similar instruments.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)**

**2 Fair value of derivatives and other financial instruments (Continued)**

With respect to PRC government obligations related to large-scale policy directed financing transactions, fair value is determined using the stated terms of the related instrument and with reference to terms determined by the PRC government in similar transactions engaged in or directed by the PRC government. In this regard, there are no other relevant market prices or yields reflecting arm's length transactions of a comparable size and tenor.

**3 Impairment of available for sale investment securities and held to maturity investment securities**

The Group follows the guidance of IAS 39 to determine when an available for sale or held to maturity investment security is impaired and when impairment on a debt security is reversed. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, the extent to which changes in fair value relate to credit events, and the financial health of and near-term business outlook for the investee/underlying portfolio, including factors such as industry and sector performance, technological innovations, credit ratings, delinquency rates, loss coverage ratios and counterparty risk.

**4 Held to maturity securities**

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity date as held to maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)**

**5 Provisions**

The Group uses judgement to assess whether the Group has a present legal or constructive obligation as a result of past events at each financial reporting date, and judgement is used to determine if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and to determine a reliable estimate of the amount of the obligation and relevant disclosure in the consolidated financial statements.

**6 Employee retirement benefit obligations**

As described in Note II.12.2 and Note V.32, the Bank has established liabilities in connection with benefits payable to certain retired and early retired employees. The amounts of employee benefit expense and these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, pension benefit inflation rates, medical benefit inflation rates, and other factors. Actual results that differ from the assumptions are recognised immediately and, therefore, affect recognised expense in the year in which such differences arise. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect the Bank's expense related to its employee retirement benefit obligations.

**7 Taxes**

The Group is subject to income and business taxes in numerous jurisdictions, principally in Chinese mainland and Hong Kong. There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Group has made estimates for items of uncertainty and application of new tax legislation taking into account existing tax legislation and past practice, in particular, the treatment of supplementary PRC tax applied to results of overseas operations.

Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax, deferred income tax, and business tax in the period during which such a determination is made.

**8 Impairment of non-financial assets**

Non-financial assets are periodically reviewed for impairment and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

## III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

## 8 Impairment of non-financial assets (Continued)

When estimating the value in use of aircraft held by subsidiaries, the Group estimates expected future cash flows from the aircraft and uses a suitable discount rate to calculate present value. The Group obtains valuations of aircraft from independent appraisers for which the principal assumptions underlying aircraft value are based on current market transactions for similar aircraft in the same location and condition. The Group also uses the fair value of aircraft obtained from independent appraisers in its assessment of the recoverable amount of intangible assets and the goodwill arising from the purchase of the Group's aircraft leasing subsidiary.

## IV TAXATION

The principal income and other taxes to which the Group is subject are listed below:

Taxes	Tax basis	Statutory rates	
		Year ended 31 December	
		2012	2011
<b>Chinese mainland</b>			
Corporate income tax	Taxable income	25%	25%
Business tax	Business income	5%	5%
City construction and maintenance tax	Turnover tax paid	1%–7%	1%–7%
Education surcharges	Turnover tax paid	3%–3.5%	3%–3.5%
<b>Hong Kong</b>			
Hong Kong profits tax	Assessable profits	16.5%	16.5%

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 1 Net interest income

	Year ended 31 December	
	2012	2011
Interest income		
Loans and advances to customers	371,394	296,913
Investment securities and financial assets at fair value through profit or loss <sup>(1)</sup>	64,973	56,728
Due from central banks	26,996	25,177
Due from and placements with and loans to banks and other financial institutions	43,165	34,284
Subtotal	506,528	413,102
Interest expense		
Due to customers	(186,667)	(139,905)
Due to and placements from banks and other financial institutions	(54,858)	(38,227)
Bonds issued and other	(8,039)	(6,906)
Subtotal	(249,564)	(185,038)
Net interest income <sup>(2)</sup>	256,964	228,064
Interest income accrued on impaired financial assets (included within interest income)	557	666

(1) Interest income on “Investment securities” and “Financial assets at fair value through profit or loss” is principally derived from debt securities listed on China Domestic Interbank Bond Market and unlisted debt securities in Hong Kong, Macau, Taiwan and other countries and regions.

(2) Included within “Interest income” and “Interest expense” are RMB504,318 million (2011: RMB410,913 million) and RMB224,727 million (2011: RMB169,535 million) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2 Net fee and commission income**

	<b>Year ended 31 December</b>	
	<b>2012</b>	<b>2011</b>
Bank card fees	14,952	10,747
Agency commissions	14,171	12,139
Settlement and clearing fees	14,051	12,389
Credit commitment fees	11,099	13,268
Spread income from foreign exchange business	6,808	8,545
Consultancy and advisory fees	5,690	6,507
Custodian and other fiduciary service fees	2,371	1,809
Other	6,056	4,614
Fee and commission income	75,198	70,018
Fee and commission expense	(5,275)	(5,356)
Net fee and commission income	<u>69,923</u>	<u>64,662</u>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 3 Net trading gains

	Year ended 31 December	
	2012	2011
Net gains from foreign exchange and foreign exchange products <sup>(1)</sup>	6,174	9,618
Net gains/(losses) from interest rate products	1,273	(1,983)
Net gains/(losses) from equity products	361	(235)
Net gains from commodity products	643	458
Total <sup>(2)</sup>	<u>8,451</u>	<u>7,858</u>

- (1) The net gains from foreign exchange and foreign exchange products for the year ended 31 December 2012 include losses in connection with the retranslation of foreign currency denominated monetary assets and liabilities of RMB3,527 million (2011: losses of RMB9,051 million), and net realised and unrealised gains on foreign exchange derivatives (including the foreign exchange derivatives entered into in conjunction with the Group's asset and liability management and funding arrangements) of RMB9,738 million (2011: gains of RMB18,782 million).
- (2) Included in "Net trading gains" above for the year ended 31 December 2012 are gains of RMB1,119 million in relation to financial assets and financial liabilities designated at fair value through profit or loss (2011: gains of RMB88 million).

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 4 Other operating income

	Year ended 31 December	
	2012	2011
Insurance premiums <sup>(1)</sup>	9,126	7,678
Revenue from sale of precious metals products	9,376	6,955
Aircraft leasing income	4,176	3,804
Gains on disposal of property and equipment, intangible assets and other assets	464	436
Dividend income	335	248
Changes in fair value of investment properties	1,006	1,864
Gains on disposal of subsidiaries, associates and joint ventures	441	7
Other	3,626	3,280
Total	<u>28,550</u>	<u>24,272</u>

(1) Details of insurance premium income are as follows:

	Year ended 31 December	
	2012	2011
Life insurance contracts		
Gross earned premiums	10,021	10,702
Less: gross written premiums ceded to reinsurers	(4,403)	(5,997)
Net insurance premium income	<u>5,618</u>	<u>4,705</u>
Non-life insurance contracts		
Gross earned premiums	4,237	3,521
Less: gross written premiums ceded to reinsurers	(729)	(548)
Net insurance premium income	<u>3,508</u>	<u>2,973</u>
Total	<u>9,126</u>	<u>7,678</u>



**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5 Operating expenses**

	<b>Year ended 31 December</b>	
	<b>2012</b>	<b>2011</b>
Staff costs (Note V.6)	66,994	60,793
General operating and administrative expenses <sup>(1)</sup>	37,153	35,461
Business tax and surcharges	22,925	18,581
Depreciation and amortisation	12,289	10,651
Insurance benefits and claims		
— Life insurance contracts	6,928	5,673
— Non-life insurance contracts	1,793	1,905
Cost of sale of precious metals products	8,615	6,310
Allowance for litigation losses	102	21
Losses on disposal of property and equipment	69	64
Lehman Brothers related products	(78)	(2,316)
Other	3,232	3,672
Total	<u>160,022</u>	<u>140,815</u>

- (1) Included in the general operating and administrative expenses are principal auditors' remuneration of RMB222 million for the year ended 31 December 2012 (2011: RMB215 million), of which RMB50 million was for Hong Kong, Macau, Taiwan and other countries and regions of the Group (2011: RMB48 million).

Included in the general operating and administrative expenses are operating lease expenses of RMB5,303 million and other premises and equipment related expenses (mainly comprised of property management and building maintenance expenses) of RMB10,286 million (2011: RMB4,517 million and RMB9,479 million, respectively).

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6 Staff costs**

	<b>Year ended 31 December</b>	
	<b>2012</b>	<b>2011</b>
Salary, bonus and subsidy	47,629	44,429
Staff welfare	2,009	1,591
Retirement benefits (Note V.32)	479	626
Social insurance, including:		
Medical	2,311	1,984
Pension	4,876	4,130
Annuity	1,380	920
Unemployment	390	325
Injury at work	125	102
Maternity insurance	154	120
Housing funds	3,891	3,331
Labour union fee and staff education fee	1,838	1,558
Reimbursement for cancellation of labour contract	25	23
Other	1,887	1,654
Total	<u>66,994</u>	<u>60,793</u>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 7 Directors', supervisors' and senior management's emoluments

Details of the directors' and supervisors' emoluments are as follows:

##### For the year ended 31 December 2012

	Fees	Remuneration paid	Contributions to pension schemes	Benefits in kind	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive directors</i>					
XIAO Gang <sup>(3)</sup>	— <sup>(2)</sup>	794	65	244	1,103
LI Lihui <sup>(3)</sup>	— <sup>(2)</sup>	715	73	225	1,013
LI Zaohang <sup>(3)</sup>	— <sup>(2)</sup>	686	68	219	973
WANG Yongli <sup>(3)(5)</sup>	— <sup>(2)</sup>	678	52	215	945
<i>Non-executive directors</i>					
CAI Haoyi <sup>(1)(4)</sup>	—	—	—	—	—
SUN Zhijun <sup>(1)</sup>	—	—	—	—	—
LIU Lina <sup>(1)</sup>	—	—	—	—	—
JIANG Yansong <sup>(1)</sup>	—	—	—	—	—
ZHANG Xiangdong <sup>(1)</sup>	—	—	—	—	—
ZHANG Qi <sup>(1)</sup>	—	—	—	—	—
<i>Independent non-executive directors</i>					
Anthony Francis NEOH	550	—	—	—	550
Alberto TOGNI <sup>(4)</sup>	400	—	—	—	400
HUANG Shizhong <sup>(1)</sup>	—	—	—	—	—
HUANG Danhan	379	—	—	—	379
CHOW Man Yiu, Paul	426	—	—	—	426
Jackson TAI	350	—	—	—	350
Nout WELLINK <sup>(5)</sup>	65	—	—	—	65
<i>Supervisors</i>					
LI Jun <sup>(3)</sup>	—	695	46	221	962
WANG Xueqiang <sup>(3)</sup>	—	575	59	190	824
LIU Wanming <sup>(3)</sup>	—	575	57	186	818
DENG Zhiying <sup>(3)</sup>	—	740	54	195	989
LI Chunyu <sup>(3)(4)</sup>	—	238	32	80	350
JIANG Kuiwei <sup>(3)(4)</sup>	—	235	8	15	258
LIU Xiaozhong <sup>(3)(5)</sup>	—	385	25	87	497
XIANG Xi <sup>(3)(5)</sup>	—	528	32	26	586
MEI Xingbao	180	—	—	—	180
BAO Guoming	260	—	—	—	260
	2,610	6,844	571	1,903	11,928

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 7 Directors', supervisors' and senior management's emoluments (Continued)

For the year ended 31 December 2011

	Fees	Contributions		Benefits in kind	Discretionary bonuses <sup>(3)</sup>		Total
		Basic salaries	to pension schemes		Paid	Deferred	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive directors</i>							
XIAO Gang <sup>(3)</sup>	— <sup>(2)</sup>	465	60	227	556	558	1,866
LI Lihui <sup>(3)</sup>	— <sup>(2)</sup>	419	63	210	501	502	1,695
LI Zaohang <sup>(3)</sup>	— <sup>(2)</sup>	402	62	205	480	482	1,631
ZHOU Zaiqun <sup>(3)</sup>	— <sup>(2)</sup>	168	28	82	196	197	671
<i>Non-executive directors</i>							
HONG Zhihua <sup>(1)</sup>	—	—	—	—	—	—	—
HUANG Haibo <sup>(1)</sup>	—	—	—	—	—	—	—
CAI Haoyi <sup>(1)</sup>	—	—	—	—	—	—	—
SUN Zhijun <sup>(1)</sup>	—	—	—	—	—	—	—
LIU Lina <sup>(1)</sup>	—	—	—	—	—	—	—
JIANG Yansong <sup>(1)</sup>	—	—	—	—	—	—	—
ZHANG Xiangdong <sup>(1)</sup>	—	—	—	—	—	—	—
ZHANG Qi <sup>(1)</sup>	—	—	—	—	—	—	—
<i>Independent non-executive directors</i>							
Anthony Francis NEOH	550	—	—	—	—	—	550
Alberto TOGNI	955	—	—	—	—	—	955
HUANG Shizhong <sup>(1)</sup>	—	—	—	—	—	—	—
HUANG Danhan	350	—	—	—	—	—	350
CHOW Man Yiu, Paul	350	—	—	—	—	—	350
Jackson TAI	273	—	—	—	—	—	273
<i>Supervisors</i>							
LI Jun <sup>(3)</sup>	—	407	43	206	486	489	1,631
WANG Xueqiang <sup>(3)</sup>	—	448	53	173	663	—	1,337
LIU Wanming <sup>(3)</sup>	—	448	52	170	623	—	1,293
DENG Zhiying <sup>(3)</sup>	—	479	48	165	665	—	1,357
LI Chunyu <sup>(3)</sup>	—	278	45	112	211	—	646
JIANG Kuiwei <sup>(3)</sup>	—	367	41	69	959	—	1,436
QIN Rongsheng	104	—	—	—	—	—	104
BAI Jingming	88	—	—	—	—	—	88
MEI Xingbao	93	—	—	—	—	—	93
BAO Guoming	134	—	—	—	—	—	134
	<u>2,897</u>	<u>3,881</u>	<u>495</u>	<u>1,619</u>	<u>5,340</u>	<u>2,228</u>	<u>16,460</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**7 Directors', supervisors' and senior management's emoluments (Continued)**

- (1) For the years ended 31 December 2012 and 2011, these non-executive directors of the Bank signed agreements to waive the emoluments for their services to the Bank. For the year ended 31 December 2012 and 2011, the independent non-executive director of the Bank HUANG Shizhong signed an agreement to waive the emoluments for his service to the Bank.
- (2) For the years ended 31 December 2012 and 2011, these executive directors of the Bank did not receive any fees.
- (3) The total compensation packages for executive directors and supervisors for the year ended 31 December 2012 including discretionary bonus have not yet been finalised in accordance with relevant regulations of the PRC authorities. The amount of the compensation not provided for is not expected to have any significant impact on the Group's and the Bank's 2012 financial statements. The final compensation for the year ended 31 December 2012 will be disclosed in a separate announcement when determined.

The compensation amounts for these directors and supervisors for the year ended 31 December 2011 were restated based on the finalised amounts determined during 2011 as disclosed in the Bank's announcement dated 30 May 2012.

A portion of the discretionary bonus payments for executive directors and the chairman of the board of supervisors are deferred for a minimum of 3 years contingent upon the future performance in accordance with relevant regulations of the PRC authorities.

- (4) CAI Haoyi ceased to be non-executive director effective from 19 November 2012, Alberto TOGNI ceased to be independent non-executive director effective from 31 May 2012. LI Chunyu ceased to be supervisors effective from 19 August 2012, JIANG Kuiwei ceased to be supervisors effective from 21 February 2012.
- (5) WANG Yongli was elected to be executive director effective from 15 February 2012. Nout WELLINK was elected to be independent non-executive director effective from 25 October 2012. LIU Xiaozhong and XIANG Xi were elected to be supervisors effective from 19 August 2012.

In July 2002, options to purchase shares of BOCHK Holdings were granted to several directors of the Bank under the Pre-Listing Share Option Scheme. During the years ended 31 December 2012 and 2011, no such options were exercised by any director.

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7 Directors', supervisors' and senior management's emoluments (Continued)****Five highest paid individuals**

Of the five individuals with the highest emoluments, none of them are directors or supervisors whose emoluments are disclosed above.

The emoluments payable to the five individuals whose emoluments were the highest in the Group for the years ended 31 December 2012 and 2011 respectively are as follows:

	<b>Year ended 31 December</b>	
	<b>2012</b>	<b>2011</b>
Basic salaries and allowances	15	16
Discretionary bonuses	46	42
Contributions to pension schemes and other	3	5
	<u>64</u>	<u>63</u>

Emoluments of the individuals were within the following bands:

<b>Amounts in RMB</b>	<b>Year ended 31 December</b>	
	<b>2012</b>	<b>2011</b>
9,500,001–10,000,000	–	1
10,000,001–10,500,000	1	1
10,500,001–11,000,000	2	–
11,000,001–11,500,000	1	–
12,000,001–12,500,000	–	1
14,500,001–15,000,000	–	1
16,000,001–16,500,000	–	1
21,500,001–22,000,000	<u>1</u>	<u>–</u>

The above five highest paid individuals' emoluments are based on best estimates of discretionary bonuses. Discretionary bonuses include portions of payments that are deferred to future periods.

During the years ended 31 December 2012 and 2011, the Group has not paid any emoluments to the directors, supervisors, or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8 Impairment losses on assets**

	<b>Year ended 31 December</b>	
	<b>2012</b>	<b>2011</b>
Loans and advances		
— Individually assessed	4,248	191
— Collectively assessed	14,838	19,081
Subtotal	19,086	19,272
Investment securities <sup>(1)</sup>		
Available for sale		
— Debt securities	(374)	(711)
— Other available for sale financial assets	531	647
	157	(64)
Held to maturity	(39)	58
Loans and receivables	(2)	10
Subtotal	116	4
Other	185	79
Total <sup>(2)</sup>	19,387	19,355

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8 Impairment losses on assets (Continued)**

(1) Impairment charges/(reversal) on investment securities:

	Year ended 31 December	
	2012	2011
US Subprime mortgage related debt securities	(296)	(434)
US Alt-A mortgage-backed securities	(25)	(108)
US Non-Agency mortgage-backed securities	(113)	(221)
Other securities	550	767
Net charges	<u>116</u>	<u>4</u>

(2) Details of new allowances and reversal of impairment losses on loans and advances and investment securities are disclosed in Notes V.16 and V.23, respectively.

**9 Income tax expense**

	Year ended 31 December	
	2012	2011
Current income tax		
— Chinese mainland income tax	38,407	28,795
— Hong Kong profits tax	3,167	3,289
— Macau, Taiwan and other countries and regions taxation	<u>2,378</u>	<u>1,458</u>
Subtotal	43,952	33,542
Deferred income tax (Note V.34)	<u>(2,094)</u>	<u>4,600</u>
Total	<u>41,858</u>	<u>38,142</u>

The principal tax rates applicable to the Group are set out in Note IV.

The provision for Chinese mainland income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Bank and each of the subsidiaries established in the Chinese mainland, and supplementary PRC tax on overseas operations as determined in accordance with the relevant PRC income tax rules and regulations (Note III.7).



**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9 Income tax expense (Continued)**

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

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

	<b>Year ended 31 December</b>	
	<b>2012</b>	<b>2011</b>
Profit before income tax	187,380	168,644
Tax calculated at applicable statutory tax rate	46,845	42,161
Effect of different tax rates on Hong Kong, Macau, Taiwan and other countries and regions	(2,324)	(2,208)
Supplementary PRC tax on overseas income	1,618	1,553
Income not subject to tax <sup>(1)</sup>	(5,635)	(4,969)
Items not deductible for tax purposes <sup>(2)</sup>	2,410	1,752
Other	(1,056)	(147)
Income tax expense	<u>41,858</u>	<u>38,142</u>

(1) Income not subject to tax mainly comprises interest income from PRC Treasury bonds.

(2) Non-deductible items primarily include losses resulting from write-off of certain non-performing loans, and marketing and entertainment expenses in excess of the relevant deductible threshold under the relevant PRC tax regulations.

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10 Earnings per share (basic and diluted)***Basic earnings per share*

Basic earnings per share was computed by dividing the profit attributable to the equity holders of the Bank by the weighted average number of ordinary shares in issue during the period.

	<b>Year ended 31 December</b>	
	<b>2012</b>	<b>2011</b>
Profit attributable to equity holders of the Bank	139,432	124,276
Weighted average number of ordinary shares in issue (in million shares)	<u>279,127</u>	<u>279,123</u>
Basic earnings per share (in RMB per share)	<u><u>0.50</u></u>	<u><u>0.45</u></u>

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

	<b>Year ended 31 December</b>	
	<b>2012</b>	<b>2011</b>
Issued ordinary shares as at 1 January	279,147	279,147
Weighted average number of shares from rights issue	–	–
Conversion of the bonds into shares (Note V.29)	–	–
Weighted average number of treasury shares	<u>(20)</u>	<u>(24)</u>
Weighted average number of ordinary shares in issue	<u><u>279,127</u></u>	<u><u>279,123</u></u>

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10 Earnings per share (basic and diluted) (Continued)*****Diluted earnings per share***

Diluted earnings per share was computed by dividing the adjusted profit attributable to the equity holders of the Bank based on assuming conversion of all dilutive potential shares for the year by the adjusted weighted average number of ordinary shares in issue. The Bank has convertible bonds as dilutive potential ordinary shares.

	<b>Year ended 31 December</b>	
	<b>2012</b>	<b>2011</b>
Profit attributable to equity holders of the Bank	139,432	124,276
Add: interest expense on convertible bonds, net of tax, outstanding as at 31 December	1,041	949
Profit used to determine diluted earnings per share	140,473	125,225
Adjusted weighted average number of ordinary shares in issue (in million shares)	279,127	279,123
Add: weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	11,410	10,946
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	290,537	290,069
Diluted earnings per share (in RMB per share)	0.48	0.43

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****11 Cash and due from banks and other financial institutions**

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Cash	72,475	61,833	66,081	55,830
Due from banks in Chinese mainland	617,598	416,233	579,105	385,164
Due from other financial institutions in Chinese mainland	2,525	3,541	2,510	3,378
Due from banks in Hong Kong, Macau, Taiwan and other countries and regions	82,796	109,306	97,792	131,735
Due from other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	180	51	105	48
Total <sup>(1)</sup>	<u>775,574</u>	<u>590,964</u>	<u>745,593</u>	<u>576,155</u>

(1) Included in the Bank's due from banks and other financial institutions are balances with the Bank's subsidiaries (Note V.42.7).

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 12 Balances with central banks

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Mandatory reserves <sup>(1)</sup>	1,476,088	1,467,139	1,466,433	1,457,962
Surplus reserves <sup>(2)</sup>	204,943	181,020	200,636	179,390
Other deposits <sup>(3)</sup>	253,266	271,492	192,293	147,800
Total	<u>1,934,297</u>	<u>1,919,651</u>	<u>1,859,362</u>	<u>1,785,152</u>

- (1) The Group places mandatory reserve funds with the People's Bank of China (the "PBOC") and the central banks of Hong Kong, Macau, Taiwan and other countries and regions where it has operations. As at 31 December 2012, mandatory reserve funds placed with the PBOC were calculated at 20.0% (31 December 2011: 21.0%) and 5.0% (31 December 2011: 5.0%) of qualified RMB deposits and foreign currency deposits from customers of branches in Chinese mainland of the Bank respectively. The mandatory reserve funds placed with the central bank of domestic subsidiaries of the Group is determined by the PBOC. The amount of mandatory reserve funds placed with the central banks of other jurisdictions is determined by local regulations.
- (2) This mainly represented the surplus reserve funds placed with the PBOC by branches in Chinese mainland of the Group.
- (3) This mainly represented balances, other than mandatory reserves and surplus reserves, placed with central banks by operations in Hong Kong, Macau, Taiwan and other countries and regions.

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**13 Placements with and loans to banks and other financial institutions**

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Placements with and loans to:				
Banks in Chinese mainland	233,865	410,655	200,118	359,284
Other financial institutions in Chinese mainland	122,332	112,629	119,181	112,629
Banks in Hong Kong, Macau, Taiwan and other countries and regions <sup>(1)</sup>	91,305	95,320	87,462	83,086
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions <sup>(1)</sup>	—	—	28,925	22,472
Subtotal <sup>(2)</sup>	447,502	618,604	435,686	577,471
Allowance for impairment losses	(203)	(238)	(203)	(238)
Total <sup>(3)</sup>	<u>447,299</u>	<u>618,366</u>	<u>435,483</u>	<u>577,233</u>
Impaired placements	203	238	203	238
Percentage of impaired placements to total placements with and loans to banks and other financial institutions	<u>0.05%</u>	<u>0.04%</u>	<u>0.05%</u>	<u>0.04%</u>

- (1) Included in the Bank's placements with and loans to "Banks in Hong Kong, Macau, Taiwan and other countries and regions" and "Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions" are loans to the Bank's subsidiaries (Note V.42.7).

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13 Placements with and loans to banks and other financial institutions (Continued)**

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

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Debt securities				
— Governments	38,924	90,925	37,834	88,596
— Policy banks	54,698	72,773	54,698	72,297
— Financial institutions	4,426	—	4,426	—
Total	<u>98,048</u>	<u>163,698</u>	<u>96,958</u>	<u>160,893</u>

- (3) As at 31 December 2012, included in the balance of “Placements with and loans to banks and other financial institutions” were assets acquired in beneficial trust rights repurchase transactions in the amount of RMB 62.2 billion.

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14 Financial assets at fair value through profit or loss**

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
<b>Trading financial assets</b>				
Debt securities				
Issuers in Chinese mainland				
— Government	1,362	6,355	566	5,931
— Public sector and quasi-governments	10	—	10	—
— Policy banks	6,060	2,135	4,445	1,803
— Financial institutions	148	204	—	40
— Corporate	2,761	2,054	2,162	1,436
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	17,282	15,127	—	—
— Public sector and quasi-governments	148	153	—	—
— Financial institutions	274	417	—	—
— Corporate	4,403	4,723	—	—
	32,448	31,168	7,183	9,210
Other				
Fund investments	265	409	—	—
Equity securities	488	729	—	—
Subtotal	33,201	32,306	7,183	9,210



**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14 Financial assets at fair value through profit or loss (Continued)**

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
<b>Financial assets designated at fair value through profit or loss</b>				
Debt securities				
Issuers in Chinese mainland				
— Government	71	69	71	69
— Policy banks	1,893	1,822	1,893	1,822
— Financial institutions	196	—	196	—
— Corporate	4,758	327	2,845	—
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	332	—	—	—
— Public sector and quasi-governments	384	463	384	393
— Financial institutions	21,025	26,690	11,431	14,276
— Corporate	3,666	3,936	1,085	1,705
	32,325	33,307	17,905	18,265
Other				
Fund investments	515	3,115	—	—
Loans <sup>(1)</sup>	4,566	4,412	4,566	4,412
Equity securities	983	667	—	—
Subtotal	38,389	41,501	22,471	22,677
Total <sup>(2) (3)</sup>	<u>71,590</u>	<u>73,807</u>	<u>29,654</u>	<u>31,887</u>
Analysed as:				
Listed in Hong Kong	12,024	9,463	5,045	4,475
Listed outside Hong Kong <sup>(4)</sup>	29,732	29,693	19,166	22,688
Unlisted	29,834	34,651	5,443	4,724
Total	<u>71,590</u>	<u>73,807</u>	<u>29,654</u>	<u>31,887</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 14 Financial assets at fair value through profit or loss (Continued)

- (1) There was no significant change during the years ended 31 December 2012 and 2011 and cumulatively, in the fair value of the loans that was attributable to changes in the credit risk of the loans.
- (2) As at 31 December 2012, the Group and the Bank held bonds issued by the Ministry of Finance of PRC (“MOF”) and bills issued by the PBOC included in “Financial assets at fair value through profit or loss” with the carrying value and the related interest rate range on such bonds and bills as follows:

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Carrying value	1,432	6,424	636	6,000
Interest rate range	1.40%–3.58%	0.72%–4.33%	2.70%–3.58%	2.71%–4.33%

- (3) As at 31 December 2012, included in the Group’s “Financial assets at fair value through profit or loss” were certificates of deposit held of RMB1,230 million (31 December 2011: RMB1,377 million).
- (4) Debt securities traded on the China Domestic Interbank Bond Market are included in “Listed outside Hong Kong”.

## 15 Derivative financial instruments and hedge accounting

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

The contractual/notional amounts and fair values of derivative instruments held by the Group and the Bank are set out in the following tables. The contractual/notional amounts of financial instruments provide a basis for comparison with fair value instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group’s or the Bank’s exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or credit or equity/commodity prices relative to their terms. The aggregate fair values of Derivative financial assets and liabilities can fluctuate significantly from time to time.

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 15 Derivative financial instruments and hedge accounting (Continued)

##### 15.1 Derivative financial instruments

Group	As at 31 December 2012			As at 31 December 2011		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps <sup>(1)</sup>	2,025,786	29,962	(20,715)	1,930,235	31,615	(21,687)
Currency options	56,881	201	(235)	17,404	203	(50)
Subtotal	2,082,667	30,163	(20,950)	1,947,639	31,818	(21,737)
Interest rate derivatives						
Interest rate swaps	645,376	7,785	(9,001)	618,375	9,027	(11,390)
Interest rate options	1,917	–	(3)	2,201	1	(18)
Interest rate futures	249	2	–	3,424	1	(1)
Subtotal	647,542	7,787	(9,004)	624,000	9,029	(11,409)
Equity derivatives	4,721	22	(106)	3,991	102	(98)
Commodity derivatives	148,365	2,216	(2,397)	77,347	1,808	(2,229)
Credit derivatives	–	–	–	315	–	–
Total	<u>2,883,295</u>	<u>40,188</u>	<u>(32,457)</u>	<u>2,653,292</u>	<u>42,757</u>	<u>(35,473)</u>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 15 Derivative financial instruments and hedge accounting (Continued)

##### 15.1 Derivative financial instruments (Continued)

Bank	As at 31 December 2012			As at 31 December 2011		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps <sup>(1)</sup>	1,500,454	11,565	(9,888)	1,506,582	15,637	(9,501)
Currency options	43,718	179	(209)	8,730	102	(25)
Subtotal	1,544,172	11,744	(10,097)	1,515,312	15,739	(9,526)
Interest rate derivatives						
Interest rate swaps	359,463	3,144	(4,772)	262,617	4,337	(6,360)
Interest rate options	1,886	–	(3)	945	–	(14)
Subtotal	361,349	3,144	(4,775)	263,562	4,337	(6,374)
Equity derivatives	104	–	–	107	–	–
Commodity derivatives	96,344	1,051	(1,510)	40,143	893	(1,487)
Credit derivatives	–	–	–	315	–	–
Total	2,001,969	15,939	(16,382)	1,819,439	20,969	(17,387)

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

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 15 Derivative financial instruments and hedge accounting (Continued)

##### 15.2 Hedge accounting

Included in the derivative financial instruments above are those designated as hedging instruments by the Group as follows (the Bank: Nil):

Group	As at 31 December 2012			As at 31 December 2011		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Derivatives designated as hedging instruments in fair value hedges						
Cross-currency interest rate swaps	–	–	–	1,121	26	–
Interest rate swaps	38,003	2,707	(1,373)	28,040	2,389	(900)
Subtotal <sup>(1)</sup>	38,003	2,707	(1,373)	29,161	2,415	(900)
Derivatives designated as hedging instruments in cash flow hedges						
Cross-currency interest rate swaps	2,574	34	(44)	3,432	48	(81)
Interest rate swaps	523	–	(11)	576	–	(16)
Subtotal <sup>(2)</sup>	3,097	34	(55)	4,008	48	(97)
Total	41,100	2,741	(1,428)	33,169	2,463	(997)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 15 Derivative financial instruments and hedge accounting (Continued)

## 15.2 Hedge accounting (Continued)

## (1) Fair value hedges

The Group uses cross-currency interest rate swaps and interest rate swaps to hedge against changes in fair value of bonds issued and debt securities available for sale arising from changes in foreign exchange rates and interest rates.

Gains or losses on fair value hedges are as follows:

	Year ended 31 December	
	2012	2011
Net gains/(losses) on		
— hedging instruments	390	1,158
— hedged items	(359)	(1,275)
Ineffectiveness recognised in Net trading gains	31	(117)

## (2) Cash flow hedges

The Group uses cross-currency interest rate swaps and interest rate swaps to hedge against exposure to cash flow variability primarily from foreign exchange rates and interest rate risks of debt securities held and variable rate borrowings.

For the year ended 31 December 2012, a net loss from cash flow hedges of RMB31 million was recognised in “Capital reserve” through other comprehensive income (2011: net gain of RMB9 million), and there was no ineffectiveness for the year ended 31 December 2012 and 2011.

There were no transactions for which cash flow hedge accounting had to be ceased in the year ended 31 December 2012 or 2011 as a result of the highly probable cash flows no longer being expected to occur.

## (3) Net investment hedges

The Group’s consolidated statement of financial position is affected by exchange differences between the functional currencies of respective holding companies and functional currencies of their branches and subsidiaries. The Group hedges such exchange exposures only in limited circumstances. Hedging is undertaken using deposits taken in the same currencies as the functional currencies of related branches and subsidiaries which are accounted for as hedges of certain net investment in foreign operations.

For the year ended 31 December 2012, a net loss from the hedging instrument of RMB15 million was recognised in “Currency translation differences” through other comprehensive income on net investment hedges (2011: net gain of RMB826 million), and there was no ineffectiveness in the years ended 31 December 2012 and 2011.

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16 Loans and advances to customers, net**

**16.1 Analysis of loans and advances to customers**

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Corporate loans and advances				
Loans and advances	4,813,749	4,628,846	4,317,362	4,168,833
Discounted bills	166,650	96,459	163,742	93,551
Subtotal	4,980,399	4,725,305	4,481,104	4,262,384
Personal loans				
Mortgages	1,348,359	1,213,322	1,167,766	1,050,046
Credit cards	160,865	97,659	151,510	89,828
Other	375,073	306,528	341,228	281,199
Subtotal	1,884,297	1,617,509	1,660,504	1,421,073
Total loans and advances	6,864,696	6,342,814	6,141,608	5,683,457
Allowance for impairment losses				
Individually assessed	(38,537)	(36,265)	(37,813)	(35,749)
Collectively assessed	(116,119)	(103,411)	(113,225)	(100,903)
Total allowance for impairment losses	(154,656)	(139,676)	(151,038)	(136,652)
Loans and advances to customers, net	<u>6,710,040</u>	<u>6,203,138</u>	<u>5,990,570</u>	<u>5,546,805</u>

**16.2** Analysis of loans and advances to customers by geographical area, industry, collateral type and analysis of overdue loans and advances to customers by collateral type is presented in Note VI. 3.5.

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16 Loans and advances to customers, net (Continued)**

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

Group	Identified impaired loans and advances <sup>(2)</sup>				Identified impaired loans and advances as % of total loans and advances
	Loans and advances for which allowance is collectively assessed <sup>(1)</sup>	for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal	Total
<b>As at 31 December 2012</b>					
Total loans and advances	6,799,241	15,106	50,349	65,455	6,864,696
Allowance for impairment losses	(106,918)	(9,201)	(38,537)	(47,738)	(154,656)
	<u>6,692,323</u>	<u>5,905</u>	<u>11,812</u>	<u>17,717</u>	<u>6,710,040</u>
Loans and advances to customers, net					
<b>As at 31 December 2011</b>					
Total loans and advances	6,279,508	12,842	50,464	63,306	6,342,814
Allowance for impairment losses	(95,052)	(8,359)	(36,265)	(44,624)	(139,676)
	<u>6,184,456</u>	<u>4,483</u>	<u>14,199</u>	<u>18,682</u>	<u>6,203,138</u>
Loans and advances to customers, net					



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16 Loans and advances to customers, net (Continued)**

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

**Bank**

	Loans and advances for which allowance is collectively assessed <sup>(1)</sup>	Identified impaired loans and advances <sup>(2)</sup>			Identified impaired loans and advances as % of total loans and advances
		for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal	Total
<b>As at 31 December 2012</b>					
Total loans and advances	6,077,776	15,013	48,819	63,832	6,141,608
Allowance for impairment losses	(104,058)	(9,167)	(37,813)	(46,980)	(151,038)
					1.04%
Loans and advances to customers, net	5,973,718	5,846	11,006	16,852	5,990,570
<b>As at 31 December 2011</b>					
Total loans and advances	5,621,032	12,790	49,635	62,425	5,683,457
Allowance for impairment losses	(92,573)	(8,330)	(35,749)	(44,079)	(136,652)
					1.10%
Loans and advances to customers, net	5,528,459	4,460	13,886	18,346	5,546,805

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16 Loans and advances to customers, net (Continued)**

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

- (1) Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been specifically identified as impaired.
- (2) Identified impaired loans and advances are loans for which objective evidence of impairment exists and which have been identified as bearing an impairment loss and assessed either:
  - individually (including mainly significant corporate loans and advances over a certain amount which are impaired); or
  - collectively (portfolios of individually insignificant homogenous loans which share similar credit risk characteristics, including insignificant corporate loans and advances and personal loans which are impaired).

