



中国建设银行
China Construction Bank

Annual Report 2012

China Construction Bank Corporation

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

Stock Code: 939

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DEFINITIONS

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

“Bank”	China Construction Bank Corporation
“Bank of America”	Bank of America Corporation
“Baosteel Group”	Baosteel Group Corporation
“Board”	Board of directors
“Basis Point”	Measurement unit of changes in interest rate or exchange rate, equivalent to 1% of one percentage point
“CBRC”	China Banking Regulatory Commission
“CCB Asia”	China Construction Bank (Asia) Corporation Limited
“CCB Financial Leasing”	CCB Financial Leasing Corporation Limited
“CCB International”	CCB International (Holdings) Limited
“CCB Life”	CCB Life Insurance Company Limited
“CCB London”	China Construction Bank (London) Limited
“CCB Principal Asset Management”	CCB Principal Asset Management Co., Ltd.
“CCB Trust”	CCB Trust Co., Limited
“CIC”	China Investment Corporation
“CIRC”	China Insurance Regulatory Commission
“Company Law”	The Company Law of the People's Republic of China
“Cost Advisory Service”	The professional advisory services, provided by the project cost advisory agency when entrusted, on the investment of construction projects and the determination and control of project cost
“CSRC”	China Securities Regulatory Commission
“Financial Services for Housing Reform”	A general term for credit activities of money collection, financing, etc., in connection with the reform of housing system

DEFINITIONS

“Group”, “CCB”	China Construction Bank Corporation and its subsidiaries
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Huijin”	Central Huijin Investment Ltd.
“IFRS”	International Financial Reporting Standards
“Jiayin”	China Jiayin Investment Limited
“Listing Rules of Hong Kong Stock Exchange”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“MOF”	Ministry of Finance of the People’s Republic of China
“PBC”	People’s Bank of China
“PRC GAAP”	<i>Accounting Standards for Business Enterprises</i> promulgated by the MOF on 15 February 2006 and other relevant requirements
“RMB”	Renminbi
“SAFE”	State Administration of Foreign Exchange
“SFO”	Securities and Futures Ordinance
“Sino-German Bausparkasse”	Sino-German Bausparkasse Co., Ltd.
“State Grid”	State Grid Corporation of China
“Temasek”	Temasek Holdings (Private) Limited
“Yangtze Power”	China Yangtze Power Co., Limited

INTRODUCTION

Headquartered in Beijing, China Construction Bank Corporation has an operating history of nearly 60 years. The Bank was listed on Hong Kong Stock Exchange in October 2005 (stock code: 939) and listed on the Shanghai Stock Exchange in September 2007 (stock code: 601939). At the end of 2012, the market capitalisation of the Bank reached US\$200 billion, ranking 2nd among listed banks in the world. The Bank had a network of 14,121 branches and sub-branches in Mainland China, maintained overseas branches in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo, Seoul, New York, Ho Chi Minh City, Sydney and Melbourne, and representative offices in Taipei and Moscow, and owned multiple subsidiaries, such as CCB Asia, CCB Financial Leasing, CCB International, CCB Trust, Sino-German Bausparkasse, CCB London, CCB Principal Asset Management, and CCB Life. The Group provides comprehensive financial services to its customers.

We have included in this report certain forward-looking statements with respect to our financial position, operating results and business development. We use words such as “will”, “may”, “expect”, “try”, “strive”, and similar expressions to identify forward-looking statements. These statements are based on current plans, estimates and projections. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that those expectations will prove to have been correct, and you are cautioned not to place undue reliance on such statements. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statements. These factors include, among others: changes in general economic conditions in the markets in which the Group operates, changes in the government’s adjustments and control policies and in laws and regulations, and factors specific to the Group. Furthermore, readers are specially cautioned on all kinds of risks disclosed in this annual report, including but not limited to the risks set out in the “Risk Management” of the annual report.

1 FINANCIAL HIGHLIGHTS

The financial information set forth in this annual report is prepared on a consolidated basis in accordance with the IFRS, and expressed in RMB unless otherwise stated.