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 16 Loans and advances to customers, net (Continued)

##### 16.4 Reconciliation of allowance for impairment losses on loans and advances to customers by individual and collective assessments

	Year ended 31 December					
	2012			2011		
	Individually assessed allowance	Collectively assessed allowance	Total	Individually assessed allowance	Collectively assessed allowance	Total
<b>Group</b>						
As at 1 January	36,265	103,411	139,676	36,834	86,022	122,856
Impairment losses for the year	15,203	37,287	52,490	12,066	41,425	53,491
Reversal	(10,955)	(22,449)	(33,404)	(11,875)	(22,344)	(34,219)
Written off and transfer out	(2,409)	(1,800)	(4,209)	(949)	(860)	(1,809)
Recovery of loans and advances						
written off in previous years	600	66	666	589	21	610
Unwind of discount on allowance	(104)	(259)	(363)	(98)	(216)	(314)
Exchange differences	(63)	(137)	(200)	(302)	(637)	(939)
As at 31 December	<u>38,537</u>	<u>116,119</u>	<u>154,656</u>	<u>36,265</u>	<u>103,411</u>	<u>139,676</u>
<b>Bank</b>						
As at 1 January	35,749	100,903	136,652	36,427	83,965	120,392
Impairment losses for the year	14,690	36,619	51,309	11,760	40,655	52,415
Reversal	(10,484)	(22,314)	(32,798)	(11,490)	(22,280)	(33,770)
Written off and transfer out	(2,388)	(1,626)	(4,014)	(876)	(744)	(1,620)
Recovery of loans and advances						
written off in previous years	409	40	449	314	1	315
Unwind of discount on allowance	(96)	(259)	(355)	(97)	(214)	(311)
Exchange differences	(67)	(138)	(205)	(289)	(480)	(769)
As at 31 December	<u>37,813</u>	<u>113,225</u>	<u>151,038</u>	<u>35,749</u>	<u>100,903</u>	<u>136,652</u>

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**16 Loans and advances to customers, net (Continued)**

**16.5 Reconciliation of allowance account for impairment losses on loans and advances to customers by customer type**

	Year ended 31 December					
	2012			2011		
	Corporate	Personal	Total	Corporate	Personal	Total
<b>Group</b>						
As at 1 January	115,855	23,821	139,676	101,376	21,480	122,856
Impairment losses for the year	48,709	3,781	52,490	50,248	3,243	53,491
Reversal	(33,341)	(63)	(33,404)	(34,135)	(84)	(34,219)
Written off and transfer out	(3,192)	(1,017)	(4,209)	(1,197)	(612)	(1,809)
Recovery of loans and advances						
written off in previous years	604	62	666	577	33	610
Unwind of discount on allowance	(147)	(216)	(363)	(140)	(174)	(314)
Exchange differences	(193)	(7)	(200)	(874)	(65)	(939)
As at 31 December	<u>128,295</u>	<u>26,361</u>	<u>154,656</u>	<u>115,855</u>	<u>23,821</u>	<u>139,676</u>
<b>Bank</b>						
As at 1 January	113,232	23,420	136,652	99,252	21,140	120,392
Impairment losses for the year	47,782	3,527	51,309	49,414	3,001	52,415
Reversal	(32,785)	(13)	(32,798)	(33,722)	(48)	(33,770)
Written off and transfer out	(3,171)	(843)	(4,014)	(1,129)	(491)	(1,620)
Recovery of loans and advances						
written off in previous years	425	24	449	315	–	315
Unwind of discount on allowance	(139)	(216)	(355)	(137)	(174)	(311)
Exchange differences	(202)	(3)	(205)	(761)	(8)	(769)
As at 31 December	<u>125,142</u>	<u>25,896</u>	<u>151,038</u>	<u>113,232</u>	<u>23,420</u>	<u>136,652</u>

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**17 Investment securities**

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
<b>Investment securities available for sale</b>				
Debt securities available for sale				
Issuers in Chinese mainland				
— Government	80,361	56,338	70,154	49,384
— Public sector and quasi-governments	2,950	1,872	1,855	1,368
— Policy banks	77,224	48,667	49,943	39,270
— Financial institutions	45,852	13,294	15,247	3,136
— Corporate	81,716	67,116	61,708	59,303
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	171,057	133,912	58,423	55,691
— Public sector and quasi-governments	40,156	34,175	7,992	5,385
— Financial institutions	129,297	148,506	34,740	50,058
— Corporate	26,106	20,212	5,045	6,133
	654,719	524,092	305,107	269,728
Equity securities	24,041	23,281	1,903	1,636
Fund investments and other	7,640	5,945	—	—
<b>Total investment securities available for sale <sup>(1)</sup></b>	<b>686,400</b>	<b>553,318</b>	<b>307,010</b>	<b>271,364</b>
<b>Debt securities held to maturity</b>				
Issuers in Chinese mainland				
— Government	645,607	575,744	644,906	562,103
— Public sector and quasi-governments	15,350	16,220	15,350	16,220
— Policy banks	259,900	270,346	259,104	270,000
— Financial institutions	38,969	23,182	36,516	21,368
— Corporate	141,317	123,828	140,596	123,120
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	64,561	33,762	61,907	29,475
— Public sector and quasi-governments	4,439	5,443	3,413	195
— Financial institutions	10,613	22,590	1,110	2,543
— Corporate	2,630	3,355	813	930
	1,183,386	1,074,470	1,163,715	1,025,954
Allowance for impairment losses	(306)	(354)	(299)	(334)
<b>Total debt securities held to maturity</b>	<b>1,183,080</b>	<b>1,074,116</b>	<b>1,163,416</b>	<b>1,025,620</b>

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**17 Investment securities (Continued)**

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
<b>Debt securities classified as loans and receivables</b>				
Issuers in Chinese mainland				
— China Orient Bond <sup>(2)</sup>	160,000	160,000	160,000	160,000
— Special Purpose Treasury Bond <sup>(3)</sup>	42,500	42,500	42,500	42,500
— PBOC Target Bills <sup>(4)</sup>	—	22,291	—	22,291
— Financial institutions	20,979	14,480	17,480	14,480
— Certificate and Saving-type Treasury Bonds and other <sup>(5)</sup>	32,492	41,483	31,564	41,483
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Public sector and quasi-governments	11,638	12,845	9,077	9,124
— Financial institutions	1,319	5,410	115	—
— Corporate	591	584	591	584
	269,519	299,593	261,327	290,462
Allowance for impairment losses	(65)	(75)	(65)	(75)
Total debt securities classified as loans and receivables	269,454	299,518	261,262	290,387
<b>Total investment securities <sup>(6) (7)</sup></b>	<b>2,138,934</b>	<b>1,926,952</b>	<b>1,731,688</b>	<b>1,587,371</b>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**17 Investment securities (Continued)**

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Analysed as follows:				
<b>Investment securities available for sale</b>				
Debt securities				
— Listed in Hong Kong	21,871	14,294	5,301	5,560
— Listed outside Hong Kong	303,350	262,669	211,872	179,857
— Unlisted	329,498	247,129	87,934	84,311
Equity, fund and other				
— Listed in Hong Kong	4,242	5,138	—	—
— Listed outside Hong Kong	279	340	—	—
— Unlisted	27,160	23,748	1,903	1,636
<b>Debt securities held to maturity</b>				
— Listed in Hong Kong	2,520	2,206	1,346	1,204
— Listed outside Hong Kong	1,076,690	1,010,958	1,068,938	998,511
— Unlisted	103,870	60,952	93,132	25,905
<b>Debt securities classified as loans and receivables</b>				
— Unlisted	269,454	299,518	261,262	290,387
<b>Total</b>	<b>2,138,934</b>	<b>1,926,952</b>	<b>1,731,688</b>	<b>1,587,371</b>
Listed in Hong Kong	28,633	21,638	6,647	6,764
Listed outside Hong Kong	1,380,319	1,273,967	1,280,810	1,178,368
Unlisted	729,982	631,347	444,231	402,239
<b>Total</b>	<b>2,138,934</b>	<b>1,926,952</b>	<b>1,731,688</b>	<b>1,587,371</b>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 17 Investment securities (Continued)

Group	As at 31 December			
	2012		2011	
	Carrying value	Market value	Carrying value	Market value
Debt securities held to maturity				
— Listed in Hong Kong	2,520	2,634	2,206	2,288
— Listed outside Hong Kong	<u>1,076,690</u>	<u>1,072,920</u>	<u>1,010,958</u>	<u>1,012,649</u>
<b>Bank</b>	<b>As at 31 December</b>			
	<b>2012</b>		<b>2011</b>	
	<b>Carrying value</b>	<b>Market value</b>	<b>Carrying value</b>	<b>Market value</b>
Debt securities held to maturity				
— Listed in Hong Kong	1,346	1,411	1,204	1,254
— Listed outside Hong Kong	<u>1,068,938</u>	<u>1,064,836</u>	<u>998,511</u>	<u>1,000,082</u>

- (1) The Group's accumulated impairment charge on debt and equity securities available for sale held as at 31 December 2012 amounted to RMB3,591 million and RMB4,260 million, respectively (31 December 2011: RMB9,135 million and RMB3,788 million, respectively).
- (2) The Bank transferred certain non-performing assets to China Orient Asset Management Corporation ("China Orient") in 1999 and 2000. On 1 July 2000, China Orient issued a ten-year bond ("Orient Bond") with a par value of RMB160,000 million and interest rate of 2.25% to the Bank as consideration. During the year ended 31 December 2010, the maturity of this bond was extended to 30 June 2020 with the other terms unchanged. The MOF shall continue to provide funding support for the principal and interest of the Orient Bond held by the Bank pursuant to Caijin [2004] No. 87 "Notice of the MOF Regarding Relevant Issues Relating to the Principal and Interest of Debt Securities of Financial Asset Management Companies Held by Bank of China and China Construction Bank".



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 17 Investment securities (Continued)

- (3) On 18 August 1998, a Special Purpose Treasury Bond was issued by the MOF with a par value of RMB42,500 million maturing on 18 August 2028. This bond was originally issued with an annual coupon rate of 7.20% and its coupon rate was restructured to 2.25% per annum from 1 December 2004.
- (4) The Target Bills issued by the PBOC in 2011 amounted to RMB23,000 million matured in 2012 and the Bank received the principal and interest amount in full.
- (5) The Group underwrites certain Treasury bonds issued by the MOF and undertakes the role of a distributor of these Treasury bonds through its branch network earning commission income on bonds sold. The investors of these bonds have a right to redeem the bonds at any time prior to maturity and the Bank is committed to redeem these Treasury bonds. The balance of these bonds held by the Group and the Bank as at 31 December 2012 amounted to RMB16,266 million (31 December 2011: RMB33,217 million). During the year, the total distribution of these Treasury bonds amounted to RMB7,876 million (2011: RMB16,800 million) and commission income amounted to RMB197 million (2011: RMB231 million).
- (6) As at 31 December 2012, the Group and the Bank held bonds issued by the MOF and bills issued by the PBOC included in investment securities with the carrying value and the related interest rate range on such bonds and bills as follows:

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Carrying value	670,705	639,751	659,795	619,156
Interest rate range	1.00%–4.89%	1.12%–4.92%	1.00%–4.75%	1.12%–4.92%

- (7) Included in the Group's investment securities were certificates of deposit held amounting to RMB65,520 million as at 31 December 2012 (31 December 2011: RMB40,402 million).

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****18 Investment in subsidiaries**

The carrying amount by principal subsidiary was as follows, and further details are disclosed in Note V.42.7. These directly held principal subsidiaries are unlisted companies. All holdings are in the ordinary share capital of the undertaking concerned, and the ability of the subsidiary to transfer funds to the Group and the Bank is not restricted.

	<b>As at 31 December</b>	
	<b>2012</b>	<b>2011</b>
BOC Hong Kong (Group) Limited	36,915	36,915
BOC Group Investment Limited	29,633	29,633
BOC Group Insurance Company Limited	4,509	4,509
BOC International Holdings Limited	3,753	3,753
BOC (UK) Limited	3,223	2,126
BOC Insurance Company Limited	1,998	1,998
Tai Fung Bank Limited	82	82
Other	7,161	4,773
Total	<u>87,274</u>	<u>83,789</u>

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****19 Investment in associates and joint ventures**

	Year ended 31 December			
	Group		Bank	
	2012	2011	2012	2011
As at 1 January	13,293	12,631	48	45
Additions	1,028	1,335	4	–
Disposals	(2,296)	(464)	–	–
Share of results, net of tax	613	516	7	6
Share of reserve movement	(57)	254	–	–
Dividends received	(129)	(192)	–	–
Exchange differences and other	(70)	(787)	(4)	(3)
As at 31 December	<u>12,382</u>	<u>13,293</u>	<u>55</u>	<u>48</u>

Investment in associates and joint ventures of the Group and the Bank comprise of ordinary shares of unlisted companies, and the ability of associates and joint ventures to transfer funds to the Group and the Bank is not restricted. The carrying amount by principal investees was as follows:

	As at 31 December	
	2012	2011
Huaneng International Power Development Corporation	5,062	4,665
BOC International (China) Limited	2,438	2,273
Hong Kong Bora Holdings Limited	946	785
CGN Phase I Private Equity Fund Company Limited	885	731
Guangdong Small and Medium Enterprises Equity Investment Fund Company Limited	631	637
Farun Glass Industry Company Limited	496	475
Hubei Zhongqi Investment and Guarantee Company Limited	316	–
JCC Financial Company Limited	226	133
Guangdong Haomei Aluminum Company Limited	218	–
Silver Union Investments Limited	188	57
Other	976	3,537
Total	<u>12,382</u>	<u>13,293</u>

Further details are disclosed in Note V.42.4.

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**20 Property and equipment**

Group	Year ended 31 December				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
<b>Cost</b>					
As at 1 January 2012	78,989	47,415	19,840	46,584	192,828
Additions	781	8,290	11,194	6,481	26,746
Transfer to investment properties, net (Note V.21)	(979)	–	–	–	(979)
Reclassification	4,346	485	(6,932)	2,101	–
Disposals	(973)	(2,080)	(328)	(1,395)	(4,776)
Exchange differences	(22)	10	(30)	(185)	(227)
As at 31 December 2012	82,142	54,120	23,744	53,586	213,592
<b>Accumulated depreciation</b>					
As at 1 January 2012	(20,819)	(28,317)	–	(4,411)	(53,547)
Depreciation charge	(2,405)	(7,566)	–	(1,786)	(11,757)
Disposals	954	2,000	–	247	3,201
Exchange differences	2	–	–	19	21
As at 31 December 2012	(22,268)	(33,883)	–	(5,931)	(62,082)
<b>Allowance for impairment losses</b>					
As at 1 January 2012	(775)	–	(252)	(20)	(1,047)
Impairment losses	(3)	–	(4)	(150)	(157)
Disposals	13	–	4	1	18
Exchange differences	–	–	–	–	–
As at 31 December 2012	(765)	–	(252)	(169)	(1,186)
<b>Net book value</b>					
As at 1 January 2012	<u>57,395</u>	<u>19,098</u>	<u>19,588</u>	<u>42,153</u>	<u>138,234</u>
As at 31 December 2012	<u>59,109</u>	<u>20,237</u>	<u>23,492</u>	<u>47,486</u>	<u>150,324</u>

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**20 Property and equipment (Continued)**

Group	Year ended 31 December				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
<b>Cost</b>					
As at 1 January 2011	74,058	40,752	12,806	43,707	171,323
Additions	1,331	8,337	14,069	6,791	30,528
Transfer from/(to) investment properties, net (Note V.21)	706	–	(10)	–	696
Reclassification	4,561	542	(6,860)	1,757	–
Disposals	(765)	(1,977)	(16)	(3,604)	(6,362)
Exchange differences	(902)	(239)	(149)	(2,067)	(3,357)
As at 31 December 2011	78,989	47,415	19,840	46,584	192,828
<b>Accumulated depreciation</b>					
As at 1 January 2011	(19,378)	(23,942)	–	(3,371)	(46,691)
Depreciation charge	(2,275)	(6,420)	–	(1,606)	(10,301)
Disposals	666	1,875	–	406	2,947
Exchange differences	168	170	–	160	498
As at 31 December 2011	(20,819)	(28,317)	–	(4,411)	(53,547)
<b>Allowance for impairment losses</b>					
As at 1 January 2011	(798)	–	(257)	(9)	(1,064)
Impairment losses	–	–	–	(11)	(11)
Disposals	23	–	5	–	28
Exchange differences	–	–	–	–	–
As at 31 December 2011	(775)	–	(252)	(20)	(1,047)
<b>Net book value</b>					
As at 1 January 2011	<u>53,882</u>	<u>16,810</u>	<u>12,549</u>	<u>40,327</u>	<u>123,568</u>
As at 31 December 2011	<u>57,395</u>	<u>19,098</u>	<u>19,588</u>	<u>42,153</u>	<u>138,234</u>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 20 Property and equipment (Continued)

As at 31 December 2012, the net book amount of aircraft owned by BOC Aviation Pte. Ltd., a wholly owned subsidiary of the Group, acquired under finance lease arrangements was RMB459 million (31 December 2011: RMB477 million).

As at 31 December 2012, the net book amount of aircraft leased out by BOC Aviation Pte. Ltd., a wholly owned subsidiary of the Group, under operating leases was RMB46,884 million (31 December 2011: RMB41,287 million).

As at 31 December 2012, the net book amount of aircraft owned by BOC Aviation Pte. Ltd., a wholly owned subsidiary of the Group, that has been pledged for loan facilities was RMB38,573 million (31 December 2011: RMB31,998 million) (Note V.30).

Bank	Year ended 31 December			Total
	Buildings	Equipment and motor vehicles	Construction in progress	
<b>Cost</b>				
As at 1 January 2012	61,484	42,386	14,135	118,005
Additions	428	7,913	7,812	16,153
Transfer from investment properties, net (Note V.21)	10	–	–	10
Reclassification	4,273	178	(4,451)	–
Disposals	(885)	(1,883)	(326)	(3,094)
Exchange differences	(44)	8	–	(36)
As at 31 December 2012	65,266	48,602	17,170	131,038
<b>Accumulated depreciation</b>				
As at 1 January 2012	(17,612)	(24,837)	–	(42,449)
Depreciation charge	(2,071)	(6,964)	–	(9,035)
Disposals	860	1,823	–	2,683
Exchange differences	3	–	–	3
As at 31 December 2012	(18,820)	(29,978)	–	(48,798)
<b>Allowance for impairment losses</b>				
As at 1 January 2012	(775)	–	(252)	(1,027)
Impairment losses	(3)	–	(4)	(7)
Disposals	13	–	4	17
Exchange differences	–	–	–	–
As at 31 December 2012	(765)	–	(252)	(1,017)
<b>Net book value</b>				
As at 1 January 2012	43,097	17,549	13,883	74,529
As at 31 December 2012	45,681	18,624	16,918	81,223

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**20 Property and equipment (Continued)**

Bank	Year ended 31 December			Total
	Buildings	Equipment and motor vehicles	Construction in progress	
<b>Cost</b>				
As at 1 January 2011	57,727	36,051	9,743	103,521
Additions	335	7,985	8,784	17,104
Transfer from investment properties, net (Note V.21)	16	–	–	16
Reclassification	4,253	124	(4,377)	–
Disposals	(667)	(1,741)	(15)	(2,423)
Exchange differences	(180)	(33)	–	(213)
As at 31 December 2011	61,484	42,386	14,135	118,005
<b>Accumulated depreciation</b>				
As at 1 January 2011	(16,307)	(20,665)	–	(36,972)
Depreciation charge	(1,919)	(5,855)	–	(7,774)
Disposals	567	1,658	–	2,225
Exchange differences	47	25	–	72
As at 31 December 2011	(17,612)	(24,837)	–	(42,449)
<b>Allowance for impairment losses</b>				
As at 1 January 2011	(798)	–	(257)	(1,055)
Impairment losses	–	–	–	–
Disposals	23	–	5	28
Exchange differences	–	–	–	–
As at 31 December 2011	(775)	–	(252)	(1,027)
<b>Net book value</b>				
As at 1 January 2011	40,622	15,386	9,486	65,494
As at 31 December 2011	43,097	17,549	13,883	74,529

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****20 Property and equipment (Continued)**

According to relevant PRC laws and regulations, after conversion into a joint stock limited liability company, the Bank is required to re-register its property and equipment under the name of Bank of China Limited. As at 31 December 2012, the process of re-registration has not been completed. However, this registration process does not affect the rights of Bank of China Limited to these assets.

The carrying value of buildings is analysed based on the remaining terms of the leases as follows:

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Held in Hong Kong				
on long-term lease (over 50 years)	3,701	4,003	–	–
on medium-term lease (10–50 years)	7,063	7,777	–	–
on short-term lease (less than 10 years)	6	8	–	8
Subtotal	10,770	11,788	–	8
Held outside Hong Kong				
on long-term lease (over 50 years)	4,239	4,538	3,780	3,901
on medium-term lease (10–50 years)	43,612	40,568	41,421	38,687
on short-term lease (less than 10 years)	488	501	480	501
Subtotal	48,339	45,607	45,681	43,089
Total	59,109	57,395	45,681	43,097



**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****21 Investment properties**

	Year ended 31 December			
	Group		Bank	
	2012	2011	2012	2011
As at 1 January	14,616	13,839	1,280	1,285
Additions	560	502	–	–
Transfer from/(to) property and equipment, net (Note V.20)	979	(696)	(10)	(16)
Disposals	(113)	(273)	–	–
Fair value changes (Note V.4)	1,006	1,864	165	100
Exchange differences	94	(620)	39	(89)
As at 31 December	<u>17,142</u>	<u>14,616</u>	<u>1,474</u>	<u>1,280</u>

The Group's investment properties are located in active real estate markets, and external appraisers make reasonable estimation of fair value using market prices of the same or similar properties from the real estate market.

Investment properties are mainly held by BOCHK Holdings and BOCGI, subsidiaries of the Group. The carrying value of investment properties held by BOCHK Holdings and BOCGI as at 31 December 2012 amounted to RMB8,782 million and RMB6,865 million, respectively (31 December 2011: RMB7,529 million and RMB5,791 million). The valuation of these investment properties as at 31 December 2012 were principally performed by either Savills Valuation and Professional Services Limited or Knight Frank Petty Limited based on open market price.

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****21 Investment properties (Continued)**

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Held in Hong Kong				
on long-term lease (over 50 years)	2,515	2,086	–	–
on medium-term lease (10–50 years)	6,907	6,004	–	–
on short-term lease (less than 10 years)	20	–	–	–
Subtotal	9,442	8,090	–	–
Held outside Hong Kong				
on long-term lease (over 50 years)	1,938	1,829	276	714
on medium-term lease (10–50 years)	5,569	4,502	1,005	371
on short-term lease (less than 10 years)	193	195	193	195
Subtotal	7,700	6,526	1,474	1,280
Total	17,142	14,616	1,474	1,280

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 22 Other assets

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Interest receivable <sup>(1)</sup>	54,188	54,817	49,288	50,174
Accounts receivable and prepayments <sup>(2)</sup>	63,022	38,245	26,791	13,235
Intangible assets <sup>(3)</sup>	3,119	2,602	2,898	2,406
Land use rights <sup>(4)</sup>	9,239	9,353	8,471	8,561
Repossessed assets <sup>(5)</sup>	1,124	1,057	834	712
Goodwill <sup>(6)</sup>	1,796	1,727	—	—
Other	7,977	8,931	4,951	4,550
Total	<u>140,465</u>	<u>116,732</u>	<u>93,233</u>	<u>79,638</u>

(1) Interest receivable

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Debt securities	25,705	22,494	22,823	19,957
Loans and advances to customers	21,850	22,164	20,524	20,982
Due from and placements with and loans to banks, other financial institutions and central banks	6,633	10,159	5,941	9,235
Total	<u>54,188</u>	<u>54,817</u>	<u>49,288</u>	<u>50,174</u>

The movements of interest receivable are as follows:

	Year ended 31 December			
	Group		Bank	
	2012	2011	2012	2011
As at 1 January	54,817	42,025	50,174	38,254
Accrued during the year	505,577	411,650	475,030	384,370
Received during the year	(506,206)	(398,858)	(475,916)	(372,450)
As at 31 December	<u>54,188</u>	<u>54,817</u>	<u>49,288</u>	<u>50,174</u>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 22 Other assets (Continued)

##### (2) Accounts receivable and prepayments

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Accounts receivable and prepayments	65,098	40,209	28,784	15,122
Impairment allowance	(2,076)	(1,964)	(1,993)	(1,887)
Net value	<u>63,022</u>	<u>38,245</u>	<u>26,791</u>	<u>13,235</u>

Accounts receivable and prepayments mainly include items in the process of clearing and settlement. The analysis of the aging of accounts receivable and prepayments is as follows:

Group	As at 31 December			
	2012		2011	
	Balance	Impairment allowance	Balance	Impairment allowance
Within 1 year	59,231	(159)	35,299	(92)
From 1 year to 3 years	1,469	(546)	1,705	(270)
Over 3 years	4,398	(1,371)	3,205	(1,602)
Total	<u>65,098</u>	<u>(2,076)</u>	<u>40,209</u>	<u>(1,964)</u>

Bank	As at 31 December			
	2012		2011	
	Balance	Impairment allowance	Balance	Impairment allowance
Within 1 year	25,074	(141)	11,803	(80)
From 1 year to 3 years	836	(540)	322	(257)
Over 3 years	2,874	(1,312)	2,997	(1,550)
Total	<u>28,784</u>	<u>(1,993)</u>	<u>15,122</u>	<u>(1,887)</u>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 22 Other assets (Continued)

##### (3) Intangible assets

	Year ended 31 December			
	Group		Bank	
	2012	2011	2012	2011
<b>Cost</b>				
As at 1 January	4,944	4,172	4,457	3,741
Additions	1,234	907	1,126	728
Disposals	(31)	(95)	(9)	(3)
Exchange differences	1	(40)	1	(9)
As at 31 December	6,148	4,944	5,575	4,457
<b>Accumulated amortisation</b>				
As at 1 January	(2,342)	(1,830)	(2,051)	(1,580)
Amortisation charge	(702)	(538)	(634)	(481)
Disposals	16	6	9	3
Exchange differences	(1)	20	(1)	7
As at 31 December	(3,029)	(2,342)	(2,677)	(2,051)
<b>Allowance for impairment losses</b>				
As at 1 January	—	—	—	—
Impairment losses	—	—	—	—
Disposals	—	—	—	—
Exchange differences	—	—	—	—
As at 31 December	—	—	—	—
<b>Net book value</b>				
As at 1 January	2,602	2,342	2,406	2,161
As at 31 December	3,119	2,602	2,898	2,406

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****22 Other assets (Continued)**

(4) Land use rights

The carrying value of land use rights is analysed based on the remaining terms of the leases as follows:

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Held outside Hong Kong				
on long-term lease (over 50 years)	177	189	177	189
on medium-term lease (10–50 years)	8,866	8,969	8,098	8,177
on short-term lease (less than 10 years)	196	195	196	195
	<u>9,239</u>	<u>9,353</u>	<u>8,471</u>	<u>8,561</u>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 22 Other assets (Continued)

##### (5) Repossessed assets

The Group and the Bank obtained repossessed assets by taking possession of collateral held as security. Such repossessed assets are as follows:

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Commercial properties	1,265	1,246	843	821
Residential properties	136	136	80	80
Other	788	730	611	559
	2,189	2,112	1,534	1,460
Allowance for impairment	(1,065)	(1,055)	(700)	(748)
Repossessed assets, net	<u>1,124</u>	<u>1,057</u>	<u>834</u>	<u>712</u>

The total book value of repossessed assets disposed of during the year ended 31 December 2012 amounted to RMB180 million (2011: RMB1,346 million). The Group plans to dispose of the repossessed assets held at 31 December 2012 by auction, bidding or transfer.

##### (6) Goodwill

##### Group

	Year ended 31 December	
	2012	2011
As at 1 January	1,727	1,825
Addition through acquisition of subsidiaries	75	—
Decrease resulting from disposal of subsidiaries	—	—
Exchange differences	(6)	(98)
As at 31 December	<u>1,796</u>	<u>1,727</u>

The goodwill mainly arose from the acquisition of BOC Aviation Pte. Ltd. On 2006 amounting to USD241 million (equivalent to RMB1,513 million).

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**23 Impairment allowance**

**Group**

	As at 1 January 2012	Additions	Reversal	Decrease Write- off and transfer out	Exchange differences	As at 31 December 2012
Impairment allowance						
— Placements with and loans to banks and other financial institutions	238	—	(31)	(4)	—	203
— Loans and advances to customers <sup>(1)</sup>	139,676	52,490	(33,404)	(3,906)	(200)	154,656
— Investment securities						
— available for sale (Note V.17)	12,923	608	(451)	(5,239)	10	7,851
— held to maturity	354	37	(76)	(11)	2	306
— loans and receivables	75	—	(2)	(9)	1	65
— Property and equipment	1,047	157	—	(18)	—	1,186
— Repossessed assets	1,055	155	(63)	(82)	—	1,065
— Land use rights	22	—	—	—	—	22
— Accounts receivable and prepayments	1,964	453	(494)	151	2	2,076
— Other	367	8	—	(19)	1	357
Total	<u>157,721</u>	<u>53,908</u>	<u>(34,521)</u>	<u>(9,137)</u>	<u>(184)</u>	<u>167,787</u>



**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**23 Impairment allowance (Continued)**

**Group**

	As at 1 January 2011	Additions	Reversal	Decrease Write- off and transfer out	Exchange differences	As at 31 December 2011
Impairment allowance						
— Placements with and loans to banks and other financial institutions	243	—	—	(5)	—	238
— Loans and advances to customers <sup>(1)</sup>	122,856	53,491	(34,219)	(1,513)	(939)	139,676
— Investment securities						
— available for sale (Note V.17)	19,411	1,027	(1,091)	(5,679)	(745)	12,923
— held to maturity	438	121	(63)	(123)	(19)	354
— loans and receivables	77	10	—	(11)	(1)	75
— Property and equipment	1,064	11	—	(28)	—	1,047
— Repossessed assets	1,720	32	(86)	(598)	(13)	1,055
— Land use rights	23	—	—	(1)	—	22
— Accounts receivable and prepayments	2,119	506	(529)	(90)	(42)	1,964
— Other	267	145	—	(32)	(13)	367
Total	<u>148,218</u>	<u>55,343</u>	<u>(35,988)</u>	<u>(8,080)</u>	<u>(1,772)</u>	<u>157,721</u>

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**23 Impairment allowance (Continued)**

**Bank**

	As at 1 January 2012	Additions	Decrease Reversal	Write- off and transfer out	Exchange differences	As at 31 December 2012
Impairment allowance						
— Placements with and loans to banks and other financial institutions	238	—	(31)	(4)	—	203
— Loans and advances to customers <sup>(1)</sup>	136,652	51,309	(32,798)	(3,920)	(205)	151,038
— Investment securities						
— available for sale	9,100	76	(441)	(5,135)	(35)	3,565
— held to maturity	334	12	(49)	—	2	299
— loans and receivables	75	—	(2)	(9)	1	65
— Property and equipment	1,027	7	—	(17)	—	1,017
— Repossessed assets	748	94	(62)	(79)	(1)	700
— Land use rights	22	—	—	—	—	22
— Accounts receivable and prepayments	1,887	433	(492)	161	4	1,993
— Other	—	7	—	—	—	7
Total	<u>150,083</u>	<u>51,938</u>	<u>(33,875)</u>	<u>(9,003)</u>	<u>(234)</u>	<u>158,909</u>

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**23 Impairment allowance (Continued)**

**Bank**

	As at 1 January 2011	Additions	Decrease Reversal	Write- off and transfer out	Exchange differences	As at 31 December 2011
Impairment allowance						
— Placements with and loans to banks and other financial institutions	243	—	—	(5)	—	238
— Loans and advances to customers <sup>(1)</sup>	120,392	52,415	(33,770)	(1,616)	(769)	136,652
— Investment securities						
— available for sale	15,794	351	(1,039)	(5,401)	(605)	9,100
— held to maturity	396	9	(53)	—	(18)	334
— loans and receivables	77	10	—	(11)	(1)	75
— Property and equipment	1,055	—	—	(28)	—	1,027
— Repossessed assets	1,227	32	(84)	(414)	(13)	748
— Land use rights	23	—	—	(1)	—	22
— Accounts receivable and prepayments	2,045	490	(526)	(82)	(40)	1,887
— Other	19	3	—	(22)	—	—
Total	<u>141,271</u>	<u>53,310</u>	<u>(35,472)</u>	<u>(7,580)</u>	<u>(1,446)</u>	<u>150,083</u>

- (1) Included within “Write-off and transfer out” on loans and advances to customers are amounts relating to loans and advances written-off, transferred out, recovery of loans and advances written-off in previous years and unwind of discount on allowance.

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****24 Due to banks and other financial institutions**

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Due to:				
Banks in Chinese mainland	828,892	717,084	794,338	666,886
Other financial institutions in Chinese mainland	626,816	538,677	626,620	539,188
Banks in Hong Kong, Macau, Taiwan and other countries and regions	96,602	110,376	87,626	54,859
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	882	4,806	8,274	12,628
Total <sup>(1)</sup>	<u>1,553,192</u>	<u>1,370,943</u>	<u>1,516,858</u>	<u>1,273,561</u>

(1) Included in the Bank's due to banks and other financial institutions are balances with the Bank's subsidiaries (Note V.42.7).

**25 Due to central banks**

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Foreign exchange deposits	117,449	73,825	117,449	73,825
Other	12,573	7,631	813	22
Total	<u>130,022</u>	<u>81,456</u>	<u>118,262</u>	<u>73,847</u>

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****26 Government certificates of indebtedness for bank notes issued and bank notes in circulation**

Bank of China (Hong Kong) Limited and Bank of China Macau Branch are note issuing banks for Hong Kong Dollar and Macau Pataca notes in Hong Kong and Macau, respectively. Under local regulations, these two entities are required to place deposits with the Hong Kong and Macau governments, respectively to secure the currency notes in circulation.

Bank notes in circulation represent the liabilities in respect of Hong Kong Dollar notes and Macau Pataca notes in circulation, issued respectively by Bank of China (Hong Kong) Limited and Bank of China Macau Branch.

**27 Placements from banks and other financial institutions**

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Placements from:				
Banks in Chinese mainland	152,442	101,453	141,721	95,800
Other financial institutions in Chinese mainland	72,994	50,229	72,994	49,862
Banks in Hong Kong, Macau, Taiwan and other countries and regions	81,965	110,378	89,677	150,452
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	5,603	3,778	8,724	8,195
Total <sup>(1) (2)</sup>	<u>313,004</u>	<u>265,838</u>	<u>313,116</u>	<u>304,309</u>

(1) Included in the Bank's "Placements from banks and other financial institutions" are balances with the Bank's subsidiaries (Note V.42.7).

# **BANK OF CHINA LIMITED**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

### **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **27 Placements from banks and other financial institutions (Continued)**

- (2) Included in “Placements from banks and other financial institutions” are amounts received from counterparties under repurchase agreements and collateral agreements as follows:

	<b>As at 31 December</b>			
	<b>Group</b>		<b>Bank</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Repurchase debt securities <sup>(i)</sup>	<u>69,461</u>	<u>34,640</u>	<u>69,389</u>	<u>33,993</u>

- (i) Debt securities used as collateral under repurchase agreements were principally government bonds and were included in the amount disclosed under Note V.40.2.

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**28 Due to customers**

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
<b>At amortised cost</b>				
Demand deposits				
Corporate deposits	2,506,854	2,451,185	2,270,747	2,259,344
Personal deposits	1,634,545	1,423,524	1,276,431	1,118,250
Subtotal	4,141,399	3,874,709	3,547,178	3,377,594
Time deposits				
Corporate deposits	2,216,104	2,021,651	1,942,254	1,717,473
Personal deposits	2,373,145	2,171,950	2,165,991	1,965,971
Subtotal	4,589,249	4,193,601	4,108,245	3,683,444
Certificates of deposit	226,867	138,880	246,434	139,986
Other deposits <sup>(1)</sup>	52,463	49,684	51,284	48,837
Total due to customers at amortised cost	9,009,978	8,256,874	7,953,141	7,249,861
<b>At fair value</b>				
Structured deposits				
Corporate deposits	90,567	221,479	86,636	217,848
Personal deposits	73,450	339,608	71,297	339,191
Total due to customers at fair value <sup>(2)</sup>	164,017	561,087	157,933	557,039
Total due to customers <sup>(3)</sup>	9,173,995	8,817,961	8,111,074	7,806,900

# **BANK OF CHINA LIMITED**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

### **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **28 Due to customers (Continued)**

- (1) Included in other deposits are special purpose fundings, which represents long-term fundings provided in multiple currencies from foreign governments and/or entities in the form of export credit, foreign government and other subsidised credit. These special purpose fundings are normally used to finance projects with a special commercial purpose in the PRC as determined by the foreign governments or entities and the Bank is obliged to repay these fundings when they fall due.

As at 31 December 2012, the remaining maturity of special purpose fundings ranges from 41 days to 35 years. The interest bearing special purpose fundings bear floating and fixed interest rates ranging from 0.15% to 7.59% (31 December 2011: 0.15% to 7.59%). These terms are consistent with those related development loans granted to customers.

- (2) “Due to customers” measured at fair value are structured deposits designated at fair value through profit or loss at inception.

There were no significant changes in the Group’s or the Bank’s credit risk and therefore there were no significant gains or losses attributable to changes in the Group’s or the Bank’s credit risk for these financial liabilities designated at fair value through profit or loss during the years ended 31 December 2012 and 2011.

- (3) “Due to customers” include margin deposits for security received by the Group and the Bank as at 31 December 2012 of RMB373,305 million and RMB355,224 million, respectively (31 December 2011: RMB445,289 million and RMB428,650 million).



# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 29 Bonds issued

	Issue date	Maturity date	Annual interest rate	As at 31 December			
				Group		Bank	
				2012	2011	2012	2011
Subordinated bonds issued							
2005 RMB Debt Securities <sup>(1)</sup>							
Second Tranche (fixed rate)	18 February 2005	4 March 2020	5.18%	9,000	9,000	9,000	9,000
2009 RMB Debt Securities <sup>(2)</sup>							
First Tranche (fixed rate)	6 July 2009	8 July 2019	3.28%	14,000	14,000	14,000	14,000
	6 July 2009	8 July 2024	4.00%	24,000	24,000	24,000	24,000
First Tranche (floating rate)	6 July 2009	8 July 2019	Floating interest rate	2,000	2,000	2,000	2,000
2010 RMB Debt Securities <sup>(3)</sup>	9 March 2010	11 March 2025	4.68%	24,930	24,930	24,930	24,930
2010 US Dollar Subordinated notes issued by BOCHK	11 February 2010	11 February 2020	5.55%	17,503	17,521	–	–
2011 RMB Debt Securities <sup>(4)</sup>	17 May 2011	19 May 2026	5.30%	32,000	32,000	32,000	32,000
2012 RMB Debt Securities <sup>(5)</sup>	27 November 2012	29 November 2022	4.70%	5,000	–	5,000	–
	27 November 2012	29 November 2027	4.99%	18,000	–	18,000	–
Subtotal <sup>(6)</sup>				146,433	123,451	128,930	105,930
Convertible bonds issued							
	2 June 2010	2 June 2016	Step-up interest rate				
2010 RMB Convertible Bond <sup>(7)</sup>				38,199	37,201	38,199	37,201

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 29 Bonds issued (Continued)

	Issue date	Maturity date	Annual interest rate	As at 31 December			
				Group		Bank	
				2012	2011	2012	2011
Other bonds issued							
1994 US Dollar Debt Securities	10 March 1994	15 March 2014	8.25%	139	140	139	140
2010 RMB Debt Securities issued in Hong Kong							
Tranche A	30 September 2010	30 September 2012	2.65%	–	1,806	–	2,200
Tranche B	30 September 2010	30 September 2013	2.90%	2,521	2,479	2,800	2,800
2011 US Dollar Debt Securities issued by BOCHK	8 November 2011	8 November 2016	3.75%	4,773	4,721	–	–
2012 RMB Debt Securities issued in Hong Kong <sup>(8)</sup>	23 July 2012	23 July 2015	3.10%	742	–	1,000	–
Other <sup>(9)</sup>				6,326	104	7,370	–
Subtotal				14,501	9,250	11,309	5,140
Total bonds issued <sup>(10)</sup>				199,133	169,902	178,438	148,271

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**29 Bonds issued (Continued)**

- (1) The fixed rate portion of the second tranche of the subordinated bonds issued on 18 February 2005 has a maturity of 15 years, with a fixed coupon rate of 5.18%, paid annually. The Bank has the option to redeem all or part of the bonds at face value on 4 March 2015. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3.00%, and shall remain fixed until the maturity date.

- (2) The subordinated bonds issued on 6 July 2009 comprise two fixed rate portions and one floating rate portion.

The first portion of fixed rate bonds has a maturity of 10 years, with a fixed coupon rate of 3.28%, paid annually. The Bank has the option to early redeem all of the bonds at face value on 8 July 2014. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3.00%, and shall remain fixed until the maturity date.

The second portion of fixed rate bonds has a maturity of 15 years, with a fixed coupon rate of 4.00%, paid annually. The Bank has the option to early redeem all of the bonds at face value on 8 July 2019. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3.00%, and shall remain fixed until the maturity date.

The floating rate bonds has a maturity of 10 years, with a floating rate based on the specified 1-year deposit interest rate published by the PBOC, paid annually. The Bank has the option to redeem all of the bonds at face value on 8 July 2014. If the Bank does not exercise this option, the floating rate for the remaining 5-year period shall be the original floating rate plus 3.00%.

- (3) The subordinated bonds issued on 9 March 2010 have a maturity of 15 years, with a fixed coupon rate of 4.68%, paid annually. The Bank has the option to redeem all of the bonds at face value on 11 March 2020. If the Bank does not exercise this option, the coupon rate of the bonds for the third 5-year period shall be the original coupon rate plus 3.00%, and shall remain fixed until the maturity date.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**29 Bonds issued (Continued)**

- (4) The subordinated bonds issued on 17 May 2011, have a maturity of 15 years, with a fixed coupon rate of 5.30%, paid annually. The Bank is entitled to redeem all the subordinated bonds on the tenth anniversary. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 5.30%.
- (5) Two subordinated bonds issued on 17 November 2012 in the domestic interbank bond markets. The first subordinated bond has a maturity of 10 years, with a fixed coupon rate of 4.70%, payable annually. The Bank is entitled to redeem these bonds on the fifth anniversary. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 4.70%. The second subordinated bond has a maturity of 15 years, with a fixed coupon rate of 4.99%, payable annually. The Bank is entitled to redeem all these bonds on the tenth anniversary. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 4.99%.
- (6) Subordinated bonds are subordinated to all other claims on the assets of the Group, except those of the equity holders. In the calculation of the Group's capital adequacy ratio, these bonds are qualified for inclusion as supplementary capital in accordance with the relevant guidelines issued by the CBRC.
- (7) Pursuant to the approval by relevant PRC authorities, on 2 June 2010, the Bank issued A-share convertible bonds with a total principal amount of RMB40 billion. The convertible bonds have a maturity term of six years from 2 June 2010 and bear a fixed interest rate of 0.50% for the first year, with an annual increase of 0.30% through the remaining term. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price during the period ("Conversion Period") beginning six months after the date of issuance until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 106% of par value, including interest for the sixth year.

During the Conversion Period, if the closing price of the Bank's A Shares is not lower than or equal to 130% of the prevailing conversion price in at least 15 trading days out of any 30 consecutive trading days, the Bank has the right to redeem all or part of the outstanding convertible bonds at par value plus accrued interest on the first day on which the redemption criteria is met. This right may be exercised only once in any year. Subject to the Board approval, the Bank also has the right to redeem all the convertible bonds at par value plus accrued interest should the total outstanding amount be less than RMB30 million.

The conversion price of the convertible bonds will be adjusted, subject to terms and formulae provided for in the bond contracts, to adjust for the dilutive effects of distributions of cash dividends and specified increases in share capital. During the term of the convertible bonds, if the closing price of the A Shares in 15 trading days out of any 30 consecutive trading days is lower than 80% of the prevailing conversion price of the convertible bonds, the Board may also propose downward adjustments to the conversion price for the Shareholders' approval. During the period from the date of issuance to 31 December 2012, the conversion price was adjusted from RMB4.02 per share to RMB3.44 per share, as a result of paid cash dividends distribution and rights issue of A Share and H Share.

Interest paid by the Bank related to the convertible bonds was RMB320 million for the year ended 31 December 2012 (2011: RMB200 million).

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 29 Bonds issued (Continued)

The details of convertible bonds are as follows:

##### Group and Bank

	Year ended 31 December	
	2012	2011
Liability component as at 1 January	37,201	36,206
Accretion	998	995
Amounts converted to shares <sup>(i)</sup>	—	—
Liability component as at 31 December	<u>38,199</u>	<u>37,201</u>

- (i) Convertible bonds in the principal amount of RMB34,000 (2011: RMB411,000) were converted into 9,686 share (2011: 110,384 share) ordinary A shares during the year ended 31 December 2012 as verified by PricewaterhouseCoopers Zhong Tian CPAs Limited Company (Verification Report PwC ZT YZ [2013] No.080, see Notes V.36.1).
- (8) With the approval of the National Development and Reform Commission and the PBOC, the Bank issued RMB Bonds listed on the Hong Kong Stock Exchange on 23 July 2012, with an aggregate principal amount of RMB1 billion and an original maturity of 3 years at a rate of 3.10% per annum.
- (9) Others mainly comprised of short-term commercial papers issued by the Branch in Hong Kong, which due dates ranging from 2013 to 2016.
- (10) During the years ended 31 December 2012 and 2011, the Group did not default on any principal, interest or redemption amounts with respect to its bonds issued.

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****30 Other borrowings**

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Term loans and other borrowings <sup>(1)</sup>	<u>34,045</u>	<u>26,724</u>	<u>—</u>	<u>—</u>

(1) These term loans and other borrowings relate to the financing of the aircraft leasing business of BOC Aviation Pte. Ltd., a wholly owned subsidiary of the Bank.

As at 31 December 2012, these term loans and other borrowings have a maturity ranging from 39 days to 12 years and bear floating and fixed interest rates ranging from 0.55% to 3.25% (31 December 2011: 0.60% to 2.70%). The term loans and other borrowings of RMB29,222 million (31 December 2011: RMB24,940 million) are secured by aircraft of the Group (Note V.20).

During the years ended 31 December 2012 and 2011, the Group did not default on any principal, interest or redemption amounts with respect to its other borrowings.

**31 Current tax liabilities**

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Corporate Income Tax	28,435	23,405	26,531	20,757
Business Tax	5,913	5,041	5,788	4,925
City Construction and Maintenance Tax	395	336	392	334
Education Surcharges	282	235	280	234
Value-added Tax and other	(31)	336	(91)	277
Total	<u>34,994</u>	<u>29,353</u>	<u>32,900</u>	<u>26,527</u>

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****32 Retirement benefit obligations**

As at 31 December 2012, the actuarial liabilities existing in relation to the retirement benefit obligations for employees who retired prior to 31 December 2003 and the early retirement obligations for employees who early retired were RMB2,530 million (31 December 2011: RMB2,597 million) and RMB3,112 million (31 December 2011: RMB3,489 million) respectively, which were assessed by Hewitt Associates LLC, using the projected unit credit method.

The movements of the net liabilities recognised in the statements of financial position are as follows:

<b>Group and Bank</b>	<b>Year ended 31 December</b>	
	<b>2012</b>	<b>2011</b>
As at 1 January	6,086	6,440
Amounts recognised in the income statement:		
Interest cost	185	223
Net actuarial loss recognised in the year	294	403
Benefits paid	(923)	(980)
As at 31 December	<u>5,642</u>	<u>6,086</u>

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****32 Retirement benefit obligations (Continued)**

Primary assumptions used:

Group and Bank	As at 31 December	
	2012	2011
Discount rate		
— Normal retiree	3.79%	3.64%
— Early retiree	3.18%	3.01%
Pension benefit inflation rate		
— Normal retiree	6.0%~4.0%	6.0%~4.0%
— Early retiree	10.0%~4.0%	8.0%~4.0%
Medical benefit inflation rate	8.0%	8.0%
Retiring age		
— Male	60	60
— Female	50/55	50/55

Assumptions regarding future mortality experience are based on the China Life Insurance Mortality Table (published historical statistics in China).



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**33 Share option schemes**

***33.1 Share Appreciation Rights Plan***

In November 2005, the Bank's Board of Directors and equity holders approved and adopted a Share Appreciation Rights Plan under which eligible participants including directors, supervisors, management and other personnel designated by the Board, will be granted share appreciation rights, up to 25% of which will be exercisable each year beginning on the third anniversary date from the date of grant. The share appreciation rights will be valid for seven years from the date of grant. Eligible participants will be entitled to receive an amount equal to the difference, if any, between the average closing market price of the Bank's H shares in the ten days prior to the date of grant and the average closing market price of the Bank's H shares in the 12 months prior to the date of exercise as adjusted for any change in the Bank's equity. The plan provides cash-settled share-based payment only and accordingly, no shares will be issued under the share appreciation rights plan.

No share appreciation rights were granted since the inception of the plan.

***33.2 Share Option Scheme and Sharesave Plan***

On 10 July 2002, the equity holders of BOCHK Holdings approved adoption of two share option schemes, namely, the Share Option Scheme and the Sharesave Plan.

Since the establishment of the Share Option Scheme and the Sharesave Plan, no options were granted.

The expiry of the Share Option Scheme and Sharesave Plan took effect from 25 July 2012 and 10 July 2012 respectively.

***33.3 BOCHK Holdings Pre-listing Share Option Scheme***

On 5 July 2002, certain of the Bank's directors, senior management personnel and employees of the Group were granted options by BOC Hong Kong (BVI) Limited ("BOCHK (BVI)"), the immediate holding company of BOCHK Holdings, pursuant to a Pre-listing Share Option Scheme to purchase from BOCHK (BVI) an aggregate of 31,132,600 previously issued and outstanding shares of BOCHK Holdings for HKD8.50 per share. These options, with a ten-year term, vest ratably over four years from 25 July 2002. No further offers to grant any options under the Pre-listing Share Option Scheme will be made. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The Group has taken advantage of the transitional provision of IFRS 2 under which the required recognition and measurements have not been applied to the options granted to employees of the Group on or before 7 November 2002.

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****33 Share option schemes (Continued)****33.3 BOCHK Holdings Pre-listing Share Option Scheme (Continued)**

Details of the movement of share options outstanding are as follows:

				Unit: Share
	Key management personnel	Other employees	Other <sup>(1)</sup>	Total number of share options
As at 1 January 2012	1,446,000	1,331,800	1,446,000	4,223,800
Less: share options exercised during the period <sup>(2)</sup>	–	(247,300)	–	(247,300)
Less: share options lapsed during the period <sup>(3)</sup>	(1,446,000)	(1,084,500)	(1,446,000)	(3,976,500)
As at 31 December 2012	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
As at 1 January 2011	3,976,500	247,300	–	4,223,800
Transferred	(2,530,500)	1,084,500	1,446,000	–
As at 31 December 2011	<u>1,446,000</u>	<u>1,331,800</u>	<u>1,446,000</u>	<u>4,223,800</u>

(1) These represent share options held by former directors or former employees of BOCHK Holdings.

(2) The weighted average share price of BOCHK Holdings' shares at the time of exercise was HKD23.70 (equivalent to RMB19.28).

(3) According to the rules of the Pre-Listing Share Option Scheme, all outstanding options granted pursuant to the said Scheme lapsed on 5 July 2012. Prior to that, pursuant to the relevant government regulations, the aforesaid outstanding options granted under to the said Scheme had been suspended.

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****34 Deferred income taxes**

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

**Group**

	As at 31 December			
	2012		2011	
	Temporary difference	Deferred tax assets/(liabilities)	Temporary difference	Deferred tax assets/(liabilities)
Deferred income tax assets	80,481	21,292	73,583	19,264
Deferred income tax liabilities	(21,075)	(3,838)	(16,079)	(2,966)
	<u>59,406</u>	<u>17,454</u>	<u>57,504</u>	<u>16,298</u>

**Bank**

	As at 31 December			
	2012		2011	
	Temporary difference	Deferred tax assets/(liabilities)	Temporary difference	Deferred tax assets/(liabilities)
Deferred income tax assets	87,084	22,084	77,625	19,648
Deferred income tax liabilities	(916)	(186)	(640)	(124)
	<u>86,168</u>	<u>21,898</u>	<u>76,985</u>	<u>19,524</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 34 Deferred income taxes (Continued)

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

Group	As at 31 December			
	2012		2011	
	Temporary difference	Deferred tax assets/(liabilities)	Temporary difference	Deferred tax assets/(liabilities)
<b>Deferred income tax assets</b>				
Asset impairment allowances	89,120	22,339	84,060	21,018
Pension, retirement benefits and salary payable	20,670	5,167	19,363	4,841
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	12,756	3,185	15,181	3,796
Fair value changes of available for sale investment securities credited to equity	301	72	379	92
Other temporary differences	3,521	864	3,797	961
Subtotal	126,368	31,627	122,780	30,708
<b>Deferred income tax liabilities</b>				
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	(14,431)	(3,614)	(20,132)	(5,035)
Fair value changes of available for sale investment securities charged to equity	(7,140)	(1,491)	(2,407)	(587)
Depreciation of property and equipment	(8,975)	(1,690)	(7,977)	(1,370)
Revaluation of property and investment properties	(9,010)	(1,742)	(7,876)	(1,620)
Other temporary differences	(27,406)	(5,636)	(26,884)	(5,798)
Subtotal	(66,962)	(14,173)	(65,276)	(14,410)
Net	59,406	17,454	57,504	16,298

As at 31 December 2012, deferred tax liabilities relating to temporary differences of RMB38,902 million associated with the Group's investments in subsidiaries have not been recognised (31 December 2011: RMB30,895 million). See Note II.21.2.

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**34 Deferred income taxes (Continued)**

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

Bank	As at 31 December			
	2012		2011	
	Temporary difference	Deferred tax assets/(liabilities)	Temporary difference	Deferred tax assets/(liabilities)
<b>Deferred income tax assets</b>				
Asset impairment allowances	86,342	21,820	81,467	20,525
Pension, retirement benefits and salary payable	20,670	5,167	19,363	4,841
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	12,696	3,174	15,181	3,796
Fair value changes of available for sale investment securities credited to equity	104	21	246	64
Other temporary differences	1,146	288	1,552	389
Subtotal	120,958	30,470	117,809	29,615
<b>Deferred income tax liabilities</b>				
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	(14,421)	(3,611)	(20,132)	(5,035)
Fair value changes of available for sale investment securities charged to equity	(1,517)	(391)	(1,065)	(257)
Other temporary differences	(18,852)	(4,570)	(19,627)	(4,799)
Subtotal	(34,790)	(8,572)	(40,824)	(10,091)
Net	86,168	21,898	76,985	19,524

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 34 Deferred income taxes (Continued)

34.3 The movements of the deferred income tax account are as follows:

	Year ended 31 December			
	Group		Bank	
	2012	2011	2012	2011
As at 1 January	16,298	21,260	19,524	24,182
Charged to income statement (Note V.9)	2,094	(4,600)	2,545	(4,452)
Credited/(charged) to equity	(924)	9	(177)	(193)
Other	(14)	(371)	6	(13)
As at 31 December	<u>17,454</u>	<u>16,298</u>	<u>21,898</u>	<u>19,524</u>

34.4 The deferred income tax charge in the income statement comprises the following temporary differences:

	Year ended 31 December			
	Group		Bank	
	2012	2011	2012	2011
Asset impairment allowances	1,321	133	1,295	31
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	810	(661)	802	(662)
Pension, retirement benefits and salary payable	326	509	326	509
Other temporary differences	(363)	(4,581)	122	(4,330)
Total	<u>2,094</u>	<u>(4,600)</u>	<u>2,545</u>	<u>(4,452)</u>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 35 Other liabilities

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Items in the process of clearance and settlement	29,918	27,848	22,464	22,030
Interest payable <sup>(1)</sup>	107,486	75,352	105,450	73,809
Insurance liabilities				
— Life insurance contracts	43,732	38,281	—	—
— Non-life insurance contracts	5,877	5,054	—	—
Salary and welfare payable <sup>(2)</sup>	23,191	19,938	21,212	18,481
Provision <sup>(3)</sup>	2,091	2,396	1,777	2,087
Short position in debt securities	14,061	2,106	—	—
Deferred Income	4,398	2,772	4,307	2,720
Other <sup>(4)</sup>	37,264	35,944	17,154	14,642
Total	<u>268,018</u>	<u>209,691</u>	<u>172,364</u>	<u>133,769</u>

(1) Interest payable

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Due to customers	94,379	64,531	92,173	63,045
Due to and placements from banks and other financial institutions	9,217	7,110	9,754	7,419
Bonds issued and other	3,890	3,711	3,523	3,345
Total	<u>107,486</u>	<u>75,352</u>	<u>105,450</u>	<u>73,809</u>

The movements of interest payable are as follows:

	Year ended 31 December			
	Group		Bank	
	2012	2011	2012	2011
As at 1 January	75,352	58,665	73,809	57,758
Accrued during the year	249,564	185,038	241,156	177,384
Paid during the year	(217,430)	(168,351)	(209,515)	(161,333)
As at 31 December	<u>107,486</u>	<u>75,352</u>	<u>105,450</u>	<u>73,809</u>

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**35 Other liabilities (Continued)**

(2) Salary and welfare payable

**Group**

	<b>As at 1 January 2012</b>	<b>Accrual</b>	<b>Payment</b>	<b>As at 31 December 2012</b>
Salary, bonus and subsidy	17,822	47,629	(45,248)	20,203
Staff welfare	–	2,009	(2,009)	–
Social insurance, including:				
Medical	463	2,311	(2,217)	557
Pension	59	4,876	(4,852)	83
Annuity	–	1,380	(1,098)	282
Unemployment	7	390	(393)	4
Injury at work	1	125	(125)	1
Maternity insurance	1	154	(153)	2
Housing funds	20	3,891	(3,886)	25
Labour union fee and staff education fee	1,447	1,838	(1,396)	1,889
Reimbursement for cancellation of labour contract	19	25	(20)	24
Other	99	1,887	(1,865)	121
<b>Total <sup>(i)</sup></b>	<b>19,938</b>	<b>66,515</b>	<b>(63,262)</b>	<b>23,191</b>

	<b>As at 1 January 2011</b>	<b>Accrual</b>	<b>Payment</b>	<b>As at 31 December 2011</b>
Salary, bonus and subsidy	15,771	44,429	(42,378)	17,822
Staff welfare	–	1,591	(1,591)	–
Social insurance, including:				
Medical	370	1,984	(1,891)	463
Pension	84	4,130	(4,155)	59
Annuity	3	920	(923)	–
Unemployment	8	325	(326)	7
Injury at work	1	102	(102)	1
Maternity insurance	1	120	(120)	1
Housing funds	26	3,331	(3,337)	20
Labour union fee and staff education fee	1,389	1,558	(1,500)	1,447
Reimbursement for cancellation of labour contract	15	23	(19)	19
Other	93	1,654	(1,648)	99
<b>Total <sup>(i)</sup></b>	<b>17,761</b>	<b>60,167</b>	<b>(57,990)</b>	<b>19,938</b>



**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**35 Other liabilities (Continued)**

(2) Salary and welfare payable (Continued)

**Bank**

	<b>As at 1 January 2012</b>	<b>Accrual</b>	<b>Payment</b>	<b>As at 31 December 2012</b>
Salary, bonus and subsidy	16,385	40,016	(38,147)	18,254
Staff welfare	–	1,829	(1,829)	–
Social insurance, including:				
Medical	461	2,306	(2,211)	556
Pension	56	4,864	(4,840)	80
Annuity	–	1,380	(1,098)	282
Unemployment	7	389	(392)	4
Injury at work	1	125	(125)	1
Maternity insurance	1	153	(152)	2
Housing funds	18	3,884	(3,879)	23
Labour union fee and staff education fee	1,444	1,823	(1,384)	1,883
Reimbursement for cancellation of labour contract	19	16	(11)	24
Other	89	808	(794)	103
<b>Total <sup>(i)</sup></b>	<b>18,481</b>	<b>57,593</b>	<b>(54,862)</b>	<b>21,212</b>

	<b>As at 1 January 2011</b>	<b>Accrual</b>	<b>Payment</b>	<b>As at 31 December 2011</b>
Salary, bonus and subsidy	13,790	37,845	(35,250)	16,385
Staff welfare	–	1,399	(1,399)	–
Social insurance, including:				
Medical	370	1,981	(1,890)	461
Pension	83	4,122	(4,149)	56
Annuity	3	920	(923)	–
Unemployment	8	325	(326)	7
Injury at work	1	102	(102)	1
Maternity insurance	1	120	(120)	1
Housing funds	26	3,328	(3,336)	18
Labour union fee and staff education fee	1,389	1,549	(1,494)	1,444
Reimbursement for cancellation of labour contract	15	13	(9)	19
Other	82	670	(663)	89
<b>Total <sup>(i)</sup></b>	<b>15,768</b>	<b>52,374</b>	<b>(49,661)</b>	<b>18,481</b>

(i) There was no overdue payment for staff salary and welfare payables as at 31 December 2012 and 2011.

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 35 Other liabilities (Continued)

##### (3) Provision

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Allowance for litigation losses (Note V.40.1)	746	700	709	689
Other	1,345	1,696	1,068	1,398
Total	<u>2,091</u>	<u>2,396</u>	<u>1,777</u>	<u>2,087</u>

Provision movements:

	Year ended 31 December			
	Group		Bank	
	2012	2011	2012	2011
As at 1 January	2,396	1,372	2,087	1,109
(Reversal)/provision for the year, net	(284)	1,094	(245)	985
Utilised during the year	(21)	(70)	(65)	(7)
As at 31 December	<u>2,091</u>	<u>2,396</u>	<u>1,777</u>	<u>2,087</u>

##### (4) Other

Other includes finance lease payments which are principally related to aircraft held by BOC Aviation Pte. Ltd. under finance lease.

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Within 1 year (inclusive)	49	50	–	1
1 year to 2 years (inclusive)	49	50	–	–
2 years to 3 years (inclusive)	50	51	–	–
Over 3 years	301	355	–	–
Total minimum rental payments	<u>449</u>	<u>506</u>	<u>–</u>	<u>1</u>
Unrecognised finance charge	(34)	(50)	–	–
Finance lease payments, net	<u>415</u>	<u>456</u>	<u>–</u>	<u>1</u>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 36 Share capital, capital reserve and treasury shares

##### 36.1 Share capital and capital reserve

For the year ended 31 December 2012, the movement of the Bank's share capital was as follows:

	Unit: Share		
	Domestic listed A shares, par value RMB1.00 per share	Overseas listed H shares, par value RMB1.00 per share	Total
As at 1 January 2012	195,525,057,184	83,622,276,395	279,147,333,579
Increase as a result of conversion of convertible bonds (Note V.29)	9,686	—	9,686
As at 31 December 2012	<u>195,525,066,870</u>	<u>83,622,276,395</u>	<u>279,147,343,265</u>

All A shares and H shares rank pari passu with the same rights and benefits.

As at 31 December 2012, capital reserve included capital surplus on issuance of ordinary shares of RMB110,525 million (31 December 2011: RMB110,525 million).

##### 36.2 Treasury shares

A wholly owned subsidiary of the Group holds certain listed shares of the Bank in relation to its derivative and arbitrage business. These shares are treated as treasury shares, a deduction from equity holders' equity. Gains and losses on sale or redemption of the treasury shares are credited or charged to equity. The total number of treasury shares as at 31 December 2012 was approximately 5.17 million (31 December 2011: approximately 10.98 million).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**37 Statutory reserves, general and regulatory reserves and undistributed profits**

**37.1 Statutory reserves**

Under relevant PRC laws, the Bank is required to transfer 10% of its net profit to a non-distributable statutory surplus reserves. Appropriation to the statutory surplus reserves may cease when the balance of such reserves has reached 50% of the share capital. Subject to the approval of the equity holders, the statutory surplus reserves can be used for replenishing the accumulated losses or increasing the Bank's share capital. The statutory surplus reserves amount used to increase the share capital is limited to a level where the balance of the statutory surplus reserves after such capitalisation is not less than 25% of the share capital.

In accordance with a resolution of the Board of Directors dated 26 March 2013, the Bank appropriated 10% of the net profit for the year ended 31 December 2012 to the statutory surplus reserves, amounting to RMB13,062 million (2011: RMB11,695 million).

In addition, some operations in Hong Kong, Macau, Taiwan and other countries and regions are required to transfer certain percentages of their net profits to the statutory surplus reserves as stipulated by local banking authorities.

**37.2 General and regulatory reserves**

Pursuant to Caijin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions" ("Requirement"), issued by the MOF, in addition to the impairment allowance, the Bank establishes a general reserve within the equity holders' equity through the appropriation of profit to address unidentified potential impairment losses. The general reserve should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement, and the minimum threshold can be accumulated over a period of no more than five years.

In accordance with a resolution dated 26 March 2013 and on the basis of the Bank's profit for the year ended 31 December 2012, the Board of Directors of the Bank approved the appropriation of RMB50,148 million (2011: RMB8,912 million) to the general reserve for the year ended 31 December 2012.

The regulatory reserve mainly refers to the reserve amount set aside by BOC Hong Kong (Group) Limited, a subsidiary of the Group, for general banking risks, including future losses or other unforeseeable risks. As at 31 December 2012 and 2011, the reserve amount set aside by BOC Hong Kong (Group) Limited was RMB4,985 million and RMB4,554 million, respectively.

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****37 Statutory reserves, general and regulatory reserves and undistributed profits (Continued)****37.3 Dividends**

A dividend of RMB43,268 million in respect of profit for the year ended 31 December 2011 was approved by the equity holders of the Bank at the Annual General Meeting held on 30 May 2012 and was distributed during the year.

A dividend of RMB0.175 per share in respect of profit for the year ended 31 December 2012 (2011: RMB0.155 per share), amounting to a total dividend of RMB48,851 million based on the number of shares issued as at 31 December 2012 will be proposed for approval at the Annual General Meeting to be held on 29 May 2013. The actual amount of dividend payable will factor in ordinary shares issued in respect of conversion of convertible bonds after 31 December 2012 to the ex-dividend date. These financial statements do not reflect this dividend payable in liabilities.

**37.4 Profit attributable to the equity holders of the Bank**

The profit attributable to equity holders of the Bank for the year ended 31 December 2012 was recognised in the financial statements of the Bank to the extent of RMB130,617 million (2011: RMB116,946 million).

**38 Reserve for fair value changes of available for sale securities**

	Year ended 31 December			
	Group		Bank	
	2012	2011	2012	2011
As at 1 January	3,642	4,015	604	(2)
Net changes in fair value	5,833	2,778	1,868	2,039
Share of associates' reserve for fair value changes of available for sale securities	(33)	(35)	—	—
Net impairment charge/(reversal) transferred to income statement	158	(70)	(365)	(688)
Net fair value changes transferred to income statement on de-recognition	(2,182)	(3,507)	(1,478)	(1,038)
Deferred income taxes	(739)	(25)	(177)	(193)
Other	597	486	647	486
As at 31 December	<u>7,276</u>	<u>3,642</u>	<u>1,099</u>	<u>604</u>

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****39 Non-controlling interests**

Non-controlling interests of the subsidiaries of the Group are as follows:

	<b>As at 31 December</b>	
	<b>2012</b>	<b>2011</b>
BOC Hong Kong (Group) Limited	34,273	30,870
Tai Fung Bank Limited	1,795	1,661
Other	797	692
Total	<u>36,865</u>	<u>33,223</u>

**40 Contingent liabilities and commitments****40.1 Legal proceedings and arbitrations**

As at 31 December 2012, the Group was involved in certain legal proceedings and arbitrations arising from its normal business operations. In addition, in terms of the range and scale of its international operations, the Group may face a wide variety of legal proceedings within different jurisdictions, including sensitive issues related to anti-money laundering. As at 31 December 2012, provisions of RMB746 million (31 December 2011: RMB700 million) were made based on court judgements or the advice of counsel (Note V.35). After consulting legal professionals, senior management of the Group believes that at the current stage these legal proceedings and arbitrations will not have a material impact on the financial position or operations of the Group.

**40.2 Assets pledged**

Assets pledged by the Group as collateral for placement, repurchase, short positions, derivatives transactions with other banks and financial institutions and for local statutory requirements are set forth in the table below. These transactions are conducted under standard and normal business terms.

	<b>As at 31 December</b>			
	<b>Group</b>		<b>Bank</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Debt securities	156,784	55,269	141,508	49,909
Bills	885	22	813	22
Total	<u>157,669</u>	<u>55,291</u>	<u>142,321</u>	<u>49,931</u>

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****40 Contingent liabilities and commitments (Continued)****40.3 Collateral accepted**

The Group and the Bank accept securities collateral and precious metals collateral that are permitted to sell or re-pledge in connection with their placements and reverse repurchase agreements with banks and other financial institutions. As at 31 December 2012, the fair value of collateral received from banks and other financial institutions accepted by the Group and the Bank amounted to RMB9,831 million and RMB9,821 million respectively (31 December 2011: RMB11,297 million received by the Group and the Bank both). As at 31 December 2012, the Group had sold or re-pledged such collateral accepted amounted to RMB10 million, none for the Bank (31 December 2011: none for both the Group and the Bank). These transactions are conducted under standard terms in the normal course of business.

**40.4 Capital commitments**

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Property and equipment				
Contracted but not provided for	70,044	55,437	5,061	5,426
Authorised but not contracted for	8,124	6,997	7,973	6,956
Intangible assets				
Contracted but not provided for	650	351	595	258
Authorised but not contracted for	1	52	–	46
Total	<u>78,819</u>	<u>62,837</u>	<u>13,629</u>	<u>12,686</u>

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****40 Contingent liabilities and commitments (Continued)****40.5 Operating leases***(1) Operating lease commitments — As lessee*

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

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Within 1 year	8,003	4,420	7,214	3,725
Between 1 to 2 years	4,115	3,615	3,577	3,112
Between 2 to 3 years	3,363	2,887	3,001	2,611
Over 3 years	8,698	6,985	7,860	6,441
Total	<u>24,179</u>	<u>17,907</u>	<u>21,652</u>	<u>15,889</u>

*(2) Operating lease commitments — As lessor*

The Group acts as lessor in operating leases principally through aircraft leasing undertaken by its subsidiary BOC Aviation Pte. Ltd. Under irrevocable operating lease contracts, as at 31 December 2012, the minimum lease payments which will be received by the Group under the operating leases for existing aircraft and aircraft yet to be delivered amounted to RMB5,228 million not later than one year (31 December 2011: RMB4,174 million), RMB23,390 million later than one year and not later than five years (31 December 2011: RMB18,859 million) and RMB24,886 million later than five years (31 December 2011: RMB20,530 million).



**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****40 Contingent liabilities and commitments (Continued)****40.6 Treasury bonds redemption commitments**

The Bank is entrusted by the MOF to underwrite certain Treasury bonds. The investors of these Treasury bonds have a right to redeem the bonds at any time prior to maturity and the Bank is committed to redeem these Treasury bonds. The MOF will not provide funding for the early redemption of these Treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 31 December 2012, the outstanding principal value of the Treasury bonds sold by the Bank amounted to RMB35,050 million (31 December 2011: RMB45,113 million). The original maturities of these Treasury bonds vary from 3 to 5 years and management expects the amount of redemption before the maturity dates of these bonds through the Bank will not be material.

**40.7 Credit commitments**

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Loan commitments <sup>(1)</sup>				
with an original maturity of				
under 1 year	79,689	63,670	60,325	51,595
with an original maturity of				
1 year or over	645,725	686,745	588,111	639,632
Letters of guarantee issued <sup>(2)</sup>	791,156	727,891	802,214	742,462
Bank bill acceptance	396,460	402,524	391,008	398,668
Accepted bills of exchange				
under letters of credit	203,106	172,229	195,465	162,248
Letters of credit issued	176,337	191,250	148,573	161,100
Other	25,032	67,563	27,629	68,825
Total <sup>(3)</sup>	<u>2,317,505</u>	<u>2,311,872</u>	<u>2,213,325</u>	<u>2,224,530</u>

(1) Loan commitments mainly represent undrawn loan facilities agreed and granted to customers.

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 40 Contingent liabilities and commitments (Continued)

##### 40.7 Credit commitments (Continued)

- (2) Letters of guarantee issued include financial guarantees and performance guarantees. These obligations on the Group to make payment are dependent on the outcome of a future event.
- (3) Credit risk weighted amounts of credit commitments

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Credit commitments	<u>754,824</u>	<u>734,041</u>	<u>735,117</u>	<u>720,430</u>

The credit risk weighted amounts are the amounts calculated in accordance with the guidelines issued by the CBRC and are dependent on, among other factors, the creditworthiness of the counterparties and the maturity characteristics. The risk weights used range from 0% to 100% for commitments.

##### 40.8 Underwriting obligations

As at 31 December 2012, the underwriting obligations of securities of the Group and the Bank amounted to RMB157,921 million (31 December 2011: RMB85,149 million).

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****41 Note to the consolidated statement of cash flows**

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

<b>Group</b>	<b>As at 31 December</b>	
	<b>2012</b>	<b>2011</b>
Cash and due from banks and other financial institutions	353,687	234,385
Balances with central banks	446,763	439,962
Placements with and loans to banks and other financial institutions	216,383	276,384
Short term bills and notes	55,450	66,637
Total	<u>1,072,283</u>	<u>1,017,368</u>

**42 Related party transactions**

**42.1** CIC was established on 29 September 2007 with a registered capital of RMB1,550 billion. CIC is a wholly State-owned company engaging in foreign currency investment management. The Group is subject to the control of the State Council of the PRC Government through CIC and its wholly owned subsidiary Huijin.

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

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 42 Related party transactions (Continued)

##### 42.2 Transactions with the Huijin and companies under Huijin

###### (1) General information of Huijin

Central Huijin Investment Ltd.

Legal representative	LOU Jiwei
Registered Capital	RMB828,209 million
Location of registration	Beijing
Capital shares in the Bank	67.72%
Voting rights in the Bank	67.72%
Nature	Wholly State-owned company
Principal activities	Investment in major State-owned financial institutions on behalf of the State
National organisation code	71093296-1

###### (2) Transactions with Huijin

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

Due to Huijin	Year ended 31 December	
	2012	2011
As at 1 January	15,933	21,026
Received during the year	55,023	57,859
Repaid during the year	(42,920)	(62,952)
As at 31 December	<u>28,036</u>	<u>15,933</u>

#### Bonds issued by Huijin

As at 31 December 2012, the Bank held “government backed bonds held to maturity” issued by Huijin in the carrying value of RMB5,749 million (31 December 2011 RMB5,708 million). These bonds have maturity of not more than 30 years and bear fixed interest rates, payable annually. Purchasing of these bonds was in the ordinary course of business of the Group, complying with requirements of related regulations and corporate governance.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 42 Related party transactions (Continued)

## 42.2 Transactions with the Huijin and companies under Huijin (Continued)

## (3) Transactions with companies under Huijin

Companies under Huijin include its equity interests in subsidiaries, joint ventures and associates in certain other bank and non-bank entities in the PRC. The Group enters into banking transactions with these companies in the normal course of business at commercial terms which include mainly purchase and sale of debt securities, money market transactions and derivative transactions.

The Group's outstanding balances and related interest rate ranges with these companies as at 31 December 2012 and 2011 were as follows:

	As at 31 December	
	2012	2011
Due from banks and other financial institutions	108,139	38,868
Placements with and loans to banks and other financial institutions	99,286	73,282
Financial assets at fair value through profit or loss and Investment securities	216,367	193,767
Derivative financial assets	996	443
Loans and advances to customer	1,649	2,577
Due to banks and other financial institutions	(244,237)	(156,135)
Placements from banks and other financial institutions	(50,595)	(33,247)
Derivative financial liabilities	(722)	(956)
Credit commitments	549	3,702
	<u>          </u>	<u>          </u>
	As at 31 December	
	2012	2011
Interest rate ranges at the end of the year		
Due from banks and other financial institutions	0.00%–6.16%	0.00%–6.73%
Placements with and loans to banks and other financial institutions	0.02%–7.40%	0.19%–10.50%
Financial assets at fair value through profit or loss and Investment securities	0.79%–6.38%	0.58%–6.38%
Loans and advances to customer	4.90%–6.70%	5.76%–11.00%
Due to banks and other financial institutions	0.00%–5.90%	0.00%–6.20%
Placements from banks and other financial institutions	0.12%–6.40%	0.10%–5.50%
	<u>          </u>	<u>          </u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 42 Related party transactions (Continued)

**42.3 Transactions with government authorities, agencies, affiliates and other State controlled entities**

The State Council of the PRC Government directly and indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other State controlled entities. The Group enters into extensive banking transactions with these entities in the normal course of business at commercial terms.