(Expressed in millions of RMB unless otherwise stated)	2012	2011	Change (%)	2010	2009	2008
For the year						
Net interest income	353,202	304,572	15.97	251,500	211,885	224,920
Net fee and commission income	93,507	86,994	7.49	66,132	48,059	38,446
Other operating income	15,824	7,837	101.91	8,148	9,370	6,381
Operating income	462,533	399,403	15.81	325,780	269,314	269,747
Operating expenses	(171,081)	(144,537)	18.36	(121,366)	(105,146)	(99,193)
Impairment losses	(40,041)	(35,783)	11.90	(29,292)	(25,460)	(50,829)
Profit before tax	251,439	219,107	14.76	175,156	138,725	119,741
Net profit	193,602	169,439	14.26	135,031	106,836	92,642
Net profit attributable to equity shareholders of the Bank	193,179	169,258	14.13	134,844	106,756	92,599
As at 31 December						
Net loans and advances to customers	7,309,879	6,325,194	15.57	5,526,026	4,692,947	3,683,575
Total assets	13,972,828	12,281,834	13.77	10,810,317	9,623,355	7,555,452
Deposits from customers	11,343,079	9,987,450	13.57	9,075,369	8,001,323	6,375,915
Total liabilities	13,023,219	11,465,173	13.59	10,109,412	9,064,335	7,087,890
Total equity attributable to equity shareholders of the Bank	941,732	811,141	16.10	696,792	555,475	465,966
Share capital	250,011	250,011	–	250,011	233,689	233,689
Core capital	875,752	750,660	16.66	634,683	491,452	431,353
Supplementary capital	238,168	189,855	25.45	144,906	139,278	86,794
Net capital	1,093,429	924,506	18.27	762,449	608,233	510,416
Risk-weighted assets	7,637,705	6,760,117	12.98	6,015,329	5,197,545	4,196,493
Per share (In RMB)						
Basic and diluted earnings per share	0.77	0.68	13.24	0.56	0.45	0.40
Final cash dividend proposed after the reporting period	0.268	0.2365	13.32	0.2122	0.202	0.0837
Net assets per share	3.80	3.27	16.21	2.80	2.39	2.00

Financial ratios (%)	2012	2011	Change +/-	2010	2009	2008
Profitability indicators						
Return on average assets ¹	1.47	1.47	–	1.32	1.24	1.31
Return on average equity	21.98	22.51	(0.53)	22.61	20.87	20.68
Net interest spread	2.58	2.57	0.01	2.40	2.30	3.10
Net interest margin	2.75	2.70	0.05	2.49	2.41	3.24
Net fee and commission income to operating income	20.22	21.78	(1.56)	20.30	17.84	14.25
Cost-to-income ratio ²	29.60	29.93	(0.33)	31.55	33.05	30.89
Loan-to-deposit ratio	66.23	65.05	1.18	62.47	60.24	59.50
Capital adequacy indicators						
Core capital adequacy ratio ³	11.32	10.97	0.35	10.40	9.31	10.17
Capital adequacy ratio ³	14.32	13.68	0.64	12.68	11.70	12.16
Total equity to total assets	6.80	6.65	0.15	6.48	5.81	6.19
Asset quality indicators						
Non-performing loan ratio	0.99	1.09	(0.10)	1.14	1.50	2.21
Allowances to non-performing loans	271.29	241.44	29.85	221.14	175.77	131.58
Allowances to total loans	2.69	2.64	0.05	2.52	2.63	2.91

1. Calculated by dividing net profit by the average of total assets at the beginning and end of the year.

2. In order to maintain consistency for cost-to-income ratio between the PRC and IFRS reports, as well as taking other banks' relevant disclosures into considerations, the calculation of such a ratio has been amended to operating expenses (after deductions of business taxes and surcharges and other business costs) divided by operating income (after deduction of other business costs). The comparative figures have been amended accordingly.

3. Calculated in accordance with the *Measures for the Management of Capital Adequacy Ratios of Commercial Banks* and the relevant regulations issued by the CBRC.

2 CORPORATE INFORMATION

Legal name and abbreviation in Chinese	中國建設銀行股份有限公司 (abbreviated as “中國建設銀行”)
Legal name and abbreviation in English	China Construction Bank Corporation (abbreviated as “CCB”)
Legal representative	Wang Hongzhang
Authorised representatives	Zhang Jianguo Cheng Pui Ling, Cathy
Secretary to the Board	Chen Caihong
Representative of securities affairs	Xu Manxia
Company secretary	Cheng Pui Ling, Cathy
Qualified accountant	Yuen Yiu Leung
Registered address, office address and postcode	No. 25, Financial Street, Xicheng District, Beijing 100033
Internet website	www.ccb.com
Email address	ir@ccb.com
Principal place of business in Hong Kong	12/F, AIA Central, 1 Connaught Road Central, Central, Hong Kong
Newspapers for information disclosure	<i>China Securities Journal</i> and <i>Shanghai Securities News</i>
Website of the Shanghai Stock Exchange for publishing the annual report prepared in accordance with PRC GAAP	www.sse.com.cn
Website of Hong Kong Stock Exchange for publishing the annual report prepared in accordance with IFRS	www.hkex.com.hk
Place where copies of this annual report are kept	Board of Directors Office of the Bank
Contact Information	Address: No. 25, Financial Street, Xicheng District, Beijing Telephone: 86-10-66215533 Facsimile: 86-10-66218888
Listing stock exchanges, stock abbreviations and stock codes	A-share: Shanghai Stock Exchange Stock abbreviation: 建設銀行 Stock code: 601939 H-share: The Stock Exchange of Hong Kong Limited Stock abbreviation: CCB Stock code: 939