Transactions conducted with government authorities, agencies, affiliates and other State controlled entities include purchase and redemption of investment securities issued by government agencies, underwriting and distribution of Treasury bonds issued by government agencies through the Group's branch network, foreign exchange transactions and derivative transactions, lending, provision of credit and guarantees and deposit placing and taking.

**42.4 Transactions with associates and joint ventures**

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

	As at 31 December	
	2012	2011
Loans and advances to customers	711	1,594
Due to customers, banks and other financial institutions	(3,384)	(4,475)
Credit commitments	1,414	2,803

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 42 Related party transactions (Continued)

##### 42.4 Transactions with associates and joint ventures (Continued)

The general information of principal associates and joint ventures is as follows:

Name	Place of incorporation/ establishment	National organisation code	Effective equity held (%)	Voting right (%)	Paid-in capital (in millions)	Principal business
Huaneng International Power Development Corporation	PRC	60000324-8	20.00	20.00	USD450	Power plant operations
BOC International (China) Limited	PRC	73665036-4	49.00	49.00	RMB1,500	Securities underwriting, investment advisory, and brokerage services
Hong Kong Bora Holdings Limited	Hong Kong	NA	19.50	Note (1)	HKD0.01	Investment holding
CGN Phase I Private Equity Fund Company limited	PRC	71782747-8	20.00	20.00	RMB100	Investment
Guangdong Small and Medium Enterprises Equity Investment Fund Company Limited	PRC	56456896-1	40.00	40.00	RMB1,600	Investment
Farun Glass Industry Company Limited	PRC	74942101-8	11.30	Note (1)	RMB458	Special glass production, sales and agency business
Hubei Zhongqi Investment and Guarantee Company Limited	PRC	77076550-1	33.76	33.76	RMB936	Loan guarantees, Financial guarantees
JCC Financial Company Limited	PRC	79478975-1	12.65	Note (1)	RMB300	Provide financial services for all subsidiaries of JCC Corporation
Guangdong Haomei Aluminum Company Limited	PRC	76573427-6	12.35	Note (1)	USD13	Aluminum material production, manufacture and sales
Silver Union Investments Limited	Cayman	NA	70.00	70.00	USD30	Investment holding

(1) In accordance with the respective articles of association, the Group has significant influence over these companies.

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 42 Related party transactions (Continued)

##### 42.5 Transactions with the Annuity Plan

Apart from the obligations for defined contributions to Annuity Fund and normal banking transactions, no other transactions were conducted between the Group and the Annuity Fund for the years ended 31 December 2012 and 2011.

##### 42.6 Transactions with key management personnel

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

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

The key management compensation for the years ended 31 December 2012 and 2011 comprises:

	Year ended 31 December	
	2012	2011
Compensation for short-term employment benefits <sup>(1)</sup>	17	29
Compensation for post-employment benefits	1	1
Total	18	30

- (1) The total compensation package for these key management personnel for the year ended 31 December 2012 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's and the Bank's 2012 financial statements. The final compensation will be disclosed in a separate announcement when determined.



**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****42 Related party transactions (Continued)****42.7 Balances with subsidiaries**

Included in the following captions of the Bank's statement of financial position are balances with subsidiaries:

	<b>As at 31 December</b>	
	<b>2012</b>	<b>2011</b>
Due from banks and other financial institutions	22,035	26,610
Placements with and loans to banks and other financial institutions <sup>(1)</sup>	52,891	38,684
Due to banks and other financial institutions	(43,270)	(33,261)
Placements from banks and other financial institutions	<u>(24,679)</u>	<u>(54,105)</u>

- (1) Includes subordinated loans to Bank of China (Hong Kong) Limited of RMB5,490 million as at 31 December 2012 (31 December 2011: RMB5,387 million) which were provided in the normal course of business at commercial terms. The claim to such subordinated loans by the Bank is subordinated to other liabilities, and prior to equity of the subsidiary.

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 42 Related party transactions (Continued)

##### 42.7 Balances with subsidiaries (Continued)

The general information of principal subsidiaries is as follows:

Name	Place of incorporation and operation	Date of incorporation/ establishment	Paid-in capital (in millions)	Effective equity held (%)	Voting right (%)	Principal business
<b>Directly held</b>						
BOC Hong Kong (Group) Limited	Hong Kong	12 September 2001	HKD34,806	100.00	100.00	Holding company
BOC International Holdings Limited <sup>(4)</sup>	Hong Kong	10 July 1998	HKD3,539	100.00	100.00	Investment banking
Bank of China Group Insurance Company Limited	Hong Kong	23 July 1992	HKD3,749	100.00	100.00	Insurance services
Bank of China Group Investment Limited	Hong Kong	18 May 1993	HKD34,052	100.00	100.00	Investment holding
Tai Fung Bank Limited	Macau	1942	MOP 1,000	50.31	50.31	Commercial banking
Bank of China (UK) Limited	United Kingdom	24 September 2007	GBP 250	100.00	100.00	Commercial banking
BOC Insurance Company Limited	Beijing	5 January 2005	RMB3,035	100.00	100.00	Insurance services
<b>Indirectly held</b>						
BOC Hong Kong (Holdings) Limited <sup>(2)</sup>	Hong Kong	12 September 2001	HKD52,864	66.06	66.06	Holding company
Bank of China (Hong Kong) Limited <sup>(3) (4)</sup>	Hong Kong	16 October 1964	HKD43,043	66.06	100.00	Commercial banking
Nanyang Commercial Bank, Limited <sup>(4)</sup>	Hong Kong	2 February 1948	HKD700	66.06	100.00	Commercial banking
Chiyu Banking Corporation Limited <sup>(3) (4)</sup>	Hong Kong	24 April 1947	HKD300	46.57	70.49	Commercial banking
BOC Credit Card (International) Limited	Hong Kong	9 September 1980	HKD480	66.06	100.00	Credit card services
BOC Group Trustee Company Limited <sup>(4)</sup>	Hong Kong	1 December 1997	HKD200	76.43	100.00	Provision of trustee services
BOC Aviation Pte. Ltd.	Singapore	25 November 1993	USD608	100.00	100.00	Aircraft leasing

# **BANK OF CHINA LIMITED**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

### **V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **42 Related party transactions (Continued)**

##### **42.7 Balances with subsidiaries (Continued)**

- (2) BOC Hong Kong (Holdings) Limited is listed on the Stock Exchanges of Hong Kong Limited.
- (3) Bank of China (Hong Kong) Limited, in which the Group holds a 66.06% equity interest, holds 70.49% of the equity interest of Chiyu Banking Corporation Limited.
- (4) Bank of China (Hong Kong) Limited, Nanyang Commercial Bank, Limited, Chiyu Banking Corporation Limited and BOC International Holdings Limited, in which the Group holds 66.06%, 66.06%, 46.57% and 100% of their equity interests, respectively, hold 54%, 6%, 6% and 34% equity interest of BOC Group Trustee Company Limited, respectively.

For the year ended 31 December 2012, the financial statements of the principal subsidiaries stated above were audited by the firms within the worldwide network of PricewaterhouseCoopers firms.

For certain subsidiaries listed above, the voting rights ratio is not equal to the effective equity held ratio, mainly due to the impact of the indirect holdings.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**43 Segment reporting**

The Group manages the business from both a geographic and business perspective. From the geographic perspective, the Group operates in three principal regions: Chinese mainland, Hong Kong, Macau and Taiwan, and other countries and regions. From the business perspective, the Group provides services through six main business segments: corporate banking, personal banking, treasury operations, investment banking, insurance and other operations.

Measurement of segment assets, liabilities, income, expenses, results and capital expenditure is based on the Group's accounting policies. The segment information presented includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Funding is provided to and from individual business segments through treasury operations as part of the asset and liability management process. The pricing of these transactions is based on market rates. The transfer price takes into account the specific features and maturities of the product. Internal transactions are eliminated on consolidation.

**Geographical segments**

Chinese mainland — Corporate banking, personal banking, treasury operations and insurance services are performed in the Chinese mainland.

Hong Kong, Macau and Taiwan — Corporate banking, personal banking, treasury operations, investment banking and insurance services are performed in Hong Kong, Macau and Taiwan. The business of this segment is centralised in BOC Hong Kong (Group) Limited.

Other countries and regions — Corporate and personal banking services are provided in other countries and regions. Significant locations include New York, London, Singapore and Tokyo.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**43 Segment reporting (Continued)**

**Business segments**

Corporate banking — Services to corporate customers, government authorities and financial institutions including current accounts, deposits, overdrafts, loans, trade related products and other credit facilities, foreign currency, derivative products and wealth management products.

Personal banking — Services to retail customers including savings deposits, personal loans, credit cards and debit cards, payments and settlements, wealth management products and funds and insurance agency services.

Treasury operations — Consisting of foreign exchange transactions, customer-based interest rate and foreign exchange derivative transactions, money market transactions, proprietary trading and asset and liability management. The results of this segment include the inter-segment funding income and expenses, results from interest bearing assets and liabilities; and foreign currency translation gains and losses.

Investment banking — Consisting of debt and equity underwriting and financial advisory, sales and trading of securities, stock brokerage, investment research and asset management services, and private equity investment services.

Insurance — Underwriting of general and life insurance business and insurance agency services.

Other operations of the Group comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment.

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 43 Segment reporting (Continued)

The Group as at and for the year ended 31 December 2012	Hong Kong, Macau and Taiwan					Other countries and regions	Elimination	Total
	Chinese mainland	BOC Hong Kong Group	Other	Subtotal				
Interest income	458,412	29,648	9,869	39,517	18,952	(10,353)		506,528
Interest expense	(233,790)	(9,213)	(7,280)	(16,493)	(9,634)	10,353		(249,564)
<b>Net interest income</b>	<b>224,622</b>	<b>20,435</b>	<b>2,589</b>	<b>23,024</b>	<b>9,318</b>	<b>-</b>		<b>256,964</b>
Fee and commission income	60,287	8,705	3,921	12,626	3,965	(1,680)		75,198
Fee and commission expense	(1,715)	(2,606)	(761)	(3,367)	(1,222)	1,029		(5,275)
<b>Net fee and commission income</b>	<b>58,572</b>	<b>6,099</b>	<b>3,160</b>	<b>9,259</b>	<b>2,743</b>	<b>(651)</b>		<b>69,923</b>
Net trading gains	5,135	2,761	718	3,479	(163)	-		8,451
Net gains on investment securities	1,467	611	193	804	17	-		2,288
Other operating income <sup>(1)</sup>	13,950	6,726	7,641	14,367	287	(54)		28,550
<b>Operating income</b>	<b>303,746</b>	<b>36,632</b>	<b>14,301</b>	<b>50,933</b>	<b>12,202</b>	<b>(705)</b>		<b>366,176</b>
Operating expenses <sup>(1)</sup>	(133,853)	(15,817)	(7,573)	(23,390)	(3,484)	705		(160,022)
Impairment losses on assets	(17,396)	(699)	(761)	(1,460)	(531)	-		(19,387)
<b>Operating profit</b>	<b>152,497</b>	<b>20,116</b>	<b>5,967</b>	<b>26,083</b>	<b>8,187</b>	<b>-</b>		<b>186,767</b>
Share of results of associates and joint ventures	-	2	611	613	-	-		613
<b>Profit before income tax</b>	<b>152,497</b>	<b>20,118</b>	<b>6,578</b>	<b>26,696</b>	<b>8,187</b>	<b>-</b>		<b>187,380</b>
Income tax expense								(41,858)
<b>Profit for the year</b>								<b>145,522</b>
Segment assets	10,196,577	1,453,681	582,307	2,035,988	1,087,203	(651,535)		12,668,233
Investment in associates and joint ventures	-	49	12,333	12,382	-	-		12,382
Total assets	<b>10,196,577</b>	<b>1,453,730</b>	<b>594,640</b>	<b>2,048,370</b>	<b>1,087,203</b>	<b>(651,535)</b>		<b>12,680,615</b>
Include: non-current assets <sup>(2)</sup>	93,313	21,210	68,087	89,297	5,316	(161)		187,765
Segment liabilities	9,531,288	1,353,345	529,274	1,882,619	1,056,540	(651,374)		11,819,073
Other segment items:								
Intersegment net interest income/(expense)	(2,655)	1,571	1,673	3,244	(589)	-		-
Intersegment net fee and commission income/(expense)	249	132	696	828	(426)	(651)		-
Capital expenditure	17,843	848	8,877	9,725	410	-		27,978
Depreciation and amortisation	10,880	759	2,213	2,972	223	-		14,075
Credit commitments	2,216,766	113,970	95,454	209,424	178,453	(287,138)		2,317,505

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 43 Segment reporting (Continued)

The Group as at and for the year ended 31 December 2011	Hong Kong, Macau and Taiwan				Other countries and regions	Elimination	Total
	Chinese mainland	BOC Hong Kong Group	Other	Subtotal			
Interest income	373,107	27,218	6,156	33,374	12,308	(5,687)	413,102
Interest expense	(172,086)	(8,683)	(3,673)	(12,356)	(6,283)	5,687	(185,038)
<b>Net interest income</b>	201,021	18,535	2,483	21,018	6,025	–	228,064
Fee and commission income	55,322	9,015	3,977	12,992	3,296	(1,592)	70,018
Fee and commission expense	(1,690)	(2,504)	(1,321)	(3,825)	(900)	1,059	(5,356)
<b>Net fee and commission income</b>	53,632	6,511	2,656	9,167	2,396	(533)	64,662
Net trading gains	6,346	668	476	1,144	359	9	7,858
Net gains on investment securities	992	372	2,104	2,476	(26)	–	3,442
Other operating income <sup>(1)</sup>	8,293	6,503	10,318	16,821	210	(1,052)	24,272
<b>Operating income</b>	270,284	32,589	18,037	50,626	8,964	(1,576)	328,298
Operating expenses <sup>(1)</sup>	(118,751)	(11,815)	(8,288)	(20,103)	(2,807)	846	(140,815)
Impairment (losses)/reversal on assets	(18,112)	(419)	(1,333)	(1,752)	509	–	(19,355)
<b>Operating profit</b>	133,421	20,355	8,416	28,771	6,666	(730)	168,128
Share of results of associates and joint ventures	–	4	512	516	–	–	516
<b>Profit before income tax</b>	133,421	20,359	8,928	29,287	6,666	(730)	168,644
Income tax expense	–	–	–	–	–	–	(38,142)
<b>Profit for the year</b>	133,421	20,359	8,928	29,287	6,666	(730)	130,502
Segment assets	9,612,716	1,387,651	467,926	1,855,577	904,756	(556,553)	11,816,496
Investment in associates and joint ventures	–	49	13,244	13,293	–	–	13,293
Total assets	9,612,716	1,387,700	481,170	1,868,870	904,756	(556,553)	11,829,789
Include: non-current assets <sup>(2)</sup>	85,936	20,660	62,016	82,676	5,027	(161)	173,478
Segment liabilities	9,025,576	1,297,822	421,427	1,719,249	884,219	(556,392)	11,072,652
Other segment items:							
Intersegment net interest income/(expense)	(519)	1,025	588	1,613	(1,094)	–	–
Intersegment net fee and commission income/(expense)	279	111	324	435	(181)	(533)	–
Capital expenditure	19,702	749	11,228	11,977	244	–	31,923
Depreciation and amortisation	9,313	746	1,993	2,739	205	–	12,257
Credit commitments	2,234,227	100,569	55,247	155,816	164,247	(242,418)	2,311,872

(1) “Other operating income” includes insurance premium income earned, and “Operating expenses” include insurance benefits and claims.

(2) Non-current assets include property and equipment, investment properties and other long-term assets.

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 43 Segment reporting (Continued)

The Group as at and for the year ended 31 December 2012	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	304,357	152,450	104,327	1,033	1,709	833	(58,181)	506,528
Interest expense	(158,472)	(77,344)	(69,527)	(425)	–	(1,977)	58,181	(249,564)
<b>Net interest income/(expense)</b>	<u>145,885</u>	<u>75,106</u>	<u>34,800</u>	<u>608</u>	<u>1,709</u>	<u>(1,144)</u>	<u>–</u>	<u>256,964</u>
Fee and commission income	42,110	23,631	7,894	2,327	1	413	(1,178)	75,198
Fee and commission expense	(2,264)	(1,650)	(426)	(530)	(1,386)	(27)	1,008	(5,275)
<b>Net fee and commission income</b>	<u>39,846</u>	<u>21,981</u>	<u>7,468</u>	<u>1,797</u>	<u>(1,385)</u>	<u>386</u>	<u>(170)</u>	<u>69,923</u>
Net trading gains	355	458	5,580	447	853	751	7	8,451
Net gains on investment securities	20	4	1,986	–	109	169	–	2,288
Other operating income	615	9,801	736	43	9,612	9,064	(1,321)	28,550
<b>Operating income</b>	<u>186,721</u>	<u>107,350</u>	<u>50,570</u>	<u>2,895</u>	<u>10,898</u>	<u>9,226</u>	<u>(1,484)</u>	<u>366,176</u>
Operating expenses	(67,689)	(63,234)	(13,865)	(1,952)	(10,051)	(4,715)	1,484	(160,022)
Impairment (losses)/reversal on assets	(14,560)	(4,772)	438	–	(14)	(479)	–	(19,387)
<b>Operating profit</b>	<u>104,472</u>	<u>39,344</u>	<u>37,143</u>	<u>943</u>	<u>833</u>	<u>4,032</u>	<u>–</u>	<u>186,767</u>
Share of results of associates and joint ventures	–	–	–	214	(3)	409	(7)	613
<b>Profit before income tax</b>	<u>104,472</u>	<u>39,344</u>	<u>37,143</u>	<u>1,157</u>	<u>830</u>	<u>4,441</u>	<u>(7)</u>	<u>187,380</u>
Income tax expense	–	–	–	–	–	–	–	(41,858)
<b>Profit for the year</b>	<u>104,472</u>	<u>39,344</u>	<u>37,143</u>	<u>1,157</u>	<u>830</u>	<u>4,441</u>	<u>(7)</u>	<u>145,522</u>
Segment assets	5,589,896	2,009,137	4,831,145	53,797	65,409	232,835	(113,986)	12,668,233
Investment in associates and joint ventures	–	–	–	2,561	–	9,876	(55)	12,382
Total assets	<u>5,589,896</u>	<u>2,009,137</u>	<u>4,831,145</u>	<u>56,358</u>	<u>65,409</u>	<u>242,711</u>	<u>(114,041)</u>	<u>12,680,615</u>
Segment liabilities	6,214,916	4,117,118	1,341,361	48,545	57,680	153,279	(113,826)	11,819,073
Other segment items:	(29,020)	56,751	(26,929)	104	107	(1,013)	–	–
Intersegment net interest income/(expense)	–	104	–	–	(993)	1,059	(170)	–
Intersegment net fee and commission income/(expense)	5,377	5,939	284	41	64	16,273	–	27,978
Capital expenditure	4,867	5,865	969	94	40	2,240	–	14,075
Depreciation and amortisation	–	–	–	–	–	–	–	–



# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 43 Segment reporting (Continued)

The Group as at and for the year ended 31 December 2011	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	246,940	127,627	89,811	1,032	1,620	502	(54,430)	413,102
Interest expense	(105,109)	(58,674)	(73,861)	(295)	–	(1,529)	54,430	(185,038)
<b>Net interest income/(expense)</b>	<u>141,831</u>	<u>68,953</u>	<u>15,950</u>	<u>737</u>	<u>1,620</u>	<u>(1,027)</u>	<u>–</u>	<u>228,064</u>
Fee and commission income	39,980	21,386	6,170	2,527	563	402	(1,010)	70,018
Fee and commission expense	(2,022)	(1,694)	(492)	(618)	(1,305)	(103)	878	(5,356)
<b>Net fee and commission income</b>	<u>37,958</u>	<u>19,692</u>	<u>5,678</u>	<u>1,909</u>	<u>(742)</u>	<u>299</u>	<u>(132)</u>	<u>64,662</u>
Net trading gains	468	513	6,690	(178)	31	326	8	7,858
Net gains on investment securities	(13)	(3)	1,342	–	(6)	2,122	–	3,442
Other operating income	278	7,188	297	70	8,856	9,341	(1,758)	24,272
<b>Operating income</b>	<u>180,522</u>	<u>96,343</u>	<u>29,957</u>	<u>2,538</u>	<u>9,759</u>	<u>11,061</u>	<u>(1,882)</u>	<u>328,298</u>
Operating expenses	(62,582)	(55,764)	(11,551)	(1,152)	(8,598)	(2,320)	1,152	(140,815)
Impairment (losses)/reversal on assets	(16,053)	(3,056)	760	–	(144)	(862)	–	(19,355)
<b>Operating profit</b>	<u>101,887</u>	<u>37,523</u>	<u>19,166</u>	<u>1,386</u>	<u>1,017</u>	<u>7,879</u>	<u>(730)</u>	<u>168,128</u>
Share of results of associates and joint ventures	–	–	–	271	–	250	(5)	516
<b>Profit before income tax</b>	<u>101,887</u>	<u>37,523</u>	<u>19,166</u>	<u>1,657</u>	<u>1,017</u>	<u>8,129</u>	<u>(735)</u>	<u>168,644</u>
Income tax expense	–	–	–	–	–	–	–	(38,142)
<b>Profit for the year</b>	<u>101,887</u>	<u>37,523</u>	<u>19,166</u>	<u>1,657</u>	<u>1,017</u>	<u>8,129</u>	<u>(735)</u>	<u>130,502</u>
Segment assets	5,330,401	1,753,022	4,512,493	43,619	57,117	208,769	(88,925)	11,816,496
Investment in associates and joint ventures	–	–	–	2,403	–	10,938	(48)	13,293
Total assets	<u>5,330,401</u>	<u>1,753,022</u>	<u>4,512,493</u>	<u>46,022</u>	<u>57,117</u>	<u>219,707</u>	<u>(88,973)</u>	<u>11,829,789</u>
Segment liabilities	5,703,156	3,730,827	1,506,248	39,103	50,804	131,276	(88,762)	11,072,652
Other segment items:	(9,709)	53,342	(42,950)	26	77	(786)	–	–
Intersegment net interest income/(expense)	–	91	–	–	(833)	874	(132)	–
Intersegment net fee and commission income/(expense)	5,662	6,257	300	75	760	18,869	–	31,923
Capital expenditure	4,281	4,996	832	96	43	2,009	–	12,257
Depreciation and amortisation	–	–	–	–	–	–	–	–

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT**

**1 Overview**

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group's depositors and other stakeholders for the Group's prudent and stable development.

The Group has designed a series of risk management policies and has set up controls to analyse, identify, monitor and report risks by means of relevant and up-to-date information systems. The Group regularly reviews and revises its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The most significant types of risks to the Group are credit risk, market risk and liquidity risk. Market risk includes interest rate risk, currency risk and other price risk.

**2 Financial risk management framework**

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving the risk management objectives and strategies.

Within this framework, the Group's senior management has overall responsibility for managing all aspects of risks, including implementing risk management strategies, initiatives and credit policies and approving internal policies, measures and procedures related to risk management. The Risk Management Unit, the Financial Management Department and other relevant functional units are responsible for monitoring financial risks.

The Group manages the risks at the branch level through direct reporting from the branches to the relevant departments responsible for risk management at the Head Office. Business line related risks are monitored through establishing specific risk management teams within the business departments. The Group monitors and controls risk management at subsidiaries by appointing members of their boards of directors and risk management committees as appropriate.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**3 Credit risk**

The Group takes on exposure to credit risk, which is the risk that a customer or counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is one of the most significant risks for the Group's business.

Credit risk exposures arise principally in lending activities and debt securities investment activities. There is also credit risk in off-balance sheet financial instruments, such as derivatives, loan commitments, letters of guarantee, bill acceptance and letters of credit.

**3.1 Credit risk measurement**

*(1) Loans and advances and off-balance sheet commitments*

Monitoring and measurement of credit risk over loans and advances and off-balance sheet credit related exposures are performed by the Risk Management Unit, and reported to the senior management and the Board of Directors regularly.

In measuring the credit risk of loans and advances to corporate customers, the Group mainly reflects the "probability of default" by the customer on its contractual obligations and considers the current financial position of the customer and the exposures to the customer and its likely future development. For retail customers, the Group uses standard approval procedures to manage credit risk for personal loans, and uses credit score-card models, which are based on historical default data to measure credit risk for credit cards.

For credit risk arising from off-balance sheet commitments, the Group manages the risks according to the characteristics of the products. These mainly include loan commitments, guarantees, bill acceptances and letters of credit. Loan commitments, guarantees, bill acceptances and standby letters of credit carry similar credit risk to loans and the Group takes a similar approach on risk management. Documentary and commercial letters of credit are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions and are collateralised by the underlying shipment documents of goods to which they relate or deposits and are therefore assessed to have less credit risk than a direct loan. Besides, the Group monitors the term to maturity of off-balance sheet commitments and those with longer-terms are assessed to have greater credit risk than shorter-term commitments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**3 Credit risk (Continued)**

**3.1 Credit risk measurement (Continued)**

*(1) Loans and advances and off-balance sheet commitments (Continued)*

The Group measures and manages the credit quality of loans and advances to corporate and personal customers based on the “Guideline for Loan Credit Risk Classification” (the “Guideline”) issued by the CBRC, which requires commercial banks to classify their corporate and personal loans into five categories: pass, special-mention, substandard, doubtful and loss, among which loans classified in the substandard, doubtful and loss categories are regarded as non-performing loans. Off-balance sheet commitments with credit exposures are also assessed and categorised with reference to the Guideline. For operations in Hong Kong, Macau, Taiwan and other countries and regions, where local regulations and requirements are more prudent than the Guideline, the credit assets are classified according to local regulations and requirements.

The five categories are defined as follows:

Pass: loans for which borrowers can honour the terms of the contracts, and there is no reason to doubt their ability to repay principal and interest of loans in full and on a timely basis.

Special-mention: loans for which borrowers are still able to service the loans currently, although the repayment of loans might be adversely affected by some factors.

Substandard: loans for which borrowers’ ability to service loans is apparently in question and borrowers cannot depend on their normal business revenues to pay back the principal and interest of loans. Certain losses might be incurred by the Group even when guarantees are executed.

Doubtful: loans for which borrowers cannot pay back principal and interest of loans in full and significant losses will be incurred by the Group even when guarantees are executed.

Loss: principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and resorting to necessary legal procedures.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**3 Credit risk (Continued)**

**3.1 Credit risk measurement (Continued)**

*(1) Loans and advances and off-balance sheet commitments (Continued)*

The Group has developed an internal customer credit rating system, using measurements of the probability of default within one year based on regression analysis. These probability of default measurements are then mapped to internal credit ratings. The Group performs back testing to actual default rates and refines the model according to the results.

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into fifteen grades as AAA, AA, A, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B-, CCC, CC, C, and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Five-category loan classifications and customer credit ratings are determined by Head Office and tier-one branch management under approved delegated authorities. The Bank performs centralised review on customer credit ratings and five-category loan classifications on an annual basis. Further, five-category loan classifications are re-examined on a quarterly basis. Adjustments are made to these classifications and ratings as necessary according to customers' operational and financial position.

The Group identifies credit risk collectively based on industry, geography and customer type. This information is monitored regularly by management.

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry quotas and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position. The actions may include obtaining additional guarantors or collateral.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**3 Credit risk (Continued)**

**3.1 Credit risk measurement (Continued)**

*(2) Due from, placements with and loans to banks and other financial institutions*

The Group manages the credit quality of due from, placements with and loans to banks and other financial institutions considering the size, financial position and the internal and external credit rating of banks and financial institutions. In response to adverse credit market conditions, various initiatives were implemented since 2008 to better manage and report credit risk, including establishing a special committee which meets periodically and on an ad hoc basis to discuss actions in response to market changes impacting the Group's exposure to credit risk, and formulating a watch list process over counterparty names at risk.

*(3) Debt securities and derivatives*

Credit risk within debt securities arises from exposure to movements in credit spreads, default rates and loss given default, as well as changes in the credit of underlying assets.

The Group manages the credit risk within debt securities by monitoring the external credit rating, such as Standard & Poor's ratings or their equivalents, of the security, the internal credit rating of the issuers of debt securities, and the credit quality of underlying assets of securitization products, including review of default rates, prepayment rates, industry and sector performance, loss coverage ratios and counterparty risk, to identify exposure to credit risk.

The Group has policies to maintain strict control limits on net open derivative positions based on notional amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets for which fair value is positive). The derivative credit risk exposure is managed as part of the overall exposure lending limits set for customers and financial institutions. Collateral or other security is not usually obtained for credit risk exposures on these financial instruments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**3 Credit risk (Continued)**

**3.2 Credit risk limit control and mitigation policies**

The Group manages limits and controls concentrations of credit risk in particular, to individual customers and to industries.

*(1) Credit risk limits and controls*

*(i) Loans and advances and off-balance sheet commitments*

In order to manage the exposure to credit risk, the Group has adopted credit approval policies and procedures that are reviewed and updated by the Risk Management Unit at Head Office. The credit approval process for both corporate loans and personal loans can be broadly divided into three stages: (1) credit origination and assessment; (2) credit review and approval; and (3) fund disbursement and post-disbursement management.

Credit to corporate customers in the Chinese mainland are originated by the Corporate Banking Unit at Head Office and Corporate Banking Department at branch level and submitted to the Risk Management Unit for due diligence and approval. All credit applications for corporate customers must be approved by authorised credit application approvers at Head Office and tier-one branches level in Chinese mainland, except for credit applications that are identified as low risk, such as loans sufficiently secured by PRC treasury bonds, bills or pledged funds or loans supported by the credit of financial institutions that are within pre-approved credit limits. The exposure to any one borrower, including banks, is restricted by credit limits covering on and off-balance sheet exposures.

Personal loans in the Chinese mainland are originated by the Personal Banking Departments at branch level and must be approved by authorised approvers at tier-one branches level in Chinese mainland, except for individual pledged loans and government-sponsored student loans, which may be approved by authorised approvers at sub-branches below tier-one level. High risk personal loans such as personal loans for business purposes in excess of certain limits must also be reviewed by the Risk Management Department.

The Head Office also oversees the risk management of the branches in Hong Kong, Macau, Taiwan and other countries and regions. In particular, any credit application at these branches exceeding the authorisation limits is required to be submitted to the Head Office for approval.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**3 Credit risk (Continued)**

**3.2 Credit risk limit control and mitigation policies (Continued)**

*(1) Credit risk limits and controls (Continued)*

*(ii) Debt securities and derivatives*

The Group is also exposed to credit risk through investment activities and trading activities. Credit limits are established based on type of instruments and the credit quality of counterparties, securities issuers and securities and set limits are actively monitored.

*(2) Credit risk mitigation policies*

*(i) Collateral and guarantees*

The Group has a range of policies and practices intended to mitigate credit risk. The most prevalent of these is the taking of security for funds advances (collateral) and guarantees, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral. The amount of acceptable collateral at the time of loan origination is determined by the Risk Management Unit and is subject to loan-to-value ratio limits based on type and is monitored on an ongoing basis by the Risk Management Unit. The principal collateral types for corporate loans and advances are:

<b>Collateral</b>	<b>Maximum loan-to-value ratio</b>
Cash deposits with the Group	90%
PRC Treasury bonds	90%
PRC financial institution bonds	85%
Publicly traded stocks	50%
Property	70%
Land use rights	60%
Automobiles	40%

Mortgages to retail customers are generally collateralised by mortgages over residential properties. Other loans are collateralised dependant on the nature of the loan.

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



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**3 Credit risk (Continued)**

**3.2 Credit risk limit control and mitigation policies (Continued)**

*(2) Credit risk mitigation policies (Continued)*

*(i) Collateral and guarantees (Continued)*

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

Collateral is also held as part of reverse repurchase agreements. Under such agreements, the Group is permitted to sell or repledge collateral in the absence of default by the owner of the collateral. Details of collateral accepted and which the Group is obligated to return are disclosed in Note V.40.3.

*(ii) Master netting arrangements*

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

**3.3 Impairment and provisioning policies**

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**3 Credit risk (Continued)**

**3.3 Impairment and provisioning policies (Continued)**

*(1) Loans and advances*

Management determines whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group including consideration of:

- significant financial difficulty incurred by the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payment;
- for economic or legal reasons related to the borrower's financial difficulty, whether the Group has granted to the borrower a concession that it would not otherwise consider;
- probability that the borrower will become bankrupt or will undergo other financial re-organisation;
- deterioration in the value of collateral;
- deterioration in credit rating; or
- other observable data indicating that there is a measurable decrease in the estimated future cash flows from such loans and advances.

The Group's policy requires the review of individual financial assets that are above certain thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at financial reporting date on a case-by-case basis using discounted cash flow analysis. The assessment normally encompasses guarantees and collateral held and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been specifically identified, by using the available historical data, experience, professional judgement and statistical techniques.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**3 Credit risk (Continued)**

**3.3 Impairment and provisioning policies (Continued)**

*(2) Debt securities*

Debt securities are assessed for individual impairment using similar criteria as loans and advances. Management determines whether objective evidence of debt securities impairment exists under IAS 39 based on criteria set out by the Group including consideration of:

- a breach of contract or a trigger event, such as a default or delinquency in interest or principal payment;
- significant financial difficulty of issuers or underlying asset holders;
- probable that the issuer or underlying asset holders will become bankrupt or will undergo other financial re-organisation;
- deterioration in credit rating; or
- other observable data indicating that there is a measurable decrease in the estimated future cash flows from such debt securities.

Impairment allowances on individually assessed securities are determined by an evaluation of the incurred loss at financial reporting date on a case-by-case basis using available data, including default rates, loss given default and assessment of the quality of the underlying assets of securitization products, industry and sector performance, loss coverage ratios and counterparty risk.

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**3 Credit risk (Continued)**

**3.4 Maximum exposure to credit risk before collateral held or other credit enhancements**

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Credit risk exposures relating to on-balance sheet financial assets are as follows:				
Due from banks and other financial institutions	703,099	529,131	679,512	520,325
Balances with central banks	1,934,297	1,919,651	1,859,362	1,785,152
Placements with and loans to banks and other financial institutions	447,299	618,366	435,483	577,233
Government certificates of indebtedness for bank notes issued	70,554	56,108	3,314	2,691
Financial assets at fair value through profit or loss	69,339	68,887	29,654	31,887
Derivative financial assets	40,188	42,757	15,939	20,969
Loans and advances to customers, net	6,710,040	6,203,138	5,990,570	5,546,805
Investment securities				
— available for sale	656,150	525,382	305,107	269,728
— held to maturity	1,183,080	1,074,116	1,163,416	1,025,620
— loans and receivables	269,454	299,518	261,262	290,387
Other assets	104,236	84,101	72,812	61,190
Subtotal	12,187,736	11,421,155	10,816,431	10,131,987
Credit risk exposures relating to off-balance sheet items are as follows:				
Letters of guarantee issued	791,156	727,891	802,214	742,462
Loan commitments and other credit commitments	1,526,349	1,583,981	1,411,111	1,482,068
Subtotal	2,317,505	2,311,872	2,213,325	2,224,530
Total	14,505,241	13,733,027	13,029,756	12,356,517

# **BANK OF CHINA LIMITED**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

### **VI FINANCIAL RISK MANAGEMENT (Continued)**

#### **3 Credit risk (Continued)**

##### **3.4 *Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)***

The table above represents a worst case scenario of credit risk exposure of the Group and the Bank as at 31 December 2012 and 2011, without taking into account of any collateral held, master netting agreements or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the statements of financial position.

As at 31 December 2012, 46.26% of the Group's total maximum credit exposure is derived from loans and advances to customers (31 December 2011: 45.17%) and 14.97% represents investments in debt securities (31 December 2011: 14.29%).

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 Loans and advances***(1) Concentrations of risk for loans and advances to customers*

The total loans and advances of the Group and the Bank are set out below:

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

<b>Group</b>	<b>As at 31 December</b>			
	<b>2012</b>		<b>2011</b>	
	<b>Amount</b>	<b>% of total</b>	<b>Amount</b>	<b>% of total</b>
Chinese mainland	5,558,682	80.98%	5,209,694	82.14%
Hong Kong, Macau and Taiwan	828,844	12.07%	743,233	11.72%
Other countries and regions	477,170	6.95%	389,887	6.14%
Total loans and advances to customers	<u>6,864,696</u>	<u>100.00%</u>	<u>6,342,814</u>	<u>100.00%</u>

<b>Bank</b>	<b>As at 31 December</b>			
	<b>2012</b>		<b>2011</b>	
	<b>Amount</b>	<b>% of total</b>	<b>Amount</b>	<b>% of total</b>
Chinese mainland	5,554,797	90.45%	5,208,405	91.64%
Hong Kong, Macau and Taiwan	130,838	2.13%	101,142	1.78%
Other countries and regions	455,973	7.42%	373,910	6.58%
Total loans and advances to customers	<u>6,141,608</u>	<u>100.00%</u>	<u>5,683,457</u>	<u>100.00%</u>

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 Loans and advances (Continued)***(1) Concentrations of risk for loans and advances to customers (Continued)**(i) Analysis of loans and advances to customers by geographical area (Continued)*

Chinese mainland	As at 31 December			
	2012		2011	
	Amount	% of total	Amount	% of total
Northern China	872,120	15.69%	841,436	16.15%
Northeastern China	399,844	7.19%	374,612	7.19%
Eastern China	2,277,622	40.98%	2,137,377	41.03%
Central and Southern China	1,350,778	24.30%	1,251,136	24.02%
Western China	658,318	11.84%	605,133	11.61%
Total loans and advances to customers	<u>5,558,682</u>	<u>100.00%</u>	<u>5,209,694</u>	<u>100.00%</u>

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**3 Credit risk (Continued)**

**3.5 Loans and advances (Continued)**

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

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

Group	As at 31 December 2012				As at 31 December 2011			
	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total
Corporate loans								
— Trade bills	742,084	117,522	187,826	1,047,432	614,376	112,003	141,294	867,673
— Other	3,198,438	460,263	274,266	3,932,967	3,204,079	413,680	239,873	3,857,632
Personal loans	1,618,160	251,059	15,078	1,884,297	1,391,239	217,550	8,720	1,617,509
Total loans and advances to customers	<u>5,558,682</u>	<u>828,844</u>	<u>477,170</u>	<u>6,864,696</u>	<u>5,209,694</u>	<u>743,233</u>	<u>389,887</u>	<u>6,342,814</u>
Bank	As at 31 December 2012				As at 31 December 2011			
	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total
Corporate loans								
— Trade bills	742,084	26,205	184,587	952,876	614,376	18,133	139,258	771,767
— Other	3,197,118	67,497	263,613	3,528,228	3,203,747	54,610	232,260	3,490,617
Personal loans	1,615,595	37,136	7,773	1,660,504	1,390,282	28,399	2,392	1,421,073
Total loans and advances to customers	<u>5,554,797</u>	<u>130,838</u>	<u>455,973</u>	<u>6,141,608</u>	<u>5,208,405</u>	<u>101,142</u>	<u>373,910</u>	<u>5,683,457</u>



**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**3 Credit risk (Continued)**

**3.5 Loans and advances (Continued)**

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

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

**Group**

	<b>As at 31 December</b>			
	<b>2012</b>		<b>2011</b>	
	<b>Amount</b>	<b>% of total</b>	<b>Amount</b>	<b>% of total</b>
<b>Corporate loans and advances</b>				
Manufacturing	1,482,664	21.60%	1,379,197	21.75%
Commerce and services	1,007,853	14.68%	943,788	14.88%
Transportation and logistics	674,260	9.82%	618,591	9.75%
Real estate	554,618	8.08%	500,423	7.89%
Production and supply of electric power, gas and water	396,230	5.77%	427,311	6.74%
Mining	307,358	4.48%	280,441	4.42%
Water, environment and public utility management	215,711	3.14%	261,396	4.12%
Construction	114,449	1.67%	104,757	1.65%
Financial services	109,977	1.60%	76,366	1.20%
Public utilities	70,380	1.03%	77,759	1.23%
Other	46,899	0.68%	55,276	0.87%
Subtotal	4,980,399	72.55%	4,725,305	74.50%
<b>Personal loans</b>				
Mortgages	1,348,359	19.65%	1,213,322	19.13%
Credit cards	160,865	2.34%	97,659	1.54%
Other	375,073	5.46%	306,528	4.83%
Subtotal	1,884,297	27.45%	1,617,509	25.50%
Total loans and advances to customers	<u>6,864,696</u>	<u>100.00%</u>	<u>6,342,814</u>	<u>100.00%</u>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.5 Loans and advances (Continued)

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

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

#### Bank

	As at 31 December			
	2012		2011	
	Amount	% of total	Amount	% of total
<b>Corporate loans and advances</b>				
Manufacturing	1,413,401	23.01%	1,321,227	23.26%
Commerce and services	854,223	13.91%	791,363	13.92%
Transportation and logistics	618,463	10.07%	567,219	9.98%
Real estate	412,007	6.71%	376,495	6.62%
Production and supply of electric power, gas and water	372,551	6.07%	404,103	7.11%
Mining	290,299	4.73%	262,447	4.62%
Water, environment and public utility management	215,658	3.51%	261,377	4.60%
Construction	103,751	1.69%	98,562	1.73%
Financial services	97,907	1.59%	57,564	1.01%
Public utilities	69,487	1.13%	76,668	1.35%
Other	33,357	0.54%	45,359	0.80%
Subtotal	4,481,104	72.96%	4,262,384	75.00%
<b>Personal loans</b>				
Mortgages	1,167,766	19.01%	1,050,046	18.48%
Credit cards	151,510	2.47%	89,828	1.58%
Other	341,228	5.56%	281,199	4.94%
Subtotal	1,660,504	27.04%	1,421,073	25.00%
Total loans and advances to customers	6,141,608	100.00%	5,683,457	100.00%

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**3 Credit risk (Continued)**

**3.5 Loans and advances (Continued)**

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

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

**Chinese mainland**

	As at 31 December			
	2012		2011	
	Amount	% of total	Amount	% of total
<b>Corporate loans and advances</b>				
Manufacturing	1,293,806	23.28%	1,237,694	23.75%
Commerce and services	693,405	12.47%	645,276	12.39%
Transportation and logistics	590,014	10.61%	537,908	10.33%
Real estate	362,212	6.52%	333,434	6.40%
Production and supply of electric power, gas and water	372,558	6.70%	404,103	7.76%
Mining	188,847	3.40%	175,203	3.36%
Water, environment and public utility management	215,658	3.88%	261,377	5.02%
Construction	98,796	1.78%	93,317	1.79%
Financial services	47,441	0.85%	32,580	0.63%
Public utilities	64,696	1.16%	73,080	1.40%
Other	13,089	0.24%	24,483	0.47%
Subtotal	3,940,522	70.89%	3,818,455	73.30%
<b>Personal loans</b>				
Mortgages	1,132,027	20.36%	1,025,988	19.69%
Credit cards	151,006	2.72%	89,453	1.72%
Other	335,127	6.03%	275,798	5.29%
Subtotal	1,618,160	29.11%	1,391,239	26.70%
Total loans and advances to customers	5,558,682	100.00%	5,209,694	100.00%

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**3 Credit risk (Continued)**

**3.5 Loans and advances (Continued)**

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

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

Group	As at 31 December			
	2012		2011	
	Amount	% of total	Amount	% of total
Unsecured loans	2,020,733	29.44%	1,914,569	30.18%
Guaranteed loans	1,177,880	17.16%	1,133,818	17.88%
Collateralised and other secured loans				
— loans secured by property and other immovable assets	2,705,738	39.41%	2,471,936	38.97%
— other pledged loans	960,345	13.99%	822,491	12.97%
Total loans and advances to customers	<u>6,864,696</u>	<u>100.00%</u>	<u>6,342,814</u>	<u>100.00%</u>
Bank	As at 31 December			
	2012		2011	
	Amount	% of total	Amount	% of total
Unsecured loans	1,714,765	27.92%	1,639,664	28.85%
Guaranteed loans	1,143,459	18.62%	1,097,883	19.32%
Collateralised and other secured loans				
— loans secured by property and other immovable assets	2,460,095	40.05%	2,254,752	39.67%
— other pledged loans	823,289	13.41%	691,158	12.16%
Total loans and advances to customers	<u>6,141,608</u>	<u>100.00%</u>	<u>5,683,457</u>	<u>100.00%</u>

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 Loans and advances (Continued)**(1) *Concentrations of risk for loans and advances to customers (Continued)*

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

Chinese mainland	As at 31 December			
	2012		2011	
	Amount	% of total	Amount	% of total
Unsecured loans	1,487,652	26.76%	1,461,846	28.06%
Guaranteed loans	1,045,941	18.82%	973,326	18.68%
Collateralised and other secured loans				
— loans secured by property and other immovable assets	2,343,563	42.16%	2,156,711	41.40%
— other pledged loans	681,526	12.26%	617,811	11.86%
Total loans and advances to customers	<u>5,558,682</u>	<u>100.00%</u>	<u>5,209,694</u>	<u>100.00%</u>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.5 Loans and advances (Continued)

##### (2) Analysis of loans and advances to customers by overdue and impaired status

	As at 31 December					
	Group		Bank		Chinese mainland	
	2012	2011	2012	2011	2012	2011
<b>Corporate loans and advances</b>						
— Neither past due nor impaired	4,920,849	4,666,337	4,423,974	4,205,204	3,884,573	3,763,646
— Past due but not impaired	4,460	4,780	3,580	3,802	3,254	2,527
— Impaired	55,090	54,188	53,550	53,378	52,695	52,282
Subtotal	<u>4,980,399</u>	<u>4,725,305</u>	<u>4,481,104</u>	<u>4,262,384</u>	<u>3,940,522</u>	<u>3,818,455</u>
<b>Personal loans</b>						
— Neither past due nor impaired	1,852,483	1,586,417	1,631,631	1,392,215	1,590,375	1,363,248
— Past due but not impaired	21,449	21,974	18,591	19,811	17,636	19,114
— Impaired	10,365	9,118	10,282	9,047	10,149	8,877
Subtotal	<u>1,884,297</u>	<u>1,617,509</u>	<u>1,660,504</u>	<u>1,421,073</u>	<u>1,618,160</u>	<u>1,391,239</u>
Total	<u><u>6,864,696</u></u>	<u><u>6,342,814</u></u>	<u><u>6,141,608</u></u>	<u><u>5,683,457</u></u>	<u><u>5,558,682</u></u>	<u><u>5,209,694</u></u>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.5 Loans and advances (Continued)

##### (2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

##### (i) Loans and advances neither past due nor impaired

The Group classifies loans and advances based on regulatory guidance including the “Guiding Principles on Classification of Loan Risk Management” issued by the CBRC as set out in Note VI.3.1. The loans and advances neither past due nor impaired are classified under these principles and guidelines as set out in the table below.

Group	As at 31 December					
	2012			2011		
	Pass	Special- mention	Total	Pass	Special- mention	Total
Corporate loans and advances	4,737,465	183,384	4,920,849	4,498,389	167,948	4,666,337
Personal loans	1,851,489	994	1,852,483	1,585,048	1,369	1,586,417
Total	<u>6,588,954</u>	<u>184,378</u>	<u>6,773,332</u>	<u>6,083,437</u>	<u>169,317</u>	<u>6,252,754</u>

Bank	As at 31 December					
	2012			2011		
	Pass	Special- mention	Total	Pass	Special- mention	Total
Corporate loans and advances	4,246,163	177,811	4,423,974	4,041,999	163,205	4,205,204
Personal loans	1,631,033	598	1,631,631	1,391,119	1,096	1,392,215
Total	<u>5,877,196</u>	<u>178,409</u>	<u>6,055,605</u>	<u>5,433,118</u>	<u>164,301</u>	<u>5,597,419</u>

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 Loans and advances (Continued)****(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)****(i) Loans and advances neither past due nor impaired (Continued)**

Chinese mainland	As at 31 December					
	2012			2011		
	Pass	Special- mention	Total	Pass	Special- mention	Total
Corporate loans and advances	3,711,418	173,155	3,884,573	3,603,111	160,535	3,763,646
Personal loans	1,589,947	428	1,590,375	1,362,548	700	1,363,248
Total	<u>5,301,365</u>	<u>173,583</u>	<u>5,474,948</u>	<u>4,965,659</u>	<u>161,235</u>	<u>5,126,894</u>

Collectively assessed impairment allowances are provided on loans and advances neither past due nor impaired to estimate losses that have been incurred but not yet specifically identified. As part of this assessment, the Group considers information collected as part of the process to classify loans and advances under the CBRC regulatory guidelines, as well as additional information on industry and portfolio exposure.



**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 Loans and advances (Continued)****(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)****(ii) Loans and advances past due but not impaired**

The total amount of loans and advances to customers that were past due but not impaired is as follows:

<b>Group</b>	<b>As at 31 December 2012</b>			<b>Total</b>
	<b>Within 1 month</b>	<b>1–3 months</b>	<b>More than 3 months</b>	
Corporate loans and advances	3,413	878	169	4,460
Personal loans	14,332	7,071	46	21,449
<b>Total</b>	<b>17,745</b>	<b>7,949</b>	<b>215</b>	<b>25,909</b>

	<b>As at 31 December 2011</b>			<b>Total</b>
	<b>Within 1 month</b>	<b>1–3 months</b>	<b>More than 3 months</b>	
Corporate loans and advances	4,286	438	56	4,780
Personal loans	16,155	5,800	19	21,974
<b>Total</b>	<b>20,441</b>	<b>6,238</b>	<b>75</b>	<b>26,754</b>

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 Loans and advances (Continued)***(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)**(ii) Loans and advances past due but not impaired (Continued)*

<b>Bank</b>	<b>As at 31 December 2012</b>			
	<b>Within 1 month</b>	<b>1–3 months</b>	<b>More than 3 months</b>	<b>Total</b>
Corporate loans and advances	2,576	850	154	3,580
Personal loans	11,745	6,846	—	18,591
<b>Total</b>	<b>14,321</b>	<b>7,696</b>	<b>154</b>	<b>22,171</b>

	<b>As at 31 December 2011</b>			
	<b>Within 1 month</b>	<b>1–3 months</b>	<b>More than 3 months</b>	<b>Total</b>
Corporate loans and advances	3,409	355	38	3,802
Personal loans	14,227	5,584	—	19,811
<b>Total</b>	<b>17,636</b>	<b>5,939</b>	<b>38</b>	<b>23,613</b>

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 Loans and advances (Continued)***(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)**(ii) Loans and advances past due but not impaired (Continued)*

Chinese mainland	As at 31 December 2012			
	Within 1 month	1–3 months	More than 3 months	Total
Corporate loans and advances	2,294	842	118	3,254
Personal loans	10,889	6,747	—	17,636
Total	<u>13,183</u>	<u>7,589</u>	<u>118</u>	<u>20,890</u>

	As at 31 December 2011			
	Within 1 month	1–3 months	More than 3 months	Total
Corporate loans and advances	2,211	314	2	2,527
Personal loans	13,579	5,535	—	19,114
Total	<u>15,790</u>	<u>5,849</u>	<u>2</u>	<u>21,641</u>

Collateral held against loans and advances to customers which have been overdue for more than 3 months principally includes properties, equipments and cash deposits.

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.5 Loans and advances (Continued)

##### (2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

##### (iii) Identified impaired loans and advances

##### (a) Impaired loans and advances by geographical area

Group	As at 31 December					
	2012			2011		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland	62,844	96.01%	1.13%	61,159	96.61%	1.17%
Hong Kong, Macau and Taiwan	1,691	2.58%	0.20%	1,171	1.85%	0.16%
Other countries and regions	920	1.41%	0.19%	976	1.54%	0.25%
Total	<u>65,455</u>	<u>100.00%</u>	<u>0.95%</u>	<u>63,306</u>	<u>100.00%</u>	<u>1.00%</u>

Bank	As at 31 December					
	2012			2011		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland	62,834	98.43%	1.13%	61,159	97.97%	1.17%
Hong Kong, Macau and Taiwan	241	0.38%	0.18%	440	0.70%	0.44%
Other countries and regions	757	1.19%	0.17%	826	1.33%	0.22%
Total	<u>63,832</u>	<u>100.00%</u>	<u>1.04%</u>	<u>62,425</u>	<u>100.00%</u>	<u>1.10%</u>

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 Loans and advances (Continued)**(2) *Analysis of loans and advances to customers by overdue and impaired status (Continued)*

(iii) Identified impaired loans and advances (Continued)

(a) Impaired loans and advances by geographical area (Continued)

Chinese mainland	As at 31 December					
	2012			2011		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Northern China	10,535	16.76%	1.21%	9,796	16.02%	1.16%
Northeastern China	3,516	5.59%	0.88%	7,322	11.97%	1.95%
Eastern China	23,476	37.36%	1.03%	16,558	27.07%	0.77%
Central and Southern China	20,372	32.42%	1.51%	21,959	35.90%	1.76%
Western China	4,945	7.87%	0.75%	5,524	9.04%	0.91%
Total	<u>62,844</u>	<u>100.00%</u>	<u>1.13%</u>	<u>61,159</u>	<u>100.00%</u>	<u>1.17%</u>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.5 Loans and advances (Continued)

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

(iii) Identified impaired loans and advances (Continued)

(b) Impaired loans and advances by customer type

Group	As at 31 December					
	2012			2011		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	55,090	84.16%	1.11%	54,188	85.60%	1.15%
Personal loans	10,365	15.84%	0.55%	9,118	14.40%	0.56%
Total	<u>65,455</u>	<u>100.00%</u>	<u>0.95%</u>	<u>63,306</u>	<u>100.00%</u>	<u>1.00%</u>

Bank	As at 31 December					
	2012			2011		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	53,550	83.89%	1.20%	53,378	85.51%	1.25%
Personal loans	10,282	16.11%	0.62%	9,047	14.49%	0.64%
Total	<u>63,832</u>	<u>100.00%</u>	<u>1.04%</u>	<u>62,425</u>	<u>100.00%</u>	<u>1.10%</u>

Chinese mainland	As at 31 December					
	2012			2011		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	52,695	83.85%	1.34%	52,282	85.49%	1.37%
Personal loans	10,149	16.15%	0.63%	8,877	14.51%	0.64%
Total	<u>62,844</u>	<u>100.00%</u>	<u>1.13%</u>	<u>61,159</u>	<u>100.00%</u>	<u>1.17%</u>

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**3 Credit risk (Continued)**

**3.5 Loans and advances (Continued)**

(2) *Analysis of loans and advances to customers by overdue and impaired status (Continued)*

(iii) Identified impaired loans and advances (Continued)

(c) Impaired loans and advances by geography and industry

	As at 31 December					
	2012			2011		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
<b>Chinese mainland</b>						
Corporate loans and advances						
Manufacturing	22,410	34.24%	1.73%	21,894	34.58%	1.77%
Commerce and services	9,359	14.30%	1.35%	7,752	12.25%	1.20%
Transportation and logistics	12,658	19.34%	2.15%	12,716	20.09%	2.36%
Real estate	2,670	4.08%	0.74%	1,850	2.92%	0.55%
Production and supply of electric power, gas and water	3,843	5.87%	1.03%	6,017	9.50%	1.49%
Mining	232	0.35%	0.12%	219	0.35%	0.12%
Water, environment and public utility management	29	0.04%	0.01%	394	0.62%	0.15%
Construction	572	0.87%	0.58%	281	0.44%	0.30%
Financial services	4	0.01%	0.01%	3	0.00%	0.01%
Public utilities	691	1.06%	1.07%	968	1.53%	1.32%
Other	227	0.35%	1.73%	188	0.31%	0.77%
Subtotal	52,695	80.51%	1.34%	52,282	82.59%	1.37%
Personal loans						
Mortgages	4,127	6.31%	0.36%	3,990	6.30%	0.39%
Credit cards	2,308	3.53%	1.53%	1,475	2.33%	1.65%
Other	3,714	5.67%	1.11%	3,412	5.39%	1.24%
Subtotal	10,149	15.51%	0.63%	8,877	14.02%	0.64%
Total for Chinese mainland	62,844	96.02%	1.13%	61,159	96.61%	1.17%
<b>Hong Kong, Macau, Taiwan and Other countries and regions</b>						
	2,611	3.98%	0.20%	2,147	3.39%	0.19%
Total	65,455	100.00%	0.95%	63,306	100.00%	1.00%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

## VI FINANCIAL RISK MANAGEMENT (Continued)

## 3 Credit risk (Continued)

## 3.5 Loans and advances (Continued)

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

(iii) Identified impaired loans and advances (Continued)

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

	As at 31 December 2012			Net
	Impaired loans	Individually assessed allowance	Collectively assessed allowance	
Chinese mainland	62,844	(37,187)	(9,121)	16,536
Hong Kong, Macau and Taiwan	1,691	(693)	(74)	924
Other countries and regions	920	(657)	(6)	257
Total	<u>65,455</u>	<u>(38,537)</u>	<u>(9,201)</u>	<u>17,717</u>

	As at 31 December 2011			Net
	Impaired loans	Individually assessed allowance	Collectively assessed allowance	
Chinese mainland	61,159	(35,228)	(8,270)	17,661
Hong Kong, Macau and Taiwan	1,171	(613)	(79)	479
Other countries and regions	976	(424)	(10)	542
Total	<u>63,306</u>	<u>(36,265)</u>	<u>(8,359)</u>	<u>18,682</u>

For description of allowances on identified impaired loans, refer to Note V 16.3.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**3 Credit risk (Continued)**

**3.5 Loans and advances (Continued)**

*(3) Loans and advances rescheduled*

Rescheduling (referring to loans and other assets that have been restructured and renegotiated) is a voluntary or, to a limited extent, court-supervised procedure, through which the Group and a borrower and/or its guarantor, if any, rescheduled credit terms as a result of deterioration in the borrower's financial condition or of the borrower's inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or the assumption of the loan by a borrower with better repayment ability.

All rescheduled loans are classified as "substandard" or below. All rescheduled loans are subject to a surveillance period of six months. During the surveillance period, rescheduled loans remain as non-performing loans and the Group monitors the borrower's business operations and loan repayment patterns. After the surveillance period, rescheduled loans may be upgraded to "special-mention" upon review if certain criteria are met. If the rescheduled loans fall overdue or if the borrower is unable to demonstrate its repayment ability, these loans will be reclassified to "doubtful" or below. All rescheduled loans are determined to be impaired, therefore, there were no rescheduled loans that were not past due nor impaired as at 31 December 2012 and 2011.

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

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.5 Loans and advances (Continued)

###### (4) Overdue loans and advances to customers

###### (i) Analysis of overdue loans and advances to customers by collateral type and overdue days

Group	As at 31 December 2012				Total
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	
Unsecured loans	7,736	1,973	1,136	3,153	13,998
Guaranteed loans	2,631	4,340	2,606	4,761	14,338
Collateralised and other secured loans					
— loans secured by property and other immovable assets	18,343	6,371	8,256	7,199	40,169
— other pledged loans	1,109	195	3,434	1,652	6,390
Total	<u>29,819</u>	<u>12,879</u>	<u>15,432</u>	<u>16,765</u>	<u>74,895</u>

Group	As at 31 December 2011				Total
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	
Unsecured loans	4,393	1,612	2,984	858	9,847
Guaranteed loans	2,234	1,524	3,203	4,770	11,731
Collateralised and other secured loans					
— loans secured by property and other immovable assets	21,985	6,970	5,399	7,302	41,656
— other pledged loans	1,113	1,268	807	1,708	4,896
Total	<u>29,725</u>	<u>11,374</u>	<u>12,393</u>	<u>14,638</u>	<u>68,130</u>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.5 Loans and advances (Continued)

##### (4) Overdue loans and advances to customers (Continued)

- (i) Analysis of overdue loans and advances to customers by collateral type and overdue days (Continued)

Bank	As at 31 December 2012				Total
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	
Unsecured loans	6,818	1,895	1,066	3,138	12,917
Guaranteed loans	2,586	4,317	2,571	4,706	14,180
Collateralised and other secured loans					
— loans secured by property and other immovable assets	15,894	6,331	8,222	7,190	37,637
— other pledged loans	649	100	3,414	1,653	5,816
Total	<u>25,947</u>	<u>12,643</u>	<u>15,273</u>	<u>16,687</u>	<u>70,550</u>

	As at 31 December 2011				Total
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	
Unsecured loans	4,085	1,547	2,957	674	9,263
Guaranteed loans	2,180	1,503	3,184	4,724	11,591
Collateralised and other secured loans					
— loans secured by property and other immovable assets	19,735	6,942	5,374	7,074	39,125
— other pledged loans	533	1,246	799	1,701	4,279
Total	<u>26,533</u>	<u>11,238</u>	<u>12,314</u>	<u>14,173</u>	<u>64,258</u>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.5 Loans and advances (Continued)

##### (4) Overdue loans and advances to customers (Continued)

- (i) Analysis of overdue loans and advances to customers by collateral type and overdue days (Continued)

Chinese mainland	As at 31 December 2012				Total
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	
Unsecured loans	6,754	1,894	1,018	3,132	12,798
Guaranteed loans	2,437	4,190	2,543	4,643	13,813
Collateralised and other secured loans					
— loans secured by property and other immovable assets	14,884	5,716	8,202	7,185	35,987
— other pledged loans	628	100	3,378	1,653	5,759
Total	<u>24,703</u>	<u>11,900</u>	<u>15,141</u>	<u>16,613</u>	<u>68,357</u>

	As at 31 December 2011				Total
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	
Unsecured loans	4,066	1,485	2,909	669	9,129
Guaranteed loans	1,962	1,503	3,120	4,725	11,310
Collateralised and other secured loans					
— loans secured by property and other immovable assets	18,047	6,939	5,328	7,070	37,384
— other pledged loans	521	1,104	799	1,700	4,124
Total	<u>24,596</u>	<u>11,031</u>	<u>12,156</u>	<u>14,164</u>	<u>61,947</u>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.5 Loans and advances (Continued)

###### (4) Overdue loans and advances to customers (Continued)

###### (ii) Analysis of overdue loans and advances by geographical area

	As at 31 December	
	2012	2011
Chinese mainland	68,357	61,947
Hong Kong, Macau and Taiwan	5,407	5,835
Other countries and regions	1,131	348
Subtotal	74,895	68,130
Less: total loans and advances to customers which have been overdue for less than 3 months	(29,819)	(29,725)
Total loans and advances to customers which have been overdue for more than 3 months	<u>45,076</u>	<u>38,405</u>
Individually assessed impairment allowance — for loans and advances to customers which have been overdue for more than 3 months	<u>(26,559)</u>	<u>(24,679)</u>

##### 3.6 Due from and placements with and loans to banks and other financial institutions

Banks and other financial institutions comprise those institutions in Chinese mainland, Hong Kong, Macau, Taiwan and other countries and regions.

The Group monitors the credit risk of counterparties by collecting and analysing counterparty information and establishing credit limits taking into account the nature, size and credit rating of counterparties.

As at 31 December 2012, majority balances of due from and placements with and loans to banks and other financial institutions were with banks in Chinese mainland, including policy banks, large- and medium-sized commercial banks (Note V.11 and Note V.13). As at 31 December 2012, the majority of the credit ratings of the banks in Hong Kong, Macau, Taiwan and other countries and regions were above A.

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.7 Debt securities

The tables below represent an analysis of the carrying value of debt securities by credit or issuer rating and credit risk characteristic.

#### Group

	As at 31 December 2012					Total
	Unrated	AAA	AA	A	Lower than A	
Issuers in Chinese mainland						
— Government	—	—	784,499	1,668	—	786,167
— Public sector and quasi-governments	20,810	—	—	—	—	20,810
— Policy banks	—	—	27,749	322,328	—	350,077
— Financial institutions	2,434	360	88	75,966	22,296	101,144
— Corporate	183,358	19	4,224	40,036	16,586	244,223
— China Orient	160,000	—	—	—	—	160,000
Subtotal	366,602	379	816,560	439,998	38,882	1,662,421
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	—	55,367	141,303	54,857	1,705	253,232
— Public sector and quasi-governments	11,725	25,338	19,139	209	310	56,721
— Financial institutions	874	31,867	62,982	49,985	16,680	162,388
— Corporate	8,717	2,008	1,729	17,397	7,413	37,264
Subtotal <sup>(1)</sup>	21,316	114,580	225,153	122,448	26,108	509,605
Total <sup>(2)</sup>	<u>387,918</u>	<u>114,959</u>	<u>1,041,713</u>	<u>562,446</u>	<u>64,990</u>	<u>2,172,026</u>

(1) Included mortgage backed securities as follows:

	As at 31 December 2012					Total
	Unrated	AAA	AA	A	Lower than A	
US subprime mortgage related debt securities	—	306	487	573	2,849	4,215
US Alt-A mortgage-backed securities	—	15	5	60	840	920
US Non-Agency mortgage-backed securities	—	15	92	106	1,585	1,798
Total	<u>—</u>	<u>336</u>	<u>584</u>	<u>739</u>	<u>5,274</u>	<u>6,933</u>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.7 Debt securities (Continued)

###### Group

	As at 31 December 2011					Total
	Unrated	AAA	AA	A	Lower than A	
Issuers in Chinese mainland						
— Government	—	—	734,964	1,551	—	736,515
— Public sector and quasi-governments	20,593	—	—	—	—	20,593
— Policy banks	6	—	9,636	318,329	—	327,971
— Financial institutions	4,385	347	311	35,754	5,363	46,160
— Corporate	140,890	248	3,203	38,498	16,186	199,025
— China Orient	160,000	—	—	—	—	160,000
Subtotal	325,874	595	748,114	394,132	21,549	1,490,264
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	—	32,038	144,362	4,268	2,133	182,801
— Public sector and quasi-governments	179	30,975	20,537	872	474	53,037
— Financial institutions	227	51,229	74,155	64,763	13,083	203,457
— Corporate	6,076	2,949	1,783	15,595	6,239	32,642
Subtotal <sup>(1)</sup>	6,482	117,191	240,837	85,498	21,929	471,937
Total <sup>(2)</sup>	332,356	117,786	988,951	479,630	43,478	1,962,201

(1) Included mortgage backed securities as follows:

	As at 31 December 2011					Total
	Unrated	AAA	AA	A	Lower than A	
US subprime mortgage related debt securities	—	580	740	963	3,182	5,465
US Alt-A mortgage-backed securities	—	26	48	29	1,209	1,312
US Non-Agency mortgage-backed securities	—	212	73	153	2,633	3,071
Total	—	818	861	1,145	7,024	9,848

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.7 Debt securities (Continued)

###### Bank

	As at 31 December 2012					Total
	Unrated	AAA	AA	A	Lower than A	
Issuers in Chinese mainland						
— Government	—	—	772,792	1,668	—	774,460
— Public sector and quasi-governments	19,715	—	—	—	—	19,715
— Policy banks	—	—	50	320,335	—	320,385
— Financial institutions	1,760	360	—	43,413	18,906	64,439
— Corporate	171,057	—	2,000	35,117	11,880	220,054
— China Orient	160,000	—	—	—	—	160,000
Subtotal	352,532	360	774,842	400,533	30,786	1,559,053
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	—	9,267	105,686	4,579	800	120,332
— Public sector and quasi-governments	9,151	214	10,937	209	310	20,821
— Financial institutions	328	7,933	17,448	14,635	6,912	47,256
— Corporate	638	256	411	2,942	3,164	7,411
Subtotal <sup>(1)</sup>	10,117	17,670	134,482	22,365	11,186	195,820
Total <sup>(2)</sup>	362,649	18,030	909,324	422,898	41,972	1,754,873

(1) Included mortgage backed securities as follows:

	As at 31 December 2012					Total
	Unrated	AAA	AA	A	Lower than A	
US subprime mortgage related debt securities	—	238	462	568	2,849	4,117
US Alt-A mortgage-backed securities	—	—	—	60	807	867
US Non-Agency mortgage-backed securities	—	15	77	56	1,562	1,710
Total	—	253	539	684	5,218	6,694



# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 3 Credit risk (Continued)

##### 3.7 Debt securities (Continued)

###### Bank

	As at 31 December 2011					Total
	Unrated	AAA	AA	A	Lower than A	
Issuers in Chinese mainland						
— Government	—	—	713,945	1,551	—	715,496
— Public sector and quasi-governments	20,088	—	—	—	—	20,088
— Policy banks	—	—	96	317,802	—	317,898
— Financial institutions	631	347	311	28,588	4,146	34,023
— Corporate	136,310	248	1,984	36,778	14,239	189,559
— China Orient	160,000	—	—	—	—	160,000
Subtotal	317,029	595	716,336	384,719	18,385	1,437,064
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	—	10,738	73,656	123	648	85,165
— Public sector and quasi-governments	166	641	13,051	840	356	15,054
— Financial institutions	220	16,778	15,966	27,987	5,772	66,723
— Corporate	607	696	522	3,480	3,899	9,204
Subtotal <sup>(1)</sup>	993	28,853	103,195	32,430	10,675	176,146
Total <sup>(2)</sup>	318,022	29,448	819,531	417,149	29,060	1,613,210

(1) Included mortgage backed securities as follows:

	As at 31 December 2011					Total
	Unrated	AAA	AA	A	Lower than A	
US subprime mortgage related debt securities	—	458	713	887	3,182	5,240
US Alt-A mortgage-backed securities	—	7	38	29	1,142	1,216
US Non-Agency mortgage-backed securities	—	160	70	77	2,567	2,874
Total	—	625	821	993	6,891	9,330

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## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

### **VI FINANCIAL RISK MANAGEMENT (Continued)**

#### **3 Credit risk (Continued)**

##### **3.7 Debt securities (Continued)**

- (2) The Group's Available for sale and Held to maturity debt securities are individually assessed for impairment. The Group's accumulated impairment charges on Available for sale and Held to maturity debt securities at 31 December 2012 amounted to RMB3,591 million and RMB306 million, respectively (31 December 2011: RMB9,135 million and RMB354 million). The carrying value of the available for sale and held to maturity debt securities considered impaired as at 31 December 2012 were RMB5,856 million and RMB638 million, respectively (31 December 2011: RMB8,323 million and RMB957 million).

##### **3.8 Derivatives**

The credit risk weighted amounts represent the counterparty credit risk associated with derivative transactions and are calculated with reference to the guidelines issued by the CBRC or Hong Kong Monetary Authority as appropriate and are dependent on, among other factors, the creditworthiness of the customer and the maturity characteristics of each type of contract. The amounts disclosed below differ from the carrying amount at fair value and the maximum exposure to credit risk disclosed in Note VI.3.4.

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.8 Derivatives (Continued)****Credit risk weighted amounts**

	As at 31 December			
	Group		Bank	
	2012	2011	2012	2011
Exchange rate derivatives				
Currency forwards and swaps, and cross-currency interest rate swaps	8,610	13,848	5,731	12,174
Currency options	58	153	50	147
Interest rate derivatives				
Interest rate swaps	4,073	5,826	3,369	4,302
Interest rate options	—	10	—	9
Equity derivatives	31	4	—	—
Commodity derivatives	9	17	5	5
	<u>12,781</u>	<u>19,858</u>	<u>9,155</u>	<u>16,637</u>

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

**3.9 Repossessed assets**

The Group obtained assets by taking possession of collateral held as security. Detailed information of such repossessed assets of the Group is disclosed in Note V.22.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**4 Market risk**

**4.1 Overview**

The Group is exposed to market risks that may cause losses to the Group as a result of adverse changes in market prices. Market risk arises from open positions in the trading and banking books in interest rate, exchange rate, equities and commodities. Both the Group's trading book and banking book face market risks. The trading book consists of positions in financial instruments and commodities that are held with trading intent or in order to hedge other elements of the trading book. The banking book consists of financial instruments not included in the trading book (including those financial instruments purchased with surplus funds and managed in the investment book).

The Board of Directors of the Group takes the ultimate responsibility for the oversight of market risk management, including the approval of market risk management policies and procedures and the determination of market risk tolerance. Senior management is responsible for execution of such policies and ensuring that the level of market risk is within the risk appetite determined by the Board, while meeting the Group's business objectives.

The Risk Management Unit is responsible for the identification, measurement, monitoring, control and reporting of market risks on a Group basis. Business units are responsible for monitoring and reporting of market risk within their respective business lines.

**4.2 Market risk measurement techniques and limits**

**(1) Trading book**

Market risk in trading book is managed by establishing Value at Risk (VaR) limits. Total exposures, stress testing and utilisation of VaR are monitored on a daily basis for each trading desk and dealer.

VaR is used to estimate the largest potential loss arising from adverse market movements in a specific holding period and within a certain confidence level.

VaR is performed separately by the Bank and its major subsidiaries that are exposed to market risk, BOC Hong Kong (Holdings) Limited ("BOCHK") and BOC International Holdings Limited ("BOCI"). The Bank, BOCHK and BOCI used a 99% level of confidence (therefore 1% statistical probability that actual losses could be greater than the VaR estimate) and a historical simulation model to calculate the VaR estimate. The holding period of the VaR calculations is one day. To enhance the Group's market risk management, the Group has established the market risk data mart, which enabled Group level trading book VaR calculation on a daily basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

## VI FINANCIAL RISK MANAGEMENT (Continued)

## 4 Market risk (Continued)

## 4.2 Market risk measurement techniques and limits (Continued)

## (1) Trading book (Continued)

Accuracy and reliability of the VaR model is verified by daily back-testing the VaR result on trading book. The back-testing results are regularly reported to senior management.

Stress testing is performed based on the characteristics of trading transactions to simulate and estimate losses in adverse and exceptional market conditions. The Group sets stress testing limits, adjusts and enhances the scenarios for stress testing taking into account financial market fluctuations in order to capture the potential impact of market price fluctuations and volatility on the trading book, enhancing the Group's market risk management capabilities.

The table below shows the VaR of the trading book by types of risk during the years ended 31 December 2012 and 2011:

	Unit: USD million					
	Year ended 31 December					
	2012			2011		
	Average	High	Low	Average	High	Low
<b>Bank trading VaR</b>						
Interest rate risk	2.55	3.65	1.73	1.37	3.04	0.47
Foreign exchange risk	1.88	7.63	0.44	0.61	10.67	0.12
Volatility risk	0.03	0.10	0.00	0.02	0.12	0.01
<b>Total Bank trading VaR</b>	<b>2.85</b>	<b>7.94</b>	<b>2.06</b>	<b>1.49</b>	<b>10.96</b>	<b>0.60</b>

The Bank's VaR for the year ended 31 December 2012 and 2011 was calculated on Group trading positions, excluding those of BOCHK and BOCI and excluding foreign currency against RMB transactions.

The reporting of risk in relation to bullion is included in foreign exchange risk above. The exposure of the Bank to potential price movement in other commodity financial instruments and the related potential impact to the Bank's income statement are considered to be insignificant.

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)****4 Market risk (Continued)****4.2 Market risk measurement techniques and limits (Continued)****(1) Trading book (Continued)**

Unit: USD million

	Year ended 31 December					
	2012			2011		
	Average	High	Low	Average	High	Low
<b>BOCHK trading VaR</b>						
Interest rate risk	2.28	3.80	1.14	1.00	1.41	0.63
Foreign exchange risk	2.15	3.31	1.19	1.25	2.45	0.27
Equity risk	0.05	0.29	0.00	0.02	0.17	0.00
Commodity risk	0.03	0.21	0.00	0.01	0.09	0.00
<b>Total BOCHK trading VaR<sup>(i)</sup></b>	<b>3.27</b>	<b>4.52</b>	<b>1.89</b>	<b>1.56</b>	<b>2.65</b>	<b>0.87</b>
<b>BOCI trading VaR<sup>(ii)</sup></b>						
Equity derivatives unit	0.40	1.04	0.11	1.47	3.33	0.32
Fixed income unit	0.96	2.22	0.53	2.10	3.22	0.79

(i) BOCHK's trading VaR for the year ended 31 December 2012 and 2011 was calculated including its subsidiaries of Nanyang Commercial Bank, Limited, BOC Credit Card (International) Limited and Chiyu Banking Corporation Limited.