2 CORPORATE INFORMATION

Date and place of initial registration	17 September 2004 State Administration for Industry & Commerce of the People's Republic of China (Please refer to the H-share Global Offering Prospectus issued by the Bank on Hong Kong Stock Exchange on 14 October 2005 and the A-share Prospectus issued by the Bank on the Shanghai Stock Exchange on 11 September 2007 for more information.)
Date and place of registration change	13 February 2012 State Administration for Industry & Commerce of the People's Republic of China
Registration number of the corporate legal person business licence	100000000039122
Organisation code	10000444-7
Financial licence institution number	B0004H111000001
Taxation registration number	京稅證字110102100004447
Certified public accountants	PricewaterhouseCoopers Zhong Tian CPAs Limited Company Address: 11/F, PricewaterhouseCoopers Centre, 202 Hu Bin Road, Shanghai Signing accountants: Zhu Yu and Yan Lin PricewaterhouseCoopers Address: 22/F, Prince's Building, Central, Hong Kong
Legal advisor as to PRC laws	Haiwen & Partners Address: 21/F, Beijing Silver Tower, 2 Dong San Huan North Road, Chaoyang District, Beijing
Legal advisor as to Hong Kong laws	Clifford Chance Address: 28/F, Jardine House, One Connaught Place, Central, Hong Kong
A-share registrar	China Securities Depository and Clearing Corporation Limited, Shanghai Branch Address: 36/F, China Insurance Building, 166 East Lujiazui Road, Pudong New District, Shanghai
H-share registrar	Computershare Hong Kong Investor Services Limited Address: Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Rankings and Awards

The Banker

Ranked 6th in the "Top 1000 World Banks"
Ranked 2nd in the "Top 1000 World Banks" with respect to profitability
Ranked 1st in the "Top 10 Banking Brands in Asia-pacific Region"

Financial Times

Ranked 14th in the "FT Global 500"

2 CORPORATE INFORMATION

Forbes	Ranked 13th in the “Forbes Global 2000”
Fortune	Ranked 77th in the “Fortune Global 500”
Bloomberg Markets	Ranked 13th in the “World’s Strongest Banks”
Global Finance	Ranked 22nd in the “World’s Top 50 Safest Banks” Best Bank in China
China Enterprise Confederation	Ranked 5th in the “Top 500 Chinese Enterprises” Ranked 3rd in the “Top 500 Chinese Service Enterprises”
China Business Journal	Stated-owned Commercial Bank with Excellent Competitiveness
Financial News	Best Commercial Bank of the Year
The Capital	Outstanding Retail Banking Corporation in China
The Asset	China’s Most Promising Companies Triple A Corporate Awards – Platinum Awards
Corporate Governance Asia	Corporate Governance Asia Recognition Awards – The Best of Asia
Asia Risk	House of the Year, China
Yazhou Zhoukan	Asian Outstanding Brands Award
BrandZ	Ranked 3rd in the “BrandZ Most Valuable Chinese Brands”
Interbrand	Best in the Interbrand Best China Brands
JRJ.com	Best Retail Bank
The Asian Banker	Outstanding SME Product in China Best Liquidity Risk Management Bank in China
China Securities Journal	Golden Ox Investment Bank Award
Tencent.com	Most Popular Mobile Bank
CFO World	Best Pensions Brand Award Best Cash Management Brand Award
Financial Money	Most Reliable Private Bank of the Year
China Banking Association	Financial Institutions with Best Social Responsibility Award
Ministry of Civil Affairs of the People’s Republic of China	Most Influential Charity Projects Awards
People.com.cn	People’s Social Responsibility Award

2 CORPORATE INFORMATION

Corporate Social Responsibility

In 2012, the Bank upheld its social responsibility strategies of becoming “a bank that strives to serve the general public, promote people's livelihood, stick to the principle of low carbon and environmental protection, and achieve sustainable development”, and proactively fulfilled its social responsibilities, demonstrating a good corporate citizen image. For details, please refer to CCB's “Corporate Social Responsibility Report 2012”.

Stock Prices

	H-shares (HKD)			A-shares (RMB)		
	Year-end closing price	Maximum Price in the Year	Minimum Price in the Year	Year-end closing price	Maximum Price in the Year	Minimum Price in the Year
2012	6.22	6.62	4.71	4.60	4.95	3.82
2011	5.42	7.58	4.41	4.54	5.34	4.32
2010	6.97	8.30	5.77	4.59	6.21	4.51
2009	6.67	7.46	3.62	6.19	6.75	3.67
2008	4.25	7.29	2.50	3.83	10.21	3.46

3 CHAIRMAN'S STATEMENT

Dear shareholders,

In 2012, facing the complex economic situation at home and abroad and the fierce market competition, the Group earnestly followed the government's macroeconomic control measures and regulatory requirements by supporting the development of the real economy vigorously and promoting strategic transformation continuously. With deepened internal reform, and strengthened risk management and internal control, various businesses maintained a stable and rapid growth.

In 2012, the Group's total assets reached nearly RMB14 trillion, while net profit for the year reached RMB193,602 million, up 14.26% year-on-year. The return on average assets and the return on average equity were 1.47% and 21.98% respectively. Our key financial indicators continued to lead the market. The Board has recommended a final cash dividend of RMB0.268 per share.

We vigorously supported the real economy, and our credit structure continued to improve. In 2012, the Group timely adjusted business policies, allocated credit resources appropriately, and enhanced credit management to support the key national projects, the livelihood sector and the weak links in the economic and social development. The increase of loans to infrastructure sectors accounted for 27.04% of the increase in corporate loans, while loans to small and micro businesses increased by 17.97%, and agriculture-related loans increased by 21.43%. We maintained the leading position in terms of the increases in personal residential loans and credit card loans. The Group performed proactive credit management by actively controlling loans to industries with excess capacity, local government financing vehicles, and real estate industry.

We maintained steady progress in integrated operations, with rapid development of overseas business. The Group has initially established the integrated operation platform, leading the industry in terms of the variety of non-bank financial licences. At the end of 2012, the total assets of all the subsidiaries reached RMB260,839 million, and made a net profit of RMB2,139 million. The Group deployed the operating strategy of "closely following the customers and accelerating localisation" for its overseas business, and expanded its network through both self-establishment and mergers and acquisitions (M&A). At the end of 2012, the total assets of overseas entities exceeded US\$80 billion. CCB London successfully issued the first London offshore RMB bond of RMB1 billion. Melbourne branch opened successfully and the preparations were accelerated for the opening of subsidiary banks in Dubai and Russia, or branches in Toronto, Taipei, San Francisco, Osaka and Luxembourg.

We fully promoted the building of a multi-functional bank, with rapid progress in strategic emerging businesses. The Group strengthened policy guidance and increased resources to strategic businesses, leading to the sound and rapid development of electronic banking, pension, private banking and other businesses. In 2012, the number of customers of personal online banking increased by 41.07%, and that of mobile phone banking by 78.68%; the ratio of the number of transactions through electronic banking to that through the front desk was 270.30%, up 63.58 percentage points over 2011. The e.ccb.com platform was successfully launched, with accumulated trading volume of RMB3.5 billion in the corporate mall and financing volume to the merchants of nearly RMB1 billion. The pension business ranked first among peers in terms of the increase in assets under custody. The Group issued a series of innovative products for private banking customers, with an increase of 30.19% in their financial assets.

We optimised the building of channels and mechanism, and promoted intensive operation. In 2012, the Group made efforts to improve its network distribution. The number of domestic operating entities increased by 540 to 14,121, and the number of ATMs increased by 11,323, both ranking first among its peers in terms of the increase. The Group accelerated the building of comprehensive operating entities, by focusing on the full functions of the outlets, frontline staff and marketing teams, to further improve the efficiency of using network resources. The Group deepened the separation between front desk and back offices, simplified business processes, and improved efficiency, with greatly shortened average time for instant customer service. The Group also accelerated the integration of business functions and service channels for telephone banking, to improve customer experience and reduce operating costs.

We continued to refine risk management and internal controls, and the asset quality remained stable. In 2012, the Group strengthened the enterprise-wide risk control, and further specified and standardised the framework and content of comprehensive risk management. It enhanced risk management over key areas such as industries with excess capability, government financing vehicles and real estate sector, and further improved the risk management standard for wealth management business, off-balance sheet activities, and overseas and country-specific risks. The Group strengthened the building of its internal control system, by establishing a new department to assume the internal control and compliance responsibilities, and optimising the internal control system, methods and processes. At the end of 2012, the non-performing loan ratio was 0.99%, a decrease of 0.10 percentage points from the previous year.

We promoted the implementation of capital management measures, and the capital base was further consolidated. In 2012, the Group improved the rules related to the capital management measures, to ensure its smooth implementation and a stable transition. The Group proactively carried out research on innovative capital instruments, and successfully issued subordinated bonds of RMB40 billion. The Group seized the opportunity of implementing the new capital management measures to enhance its business transformation and structural adjustments, accelerate the transformation towards more intensive use of capital, and improve the efficiency of capital utilisation. At the end of 2012, the capital adequacy ratio and core capital adequacy ratio increased to 14.32% and 11.32% respectively.

3 CHAIRMAN'S STATEMENT

We proactively fulfilled our corporate social responsibilities, and promoted social welfare projects. The Group continued to consider social responsibilities in the process of business development, and guided the credit resources towards areas including low carbon economy, circular economy and green economy. During the year, the Group implemented ten important social welfare projects, with an investment of RMB23 million, and continued to promote long-term social welfare projects such as “Programme for Impoverished High School Students”, “Sponsorship Programme for Impoverished Mothers of Heroes & Exemplary Workers”, “CCB Scholarships and Grants for College Students from Ethnic Minorities” as well as the scholarships and grants of “Passion for Tibet”. The Group’s social responsibility efforts were highly recognised by the wide community, as evidenced by “China Corporate Social Responsibility 100” by *Fortune China*, and “Financial Institutions with Best Social Responsibility Award” from China Banking Association.