(ii) BOCI monitors its trading VaR for equity derivatives unit and fixed income unit separately, which include equity risk, interest rate risk and foreign exchange risk.

VaR for each risk factor is the independently derived largest potential loss in a specific holding period and within a certain confidence level due to fluctuations solely in that risk factor. The individual VaRs did not add up to the total VaR as there was diversification effect due to correlation amongst the risk factors.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**4 Market risk (Continued)**

**4.2 Market risk measurement techniques and limits (Continued)**

**(2) Banking book**

The banking book is exposed to interest rate risk arising from mismatches in maturities, repricing periods and inconsistent adjustments between the benchmark interest rates of assets and liabilities.

The Group takes on exposure to interest rate risk and fluctuations in market interest rates will impact the Group's financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses. Currently, benchmark interest rates for RMB loans and deposits in the Chinese mainland are set by the PBOC and the Group's operations in Chinese mainland are subject to an interest rate scheme regulated by the PBOC. It is normal practice for the interest rates of both interest-earning assets and interest-bearing liabilities to move in tandem, although the timing and extent of such movements may not be synchronised. This significantly mitigates the exposure of the Group to RMB interest rate risk. However, there is no guarantee that the PBOC will continue this practice in future.

The Group manages interest rate risk in the banking book primarily through interest rate repricing gap analysis. Interest rate repricing gap analysis measures the difference between the amount of interest-earning assets and interest-bearing liabilities that mature or must be repriced within certain periods and is used to generate indicators of interest rate risk sensitivity of earnings to changing interest rates. The interest rate gap analysis is set out in Note VI.4.3 and also covers the trading book.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**4 Market risk (Continued)**

**4.2 Market risk measurement techniques and limits (Continued)**

**(2) Banking book (Continued)**

**Sensitivity analysis on Net interest income**

The Group performs sensitivity analysis by measuring the impact of a change in interest rates on “Net interest income”. This analysis assumes that yield curves change in parallel while the structure of assets and liabilities remains unchanged, and does not take changes in customer behaviour, basis risk or any prepayment options on debt securities into consideration. The Group calculates the change in net interest income during the year due to a parallel move in the RMB, USD and HKD, and monitors this as a percentage of the net interest income budget for the year. Limits of the net interest income change are set as a percentage of net interest income budget for the Group’s commercial banking operations (excluding BOC Hong Kong and Tai Fung Bank Limited) and are approved by the Board and monitored by the Risk Management Unit on a monthly basis.

The table below illustrates the potential impact of a 25 basis points interest rate move on the net interest income of the Group. The actual situation may be different from the assumptions used and it is possible that actual outcomes could differ from the estimated impact on net interest income of the Group.



**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)****4 Market risk (Continued)****4.2 Market risk measurement techniques and limits (Continued)****(2) Banking book (Continued)**

	<b>(Decrease)/increase in Net interest income</b>	
	<b>As at 31 December</b>	
	<b>2012</b>	<b>2011</b>
+ 25 basis points parallel move in all yield curves	(2,278)	(2,332)
– 25 basis points parallel move in all yield curves	<u>2,278</u>	<u>2,332</u>

Given the nature of demand deposits, their interest rate fluctuations are less volatile than those of other products. Had the impact of yield curves movement on interest expenses related to demand deposits been excluded, the net interest income for the next twelve months from the reporting date would increase or decrease by RMB7,708 million (2011: RMB7,028 million) for every 25 basis points upwards or downwards parallel shift, respectively.

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market risk (Continued)

##### 4.3 GAP analysis

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

#### Group

	As at 31 December 2012					Non-interest bearing	Total
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years		
<b>Assets</b>							
Cash and due from banks and other financial institutions	219,410	135,208	314,942	31,167	—	74,847	775,574
Balances with central banks	1,876,905	447	189	25	—	56,731	1,934,297
Placements with and loans to banks and other financial institutions	195,821	84,274	163,214	3,990	—	—	447,299
Government certificates of indebtedness for bank notes issued	—	—	—	—	—	70,554	70,554
Precious metals	—	—	—	—	—	150,534	150,534
Financial assets at fair value through profit or loss	10,946	5,217	9,956	30,052	12,886	2,533	71,590
Derivative financial assets	—	—	—	—	—	40,188	40,188
Loans and advances to customers, net	1,679,050	1,593,215	3,214,918	53,154	32,853	136,850	6,710,040
Investment securities							
— available for sale	82,909	129,969	107,435	221,121	113,286	31,680	686,400
— held to maturity	35,171	71,813	265,339	505,125	305,632	—	1,183,080
— loans and receivables	1,604	6,015	25,998	20,855	214,982	—	269,454
Investment in associates and joint ventures	—	—	—	—	—	12,382	12,382
Property and equipment	—	—	—	—	—	150,324	150,324
Investment properties	—	—	—	—	—	17,142	17,142
Deferred income tax assets	—	—	—	—	—	21,292	21,292
Other assets	3,352	5,467	8,074	—	—	123,572	140,465
<b>Total assets</b>	<b>4,105,168</b>	<b>2,031,625</b>	<b>4,110,065</b>	<b>865,489</b>	<b>679,639</b>	<b>888,629</b>	<b>12,680,615</b>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market risk (Continued)

##### 4.3 GAP analysis (Continued)

#### Group

	As at 31 December 2012					Non-interest bearing	Total
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years		
<b>Liabilities</b>							
Due to banks and other financial institutions	931,428	196,750	194,344	95,447	–	135,223	1,553,192
Due to central banks	88,137	7,746	32,038	–	–	2,101	130,022
Bank notes in circulation	–	–	–	–	–	70,733	70,733
Placements from banks and other financial institutions	198,660	71,078	43,266	–	–	–	313,004
Derivative financial liabilities	–	–	–	–	–	32,457	32,457
Due to customers	5,320,214	996,436	1,858,379	896,180	4,687	98,099	9,173,995
Bonds issued	726	3,879	6,048	72,047	116,433	–	199,133
Other borrowings	7,675	17,664	5,775	2,931	–	–	34,045
Current tax liabilities	–	–	–	–	–	34,994	34,994
Retirement benefit obligations	–	–	–	–	–	5,642	5,642
Deferred income tax liabilities	–	–	–	–	–	3,838	3,838
Other liabilities	8,895	3,634	2,742	217	113	252,417	268,018
<b>Total liabilities</b>	<b>6,555,735</b>	<b>1,297,187</b>	<b>2,142,592</b>	<b>1,066,822</b>	<b>121,233</b>	<b>635,504</b>	<b>11,819,073</b>
<b>Total interest repricing gap</b>	<b>(2,450,567)</b>	<b>734,438</b>	<b>1,967,473</b>	<b>(201,333)</b>	<b>558,406</b>	<b>253,125</b>	<b>861,542</b>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market risk (Continued)

##### 4.3 GAP analysis (Continued)

#### Group

	As at 31 December 2011					Non-interest bearing	Total
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years		
<b>Assets</b>							
Cash and due from banks and other financial institutions	207,347	88,251	202,897	30,121	50	62,298	590,964
Balances with central banks	1,869,868	273	—	9	—	49,501	1,919,651
Placements with and loans to banks and other financial institutions	278,478	86,170	250,489	3,229	—	—	618,366
Government certificates of indebtedness for bank notes issued	—	—	—	—	—	56,108	56,108
Precious metals	—	—	—	—	—	95,907	95,907
Financial assets at fair value through profit or loss	5,608	9,059	9,937	28,319	15,768	5,116	73,807
Derivative financial assets	—	—	—	—	—	42,757	42,757
Loans and advances to customers, net	1,585,217	1,628,956	2,810,116	59,659	36,395	82,795	6,203,138
Investment securities							
— available for sale	75,059	84,084	86,657	196,424	81,868	29,226	553,318
— held to maturity	51,151	77,425	238,738	468,338	238,464	—	1,074,116
— loans and receivables	8,730	5,741	49,202	26,864	208,981	—	299,518
Investment in associates and joint ventures	—	—	—	—	—	13,293	13,293
Property and equipment	—	—	—	—	—	138,234	138,234
Investment properties	—	—	—	—	—	14,616	14,616
Deferred income tax assets	—	—	—	—	—	19,264	19,264
Other assets	947	1,177	2,835	—	—	111,773	116,732
<b>Total assets</b>	<b>4,082,405</b>	<b>1,981,136</b>	<b>3,650,871</b>	<b>812,963</b>	<b>581,526</b>	<b>720,888</b>	<b>11,829,789</b>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market risk (Continued)

##### 4.3 GAP analysis (Continued)

#### Group

	As at 31 December 2011					Non-interest bearing	Total
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years		
<b>Liabilities</b>							
Due to banks and other financial institutions	899,641	93,217	183,537	99,484	9,269	85,795	1,370,943
Due to central banks	41,922	7,525	32,006	—	—	3	81,456
Bank notes in circulation	—	—	—	—	—	56,259	56,259
Placements from banks and other financial institutions	177,018	66,946	21,874	—	—	—	265,838
Derivative financial liabilities	—	—	—	—	—	35,473	35,473
Due to customers	5,343,548	1,097,205	1,700,382	572,183	15,707	88,936	8,817,961
Bonds issued	78	16	3,816	67,541	98,451	—	169,902
Other borrowings	8,386	13,046	4,735	—	—	557	26,724
Current tax liabilities	—	—	—	—	—	29,353	29,353
Retirement benefit obligations	—	—	—	—	—	6,086	6,086
Deferred income tax liabilities	—	—	—	—	—	2,966	2,966
Other liabilities	837	316	615	383	18	207,522	209,691
<b>Total liabilities</b>	<u>6,471,430</u>	<u>1,278,271</u>	<u>1,946,965</u>	<u>739,591</u>	<u>123,445</u>	<u>512,950</u>	<u>11,072,652</u>
<b>Total interest repricing gap</b>	<u>(2,389,025)</u>	<u>702,865</u>	<u>1,703,906</u>	<u>73,372</u>	<u>458,081</u>	<u>207,938</u>	<u>757,137</u>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market risk (Continued)

##### 4.3 GAP analysis (Continued)

#### Bank

	As at 31 December 2012					Non-interest bearing	Total
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years		
<b>Assets</b>							
Cash and due from banks and other financial institutions	208,883	130,489	309,114	30,209	—	66,898	745,593
Balances with central banks	1,804,775	314	189	25	—	54,059	1,859,362
Placements with and loans to banks and other financial institutions	189,854	75,801	165,411	4,417	—	—	435,483
Government certificates of indebtedness for bank notes issued	—	—	—	—	—	3,314	3,314
Precious metals	—	—	—	—	—	145,174	145,174
Financial assets at fair value through profit or loss	1,685	1,154	4,353	15,222	6,959	281	29,654
Derivative financial assets	—	—	—	—	—	15,939	15,939
Loans and advances to customers, net	1,128,820	1,492,224	3,162,905	42,977	32,080	131,564	5,990,570
Investment securities							
— available for sale	26,742	41,671	62,527	114,807	59,360	1,903	307,010
— held to maturity	31,317	65,436	264,240	498,332	304,091	—	1,163,416
— loans and receivables	415	3,462	21,548	20,855	214,982	—	261,262
Investment in subsidiaries	—	—	—	—	—	87,274	87,274
Investment in associates and joint ventures	—	—	—	—	—	55	55
Property and equipment	—	—	—	—	—	81,223	81,223
Investment properties	—	—	—	—	—	1,474	1,474
Deferred income tax assets	—	—	—	—	—	22,084	22,084
Other assets	3,246	5,367	8,074	—	—	76,546	93,233
<b>Total assets</b>	<b>3,395,737</b>	<b>1,815,918</b>	<b>3,998,361</b>	<b>726,844</b>	<b>617,472</b>	<b>687,788</b>	<b>11,242,120</b>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market risk (Continued)

##### 4.3 GAP analysis (Continued)

#### Bank

	As at 31 December 2012					Total
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	
<b>Liabilities</b>						
Due to banks and other financial institutions	885,293	199,457	212,884	95,451	—	1,516,858
Due to central banks	78,481	7,746	32,035	—	—	118,262
Bank notes in circulation	—	—	—	—	—	3,494
Placements from banks and other financial institutions	184,353	76,443	52,320	—	—	313,116
Derivative financial liabilities	—	—	—	—	—	16,382
Due to customers	4,524,422	882,873	1,766,844	890,278	4,657	8,111,074
Bonds issued	722	3,879	7,569	67,338	98,930	178,438
Current tax liabilities	—	—	—	—	—	32,900
Retirement benefit obligations	—	—	—	—	—	5,642
Deferred income tax liabilities	—	—	—	—	—	186
Other liabilities	6,272	—	—	—	—	172,364
<b>Total liabilities</b>	<b>5,679,543</b>	<b>1,170,398</b>	<b>2,071,652</b>	<b>1,053,067</b>	<b>103,587</b>	<b>10,468,716</b>
<b>Total interest repricing gap</b>	<b>(2,283,806)</b>	<b>645,520</b>	<b>1,926,709</b>	<b>(326,223)</b>	<b>513,885</b>	<b>773,404</b>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market risk (Continued)

##### 4.3 GAP analysis (Continued)

#### Bank

	As at 31 December 2011					Non-interest bearing	Total
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years		
<b>Assets</b>							
Cash and due from banks and other financial institutions	211,889	83,414	195,010	30,000	—	55,842	576,155
Balances with central banks	1,736,809	273	—	9	—	48,061	1,785,152
Placements with and loans to banks and other financial institutions	249,611	79,694	244,116	3,229	583	—	577,233
Government certificates of indebtedness for bank notes issued	—	—	—	—	—	2,691	2,691
Precious metals	—	—	—	—	—	91,642	91,642
Financial assets at fair value through profit or loss	1,239	879	5,999	17,467	6,108	195	31,887
Derivative financial assets	—	—	—	—	—	20,969	20,969
Loans and advances to customers, net	1,099,389	1,521,498	2,761,705	50,216	35,493	78,504	5,546,805
Investment securities							
— available for sale	25,198	30,690	52,407	117,615	43,818	1,636	271,364
— held to maturity	45,225	62,721	231,627	453,571	232,476	—	1,025,620
— loans and receivables	5,473	3,778	45,291	26,864	208,981	—	290,387
Investment in subsidiaries	—	—	—	—	—	83,789	83,789
Investment in associates and joint ventures	—	—	—	—	—	48	48
Property and equipment	—	—	—	—	—	74,529	74,529
Investment properties	—	—	—	—	—	1,280	1,280
Deferred income tax assets	—	—	—	—	—	19,648	19,648
Other assets	944	1,177	2,835	—	—	74,682	79,638
<b>Total assets</b>	<b>3,375,777</b>	<b>1,784,124</b>	<b>3,538,990</b>	<b>698,971</b>	<b>527,459</b>	<b>553,516</b>	<b>10,478,837</b>



# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market risk (Continued)

##### 4.3 GAP analysis (Continued)

#### Bank

	As at 31 December 2011					Total
	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	
<b>Liabilities</b>						
Due to banks and other financial institutions	794,830	94,837	195,762	99,977	9,269	1,273,561
Due to central banks	34,320	7,525	32,002	—	—	73,847
Bank notes in circulation	—	—	—	—	—	2,842
Placements from banks and other financial institutions	182,674	81,445	40,190	—	—	304,309
Derivative financial liabilities	—	—	—	—	—	17,387
Due to customers	4,584,888	971,501	1,628,888	563,894	15,574	7,806,900
Bonds issued	—	—	4,200	63,141	80,930	148,271
Current tax liabilities	—	—	—	—	—	26,527
Retirement benefit obligations	—	—	—	—	—	6,086
Deferred income tax liabilities	—	—	—	—	—	124
Other liabilities	620	—	—	—	—	133,149
<b>Total liabilities</b>	<b>5,597,332</b>	<b>1,155,308</b>	<b>1,901,042</b>	<b>727,012</b>	<b>105,773</b>	<b>9,793,623</b>
<b>Total interest repricing gap</b>	<b>(2,221,555)</b>	<b>628,816</b>	<b>1,637,948</b>	<b>(28,041)</b>	<b>421,686</b>	<b>685,214</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**4 Market risk (Continued)**

**4.4 Foreign currency risk**

The Group manages its exposure to currency exchange risk through management of its net foreign currency position and monitors its foreign currency risk on trading books using VaR (Note VI 4.2).

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. The major subsidiary, Bank of China Hong Kong (Group) Limited, conducts the majority of its business in HKD, RMB and USD. The Group conducts the majority of its foreign currency transactions in USD.

In 2005, the PRC Government introduced a managed floating exchange rate system to allow the value of the RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies.

The Group endeavours to manage its sources and uses of foreign currencies to minimise potential mismatches in accordance with management directives. However, the Group's ability to manage its foreign currency positions in relation to the RMB is limited as the RMB is not a freely convertible currency. The PRC government's current foreign currency regulations require the conversion of foreign currency to be approved by relevant PRC government authorities.

The Group entered into certain foreign exchange transactions as part of asset and liability management and funding requirements including foreign currency deposit taking, placements, foreign currency bond issuance and derivatives.

The Group conducts sensitivity analysis on the net foreign currency position, to identify the impact to the income statement of potential movements in foreign currency exchange rates against the RMB and against functional currencies of its foreign operations that are not in RMB (in relation to which the principal exposure is to foreign currency movements against the HKD). The impact of fluctuations (e.g. 1 percent fluctuation) in exchange rates is not considered by management to be significant to the income statement. Such analysis does not take into account the correlation effect of changes in different foreign currencies, any further actions that may have been or could be taken by management after the financial reporting date, subject to the approval by the PRC government, to mitigate the effect of exchange differences, nor for any consequential changes in the foreign currency positions.

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market risk (Continued)

##### 4.4 Foreign currency risk (Continued)

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

#### Group

As at 31 December 2012								
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
<b>Assets</b>								
Cash and due from banks and other financial institutions	518,287	220,997	8,157	10,989	1,777	2,632	12,735	775,574
Balances with central banks	1,685,566	150,441	2,428	65,972	9,550	47	20,293	1,934,297
Placements with and loans to banks and other financial institutions	307,661	69,515	8,903	6,517	4,057	24,761	25,885	447,299
Government certificates of indebtedness for bank notes issued	—	—	67,240	—	—	—	3,314	70,554
Precious metals	—	—	5,360	—	—	—	145,174	150,534
Financial assets at fair value through profit or loss	12,114	31,122	27,065	1,069	87	—	133	71,590
Derivative financial assets	5,601	10,936	20,656	770	160	930	1,135	40,188
Loans and advances to customers, net	5,111,675	943,794	501,062	46,102	13,700	10,212	83,495	6,710,040
Investment securities								
— available for sale	226,486	246,743	102,142	11,319	63,775	302	35,633	686,400
— held to maturity	1,095,327	74,163	4,783	2,720	2,425	—	3,662	1,183,080
— loans and receivables	252,409	4,569	2	—	—	1,204	11,270	269,454
Investment in associates and joint ventures	5,716	1,523	5,143	—	—	—	—	12,382
Property and equipment	80,325	53,228	12,185	132	1,160	1,438	1,856	150,324
Investment properties	5,930	—	9,592	—	—	—	1,620	17,142
Deferred income tax assets	20,551	448	158	—	—	—	135	21,292
Other assets	104,249	16,110	15,266	1,124	275	865	2,576	140,465
<b>Total assets</b>	<b>9,431,897</b>	<b>1,823,589</b>	<b>790,142</b>	<b>146,714</b>	<b>96,966</b>	<b>42,391</b>	<b>348,916</b>	<b>12,680,615</b>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market risk (Continued)

##### 4.4 Foreign currency risk (Continued)

##### Group

As at 31 December 2012								
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
<b>Liabilities</b>								
Due to banks and other financial institutions	992,268	371,410	20,011	28,985	8,285	3,797	128,436	1,553,192
Due to central banks	890	120,372	8,757	—	—	—	3	130,022
Bank notes in circulation	—	—	67,239	—	—	—	3,494	70,733
Placements from banks and other financial institutions	154,230	140,086	10,289	2,197	175	2,551	3,476	313,004
Derivative financial liabilities	4,052	11,545	13,530	936	395	927	1,072	32,457
Due to customers	7,268,004	739,364	720,594	169,878	29,110	53,304	193,741	9,173,995
Bonds issued	170,539	28,591	3	—	—	—	—	199,133
Other borrowings	—	34,045	—	—	—	—	—	34,045
Current tax liabilities	32,577	16	1,493	52	125	113	618	34,994
Retirement benefit obligations	5,642	—	—	—	—	—	—	5,642
Deferred income tax liabilities	1,268	1,003	1,384	10	1	—	172	3,838
Other liabilities	179,427	23,388	59,719	1,352	360	931	2,841	268,018
<b>Total liabilities</b>	<b>8,808,897</b>	<b>1,469,820</b>	<b>903,019</b>	<b>203,410</b>	<b>38,451</b>	<b>61,623</b>	<b>333,853</b>	<b>11,819,073</b>
Net on-balance sheet position	623,000	353,769	(112,877)	(56,696)	58,515	(19,232)	15,063	861,542
Net off-balance sheet position	143,353	(320,960)	170,678	54,470	(55,018)	20,317	(3,228)	9,612
Credit commitments	1,438,619	612,942	124,165	71,743	8,751	12,733	48,552	2,317,505

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market risk (Continued)

##### 4.4 Foreign currency risk (Continued)

#### Group

	As at 31 December 2011							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
<b>Assets</b>								
Cash and due from banks and other financial institutions	440,755	113,207	10,914	8,344	3,202	934	13,608	590,964
Balances with central banks	1,727,847	107,088	2,564	52,434	12,904	2	16,812	1,919,651
Placements with and loans to banks and other financial institutions	515,092	50,717	10,451	20,202	1,663	3,584	16,657	618,366
Government certificates of indebtedness for bank notes issued	—	—	53,417	—	—	—	2,691	56,108
Precious metals	—	—	4,265	—	—	—	91,642	95,907
Financial assets at fair value through profit or loss	11,616	30,823	28,992	2,272	—	25	79	73,807
Derivative financial assets	12,636	9,615	16,897	820	642	662	1,485	42,757
Loans and advances to customers, net	4,652,867	951,297	465,590	39,950	23,034	9,587	60,813	6,203,138
Investment securities								
— available for sale	170,222	209,612	79,260	18,793	37,942	202	37,287	553,318
— held to maturity	1,005,878	44,399	10,392	5,348	2,692	1	5,406	1,074,116
— loans and receivables	280,688	1,359	—	1,526	—	3,763	12,182	299,518
Investment in associates and joint ventures	6,986	1,486	4,821	—	—	—	—	13,293
Property and equipment	73,511	46,878	13,237	128	1,293	1,364	1,823	138,234
Investment properties	4,858	—	8,370	—	—	—	1,388	14,616
Deferred income tax assets	18,547	348	217	—	—	—	152	19,264
Other assets	84,246	15,589	11,894	1,401	557	1,124	1,921	116,732
<b>Total assets</b>	<b>9,005,749</b>	<b>1,582,418</b>	<b>721,281</b>	<b>151,218</b>	<b>83,929</b>	<b>21,248</b>	<b>263,946</b>	<b>11,829,789</b>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market risk (Continued)

##### 4.4 Foreign currency risk (Continued)

#### Group

As at 31 December 2011								
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
<b>Liabilities</b>								
Due to banks and other financial institutions	908,820	348,387	9,945	11,721	8,699	1,571	81,800	1,370,943
Due to central banks	94	73,964	7,398	—	—	—	—	81,456
Bank notes in circulation	—	—	53,417	—	—	—	2,842	56,259
Placements from banks and other financial institutions	94,957	134,341	8,260	20,919	2,271	1,767	3,323	265,838
Derivative financial liabilities	6,150	12,054	13,324	1,419	549	778	1,199	35,473
Due to customers	7,282,091	584,531	608,878	114,031	21,418	33,991	173,021	8,817,961
Bonds issued	147,416	22,391	95	—	—	—	—	169,902
Other borrowings	—	26,724	—	—	—	—	—	26,724
Current tax liabilities	25,851	24	2,047	240	121	632	438	29,353
Retirement benefit obligations	6,086	—	—	—	—	—	—	6,086
Deferred income tax liabilities	986	826	1,048	5	2	—	99	2,966
Other liabilities	140,857	18,171	45,498	1,165	363	1,325	2,312	209,691
<b>Total liabilities</b>	<b>8,613,308</b>	<b>1,221,413</b>	<b>749,910</b>	<b>149,500</b>	<b>33,423</b>	<b>40,064</b>	<b>265,034</b>	<b>11,072,652</b>
Net on-balance sheet position	392,441	361,005	(28,629)	1,718	50,506	(18,816)	(1,088)	757,137
Net off-balance sheet position	238,471	(313,727)	94,009	(1,118)	(47,912)	20,247	17,294	7,264
Credit commitments	1,459,915	637,218	79,428	70,475	12,502	9,028	43,306	2,311,872

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market risk (Continued)

##### 4.4 Foreign currency risk (Continued)

#### Bank

	As at 31 December 2012						Total
	RMB	USD	HKD	EURO	JPY	GBP	
<b>Assets</b>							
Cash and due from banks and other financial institutions	484,686	217,421	18,040	9,970	1,566	2,424	11,486
Balances with central banks	1,618,403	149,368	1,733	65,807	9,550	47	14,454
Placements with and loans to banks and other financial institutions	296,700	55,587	21,617	11,258	4,057	23,402	22,862
Government certificates of indebtedness for bank notes issued	—	—	—	—	—	—	3,314
Precious metals	—	—	—	—	—	—	145,174
Financial assets at fair value through profit or loss	7,149	21,441	—	1,064	—	—	29,654
Derivative financial assets	5,717	7,876	—	754	154	910	528
Loans and advances to customers, net	5,029,994	783,657	55,918	40,216	12,815	7,232	60,738
Investment securities							
— available for sale	176,561	91,888	18,333	4,465	709	—	15,054
— held to maturity	1,093,628	65,488	88	2,720	877	—	615
— loans and receivables	251,489	1,070	1	—	—	—	8,702
Investment in subsidiaries	2,243	5,420	73,832	1,717	—	3,223	839
Investment in associates and joint ventures	—	—	—	—	—	—	55
Property and equipment	77,265	147	—	130	1,160	1,398	1,123
Investment properties	—	—	—	—	—	—	1,474
Deferred income tax assets	21,529	443	7	—	—	—	105
Other assets	82,891	7,544	843	531	68	192	1,164
<b>Total assets</b>	<b>9,148,255</b>	<b>1,407,350</b>	<b>190,412</b>	<b>138,632</b>	<b>30,956</b>	<b>38,828</b>	<b>287,687</b>
							<b>11,242,120</b>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market risk (Continued)

##### 4.4 Foreign currency risk (Continued)

##### Bank

	As at 31 December 2012						Total
	RMB	USD	HKD	EURO	JPY	GBP	
<b>Liabilities</b>							
Due to banks and other financial institutions	966,248	369,530	10,515	30,023	8,378	3,921	1,516,858
Due to central banks	813	110,659	6,790	—	—	—	118,262
Bank notes in circulation	—	—	—	—	—	—	3,494
Placements from banks and other financial institutions	157,481	144,188	2,678	2,197	212	2,551	313,116
Derivative financial liabilities	4,045	9,709	1	630	392	925	16,382
Due to customers	7,069,912	520,927	158,091	159,306	26,262	41,124	8,111,074
Bonds issued	170,929	7,509	—	—	—	—	178,438
Current tax liabilities	32,078	11	28	50	125	51	32,900
Retirement benefit obligations	5,642	—	—	—	—	—	5,642
Deferred income tax liabilities	—	15	—	10	1	—	186
Other liabilities	160,983	6,594	1,589	1,429	98	286	172,364
<b>Total Liabilities</b>	<b>8,568,131</b>	<b>1,169,142</b>	<b>179,692</b>	<b>193,645</b>	<b>35,468</b>	<b>48,858</b>	<b>10,468,716</b>
Net on-balance sheet position	580,124	238,208	10,720	(55,013)	(4,512)	(10,030)	773,404
Net off-balance sheet position	176,160	(219,629)	(5,981)	44,740	6,087	11,596	2,551
Credit commitments	1,435,727	580,714	69,393	69,335	8,321	10,403	2,213,325



# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market risk (Continued)

##### 4.4 Foreign currency risk (Continued)

#### Bank

	As at 31 December 2011							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	415,566	112,853	22,691	8,031	3,001	735	13,278	576,155
Balances with central banks	1,600,157	106,544	1,549	52,399	12,904	2	11,597	1,785,152
Placements with and loans to banks and other financial institutions	471,321	47,950	15,334	24,351	284	3,797	14,196	577,233
Government certificates of indebtedness for bank notes issued	—	—	—	—	—	—	2,691	2,691
Precious metals	—	—	—	—	—	—	91,642	91,642
Financial assets at fair value through profit or loss	9,176	20,439	—	2,272	—	—	—	31,887
Derivative financial assets	12,027	7,049	—	808	172	624	289	20,969
Loans and advances to customers, net	4,606,401	773,196	59,329	36,632	21,545	7,523	42,179	5,546,805
Investment securities								
— available for sale	147,225	89,235	7,513	10,576	1,861	—	14,954	271,364
— held to maturity	991,871	27,886	171	4,464	973	—	255	1,025,620
— loans and receivables	280,688	1,359	—	—	—	—	8,340	290,387
Investment in subsidiaries	2,189	4,221	73,831	584	—	2,126	838	83,789
Investment in associates and joint ventures	—	—	—	—	—	—	48	48
Property and equipment	70,527	145	—	125	1,293	1,356	1,083	74,529
Investment properties	—	—	—	—	—	—	1,280	1,280
Deferred income tax assets	19,166	348	12	—	—	—	122	19,648
Other assets	67,907	8,848	438	870	237	584	754	79,638
Total assets	8,694,221	1,200,073	180,868	141,112	42,270	16,747	203,546	10,478,837

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 4 Market risk (Continued)

##### 4.4 Foreign currency risk (Continued)

##### Bank

	As at 31 December 2011							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
<b>Liabilities</b>								
Due to banks and other financial institutions	816,203	346,046	5,682	12,616	8,840	1,618	82,556	1,273,561
Due to central banks	22	67,419	6,406	—	—	—	—	73,847
Bank notes in circulation	—	—	—	—	—	—	2,842	2,842
Placements from banks and other financial institutions	126,868	143,641	4,836	21,781	2,316	2,588	2,279	304,309
Derivative financial liabilities	5,434	9,530	1	1,011	74	768	569	17,387
Due to customers	7,075,444	376,645	101,453	101,221	19,395	19,546	113,196	7,806,900
Bonds issued	148,131	140	—	—	—	—	—	148,271
Current tax liabilities	25,278	8	6	232	121	504	378	26,527
Retirement benefit obligations	6,086	—	—	—	—	—	—	6,086
Deferred income tax liabilities	—	20	—	5	2	—	97	124
Other liabilities	125,525	4,018	1,037	779	126	650	1,634	133,769
<b>Total Liabilities</b>	<b>8,328,991</b>	<b>947,467</b>	<b>119,421</b>	<b>137,645</b>	<b>30,874</b>	<b>25,674</b>	<b>203,551</b>	<b>9,793,623</b>
Net on-balance sheet position	365,230	252,606	61,447	3,467	11,396	(8,927)	(5)	685,214
Net off-balance sheet position	237,260	(219,640)	(26,544)	(2,591)	(8,388)	10,737	12,464	3,298
Credit commitments	1,457,207	604,525	37,393	68,407	11,769	7,869	37,360	2,224,530

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**4 Market risk (Continued)**

**4.5 Price Risk**

The Group is exposed to equity risk on its available for sale listed equity securities. As at 31 December 2012, a 5 percentage variance in listed equity prices from the year end price would impact the fair value of available for sale listed equity positions by RMB226 million (31 December 2011: RMB274 million). For those available for sale equities considered impaired, the impact would be taken to the income statement. The Group is also exposed to commodity risk, mainly related to bullion. The Group manages such risk together with foreign exchange risk (Note VI.4.2).

**5 Liquidity risk**

Liquidity risk is the risk that a commercial bank is unable to timely obtains adequate funds at a reasonable cost, to maintain its asset growth, pay off debts upon maturity or meet other settlement obligations. The Group's objective in liquidity risk management is to enhance the liquidity of assets and stability of funding sources and maintain a reasonable liquidity level pursuant to the guiding principle of achieving a balance amongst "liquidity, safety and profitability".

**5.1 Liquidity risk management policy and process**

The Group adopts a liquidity risk management model that incorporates both centralised and decentralised elements. The Head Office is ultimately responsible for managing the Group's overall liquidity risk, while the branches and subsidiaries managing their own liquidity risk pursuant to the Head Office's policies within authorised scope.

The Group considers liquidity risk management a significant component of asset-liability management, and determines the size, structure and duration of assets and liabilities consistent with the principle of overall balance between assets and liabilities. The Group establishes its liquidity portfolio to mitigate liquidity risk, and to minimise the gaps in the amount and duration between the funding sources and the uses of funds. The Group refines its financing strategy, taking into consideration of various factors including customer risk sensitivity, financing cost and concentration of funding sources. In addition, the Group prioritises the development of customer deposits, dynamically adjusts the structure of fund sources by market-oriented financing modes, including due to banks and other financial institutions and inter-bank borrowing.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**5 Liquidity risk (Continued)**

**5.1 Liquidity risk management policy and process (Continued)**

Sources of liquidity risk are regularly reviewed by a separate team in the Financial Management Department to maintain a wide diversification by currency, geography, provider, product and term. A liquidity maturity analysis is performed by the Financial Management Department on a monthly basis. The forecast net liquidity position is estimated and managed on a daily basis. The Group also performs stress testing for liquidity risk on a quarterly basis.

Assets available to meet all of the liabilities and to cover outstanding loan commitments include “Cash and due from banks and other financial institutions”, “Balances with central banks”, “Placements with and loans to banks and other financial institutions” and “Loans and advances to customers, net”. In the normal course of business, a proportion of short-term customer loans contractually repayable will be extended and a portion of short-term customer deposits will not be withdrawn upon maturity. The Group would also be able to meet unexpected net cash outflows by entering into repurchase and reverse repurchase transactions, and by selling securities and accessing additional funding sources.

For purposes of the tables set forth, “Loans and advances to customers, net” are considered overdue only if principal payments are overdue. In addition, for Loans and advances to customers that are repayable by installments, only the portion of the loan that is actually overdue is reported as overdue. Any part of the loan that is not due is reported according to residual maturity.