In 2012, the Group’s outstanding results and good performance won wide recognition from the market and community. We received over 90 accolades at home and abroad, including the first place in the Chinese banking sector in the “Top 500 World Banking Brands” jointly published by *The Banker* and *Brand Finance*, and “Best China Brands 2012” by *Interbrand*; and the 77th place in “Fortune Global 500” published by Fortune, advancing by 31 places over the previous year. In addition, the Group won numerous awards from domestic and foreign major organisations for its achievements in areas including corporate governance, SME service, private banking, cash management, custody, investment banking, investor relations and corporate social responsibilities. I would like to express my sincere gratitude to the support of our staff, customers, shareholders and the wide business community.

The year 2013 is a pivotal year in the implementation of the Twelfth Five-year Plan, and is also the occasion for CCB to seize the strategic opportunity and pursue strategic transformation. The Group will adhere to the regulatory requirements, reinforce innovation and transformation, and try to make new progress at the new starting point.

Wang Hongzhang

Chairman

22 March 2013

4 PRESIDENT'S REPORT

Dear shareholders,

In 2012, under the backdrop of the complex external operating environment, the Group persisted in its sound and practical operating style with sharp attention on the operating situation, and achieved stable business development and good business results as a result of deepened strategic transformation and structural adjustments.

GOOD BUSINESS PERFORMANCE AND STABLE BUSINESS TRANSFORMATION

Assets and liabilities grew steadily. At the end of 2012, the Group's total assets increased by 13.77% to RMB13,972,828 million from 2011. Gross loans and advances to customers increased by 15.64% to RMB7,512,312 million; deposits from customers grew steadily, up 13.57%. Operating income increased by 15.81% to RMB462,533 million. In this amount, net interest income increased by 15.97%, and the net interest margin increased by 5 basis points to 2.75%, despite the interest rate cuts and the expanded range for the floating of deposit and lending rates; net fee and commission income increased by 7.49%, driven by the growth of credit card, consultancy and advisory, wealth management and other businesses, which offset slower growth of income from certain products caused by regulatory and market factors. The Group achieved a profit before tax of RMB251,439 million, up 14.76% over 2011. Net profit increased by 14.26% to RMB193,602 million. The Group attached great importance to risk prevention and control, actively disposed and mitigated risk exposures, and the asset quality remained stable. The non-performing loan ratio was 0.99%, and the ratio of allowances for impairment losses to non-performing loans was 271.29%.

Credit structure adjustments were strengthened. CCB's traditional advantageous businesses were consolidated. Loans to infrastructure sectors amounted to RMB2,096,129 million, and the increase accounted for 27.04% of the increase in corporate loans. Residential mortgages were primarily granted to support customers to buy ordinary apartments for residential purpose, ranking first in the market in terms of both loan balance and the increase. Loans to small and micro businesses rose by 17.97% to RMB745,453 million. Agriculture-related loans rose by 21.43%. Loans for indemnificatory housing development projects increased by 129.62%. Loans to industries with excess capacity, property development projects, and government financing vehicles were effectively controlled.

Strategic businesses developed rapidly. The cumulative number of credit cards issued increased by 8.07 million to 40.32 million, with a spending amount of RMB851,761 million and a loan balance of RMB177,936 million; the core credit card business indicators maintained a leading position. Financial assets of private banking customers rose by 30.19%, and CCB became the first among peers to launch exclusive online banking service for private banking customers. The cross-border RMB business developed fast, and the domestic cross-border RMB settlement business amounted to RMB586,234 million in 2012, up 85.71%. The number of customers of the central finance authorised payment and non-tax revenue collection agency services, "Xincunguan" business, and contracted futures investors all ranked first in the market. The assets under custody reached RMB2.70 trillion, up 31.07%. The personal pension accounts in operation totalled 2.56 million, up 25.49%. The pension assets under custody in operation amounted to RMB24,552 million, up 48.13%. Portfolio structure continued to improve for financial market business, with a substantial rise in yield of RMB-denominated debt securities portfolio. The precious metal business grew rapidly. The underwriting amounts of short-term commercial papers, intermediate-term notes and private placement bonds all ranked first in the market. Income from new types of financial advisory services reached RMB6,680 million.

Integrated operations and overseas development strategy made rapid progress. The strategic synergy between the Bank and its subsidiaries was enhanced. The total assets of domestic subsidiaries reached RMB92,657 million, and the net profit was RMB1,355 million. The total assets of overseas entities reached RMB518,579 million, and the net profit was RMB2,334 million. The first tier-two overseas branch was opened in Melbourne, and the overseas network expanded rapidly.