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.2 Maturity analysis

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

#### Group

	As at 31 December 2012							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
<b>Assets</b>								
Cash and due from banks and other financial institutions	–	165,632	128,625	135,208	314,942	31,167	–	775,574
Balances with central banks	–	306,449	1,627,187	447	189	25	–	1,934,297
Placements with and loans to banks and other financial institutions	–	–	195,821	84,274	163,214	3,990	–	447,299
Government certificates of indebtedness for bank notes issued	–	70,554	–	–	–	–	–	70,554
Precious metals	–	150,534	–	–	–	–	–	150,534
Financial assets at fair value through profit or loss	–	571	9,877	4,783	8,710	31,902	15,747	71,590
Derivative financial assets	–	14,379	4,108	3,486	9,562	4,168	4,485	40,188
Loans and advances to customers, net	12,331	64,838	316,012	775,364	1,740,016	1,613,651	2,187,828	6,710,040
Investment securities								
— available for sale	–	–	56,911	97,049	124,890	280,366	127,184	686,400
— held to maturity	–	–	14,980	35,541	216,901	582,887	332,771	1,183,080
— loans and receivables	–	–	1,326	5,069	21,675	26,402	214,982	269,454
Investment in associates and joint ventures	–	–	–	–	–	4,688	7,694	12,382
Property and equipment	–	–	–	–	–	11	150,313	150,324
Investment properties	–	–	–	–	–	–	17,142	17,142
Deferred income tax assets	–	–	–	–	41	21,251	–	21,292
Other assets	847	12,048	31,745	26,702	35,358	12,430	21,335	140,465
<b>Total assets</b>	<b>13,178</b>	<b>785,005</b>	<b>2,386,592</b>	<b>1,167,923</b>	<b>2,635,498</b>	<b>2,612,938</b>	<b>3,079,481</b>	<b>12,680,615</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Amount in millions of Renminbi, unless otherwise stated)

## 5 Liquidity risk (Continued)

## Group

As at 31 December 2012								
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
<b>Liabilities</b>								
Due to banks and other financial institutions	–	647,019	197,796	274,064	192,724	241,589	–	1,553,192
Due to central banks	–	85,373	4,865	7,746	32,038	–	–	130,022
Bank notes in circulation	–	70,733	–	–	–	–	–	70,733
Placements from banks and other financial institutions	–	–	198,660	71,078	43,266	–	–	313,004
Derivative financial liabilities	–	10,560	2,505	2,609	7,503	6,652	2,628	32,457
Due to customers	–	4,213,199	1,159,015	986,503	1,885,171	918,590	11,517	9,173,995
Bonds issued	–	–	726	3,879	4,048	44,047	146,433	199,133
Other borrowings	–	–	–	814	1,970	14,848	16,413	34,045
Current tax liabilities	–	–	817	13	33,594	570	–	34,994
Retirement benefit obligations	–	–	67	134	604	2,324	2,513	5,642
Deferred income tax liabilities	–	–	–	–	550	3,288	–	3,838
Other liabilities	–	57,843	50,164	45,906	55,187	41,036	17,882	268,018
<b>Total liabilities</b>	–	<b>5,084,727</b>	<b>1,614,615</b>	<b>1,392,746</b>	<b>2,256,655</b>	<b>1,272,944</b>	<b>197,386</b>	<b>11,819,073</b>
<b>Net liquidity gap</b>	13,178	(4,299,722)	771,977	(224,823)	378,843	1,339,994	2,882,095	861,542

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Amount in millions of Renminbi, unless otherwise stated)

## 5 Liquidity risk (Continued)

## Group

As at 31 December 2011								
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
<b>Assets</b>								
Cash and due from banks and other financial institutions	—	178,633	91,012	78,251	182,897	60,121	50	590,964
Balances with central banks	—	351,600	1,567,769	273	—	9	—	1,919,651
Placements with and loans to banks and other financial institutions	—	—	278,478	86,150	250,509	3,229	—	618,366
Government certificates of indebtedness for bank notes issued	—	56,108	—	—	—	—	—	56,108
Precious metals	—	95,907	—	—	—	—	—	95,907
Financial assets at fair value through profit or loss	—	998	4,320	8,480	9,730	29,552	20,727	73,807
Derivative financial assets	—	15,960	2,747	4,291	9,679	4,884	5,196	42,757
Loans and advances to customers, net	11,630	55,764	304,255	657,969	1,692,512	1,458,596	2,022,412	6,203,138
Investment securities								
— available for sale	—	—	48,863	54,803	96,686	251,814	101,152	553,318
— held to maturity	—	—	23,960	36,637	188,346	536,726	288,447	1,074,116
— loans and receivables	—	—	8,445	4,664	44,853	32,575	208,981	299,518
Investment in associates and joint ventures	—	—	—	—	—	6,149	7,144	13,293
Property and equipment	—	—	—	—	—	8	138,226	138,234
Investment properties	—	—	—	—	—	—	14,616	14,616
Deferred income tax assets	—	—	—	—	54	19,210	—	19,264
Other assets	1,147	9,402	22,996	20,110	31,419	12,718	18,940	116,732
<b>Total assets</b>	<b>12,777</b>	<b>764,372</b>	<b>2,352,845</b>	<b>951,628</b>	<b>2,506,685</b>	<b>2,415,591</b>	<b>2,825,891</b>	<b>11,829,789</b>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.2 Maturity analysis (Continued)

#### Group

	As at 31 December 2011					
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years
						Over 5 years
						Total
<b>Liabilities</b>						
Due to banks and other financial institutions	–	569,170	164,071	106,232	203,469	298,732
Due to central banks	–	38,175	3,750	7,525	32,006	–
Bank notes in circulation	–	56,259	–	–	–	–
Placements from banks and other financial institutions	–	–	176,976	66,993	21,869	–
Derivative financial liabilities	–	11,788	4,095	3,216	4,700	7,355
Due to customers	–	3,911,685	1,351,795	1,144,898	1,798,373	594,017
Bonds issued	–	–	78	16	1,816	44,541
Other borrowings	–	–	935	273	282	8,865
Current tax liabilities	–	–	617	11	28,326	399
Retirement benefit obligations	–	–	73	147	661	2,489
Deferred income tax liabilities	–	–	–	–	–	2,966
Other liabilities	–	63,936	25,138	29,531	42,450	37,563
<b>Total liabilities</b>	–	4,651,013	1,727,528	1,358,842	2,133,952	996,927
<b>Net liquidity gap</b>	12,777	(3,886,641)	625,317	(407,214)	372,733	1,418,664
						2,621,501
						757,137



# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.2 Maturity analysis (Continued)

#### Bank

As at 31 December 2012								
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
<b>Assets</b>								
Cash and due from banks and other financial institutions	—	151,695	124,086	130,489	309,114	30,209	—	745,593
Balances with central banks	—	243,481	1,615,220	447	189	25	—	1,859,362
Placements with and loans to banks and other financial institutions	—	—	189,660	75,599	164,925	4,447	852	435,483
Government certificates of indebtedness for bank notes issued	—	3,314	—	—	—	—	—	3,314
Precious metals	—	145,174	—	—	—	—	—	145,174
Financial assets at fair value through profit or loss	—	—	884	897	3,677	16,209	7,987	29,654
Derivative financial assets	—	36	2,418	2,112	7,277	2,970	1,126	15,939
Loans and advances to customers, net	10,732	4,412	290,330	715,295	1,606,419	1,364,959	1,998,423	5,990,570
Investment securities								
— available for sale	—	—	15,241	24,255	69,122	130,920	67,472	307,010
— held to maturity	—	—	13,799	33,265	212,688	572,682	330,982	1,163,416
— loans and receivables	—	—	137	2,517	17,225	26,401	214,982	261,262
Investment in subsidiaries	—	—	—	—	—	—	87,274	87,274
Investment in associates and joint ventures	—	—	—	—	—	—	55	55
Property and equipment	—	—	—	—	—	9	81,214	81,223
Investment properties	—	—	—	—	—	—	1,474	1,474
Deferred income tax assets	—	—	—	—	90	21,994	—	22,084
Other assets	695	5,728	13,547	23,994	32,760	1,370	15,139	93,233
<b>Total assets</b>	<b>11,427</b>	<b>553,840</b>	<b>2,265,322</b>	<b>1,008,870</b>	<b>2,423,486</b>	<b>2,172,195</b>	<b>2,806,980</b>	<b>11,242,120</b>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.2 Maturity analysis (Continued)

#### Bank

As at 31 December 2012								
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
<b>Liabilities</b>								
Due to banks and other financial institutions	–	580,139	207,094	276,771	211,353	241,501	–	1,516,858
Due to central banks	–	74,419	4,062	7,746	32,035	–	–	118,262
Bank notes in circulation	–	3,494	–	–	–	–	–	3,494
Placements from banks and other financial institutions	–	–	184,353	76,443	52,320	–	–	313,116
Derivative financial liabilities	–	2	2,140	2,045	6,617	3,975	1,603	16,382
Due to customers	–	3,609,597	914,231	866,617	1,797,661	912,169	10,799	8,111,074
Bonds issued	–	–	722	3,879	5,568	39,338	128,931	178,438
Current tax liabilities	–	–	99	–	32,801	–	–	32,900
Retirement benefit obligations	–	–	67	134	604	2,324	2,513	5,642
Deferred income tax liabilities	–	–	–	–	–	186	–	186
Other liabilities	–	41,718	26,855	36,528	49,813	17,261	189	172,364
<b>Total liabilities</b>	–	4,309,369	1,339,623	1,270,163	2,188,772	1,216,754	144,035	10,468,716
<b>Net liquidity gap</b>	11,427	(3,755,529)	925,699	(261,293)	234,714	955,441	2,662,945	773,404

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.2 Maturity analysis (Continued)

#### Bank

	As at 31 December 2011					
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years
						Over 5 years
						Total
<b>Assets</b>						
Cash and due from banks and other financial institutions	—	183,747	83,984	73,414	175,010	—
Balances with central banks	—	220,759	1,564,111	273	—	—
Placements with and loans to banks and other financial institutions	—	—	249,403	79,320	243,626	1,620
Government certificates of indebtedness for bank notes issued	—	2,691	—	—	—	—
Precious metals	—	91,642	—	—	—	—
Financial assets at fair value through profit or loss	—	—	222	690	5,549	7,119
Derivative financial assets	—	710	2,512	3,714	8,563	2,205
Loans and advances to customers, net	9,744	3,038	276,105	595,254	1,550,863	1,853,601
Investment securities	—	—	10,902	17,668	53,761	55,150
— available for sale	—	—	22,037	31,969	175,287	281,052
— held to maturity	—	—	5,188	2,701	40,942	208,981
— loans and receivables	—	—	—	—	—	83,789
Investment in subsidiaries	—	—	—	—	—	48
Investment in associates and joint ventures	—	—	—	—	—	74,521
Property and equipment	—	—	—	—	—	8
Investment properties	—	—	—	—	—	1,280
Deferred income tax assets	—	—	—	—	—	—
Other assets	1,002	4,319	11,604	18,273	27,925	14,818
<b>Total assets</b>	<b>10,746</b>	<b>506,906</b>	<b>2,226,068</b>	<b>823,276</b>	<b>2,281,526</b>	<b>2,584,184</b>
						<b>10,478,837</b>

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.2 Maturity analysis (Continued)

#### Bank

As at 31 December 2011						
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years
						Over 5 years
						Total
<b>Liabilities</b>						
Due to banks and other financial institutions	–	452,468	169,053	107,852	215,694	299,225
Due to central banks	–	30,569	3,751	7,525	32,002	–
Bank notes in circulation	–	2,842	–	–	–	–
Placements from banks and other financial institutions	–	–	182,612	81,507	40,190	–
Derivative financial liabilities	–	715	3,646	2,583	3,459	4,101
Due to customers	–	3,404,420	1,057,246	1,019,058	1,724,493	584,468
Bonds issued	–	–	–	–	2,200	40,141
Current tax liabilities	–	–	61	–	26,466	–
Retirement benefit obligations	–	–	73	147	661	2,489
Deferred income tax liabilities	–	–	–	–	–	124
Other liabilities	–	43,645	15,824	26,502	37,153	279
<b>Total liabilities</b>	<b>–</b>	<b>3,934,659</b>	<b>1,432,266</b>	<b>1,245,174</b>	<b>2,082,318</b>	<b>940,914</b>
<b>Net liquidity gap</b>	<b>10,746</b>	<b>(3,427,753)</b>	<b>793,802</b>	<b>(421,898)</b>	<b>199,208</b>	<b>2,425,892</b>
						<b>685,214</b>

# **BANK OF CHINA LIMITED**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

### **VI FINANCIAL RISK MANAGEMENT (Continued)**

#### **5 Liquidity risk (Continued)**

##### **5.3 Undiscounted cash flows by contractual maturities**

The tables below present the cash flows of the Group and the Bank of non-derivative financial assets and financial liabilities and derivative financial instruments that will be settled on a net basis and on a gross basis by remaining contractual maturities at the financial reporting date. The amounts disclosed in the table are the contractual undiscounted cash flow, except for certain customer driven derivatives which are disclosed at fair value (i.e. discounted cash flows basis). The Group also manages its inherent short-term liquidity risk based on expected undiscounted cash flows.

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.3 Undiscounted cash flows by contractual maturities (Continued)

#### Group

	As at 31 December 2012							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
<b>Non-derivative cash flow</b>								
Cash and due from banks and other financial institutions	–	165,944	129,088	139,282	324,102	34,774	–	793,190
Balances with central banks	–	307,227	1,627,188	447	189	25	–	1,935,076
Placements with and loans to banks and other financial institutions	–	–	196,665	85,685	168,727	4,983	–	456,060
Financial assets at fair value through profit or loss	–	571	9,972	4,933	10,273	35,119	17,202	78,070
Loans and advances to customers, net	13,944	66,593	351,564	839,248	1,945,651	2,250,095	3,077,335	8,544,430
Investment securities								
— available for sale	–	–	58,353	99,954	137,227	323,281	144,985	763,800
— held to maturity	–	–	17,357	43,773	271,194	680,489	389,690	1,402,503
— loans and receivables	–	–	1,403	6,043	27,209	49,714	237,961	322,330
Other assets	148	5,267	20,270	7,189	12,105	1,379	996	47,354
<b>Total financial assets</b>	<b>14,092</b>	<b>545,602</b>	<b>2,411,860</b>	<b>1,226,554</b>	<b>2,896,677</b>	<b>3,379,859</b>	<b>3,868,169</b>	<b>14,342,813</b>
Due to banks and other financial institutions	–	647,036	199,077	289,971	197,778	295,558	–	1,629,420
Due to central banks	–	85,373	4,866	7,751	32,202	–	–	130,192
Placements from banks and other financial institutions	–	–	199,141	71,296	43,713	–	–	314,150
Due to customers	–	4,222,800	1,184,278	1,014,324	1,958,478	1,024,587	13,030	9,417,497
Bonds issued	–	–	749	5,960	9,160	71,962	190,777	278,608
Other borrowings	–	–	–	883	2,299	16,788	18,389	38,359
Other liabilities	–	19,725	25,161	5,807	8,150	2,963	406	62,212
<b>Total financial liabilities</b>	<b>–</b>	<b>4,974,934</b>	<b>1,613,272</b>	<b>1,395,992</b>	<b>2,251,780</b>	<b>1,411,858</b>	<b>222,602</b>	<b>11,870,438</b>
<b>Derivative cash flow</b>								
Derivative financial instruments settled on a net basis	–	3,788	(304)	(48)	(1,506)	(978)	993	1,945
Derivative financial instruments settled on a gross basis								
Total inflow	–	39,655	582,266	377,189	981,656	93,826	990	2,075,582
Total outflow	–	(39,660)	(586,393)	(375,201)	(977,531)	(93,628)	(989)	(2,073,402)

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.3 Undiscounted cash flows by contractual maturities (Continued)

#### Group

	As at 31 December 2011							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
<b>Non-derivative cash flow</b>								
Cash and due from banks and other financial institutions	–	178,842	92,361	81,387	192,542	66,198	68	611,398
Balances with central banks	–	352,355	1,567,781	273	–	9	–	1,920,418
Placements with and loans to banks and other financial institutions	–	–	279,296	88,982	261,961	4,067	–	634,306
Financial assets at fair value through profit or loss	–	998	4,463	8,674	10,790	32,379	21,067	78,371
Loans and advances to customers, net	13,058	56,409	337,881	717,930	1,876,392	2,020,228	2,780,920	7,802,818
Investment securities								
— available for sale	–	–	49,767	57,115	108,311	280,317	119,749	615,259
— held to maturity	–	–	27,410	41,542	216,364	625,576	335,239	1,246,131
— loans and receivables	–	–	8,447	5,565	50,999	55,528	235,446	355,985
Other assets	13	3,417	9,342	651	4,316	1,457	962	20,158
<b>Total financial assets</b>	<b>13,071</b>	<b>592,021</b>	<b>2,376,748</b>	<b>1,002,119</b>	<b>2,721,675</b>	<b>3,085,759</b>	<b>3,493,451</b>	<b>13,284,844</b>
Due to banks and other financial institutions	–	569,290	165,382	109,608	215,330	340,398	34,611	1,434,619
Due to central banks	–	38,175	3,751	7,529	32,187	–	–	81,642
Placements from banks and other financial institutions	–	–	177,376	67,317	22,256	–	–	266,949
Due to customers	–	3,921,852	1,366,674	1,164,272	1,859,160	660,070	19,299	8,991,327
Bonds issued	–	–	79	2,218	5,919	70,727	163,362	242,305
Other borrowings	–	–	937	278	289	9,736	18,121	29,361
Other liabilities	–	33,812	9,509	1,474	3,048	3,333	152	51,328
<b>Total financial liabilities</b>	<b>–</b>	<b>4,563,129</b>	<b>1,723,708</b>	<b>1,352,696</b>	<b>2,138,189</b>	<b>1,084,264</b>	<b>235,545</b>	<b>11,097,531</b>
<b>Derivative cash flow</b>								
Derivative financial instruments settled on a net basis	–	4,036	(432)	237	288	(1,473)	383	3,039
Derivative financial instruments settled on a gross basis								
Total inflow	–	36,802	576,247	310,922	785,472	92,233	839	1,802,515
Total outflow	–	(36,801)	(581,920)	(309,803)	(777,443)	(91,992)	(841)	(1,798,800)

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.3 Undiscounted cash flows by contractual maturities (Continued)

###### Bank

	As at 31 December 2012							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
<b>Non-derivative cash flow</b>								
Cash and due from banks and other financial institutions	–	151,695	124,510	134,458	318,072	33,582	–	762,317
Balances with central banks	–	244,243	1,615,220	447	189	25	–	1,860,124
Placements with and loans to banks and other financial institutions	–	–	190,450	76,894	170,400	5,487	852	444,083
Financial assets at fair value through profit or loss	–	–	906	942	4,554	17,790	8,833	33,025
Loans and advances to customers, net	11,860	5,218	323,250	777,133	1,803,200	1,983,527	2,863,108	7,767,296
Investment securities	–	–	–	–	–	–	–	–
— available for sale	–	–	16,147	27,826	76,224	145,041	76,554	341,792
— held to maturity	–	–	15,253	39,937	244,265	669,552	387,457	1,356,464
— loans and receivables	–	–	215	3,483	22,685	49,714	237,961	314,058
Other assets	61	2,126	3,409	5,943	11,434	–	991	23,964
<b>Total financial assets</b>	<b>11,921</b>	<b>403,282</b>	<b>2,289,360</b>	<b>1,067,063</b>	<b>2,651,023</b>	<b>2,904,718</b>	<b>3,575,756</b>	<b>12,903,123</b>
Due to banks and other financial institutions								
Due to central banks	–	580,139	208,390	292,692	217,004	295,451	–	1,593,676
Placements from banks and other financial institutions	–	74,419	4,063	7,751	32,198	–	–	118,431
Due to customers	–	–	184,845	76,704	52,853	–	–	314,402
Bonds issued	–	3,619,529	938,722	894,073	1,872,365	1,025,454	20,981	8,371,124
Other liabilities	–	–	753	5,524	12,104	91,327	142,886	252,594
	–	18,444	2,987	941	5,123	477	81	28,053
<b>Total financial liabilities</b>	<b>–</b>	<b>4,292,531</b>	<b>1,339,760</b>	<b>1,277,685</b>	<b>2,191,647</b>	<b>1,412,709</b>	<b>163,948</b>	<b>10,678,280</b>
<b>Derivative cash flow</b>								
Derivative financial instruments settled on a net basis	–	–	(209)	(355)	(1,347)	(810)	221	(2,500)
Derivative financial instruments settled on a gross basis								
Total inflow	–	–	386,117	228,272	743,229	65,274	16	1,422,908
Total outflow	–	–	(407,327)	(229,847)	(740,353)	(64,866)	(16)	(1,442,409)



# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 5 Liquidity risk (Continued)

##### 5.3 Undiscounted cash flows by contractual maturities (Continued)

#### Bank

	As at 31 December 2011							
	Overdue	On demand	Less than 1 month	Between 1 to 3 months	Between 3 to 12 months	Between 1 to 5 years	Over 5 years	Total
<b>Non-derivative cash flow</b>								
Cash and due from banks and other financial institutions	–	183,747	85,247	76,430	184,328	66,046	–	595,798
Balances with central banks	–	221,485	1,564,123	273	–	9	–	1,785,890
Placements with and loans to banks and other financial institutions	–	–	250,116	81,721	254,656	4,102	1,620	592,215
Financial assets at fair value through profit or loss	–	–	335	796	6,337	20,858	7,377	35,703
Loans and advances to customers, net	11,089	3,575	308,672	653,665	1,731,060	1,804,413	2,590,784	7,103,258
Investment securities								
— available for sale	–	–	11,316	18,726	59,972	151,335	66,017	307,366
— held to maturity	–	–	23,856	36,648	202,456	602,652	326,858	1,192,470
— loans and receivables	–	–	5,189	3,602	47,064	55,528	235,446	346,829
Other assets	–	–	61	264	2,966	–	949	4,240
<b>Total financial assets</b>	<b>11,089</b>	<b>408,807</b>	<b>2,248,915</b>	<b>872,125</b>	<b>2,488,839</b>	<b>2,704,943</b>	<b>3,229,051</b>	<b>11,963,769</b>
Due to banks and other financial institutions	–	452,468	170,365	111,228	227,555	340,891	34,611	1,337,118
Due to central banks	–	30,569	3,751	7,529	32,184	–	–	74,033
Placements from banks and other financial institutions	–	–	182,987	81,798	40,549	–	–	305,334
Due to customers	–	3,414,843	1,071,556	1,037,624	1,783,950	649,607	19,289	7,976,869
Bonds issued	–	–	–	1,784	5,708	62,138	144,559	214,189
Other liabilities	–	25,627	1,686	704	2,900	158	112	31,187
<b>Total financial liabilities</b>	<b>–</b>	<b>3,923,507</b>	<b>1,430,345</b>	<b>1,240,667</b>	<b>2,092,846</b>	<b>1,052,794</b>	<b>198,571</b>	<b>9,938,730</b>
<b>Derivative cash flow</b>								
Derivative financial instruments settled on a net basis	–	–	(244)	57	535	(1,016)	(21)	(689)
Derivative financial instruments settled on a gross basis								
Total inflow	–	–	414,911	235,974	673,734	73,869	60	1,398,548
Total outflow	–	–	(417,408)	(234,856)	(666,235)	(73,648)	(60)	(1,392,207)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

## VI FINANCIAL RISK MANAGEMENT (Continued)

## 5 Liquidity risk (Continued)

## 5.4 Off-balance sheet items

The Group's and the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are summarised in the table below at the remaining period to the contractual maturity date. Financial guarantees are also included below at notional amounts and based on the earliest contractual maturity date. Where the Group and the Bank are the lessee under operating lease commitments, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note V.40.5, are summarised in the table below.

**Group**

	As at 31 December 2012			Total
	Less than 1 year	Between 1 to 5 years	Over 5 years	
Loan commitments	481,832	143,539	100,043	725,414
Guarantees, acceptances and other financial facilities	1,198,530	237,786	155,775	1,592,091
Subtotal	1,680,362	381,325	255,818	2,317,505
Operating lease commitments	8,003	12,040	4,136	24,179
Capital commitments	31,530	32,627	14,662	78,819
Total	<u>1,719,895</u>	<u>425,992</u>	<u>274,616</u>	<u>2,420,503</u>

	As at 31 December 2011			Total
	Less than 1 year	Between 1 to 5 years	Over 5 years	
Loan commitments	496,304	181,140	72,971	750,415
Guarantees, acceptances and other financial facilities	1,079,253	323,214	158,990	1,561,457
Subtotal	1,575,557	504,354	231,961	2,311,872
Operating lease commitments	4,420	10,317	3,170	17,907
Capital commitments	29,887	32,923	27	62,837
Total	<u>1,609,864</u>	<u>547,594</u>	<u>235,158</u>	<u>2,392,616</u>

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**5 Liquidity risk (Continued)**

**5.4 Off-balance sheet items (Continued)**

**Bank**

	<b>As at 31 December 2012</b>			<b>Total</b>
	<b>Less than 1 year</b>	<b>Between 1 to 5 years</b>	<b>Over 5 years</b>	
Loan commitments	405,723	142,670	100,043	648,436
Guarantees, acceptances and other financial facilities	<u>1,160,586</u>	<u>242,728</u>	<u>161,575</u>	<u>1,564,889</u>
Subtotal	1,566,309	385,398	261,618	2,213,325
Operating lease commitments	7,214	10,739	3,699	21,652
Capital commitments	<u>9,754</u>	<u>3,862</u>	<u>13</u>	<u>13,629</u>
Total	<u><u>1,583,277</u></u>	<u><u>399,999</u></u>	<u><u>265,330</u></u>	<u><u>2,248,606</u></u>

	<b>As at 31 December 2011</b>			<b>Total</b>
	<b>Less than 1 year</b>	<b>Between 1 to 5 years</b>	<b>Over 5 years</b>	
Loan commitments	437,116	181,140	72,971	691,227
Guarantees, acceptances and other financial facilities	<u>1,047,799</u>	<u>324,338</u>	<u>161,166</u>	<u>1,533,303</u>
Subtotal	1,484,915	505,478	234,137	2,224,530
Operating lease commitments	3,725	9,261	2,903	15,889
Capital commitments	<u>6,536</u>	<u>6,123</u>	<u>27</u>	<u>12,686</u>
Total	<u><u>1,495,176</u></u>	<u><u>520,862</u></u>	<u><u>237,067</u></u>	<u><u>2,253,105</u></u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

## VI FINANCIAL RISK MANAGEMENT (Continued)

## 6 Fair value of financial assets and liabilities

## 6.1 Financial instruments not measured at fair value

Financial assets and liabilities not presented at their fair value on the statement of financial position mainly represent “Balances with central banks”, “Due from banks and other financial institutions”, “Placements with and loans to banks and other financial institutions”, “Loans and advances to customers, net”, “Investment securities” classified as held to maturity and loans and receivables, “Due to central banks”, “Due to banks and other financial institutions”, “Placements from banks and other financial institutions”, and “Due to customers” measured at amortised cost, and “Bonds issued”.

The tables below summarise the carrying amounts and fair values of “Investment securities” classified as held to maturity and loans and receivables, and “Bonds issued” not presented at fair value on the statement of financial position.

**Group**

	As at 31 December			
	Carrying value		Fair value	
	2012	2011	2012	2011
<b>Financial assets</b>				
Investment securities <sup>(1)</sup>				
— held to maturity	1,183,080	1,074,116	1,179,903	1,076,218
— loans and receivables	<u>269,454</u>	<u>299,518</u>	<u>269,471</u>	<u>299,518</u>
<b>Financial liabilities</b>				
Bonds issued <sup>(2)</sup>	<u>199,133</u>	<u>169,902</u>	<u>195,885</u>	<u>164,228</u>

**BANK OF CHINA LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)****6 Fair value of financial assets and liabilities (Continued)****6.1 Financial instruments not measured at fair value (Continued)****Bank**

	As at 31 December			
	Carrying value		Fair value	
	2012	2011	2012	2011
<b>Financial assets</b>				
Investment securities <sup>(1)</sup>				
— held to maturity	1,163,416	1,025,620	1,159,745	1,027,499
— loans and receivables	<u>261,262</u>	<u>290,387</u>	<u>261,263</u>	<u>290,387</u>
<b>Financial liabilities</b>				
Bonds issued <sup>(2)</sup>	<u>178,438</u>	<u>148,271</u>	<u>174,661</u>	<u>143,556</u>

(1) Investment securities classified as held to maturity and loans and receivables

Fair value of held to maturity securities is based on market prices or broker/dealer price quotations. Where this information for held to maturity securities and loans and receivables is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(2) Bonds issued

The aggregate fair values are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity. The fair value for the convertible bonds (including the conversion option value) is based on the quoted market price on Shanghai Stock Exchange.

Other than above, the difference between the carrying amounts and fair values of those financial assets and liabilities not presented at their fair value on the statement of financial position are insignificant. Fair value is measured using a discounted cash flow model.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**6 Fair value of financial assets and liabilities (Continued)**

**6.2 Financial instruments measured at fair value**

Financial instruments measured at fair value are classified into following three levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities, including listed equity securities on exchange or debt instrument issued by certain governments.
- Level 2: Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. This level includes the majority of the over-the-counter derivative contracts, debt securities for which quotations are available from pricing services providers, traded loans and issued structured deposits.
- Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

The Group uses valuation techniques or counterparty quotations to determine the fair value of financial instruments when it is unable to obtain open market quotation in active markets.

The main parameters used in valuation techniques for financial instruments held by the Group include bond prices, interest rates, foreign exchange rates, equity and stock prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are all observable and obtainable from open market.

For certain illiquid debt securities (mainly asset-backed securities), unlisted equity (private equity) and over-the-counter structured derivatives transactions held by the Group, management obtains valuation quotations from counterparties. The fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and therefore, these instruments have been classified by the Group as level 3. Management assesses the impact of changes in macro-economic factors, engaged external valuer and other inputs, including loss coverage ratios, to determine the fair value for the Group's level 3 financial instruments. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**6 Fair value of financial assets and liabilities (Continued)**

**6.2 Financial instruments measured at fair value (Continued)**

	As at 31 December 2012			
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Financial assets at fair value through profit or loss				
— Debt securities	332	64,173	268	64,773
— Fund investments	780	—	—	780
— Loans	—	4,566	—	4,566
— Equity securities	1,299	172	—	1,471
Derivative financial assets	14,501	25,687	—	40,188
Investment securities available for sale				
— Debt securities	128,481	523,286	2,952	654,719
— Fund investments and other	586	—	7,054	7,640
— Equity securities	<u>4,326</u>	<u>1,869</u>	<u>17,846</u>	<u>24,041</u>
<b>Financial liabilities</b>				
Due to customers at fair value	—	(163,395)	(622)	(164,017)
Short position in debt securities	—	(14,061)	—	(14,061)
Derivative financial liabilities	<u>(10,898)</u>	<u>(21,559)</u>	<u>—</u>	<u>(32,457)</u>

**BANK OF CHINA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**6 Fair value of financial assets and liabilities (Continued)**

**6.2 Financial instruments measured at fair value (Continued)**

	As at 31 December 2011			
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Financial assets at fair value through profit or loss				
— Debt securities	—	64,367	108	64,475
— Fund investments	3,524	—	—	3,524
— Loans	—	4,412	—	4,412
— Equity securities	1,265	131	—	1,396
Derivative financial assets	15,219	27,538	—	42,757
Investment securities available for sale				
— Debt securities	99,321	420,105	4,666	524,092
— Fund investments and other	328	—	5,617	5,945
— Equity securities	<u>5,274</u>	<u>1,390</u>	<u>16,617</u>	<u>23,281</u>
<b>Financial liabilities</b>				
Due to customers at fair value	—	(560,923)	(164)	(561,087)
Short position in debt securities	—	(2,106)	—	(2,106)
Derivative financial liabilities	<u>(11,103)</u>	<u>(24,370)</u>	<u>—</u>	<u>(35,473)</u>



# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 6 Fair value of financial assets and liabilities (Continued)

##### 6.2 Financial instruments measured at fair value (Continued)

###### Reconciliation of Level 3 Items

	Financial assets at fair value through profit or loss	Investment securities available for sale			Derivative financial assets less liabilities	Due to customers at fair value
	Debt securities	Debt securities	Fund investments and other	Equity securities		Structured deposit
As at 1 January 2012	108	4,666	5,617	16,617	–	(164)
Total gains and losses						
— profit or loss	27	73	42	(27)	–	–
— other comprehensive income	–	162	403	(183)	–	–
Sales	(4)	(626)	(463)	(294)	–	–
Purchases	–	1,499	1,455	1,733	–	–
Issues	–	–	–	–	–	(622)
Settlements	–	–	–	–	–	164
Transfers into/(out of) Level 3, net	137	(2,822)	–	–	–	–
As at 31 December 2012	<u>268</u>	<u>2,952</u>	<u>7,054</u>	<u>17,846</u>	<u>–</u>	<u>(622)</u>
Total gains or losses for the year included in the income statement for assets/ liabilities held as at 31 December 2012	<u>27</u>	<u>8</u>	<u>140</u>	<u>(132)</u>	<u>–</u>	<u>–</u>
As at 1 January 2011	308	6,954	4,970	12,326	4	–
Total gains and losses						
— profit or loss	(9)	125	(42)	1,564	(4)	–
— other comprehensive income	–	(132)	(106)	(1,176)	–	–
Sales	(191)	(3,711)	(969)	(879)	–	–
Purchases	–	1,302	1,764	4,782	–	–
Issues	–	–	–	–	–	(164)
Settlements	–	–	–	–	–	–
Transfers into Level 3, net	–	128	–	–	–	–
As at 31 December 2011	<u>108</u>	<u>4,666</u>	<u>5,617</u>	<u>16,617</u>	<u>–</u>	<u>(164)</u>
Total gains or losses for the year included in the income statement for assets/ liabilities held as at 31 December 2011	<u>(9)</u>	<u>79</u>	<u>101</u>	<u>38</u>	<u>(4)</u>	<u>–</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**6 Fair value of financial assets and liabilities (Continued)**

**6.2 Financial instruments measured at fair value (Continued)**

Total gains or losses for the years ended 31 December 2012 and 2011 included in the income statement as well as total gains or losses included in the income statement relating to financial instruments held at 31 December 2012 and 2011 are presented in “Net trading gains”, “Net gains on investment securities” or “Impairment losses on assets” depending on the nature or category of the related financial instruments.

There have been no significant transfers between levels 1 and 2 during 2012.

**7 Capital management**

The Group follows the principles below with regard to capital management:

- maintain levels of asset quality consistent with the Group’s business strategy and adequate capital to support the implementation of the Group’s strategic development plan and meet the regulatory requirements;
- effectively identify, quantify, monitor, mitigate and control the major risks to which the Group is exposed, and maintain capital appropriate to the Group’s risk exposure and risk management needs; and
- optimise asset structure and allocate economic capital in a reasonable manner to ensure the sustainable development of the Group.

Capital adequacy and regulatory capital are monitored by the Group’s management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBRC, for supervisory purposes. The required information is filed with the CBRC on a quarterly basis.

The CBRC requires each bank or banking group to maintain a ratio of total regulatory capital to its risk-weighted assets at or above the agreed minimum of 8%, and a core capital ratio of above 4%. The minimum leverage ratio of each bank or banking group is 4%. The board of directors approved the “Capital Management Plans for Bank of China Limited (for the years from 2010 to 2012)” at the beginning of 2010, and strategically sets the Group’s capital adequacy ratio at 11.5% for the years from 2010 to 2012.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

## VI FINANCIAL RISK MANAGEMENT (Continued)

## 7 Capital management (Continued)

The Group's regulatory capital as managed by its Financial Management Department is divided into two tiers:

- Core capital: share capital, capital reserve, specified reserves, retained earnings, minority interests; and
- Supplementary: long-term subordinated bonds issued, convertible bonds issued, collective impairment allowances and others.

Goodwill, investments in entities engaged in banking and other financial activities which are not consolidated in the financial statements, investment properties, investments in commercial corporations and other deductible items are deducted from core and supplementary capital to derive at the regulatory capital.

The on-balance sheet risk weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of, and reflecting an estimate of, credit and other risks associated with each asset and customer, and taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure with adjustments to reflect the contingent nature of the potential losses. The market risk capital adjustment is measured by means of a standardised approach.

During 2012, the Group replenished its capital through the issuance of subordinated bonds. The Group also took various measures to manage the level of risk weighted assets including adjusting the composition of its on- and off- balance sheet assets.

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

	As at 31 December	
	2012	2011
Capital adequacy ratio	13.63%	12.98%
Core capital adequacy ratio	10.54%	10.08%
Leverage ratio <sup>(5)</sup>	5.15%	NA

The capital adequacy ratios and leverage ratio above are calculated in accordance with the rules and regulations promulgated by the CBRC and generally accepted accounting principles of PRC ("CAS").

# BANK OF CHINA LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amount in millions of Renminbi, unless otherwise stated)

### VI FINANCIAL RISK MANAGEMENT (Continued)

#### 7 Capital management (Continued)

##### Group

	As at 31 December	
	2012	2011
<b>Components of capital base</b>		
Core capital:		
Share capital	279,132	279,122
Reserves <sup>(1)</sup>	478,876	389,156
Minority interests	36,865	33,223
Total core capital	794,873	701,501
Supplementary capital:		
Collective impairment allowances	68,647	63,428
Long-term subordinated bonds issued	146,433	123,451
Convertible bonds issued	39,776	39,776
Other <sup>(1)</sup>	11,141	8,108
Total supplementary capital	265,997	234,763
Total capital base before deductions	1,060,870	936,264
Deductions:		
Goodwill	(1,796)	(1,727)
Investments in entities engaged in banking and financial activities which are not consolidated	(10,581)	(9,383)
Investment properties	(17,142)	(14,616)
Investments in commercial corporations	(27,313)	(28,587)
Other deductible items <sup>(2)</sup>	(15,380)	(17,680)
Total capital base after deductions	988,658	864,271
Core capital base after deductions <sup>(3)</sup>	764,261	671,244
Risk weighted assets and market risk capital adjustment <sup>(4)</sup>	7,253,230	6,656,034
Adjusted on-balance sheet assets	12,695,457	NA
Adjusted off-balance sheet assets	2,180,233	NA
Adjusted on- and off-balance sheet assets <sup>(5)</sup>	14,845,078	NA

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amount in millions of Renminbi, unless otherwise stated)

**VI FINANCIAL RISK MANAGEMENT (Continued)**

**7 Capital management (Continued)**

- (1) Pursuant to regulations released by CBRC in November 2007, all net unrealised fair value gains after tax consideration are removed from the core capital calculation. The fair value gains on trading activities recognised in profit or loss are included in the supplementary capital. Only a certain percentage of fair value gain recognised in equity can be included in the supplementary capital.
- (2) Pursuant to the relevant regulations, other deductible items include investments in asset-backed securities, long-term subordinated debts issued by other banks and acquired by the Group after 1 July 2009.
- (3) Pursuant to the relevant regulations, 100% of goodwill and 50% of certain other deductions were applied in deriving the core capital base.
- (4) Pursuant to the regulation “Notification on Regulating Wealth Management Product (“WMP”) Trust Plans” (Yinjianfa [2010] No. 72) released by CBRC in August 2010, WMP Trust Plans have been reclassified from off-balance sheet to on-balance sheet risk weighted assets for the purpose of capital adequacy ratio calculations.

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

- (5) Pursuant to the regulation “Guidance on the leverage ratio management of commercial banks” (Yinjianhuiling [2011] No.3) released by CBRC in June 2011, The leverage ratio is calculated by dividing Tier 1 capital by the Bank’s adjusted total assets. Under the current regulation “Rules for Regulating the Capital Adequacy Requirement of Commercial Banks”, core capital base after deductions is used to calculate leverage ratio.

**8 Insurance risk**

Insurance contracts are mainly sold in Chinese mainland and Hong Kong denominated in RMB and HKD. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. This risk is inherently random and, therefore, unpredictable. The Group manages its portfolio of insurance risks through its underwriting strategy and policies, portfolio management techniques, adequate reinsurance arrangements and proactive claims handling and processing. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk and industry.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of the claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term life insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. In order to assess the uncertainty due to the mortality assumption and lapse assumption, the Group conducted mortality rate studies and policy lapse studies in order to determine the appropriate assumptions.

# **BANK OF CHINA LIMITED**

## **APPENDIX I —**

### **UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION**

(Amount in millions of Renminbi, unless otherwise stated)

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

#### **1 Liquidity ratios**

	<b>As at 31 December</b>	
	<b>2012</b>	<b>2011</b>
RMB current assets to RMB current liabilities	<u>49.85%</u>	<u>47.04%</u>
Foreign currency current assets to foreign currency current liabilities	<u>65.16%</u>	<u>56.16%</u>

The liquidity ratios are calculated in accordance with the relevant provisions of the PBOC and CBRC. Financial data as at 31 December 2012 and 2011 is based on the Chinese Accounting Standards 2006 (“CAS”).

# BANK OF CHINA LIMITED

## APPENDIX I —

### UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Amount in millions of Renminbi, unless otherwise stated)

## 2 Currency concentrations

The following information is computed in accordance with the provisions of the CBRC.