STRENGTHENED FUNDAMENTALS AND ENHANCED CAPABILITIES FOR LONG-TERM DEVELOPMENT

Network distribution was optimised with consolidated customer base. At the end of 2012, the number of domestic operating outlets increased by 540 to 14,121 over 2011. The number of private banks and wealth management centres was 311, that of personal loan centres was approximately 1,200, and that of small business operating centres in "Credit Factory" model was 244. The number of electronic banking customers and the level of electronic channel application rose rapidly, with an increase of 41.07% for personal online banking customers, and an increase of 54.10% for corporate online banking customers. The ratio of the number of transactions through electronic banking to that through the front desk reached 270.30%. E.ccb.com, the e-commerce financial service platform, was successfully launched, and provided its personal and corporate customers with professional e-commerce service and financial support service. The base of customers and accounts expanded steadily. The number of corporate and institutional customers increased by 20.15%, with a rapid rise in the number of corporate settlement accounts. The number of individual customers with assets in the Bank increased by 8.92%, in particular, that of private banking customers increased by 18.82%.

4 PRESIDENT'S REPORT

Overall risk management was enhanced. The Group strengthened risk control in key areas and areas with potential risks, by establishing the overall risk management measures and the overall risk management responsibility system, in response to the downward pressure of the economy. Differentiated credit approval methods were implemented within the Group, and approval processes were improved, with various new methods created, such as "Express Train" and "Pre-approval". Risk management policies were established for off-balance sheet business and wealth management services, and the risk management system for overseas entities was improved. Enterprise-wide consolidated risk management also made progress. The use of risk measurement tools was greatly promoted, and the regulatory inspection and evaluation of advanced measurement method in capital management was completed, laying a solid foundation for the implementation of capital management measures in 2013.

Information technology (IT) tasks progressed steadily, and the product innovation and process optimisation were enhanced. In 2012, the Group focused on the building of a "new generation core banking system". It completed the major part of an enterprise-level modelling, including process model, data model, product model and user experience model, and entered the implementation phase. A total of 13 projects were initiated, including corporate cash management, household cash management, financial markets, custody, agency collection and payment, and off-site audit. In 2012, the Group completed 378 projects on process optimisation, generated 7,812 validated innovative ideas, and completed 348 product innovations.

OUTLOOK FOR 2013

In 2013, the Group will further promote structural adjustments and operational transformation while focusing on productivity and quality, and stringently control risk, and consolidate the fundamentals in accordance with the set development strategy, to further improve its market competitiveness. We will focus on the following tasks:

- We will consolidate the market share of deposits and fee-based business, accelerate loan structure adjustment and reduce capital occupation.
- We will accelerate the development of strategic businesses, including electronic banking, financial social security card, cash management and pension business.
- We will reinforce the risk control in key areas and maintain stable asset quality.
- We will consolidate the fundamentals of operation and management, explore the base of effective customers, promote the pricing capability, and get prepared for the implementation of the capital management measures.

Lastly, I would like to sincerely thank the Board and the board of supervisors for their tremendous support, as well as our customers for their trust and our staff for their great dedication.

Zhang Jianguo

Vice chairman, executive director and president

22 March 2013

5 MANAGEMENT DISCUSSION AND ANALYSIS

5.1 FINANCIAL REVIEW

In 2012, the global economy continued to grow slowly, but the instability and uncertainty of the recovery remained conspicuous. The U.S. economy and emerging economies showed positive signs, but the Euro zone and Japanese economies continued to experience recession. Developed economies continued to loosen or maintain loose monetary policies, while emerging economies' monetary policies faced a dilemma. According to the International Monetary Fund's report, the global economy grew at 3.2% in 2012, a decrease of 0.7 percentage points from 2011.

In 2012, China's economy faced complex internal and external environment, but the fundamentals that supported the steady and relatively fast growth of China's economy have not changed in essence. In particular, the full progress of new urbanisation, informatisation, industrialisation and agricultural modernisation drove China's economy to grow amid steady development. In 2012, China's GDP was RMB51.9 trillion, up 7.8% over 2011, while the consumer price index increased by 2.6% over the previous year.

In 2012, China's financial market operated steadily on the whole. The positive effects of monetary policies gradually appeared, and the pre-setting and fine tuning were intensified. During the year, the PBC lowered the statutory deposit reserve ratio twice, and the benchmark deposit and lending interest rates twice. The reform of interest rate liberalisation made further progress. For financial institutions, the upper limit of the floating range of RMB deposit interest rates was adjusted to 1.1 times of the benchmark deposit interest rates, and the lower limit of the floating range of RMB lending interest rates was adjusted to 0.7 times of the benchmark lending interest rates. The monetary credit growth was in line with expectations, and the loan structure continued to improve. At the end of 2012, the outstanding broad money supply M2 increased by 13.8% over the previous year to RMB97.4 trillion, and the narrow money supply M1 increased by 6.5% to RMB30.9 trillion. The amount of loans granted in RMB increased by 15.0% to RMB63.0 trillion. The deposits in RMB increased by 13.3% to RMB91.7 trillion.

The Group closely monitored the trend of national economy and changes in regulatory requirements, accelerated business structure adjustments, and strengthened comprehensive risk controls, achieving steady profit growth and stable asset quality.

5.1.1 Statement of Comprehensive Income Analysis

In 2012, the Group recorded profit before tax of RMB251,439 million, up 14.76% over 2011. Net profit was RMB193,602 million, up 14.26% over 2011. This was mainly due to the following factors: First, the interest-earning assets increased moderately and net interest margin recovered steadily, pushing up net interest income by RMB48,630 million, or 15.97% over 2011. Second, the Group further improved cost management and strictly controlled its expenses, keeping a relatively low cost-to-income ratio. However, as a result of the slowdown of domestic economy and changes in regulatory policy on bank fees, the growth rate of net fee and commission income slowed down compared with 2011.

(In millions of RMB, except percentages)	Year ended 31 December 2012	Year ended 31 December 2011	Change (%)
Net interest income	353,202	304,572	15.97
Net fee and commission income	93,507	86,994	7.49
Other operating income	15,824	7,837	101.91
Operating income	462,533	399,403	15.81
Operating expenses	(171,081)	(144,537)	18.36
Impairment losses	(40,041)	(35,783)	11.90
Share of profits less losses of associates and jointly controlled entities	28	24	16.67
Profit before tax	251,439	219,107	14.76
Income tax expense	(57,837)	(49,668)	16.45
Net profit	193,602	169,439	14.26
Other comprehensive income for the year, net of tax	(3,511)	(1,918)	83.06
Total comprehensive income for the year	190,091	167,521	13.47

5 MANAGEMENT DISCUSSION AND ANALYSIS

Net interest income

In 2012, the Group's net interest income was RMB353,202 million, an increase of RMB48,630 million, or 15.97%, over the previous year. The net interest income accounted for 76.36% of the operating income.

The following table shows the Group's average balances of assets and liabilities, related interest income or expense, and average yields or costs during the respective periods.

	Year ended 31 December 2012			Year ended 31 December 2011		
	Average balance	Interest income/expense	Average yield/cost (%)	Average balance	Interest income/expense	Average yield/cost (%)
(In millions of RMB, except percentages)						
Assets						
Gross loans and advances to customers	7,027,047	441,691	6.29	6,108,983	347,520	5.69
Investments in debt securities	2,808,238	100,444	3.58	2,745,520	89,716	3.27
Deposits with central banks	2,302,863	34,694	1.51	2,030,564	31,282	1.54
Deposits and placements with banks and non-bank financial institutions	576,641	20,860	3.62	212,038	5,841	2.75
Financial assets held under resale agreements	130,335	5,552	4.26	195,695	7,888	4.03
Total interest-earning assets	12,845,124	603,241	4.70	11,292,800	482,247	4.27
Total allowances for impairment losses	(193,168)			(164,389)		
Non-interest-earning assets	513,587			383,077		
Total assets	13,165,543	603,241		11,511,488	482,247	
Liabilities						
Deposits from customers	10,527,661	208,591	1.98	9,442,374	151,972	1.61
Deposits and placements from banks and non-bank financial institutions	1,016,334	31,808	3.13	870,192	20,464	2.35
Financial assets sold under repurchase agreements	58,429	2,254	3.86	21,724	1,233	5.68
Debt securities issued	211,505	7,364	3.48	116,807	3,987	3.41
Other interest-bearing liabilities	1,686	22	1.25	1,704	19	1.12
Total interest-bearing liabilities	11,815,615	250,039	2.12	10,452,801	177,675	1.70
Non-interest-bearing liabilities	440,434			282,713		
Total liabilities	12,256,049	250,039		10,735,514	177,675	
Net interest income		353,202			304,572	
Net interest spread			2.58			2.57
Net interest margin			2.75			2.70

In 2012, the Group's net interest margin was 2.75%, up 5 basis points year-on-year. This was mainly due to the following factors: First, the weighted average interest rates for newly granted loans rose with enhanced pricing management, and interest rate hikes in 2011 had a lagging effect on the loan yield. Second, the yield of investments in debt securities grew steadily with the adjustments in duration and structure of investments in debt securities. In addition, the cost of interest-bearing liabilities rose over 2011, as a result of the lagging effect of interest rate hikes in 2011 on interest cost of deposits and higher proportion of time deposits in total deposits, partially offsetting the positive effects of the above factors on net interest margin.

In 2012, the PBC cut down the benchmark deposit and lending interest rates twice, and expanded the floating range of deposit and lending interest rates. In response, the Group will actively conduct research on the interest rate liberalisation, strengthen interest spread management, and cultivate and improve its pricing capability under the circumstances of interest rate liberalisation.

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The following table shows the effects of the movement of the average balances and average interest rates of the Group's assets and liabilities on the change in interest income or expense for 2012 versus 2011.