	Equivalent in millions of RMB			
	USD	HKD	Other	Total
<b>As at 31 December 2012</b>				
Spot assets	1,080,354	20,700	270,823	1,371,877
Spot liabilities	(746,660)	(230,636)	(303,685)	(1,280,981)
Forward purchases	876,526	232,423	443,453	1,552,402
Forward sales	(1,182,702)	(58,725)	(422,891)	(1,664,318)
Net options position*	(7,286)	79	(1,936)	(9,143)
Net long/(short) position	<u>20,232</u>	<u>(36,159)</u>	<u>(14,236)</u>	<u>(30,163)</u>
Net structural position	<u>19,191</u>	<u>103,566</u>	<u>31,688</u>	<u>154,445</u>
<b>As at 31 December 2011</b>				
Spot assets	935,162	29,073	245,344	1,209,579
Spot liabilities	(587,959)	(154,965)	(234,957)	(977,881)
Forward purchases	824,281	173,723	292,260	1,290,264
Forward sales	(1,129,130)	(77,005)	(305,352)	(1,511,487)
Net options position*	(4,913)	(323)	565	(4,671)
Net long/(short) position	<u>37,441</u>	<u>(29,497)</u>	<u>(2,140)</u>	<u>5,804</u>
Net structural position	<u>15,864</u>	<u>92,275</u>	<u>22,658</u>	<u>130,797</u>

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

## APPENDIX I —

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Amount in millions of Renminbi, unless otherwise stated)

**3 Cross-border claims**

The Group is principally engaged in business operations within the Chinese mainland, and regards all claims on third parties outside the Chinese mainland as cross-border claims.

Cross-border claims include “Balances with central banks”, “Placements with and loans to banks and other financial institutions”, “Government certificates of indebtedness for bank notes issued”, “Financial assets at fair value through profit or loss”, “Loans and advances to customers, net” and “Investment securities”.

Cross-border claims have been disclosed by country or geographical area. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	<b>Banks and other financial institutions</b>	<b>Public sector entities</b>	<b>Other*</b>	<b>Total</b>
<b>As at 31 December 2012</b>				
Asia Pacific excluding Chinese mainland				
Hong Kong	14,044	5,849	661,357	681,250
Other Asia Pacific locations	97,126	22,884	245,279	365,289
Subtotal	111,170	28,733	906,636	1,046,539
North and South America	92,604	33,351	321,796	447,751
Europe	80,018	9,335	116,355	205,708
Middle East and Africa	4,682	134	15,738	20,554
Total	<u>288,474</u>	<u>71,553</u>	<u>1,360,525</u>	<u>1,720,552</u>



**BANK OF CHINA LIMITED**

**APPENDIX I —**

**UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION**

(Amount in millions of Renminbi, unless otherwise stated)

**3 Cross-border claims (Continued)**

	<b>Banks and other financial institutions</b>	<b>Public sector entities</b>	<b>Other*</b>	<b>Total</b>
<b>As at 31 December 2011</b>				
Asia Pacific excluding Chinese mainland				
Hong Kong	28,936	5,936	576,206	611,078
Other Asia Pacific locations	85,885	18,145	226,974	331,004
Subtotal	114,821	24,081	803,180	942,082
North and South America	99,961	23,283	243,221	366,465
Europe	149,058	12,821	90,653	252,532
Middle East and Africa	3,579	—	18,489	22,068
Total	<u>367,419</u>	<u>60,185</u>	<u>1,155,543</u>	<u>1,583,147</u>

\* Claims on the government entities are included in “Other”.

## APPENDIX I —

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Amount in millions of Renminbi, unless otherwise stated)

**4 Overdue assets**

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

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

	As at 31 December	
	2012	2011
Total loans and advances to customers which		
have been overdue for		
within 3 months	29,819	29,725
between 3 to 6 months	5,188	7,718
between 6 to 12 months	7,691	3,656
over 12 months	32,197	27,031
Total	<u>74,895</u>	<u>68,130</u>
Percentage		
within 3 months	0.43%	0.47%
between 3 to 6 months	0.08%	0.12%
between 6 to 12 months	0.11%	0.05%
over 12 months	0.47%	0.43%
Total	<u>1.09%</u>	<u>1.07%</u>

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

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

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

(Amount in millions of Renminbi, unless otherwise stated)

**DIFFERENCES BETWEEN CAS AND IFRS CONSOLIDATED FINANCIAL  
STATEMENTS**

There are no differences in the Group's operating results for the years ended 31 December 2012 and 2011 or total equity as at 31 December 2012 and 2011 presented in the Group's consolidated financial statements prepared under IFRS and those prepared under CAS.

# Reference for Shareholders

## Financial Calendar for 2013

Announcement of 2012 annual results	26 March 2013
Annual report of 2012	To be printed and dispatched to H-Share Holders in late April 2013
Annual General Meeting of 2012	To be held on 29 May 2013
Announcement of 2013 interim results	To be announced not later than 31 August 2013

## Annual General Meeting

The Bank's 2012 Annual General Meeting is scheduled to be held at Bank of China Head Office, No.1 Fuxingmen Nei Dajie, Beijing, China and at the Four Seasons Hotel, 8 Finance Street, Central, Hong Kong at 9:30 a.m. on Wednesday, 29 May 2013.

## Dividends

The Board of Directors recommended a final dividend of RMB0.175 per share (before tax), subject to the approval of shareholders at the 2012 Annual General Meeting.

## Securities Information

### *Listing*

The Bank's ordinary shares were listed on the Hong Kong Stock Exchange and SSE on 1 June and 5 July 2006 respectively. The RMB40 billion A-Share Convertible Bonds of the Bank were listed on SSE on 18 June 2010.

### *Ordinary Shares*

Issued shares: 279,147,343,265 shares (as at 31 December 2012)

Including:

A Share: 195,525,066,870 shares

H Share: 83,622,276,395 shares

## A-Share Convertible Bonds

Total amount of the issued Convertible Bonds: RMB40 billion

## Market Capitalisation

As at the last trading day in 2012 (31 December for both H Shares and A Shares), the Bank's market capitalisation was RMB805.539 billion (based on the closing price of H Shares and A Shares on 31 December 2012, and exchange rate HKD100 = RMB81.085 as published by the SAFE on 31 December 2012).

## Securities Price

	Closing price on 31 December 2012	Highest trading price in the year	Lowest trading price in the year
A Share	RMB2.92	RMB3.10	RMB2.58
H Share	HKD3.46	HKD3.51	HKD2.73
A-Share Convertible Bond	RMB96.86	RMB99.38	RMB94.50

## Securities Code

### H Share:

Stock name:	Bank of China
Hong Kong Stock Exchange	3988
Reuters	3988.HK
Bloomberg	3988 HK

### A Share:

Stock name:	中國銀行
Shanghai Stock Exchange	601988
Reuters	601988.SS
Bloomberg	601988 CH

**Securities Name:** 中行轉債

### A-Share Convertible Bond:

Shanghai Stock Exchange	113001
Reuters	113001.SS
Bloomberg	113001 CH

## Shareholder Enquiry

If a shareholder wishes to enquire about share transfers, changes of name or address, or loss of share certificates, or to receive other information concerning the shares held, please write to the Bank at the following address:

### *H-Share Holders:*

Computershare Hong Kong Investor Services Limited  
17M, Hopewell Centre,  
183 Queen's Road East,  
Wanchai, Hong Kong  
Telephone: (852) 2862 8555  
Facsimile: (852) 2865 0990

**A-Share Holders:**

Shanghai Branch of China Securities Depository and Clearing Corporation Limited  
36F, China Insurance Building,  
166 East Lujiazui Road,  
Pudong New Area, Shanghai  
Telephone: (86) 21-3887 4800

**Credit Rating (Long Term, Foreign Currency)**

Standard & Poor's:	A
Moody's Investors Service:	A1
Fitch Ratings:	A
Rating and Investment Information, Inc.:	A
Dagong International Credit Rating Co., Ltd. (RMB):	AAA

**Index Constituents**

Hang Seng Index  
Hang Seng China H-Financial Index  
Hang Seng China Enterprises Index  
Hang Seng China A Industry Top Index  
Hang Seng Composite Index (HSCI) Series  
Hang Seng Corporate Sustainability Index Series  
MSCI China Index Series  
CITIC S&P Index Series  
Dow Jones Index Series  
S&P Index Series  
Bloomberg Index Series  
Shanghai Stock Exchange Index Series  
FTSE/Xinhua China 25 Index  
FTSE/Xinhua Hong Kong Index  
FTSE Index Series

**Investor Enquiry**

Investor Relations Team, Board Secretariat, Bank of China Limited  
8/F, Bank of China Building, 1 Fuxingmen Nei Dajie, Beijing, China  
Telephone: (86) 10-6659 2638  
Facsimile: (86) 10-6659 4568  
E-mail: bocir@bank-of-china.com

**Other Information**

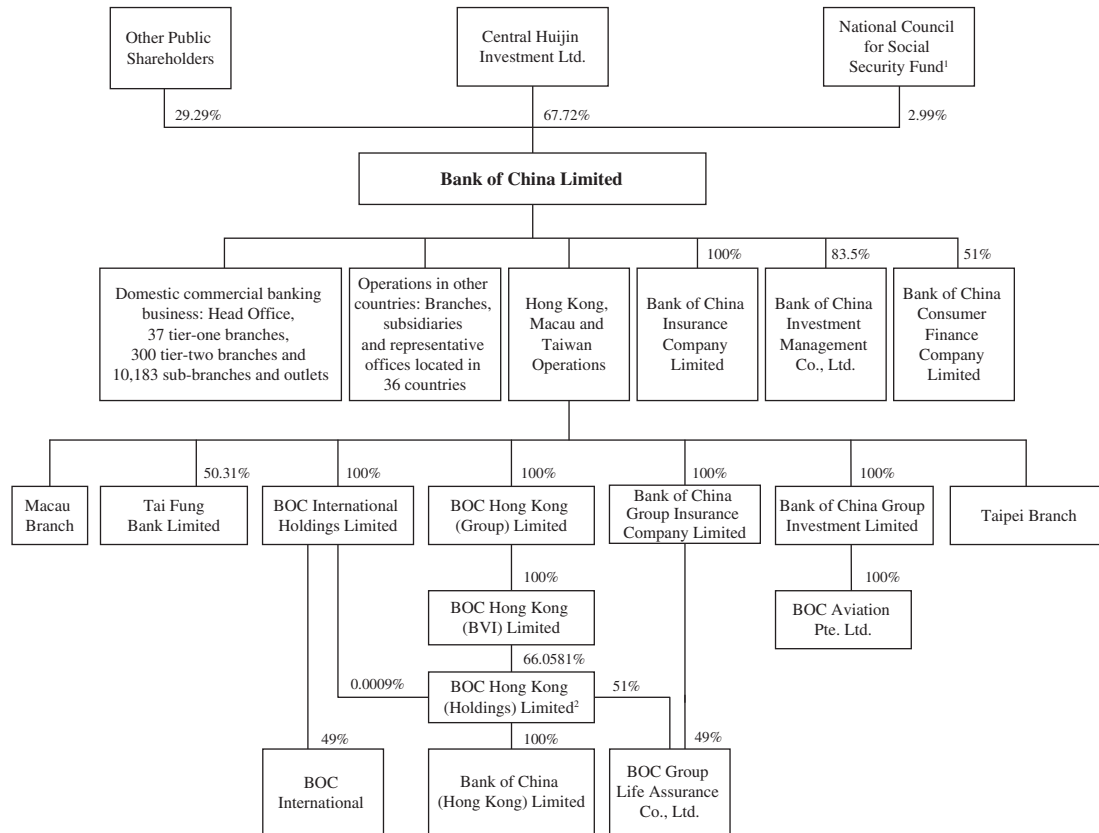
You may write to the Bank's H-Share Registrar, Computershare Hong Kong Investor Services Limited (address: 17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) to request the annual report prepared under IFRS or go to the Bank's major business locations for copies prepared under CAS.

The Chinese and/or English versions of the annual report for 2012 are also available on the following websites: [www.boc.cn](http://www.boc.cn), [www.sse.com.cn](http://www.sse.com.cn) and [www.hkexnews.hk](http://www.hkexnews.hk).

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

# Organisational Chart

The organisational chart of the Group as at 31 December 2012 is as follows:



Notes:

- 1 The proportion of H Shares held by NCSSF is based on the interest recorded in the register maintained by the Bank pursuant to section 336 of the SFO. For details, please refer to the section “Changes in Share Capital and Shareholding of Substantial Shareholders — Substantial Shareholder Interests”.
- 2 Listed on the Hong Kong Stock Exchange.



# List of Operations

## MAJOR OPERATIONS IN CHINESE MAINLAND

### HEAD OFFICE

1 FUXINGMEN NEI DAJIE,  
BEIJING,  
CHINA  
SWIFT: BKCH CN BJ  
TLX: 22254 BCHO CN  
TEL: (86) 010-66596688  
FAX: (86) 010-66016871  
POST CODE: 100818  
WEBSITE: www.boc.cn

### SHANXI BRANCH

186 PINGYANG ROAD,  
TAIYUAN,  
SHANXI PROV.,  
CHINA  
SWIFT: BKCH CN BJ 680  
TEL: (86) 0351-8266016  
FAX: (86) 0351-8266021  
POST CODE: 030006

### JILIN BRANCH

699 XI AN DA LU,  
CHANGCHUN,  
JILIN PROV.,  
CHINA  
SWIFT: BKCH CN BJ 840  
TEL: (86) 0431-88408888  
FAX: (86) 0431-88408901  
POST CODE: 130061

### BEIJING BRANCH

A,C,E KAIHENG CENTER,  
2 CHAOYANGMEN NEI DAJIE,  
DONGCHENG DISTRICT,  
BEIJING,  
CHINA  
SWIFT: BKCH CN BJ 110  
TEL: (86) 010-85122288  
FAX: (86) 010-85121739  
POST CODE: 100010

### INNER MONGOLIA BRANCH

12 XINHUA DAJIE,  
XIN CHENG DISTRICT,  
HUHHOT,  
INNER MONGOLIA  
AUTONOMOUS REGION,  
CHINA  
SWIFT: BKCH CN BJ 880  
TEL: (86) 0471-4690088  
FAX: (86) 0471-4690088  
POST CODE: 010010

### HEILONGJIANG BRANCH

19 HONGJUN STREET,  
NANGANG DISTRICT,  
HARBIN,  
HEILONGJIANG PROV.,  
CHINA  
SWIFT: BKCH CN BJ 860  
TEL: (86) 0451-53646443  
FAX: (86) 0451-53624147  
POST CODE: 150001

### TIANJIN BRANCH

8 YOUYI NORTH ROAD,  
HEXI DISTRICT,  
TIANJIN,  
CHINA  
SWIFT: BKCH CN BJ 200  
TEL: (86) 022-27108001  
FAX: (86) 022-23312805  
POST CODE: 300204

### LIAONING BRANCH

9 ZHONGSHAN SQUARE,  
ZHONGSHAN DISTRICT,  
DALIAN,  
LIAONING PROV.,  
CHINA  
SWIFT: BKCH CN BJ 810  
TEL: (86) 0411-82586666  
FAX: (86) 0411-82637098  
POST CODE: 116001

### SHANGHAI BRANCH

200 MID. YINCHENG RD.,  
PUDONG NEW DISTRICT,  
SHANGHAI,  
CHINA  
SWIFT: BKCH CN BJ 300  
TLX: 33062 BOC SH CN  
TEL: (86) 021-50375566  
FAX: (86) 021-50372911  
POST CODE: 200120

### HEBEI BRANCH

28 ZIQIANG ROAD,  
SHIJIAZHUANG,  
HEBEI PROV.,  
CHINA  
SWIFT: BKCH CN BJ 220  
TEL: (86) 0311-69696681  
FAX: (86) 0311-69696692  
POST CODE: 050001

**JIANGSU BRANCH**

148 ZHONG SHAN NAN LU,  
NANJING,  
JIANGSU PROV.,  
CHINA  
SWIFT: BKCH CN BJ 940  
TLX: 34116 BOCJS CN  
TEL: (86) 025-84207888  
FAX: (86) 025-84207888-60340  
POST CODE: 210005

**ZHEJIANG BRANCH**

321 FENG QI ROAD,  
HANGZHOU,  
ZHEJIANG PROV.,  
CHINA  
SWIFT: BKCH CN BJ 910  
TEL: (86) 0571-85011888  
FAX: (86) 0571-87074837  
POST CODE: 310003

**ANHUI BRANCH**

313 MID. CHANGJIANG ROAD,  
HEFEI,  
ANHUI PROV.,  
CHINA  
SWIFT: BKCH CN BJ 780  
TEL: (86) 0551-2926995  
FAX: (86) 0551-2926993  
POST CODE: 230061

**FUJIAN BRANCH**

BOC BLDG., 136 WUSI ROAD,  
FUZHOU,  
FUJIAN PROV.,  
CHINA  
SWIFT: BKCH CN BJ 720  
TLX: 92109 BOCFJ CN  
TEL: (86) 0591-87090999  
FAX: (86) 0591-87090111  
POST CODE: 350003

**JIANGXI BRANCH**

1 ZHANQIAN WEST ROAD,  
NANCHANG,  
JIANGXI PROV.,  
CHINA  
SWIFT: BKCH CN BJ 550  
TEL: (86) 0791-86471503  
FAX: (86) 0791-86471505  
POST CODE: 330002

**SHANDONG BRANCH**

59 MID. XIANGGANG ZHONG LU,  
QINGDAO,  
SHANDONG PROV.,  
CHINA  
SWIFT: BKCH CN BJ 500  
TEL: (86) 0532-81858000  
FAX: (86) 0532-85818243  
POST CODE: 266071

**HENAN BRANCH**

3-1 BUSINESS OUTER RING ROAD.  
ZHENGDDONG NEW DISTRICT,  
ZHENGZHOU,  
HENAN PROV.,  
CHINA  
SWIFT: BKCH CN BJ 530  
TEL: (86) 0371-87008888  
FAX: (86) 0371-87007888  
POST CODE: 450008

**HUBEI BRANCH**

677 JIANSHE ROAD,  
WUHAN,  
HUBEI PROV.,  
CHINA  
SWIFT: BKCH CN BJ 600  
TEL: (86) 027-85562866  
027-85562959  
FAX: (86) 027-85562955  
POST CODE: 430022

**HUNAN BRANCH**

593 MID. FURONG ROAD  
(1 DUAN),  
CHANGSHA,  
HUNAN PROV.,  
CHINA  
SWIFT: BKCH CN BJ 970  
TEL: (86) 0731-82580703  
FAX: (86) 0731-82263476  
POST CODE: 410005

**GUANGDONG BRANCH**

197-199 DONGFENG XI LU,  
GUANGZHOU,  
GUANGDONG PROV.,  
CHINA  
SWIFT: BKCH CN BJ 400  
TLX: 441042 GZBOC CN  
TEL: (86) 020-83338080  
FAX: (86) 020-83344066  
POST CODE: 510180

**GUANGXI BRANCH**

39 GUCHENG ROAD,  
NANNING,  
GUANGXI ZHUANG  
AUTONOMOUS REGION,  
CHINA  
SWIFT: BKCH CN BJ 480  
TLX: 48122 BOCGX CN  
TEL: (86) 0771-2879609  
FAX: (86) 0771-2813844  
POST CODE: 530022

**HAINAN BRANCH**

33 DATONG ROAD,  
HAIKOU,  
HAINAN PROV.,  
CHINA  
SWIFT: BKCH CN BJ 740  
TEL: (86) 0898-66778001  
FAX: (86) 0898-66562040  
POST CODE: 570102

**SICHUAN BRANCH**

35 MID. RENMIN ROAD  
(2 DUAN),  
CHENGDU,  
SICHUAN PROV.,  
CHINA  
SWIFT: BKCH CN BJ 570  
TEL: (86) 028-86401950  
FAX: (86) 028-86403346  
028-86744859  
POST CODE: 610031

**GUIZHOU BRANCH**

BOC BLDG., 347 RUIJIN SOUTH  
ROAD,  
GUIYANG,  
GUIZHOU PROV.,  
CHINA  
SWIFT: BKCH CN BJ 240  
TEL: (86) 0851-5822419  
FAX: (86) 0851-5825770  
POST CODE: 550002

**YUNNAN BRANCH**

515 BEIJING ROAD,  
KUNMING,  
YUNNAN PROV.,  
CHINA  
SWIFT: BKCH CN BJ 640  
TEL: (86) 0871-3192915  
FAX: (86) 0871-3175553  
POST CODE: 650051

**TIBET BRANCH**

7 LINKUO XI LU,  
LHASA,  
TIBET AUTONOMOUS  
REGION,  
CHINA  
SWIFT: BKCH CN BJ 900  
TEL: (86) 0891-6813333  
FAX: (86) 0891-6835311  
POST CODE: 850000

**SHAANXI BRANCH**

246 DONGXIN JIE,  
XINCHENG DISTRICT,  
XI'AN,  
SHAANXI PROV.,  
CHINA  
SWIFT: BKCH CN BJ 620  
TEL: (86) 029-87509999  
FAX: (86) 029-87509922  
POST CODE: 710005

**GANSU BRANCH**

525 TIANSHUI SOUTH ROAD,  
LANZHOU,  
GANSU PROV.,  
CHINA  
SWIFT: BKCH CN BJ 660  
TEL: (86) 0931-8831988  
FAX: (86) 0931-8831988-80308  
POST CODE: 730000

**QINGHAI BRANCH**

218 DONGGUAN STREET,  
XINING,  
QINGHAI PROV.,  
CHINA  
SWIFT: BKCH CN BJ 280  
TEL: (86) 0971-8178888  
FAX: (86) 0971-8174971  
POST CODE: 810000

**NINGXIA BRANCH**

39 XINCHANG EAST ROAD,  
JINFENG DISTRICT,  
YINCHUAN,  
NINGXIA HUI  
AUTONOMOUS REGION,  
CHINA  
SWIFT: BKCH CN BJ 260  
TEL: (86) 0951-5681593  
FAX: (86) 0951-5681509  
POST CODE: 750002

**XINJIANG BRANCH**

1 DONGFENG ROAD,  
URUMQI,  
XINJIANG UYGUR  
AUTONOMOUS REGION,  
CHINA  
SWIFT: BKCH CN BJ 760  
TEL: (86) 0991-2328888  
FAX: (86) 0991-2825095  
POST CODE: 830002

**CHONGQING BRANCH**

218 ZHONG SHAN YI ROAD,  
YU ZHONG DISTRICT,  
CHONGQING,  
CHINA  
SWIFT: BKCH CN BJ 59A  
TEL: (86) 023-63889234  
023-63889461  
FAX: (86) 023-63889585  
POST CODE: 400013

**SHENZHEN BRANCH**

INTERNATIONAL FINANCE  
BUILDING,  
2022 JIANSHE ROAD,  
LUOHU DISTRICT, SHENZHEN,  
GUANGDONG PROV.,  
CHINA  
SWIFT: BKCH CN BJ 45A  
TEL: (86) 0755-22338888  
FAX: (86) 0755-82259209  
POST CODE: 518005

**SUZHOU BRANCH**

188 GANJIANG WEST ROAD,  
SUZHOU,  
JIANGSU PROV.,  
CHINA  
SWIFT: BKCH CN BJ 95B  
TEL: (86) 0512-65113558  
FAX: (86) 0512-65114906  
POST CODE: 215002

**NINGBO BRANCH**

139 YAOHANG JIE,  
NINGBO,  
ZHEJIANG PROV.,  
CHINA  
SWIFT: BKCH CN BJ 92A  
TLX: 37039 NBBOC CN  
TEL: (86) 0574-87196666  
FAX: (86) 0574-87198889  
POST CODE: 315000

**JINAN BRANCH**

NO.22 LUO YUAN STREET,  
JINAN,  
CHINA  
SWIFT: BKCH CN BJ 51B  
TEL: (86) 0531-86995099  
FAX: (86) 0531-86995099  
POST CODE: 250063

**XIAMEN BRANCH**

BANK OF CHINA BUILDING  
NO.40 NORTH HUBIN ROAD,  
XIAMEN,  
CHINA  
SWIFT: BKCH CN BJ 73A  
TEL: (86) 0592-5066446  
FAX: (86) 0592-5076711  
POST CODE: 361012

**SHENYANG BRANCH**

253 SHIFU ROAD,  
SHENHE DISTRICT,  
SHENYANG,  
LIAONING PROV.,  
CHINA  
SWIFT: BKCH CN BJ 82A  
TEL: (86) 024-22810572  
FAX: (86) 024-22857333  
POST CODE: 110013

**BANK OF CHINA INSURANCE  
COMPANY LIMITED**

8-9F EXCEL CENTER  
NO.6 WUDINGHOU STREET,  
BEIJING,  
CHINA  
TEL: (86) 010-66538000  
FAX: (86) 010-66538001  
POST CODE: 100033  
WEBSITE: www.bocins.com

**BANK OF CHINA INVESTMENT  
MANAGEMENT CO., LTD**

45/F, BOC BUILDING  
200 MID. YINCHENG ROAD,  
PUDONG NEW DISTRICT,  
SHANGHAI,  
CHINA  
TEL: (86) 021-38834999  
FAX: (86) 021-68873488  
POST CODE: 200120  
WEBSITE: www.bocim.com

**BANK OF CHINA CONSUMER  
FINANCE COMPANY  
LIMITED**

1409#, BOC BUILDING  
200 MID. YINCHENG ROAD,  
PUDONG NEW DISTRICT,  
SHANGHAI,  
CHINA  
TEL: (86) 021-63291680  
FAX: (86) 021-63291789  
POST CODE: 200120  
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**BOC INTERNATIONAL  
(CHINA) LIMITED**

39/F, BOC BUILDING  
200 MID. YINCHENG ROAD,  
PUDONG NEW DISTRICT,  
SHANGHAI,  
CHINA  
TEL: (86) 021-20328000  
FAX: (86) 021-58883554  
POST CODE: 200120  
WEBSITE: www.bocichina.com  
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## MAJOR OPERATIONS IN HONG KONG, MACAU AND TAIWAN

### BOC HONG KONG (HOLDINGS) LIMITED

52/F, BANK OF CHINA TOWER,  
1 GARDEN ROAD,  
HONG KONG  
TEL: (852) 28462700  
FAX: (852) 28105830  
WEBSITE: [www.bochk.com](http://www.bochk.com)

### BOC INTERNATIONAL HOLDINGS LIMITED

26/F, BANK OF CHINA TOWER,  
1 GARDEN ROAD,  
HONG KONG  
TEL: (852) 39886000  
FAX: (852) 21479065  
WEBSITE: [www.bocigroup.com](http://www.bocigroup.com)  
EMAIL: [Info@bocigroup.com](mailto:Info@bocigroup.com)

### HONG KONG BRANCH

8/F, BANK OF CHINA TOWER,  
1 GARDEN ROAD,  
HONG KONG  
TEL: (852) 28101203  
FAX: (852) 25377609

### BANK OF CHINA GROUP INSURANCE COMPANY LIMITED

9/F, WING ON HOUSE,  
71 DES VOEUX ROAD  
CENTRAL,  
HONG KONG  
TEL: (852) 28670888  
FAX: (852) 25221705  
WEBSITE:  
[www.bocgroup.com/bocg-ins/](http://www.bocgroup.com/bocg-ins/)  
EMAIL: [info\\_ins@bocgroup.com](mailto:info_ins@bocgroup.com)

### BANK OF CHINA GROUP INVESTMENT LIMITED

23/F, BANK OF CHINA TOWER,  
1 GARDEN ROAD,  
HONG KONG  
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FAX: (852) 28772629  
WEBSITE: [www.bocgi.com](http://www.bocgi.com)  
EMAIL:  
[bocginv\\_bgi@bocgroup.com](mailto:bocginv_bgi@bocgroup.com)

### BOC GROUP LIFE ASSURANCE CO., LTD.

13-21/F, BOC GROUP LIFE  
ASSURANCE TOWER,  
136 DES VOEUX ROAD  
CENTRAL,  
HONG KONG  
TEL: (852) 28629898  
FAX: (852) 28660938  
WEBSITE:  
[www.bocgroup.com/bocg-life](http://www.bocgroup.com/bocg-life)  
EMAIL: [boc\\_life@bocgroup.com](mailto:boc_life@bocgroup.com)

### MACAU BRANCH

BANK OF CHINA BUILDING,  
AVENIDA DOUTOR MARIO  
SOARES,  
MACAU  
SWIFT: BKCHMOMX  
TEL: (853) 28781828  
FAX: (853) 28781833  
WEBSITE: [www.bocmacau.com](http://www.bocmacau.com)

### TAI FUNG BANK LIMITED

418, ALAMEDA DR. CARLOS,  
d'ASSUMPCAO,  
MACAU  
TEL: (853) 28322323  
FAX: (853) 28570737  
WEBSITE: [www.taifungbank.com](http://www.taifungbank.com)  
EMAIL: [tfbsecre@taifungbank.com](mailto:tfbsecre@taifungbank.com)

### TAIPEI BRANCH

1,2,4/F, NO.105, SONGREN RD.,  
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### ASIA-PACIFIC AREA

#### SINGAPORE BRANCH

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Service\_SG@bank-of-china.com

#### TOKYO BRANCH

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107-0052  
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FAX: (813) 35058433  
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Service\_JP@bank-of-china.com

#### SEOUL BRANCH

1/2F., YOUNG POONG BLDG,  
33 SEOLIN-DONG,  
CHONGRO-GU SEOUL 110-752,  
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FAX: (822) 3996265/3995938  
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### BANGKOK BRANCH

179/4 BANGKOK CITY TOWER  
SOUTH SATHORN RD.,  
TUNGMAHAMEK  
SATHORN DISTRICT,  
BANGKOK 10120,  
THAILAND  
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TLX: 81091 BOCBKK TH  
TEL: (662) 2861010  
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#### BANK OF CHINA (MALAYSIA) BERHAD

GROUND, MEZZANINE,  
& 1st FLOOR PLAZA OSK,  
25 JALAN AMPANG  
50450 KUALA LUMPUR,  
MALAYSIA  
SWIFT: BKCHMYKL  
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Service\_MY@bank-of-china.com

#### HO CHI MINH CITY BRANCH

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115 NGUYEN HUE BLVD.,  
DISTRICT 1  
HO CHI MINH CITY,  
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FAX: (848) 38219948  
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Service\_VN@bank-of-china.com

### MANILA BRANCH

G/F. & 36/F.  
PHILAMLIFE TOWER  
8767 PASEO DE ROXAS,  
MAKATI CITY  
MANILA,  
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FAX: (632) 8850532  
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Service\_PH@bank-of-china.com

#### JAKARTA BRANCH

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SUITE 101&201,  
JALAN JEND.  
SUDIRMAN KAV. 24  
JAKARTA 12920,  
INDONESIA  
SWIFT: BKCHIDJA  
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FAX: (6221) 5201113  
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#### SYDNEY BRANCH

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AUSTRALIA  
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FAX: (612) 92621794  
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**BANK OF CHINA  
(AUSTRALIA) LIMITED**

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SYDNEY NSW 2000,  
AUSTRALIA  
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**JSC AB <BANK OF CHINA  
KAZAKHSTAN>**

201, STR. GOGOL,  
050026, ALMATY,  
REPUBLIC OF KAZAKHSTAN  
SWIFT: BKCHKZKA  
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FAX: (7727) 2585514/2501896  
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**PHNOM PENH BRANCH**

CANADIA TOWER,  
1st & 2nd FLOOR,  
#315 ANG DOUNG St.  
(CORNER OF MONIVONG  
BLVD.)  
P.O.BOX 113,  
PHNOM PENH,  
CAMBODIA  
SWIFT: BKCHKHPP  
TEL: (85523) 988 886  
FAX: (85523) 988 880  
EMAIL:  
servicecambodia@bank-of-china.com

**ULAANBAATAR  
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B.ALTANGEREL'S STREET-5,  
BAGA TOIRUU/14200/  
8th KHOROO, SUKHBAATAR  
DISTRICT, ULAANBAATAR,  
MONGOLIA  
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FAX: (976) 70100898

**BAHRAIN REPRESENTATIVE  
OFFICE**

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AL JASRAH TOWER,  
DIPLOMATIC AREA  
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ROAD 1702, BLOCK 317,  
MANAMA  
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TRADE CENTER,  
SHEIKH ZAYED ROAD,  
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FAX: (9714) 332 8878

**BANK OF CHINA MIDDLE  
EAST (DUBAI) LIMITED**

LEVEL 11, TOWER 2,  
AL FATTAN CURRENCY HOUSE  
DUBAI INTERNATIONAL  
FINANCIAL CENTRE  
P.O. BOX 118842  
DUBAI, UAE  
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REPRESENTATIVE OFFICE**

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34394 LEVENT ISTANBUL,  
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**BOC AVIATION PTE. LTD.**

8 SHENTON WAY #18-01  
SINGAPORE 068811  
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FAX: (65) 63236962  
WEBSITE: www.bocaviation.com

**EUROPE**

**LONDON BRANCH**

ONE LOTHBURY,  
LONDON EC2R 7DB,  
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TLX: 886935 BKCHI G  
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EMAIL:  
Service\_UK@bank-of-china.com

**BANK OF CHINA (UK)  
LIMITED**

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LONDON EC2R 7DB,  
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SWIFT: BKCHGB2U  
TEL: (4420) 72828888  
FAX: (4420) 79293674

**BOC AVIATION (IRELAND)  
LIMITED**

RIVERSIDE ONE  
SIR JOHN ROGERSON'S QUAY  
DUBLIN 2  
REPUBLIC OF IRELAND  
TEL: (353) 1 829 0000  
FAX: (353) 1 829 0010  
WEBSITE: www.bocaviation.com

**PARIS BRANCH**

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ARMEE  
75116 PARIS,  
FRANCE  
SWIFT: BKCHFRPP  
TLX: 281 090 BDCSP  
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FAX: (331) 49701372  
EMAIL:  
Service\_FR@bank-of-china.com

**FRANKFURT BRANCH**

BOCKENHEIMER LANDSTR. 24  
60323 FRANKFURT AM MAIN,  
GERMANY  
SWIFT: BKCHDEFF  
TEL: (4969) 1700900  
FAX: (4969) 170090500  
WEBSITE: www.bocffm.com  
EMAIL:  
Service\_DE@bank-of-china.com

**LUXEMBOURG BRANCH**

37/39 BOULEVARD PRINCE  
HENRI L-1724 LUXEMBOURG  
P.O. BOX 114 L-2011,  
LUXEMBOURG  
SWIFT: BKCHLULL  
TEL: (352) 221791/4667911  
FAX: (352) 221795  
WEBSITE:  
www.bank-of-china.com/lu/  
EMAIL:  
Service\_LU@bank-of-china.com

**BANK OF CHINA  
(LUXEMBOURG) S.A.**

37/39 BOULEVARD  
PRINCE HENRI L-1724  
LUXEMBOURG  
P.O. BOX 721 L-2017,  
LUXEMBOURG  
TEL: (352) 228777/4667911  
FAX: (352) 228776

**BANK OF CHINA  
(LUXEMBOURG) S.A.,  
BRUSSELS BRANCH**

20 AVENUE DES ARTS, 1000,  
BRUSSELS,  
BELGIUM  
SWIFT: BKCHBEBB  
TEL: (322) 4056688  
FAX: (322) 2302892

**BANK OF CHINA  
(LUXEMBOURG) S.A.,  
ROTTERDAM BRANCH**

WESTBLAAK 109,  
3012KH ROTTERDAM,  
THE NETHERLANDS  
SWIFT: BKCHNL2R  
TEL: (3110) 2175888  
FAX: (3110) 2175899

**BANK OF CHINA  
(LUXEMBOURG) S.A.  
STOCKHOLM BRANCH**

BIRGER JARLSGATAN 28,  
114 34 STOCKHOLM, SWEDEN  
SWIFT: BKCHSESS  
TEL: (46) 107888888  
FAX: (46) 107888801

**BANK OF CHINA  
(LUXEMBOURG) S.A.  
POLAND BRANCH**

UL. ZIELNA 41/43, 00-108  
WARSAW, POLAND  
SWIFT: BKCHPLPX  
TEL: (48) 224178888  
FAX: (48) 224178777

**MILAN BRANCH**

VIA SANTA MARGHERITA,  
14/16 20121,  
MILAN,  
ITALY  
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TEL: (3902) 864731  
FAX: (3902) 89013411  
EMAIL:  
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**BANK OF CHINA (HUNGARY)  
CLOSE LTD.**

BANK CENTER,  
7 SZABADSAG TER,  
1054 BUDAPEST,  
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SWIFT: BKCHHUHB  
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FAX: (361) 3029009  
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**BANK OF CHINA (ELUOSI)**

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MOSCOW, 129110  
RUSSIA  
SWIFT: BKCHRUMM  
TLX: 413973 BOCR RU  
TEL: (7495) 7950451  
FAX: (7495) 7950454  
WEBSITE: www.boc.ru  
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**AMERICA****NEW YORK BRANCH**

410 MADISON AVENUE  
NEW YORK NY 10017,  
U.S.A.  
SWIFT: BKCHUS33  
TLX: 661723BKCHI  
TEL: (1212) 9353101  
FAX: (1212) 5931831  
WEBSITE: www.bocusa.com  
EMAIL:  
Service\_US@bank-of-china.com

**BANK OF CHINA (CANADA)**

SUITE 600, 50 MINTHORN  
BOULEVARD MARKHAM,  
ONTARIO, L3T7X8  
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FAX: (1905) 7718555  
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**GRAND CAYMAN BRANCH**

GRAND PAVILION  
COMMERCIAL CENTER  
802 WEST BAY ROAD,  
P.O. BOX 30995,  
GRAND CAYMAN KY1-1204  
CAYMAN ISLANDS  
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**PANAMA BRANCH**

P.O. BOX 0823-01030,  
CALLE MANUEL  
M.ICAZA NO.14, PANAMA,  
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**AFRICA****JOHANNESBURG BRANCH**

14th–16th FLOORS,  
ALICE LANE TOWERS,  
15 ALICE LANE, SANDTON,  
JOHANNESBURG,  
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