(In millions of RMB)	Volume factor ¹	Interest rate factor ¹	Change in interest income/expense
Assets			
Gross loans and advances to customers	55,341	38,830	94,171
Investment in debt securities	2,083	8,645	10,728
Deposits with central banks	4,043	(631)	3,412
Deposits and placements with banks and non-bank financial institutions	12,685	2,334	15,019
Financial assets held under resale agreements	(2,764)	428	(2,336)
Change in interest income	71,388	49,606	120,994
Liabilities			
Deposits from customers	18,876	37,743	56,619
Deposits and placements from banks and non-bank financial institutions	3,811	7,533	11,344
Financial assets sold under repurchase agreements	1,523	(502)	1,021
Debt securities issued	3,294	83	3,377
Other interest-bearing liabilities	-	3	3
Change in interest expenses	27,504	44,860	72,364
Change in net interest income	43,884	4,746	48,630

1. Change caused by both average balances and average interest rates was allocated to volume factor and interest rate factor respectively based on the respective proportions of absolute values of volume factor and interest rate factor.

Net interest income increased by RMB48,630 million over the previous year, in which an increase of RMB43,884 million was due to the movement of average balances of assets and liabilities, and an increase of RMB4,746 million was due to the movement of average yields or costs. The proportion of contribution of volume factor and interest rate factor to the increase in net interest income was 90.24% and 9.76% respectively.

Interest income

The Group's interest income in 2012 was RMB603,241 million, an increase of RMB120,994 million, or 25.09%, over 2011. In this amount, the proportion of interest income from loans and advances to customers, investments in debt securities, deposits with central banks, deposits and placements with banks and non-bank financial institutions, financial assets held under resale agreements was 73.22%, 16.65%, 5.75%, 3.46% and 0.92% respectively.

Interest income from loans and advances to customers

The table below shows the average balance, interest income and average yield of each component of the Group's loans and advances to customers.

(In millions of RMB, except percentages)	Year ended 31 December 2012			Year ended 31 December 2011		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans and advances	4,690,345	307,355	6.55	4,201,411	249,226	5.93
Short-term loans	1,619,010	104,219	6.44	1,313,801	76,110	5.79
Medium to long-term loans	3,071,335	203,136	6.61	2,887,610	173,116	6.00
Personal loans and advances	1,833,083	112,586	6.14	1,538,049	82,732	5.38
Discounted bills	127,147	8,694	6.84	103,290	7,496	7.26
Overseas operations and subsidiaries	376,472	13,056	3.47	266,233	8,066	3.03
Gross loans and advances to customers	7,027,047	441,691	6.29	6,108,983	347,520	5.69

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Interest income from loans and advances to customers rose by RMB94,171 million, or 27.10%, year-on-year to RMB441,691 million, mainly because the average balance of loans and advances to customers increased by 15.03%, and the average yield increased by 60 basis points over the previous year. The loan yield increased largely because of the following causes: First, the Group actively adjusted credit structure and enhanced pricing management, and the weighted average interest rates for newly granted loans in 2012 rose over 2011. Second, the lagging effect of interest rate hikes in 2011 further pushed up the loan yield.

Interest income from investments in debt securities

Interest income from investments in debt securities grew by RMB10,728 million, or 11.96%, to RMB100,444 million over 2011, largely because the Group seized the favourable opportunity presented by the rising interest rates to improve the duration and structure of investments in debt securities, which resulted in the increase in the average yield of investments in debt securities.

Interest income from deposits with central banks

Interest income from deposits with central banks amounted to RMB34,694 million, an increase of RMB3,412 million, or 10.91% over 2011. This was mainly due to the increase in the average balance of deposits with central banks.

Interest income from deposits and placements with banks and non-bank financial institutions

Interest income from deposits and placements with banks and non-bank financial institutions grew by RMB15,019 million to RMB20,860 million, an increase of 257.13% over 2011. This was primarily because the average balance of deposits and placements with banks and non-bank financial institutions rose by 171.95% over 2011 due to an increase in principal-guaranteed wealth management products. Meanwhile, the average yield of deposits and placements with banks and non-bank financial institutions also rose by 87 basis points over 2011.

Interest income from financial assets held under resale agreements

Interest income from financial assets held under resale agreements decreased by RMB2,336 million, or 29.61% over 2011 to RMB5,552 million. This was mainly due to the decrease in the average balance of financial assets held under resale agreements.

Interest expense

In 2012, the Group's interest expense was RMB250,039 million, a year-on-year increase of RMB72,364 million, or 40.73%.

Interest expense on deposits from customers

The table below shows the average balance, interest expense and average cost of each component of the Group's deposits from customers.

(In millions of RMB, except percentages)	Year ended 31 December 2012			Year ended 31 December 2011		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Corporate deposits	5,488,128	101,216	1.84	5,080,500	75,822	1.49
Demand deposits	3,320,096	26,438	0.80	3,302,205	26,308	0.80
Time deposits	2,168,032	74,778	3.45	1,778,295	49,514	2.78
Personal deposits	4,883,746	105,224	2.15	4,230,001	74,515	1.76
Demand deposits	1,951,264	8,060	0.41	1,725,106	8,505	0.49
Time deposits	2,932,482	97,164	3.31	2,504,895	66,010	2.64
Overseas operations and subsidiaries	155,787	2,151	1.38	131,873	1,635	1.24
Total deposits from customers	10,527,661	208,591	1.98	9,442,374	151,972	1.61

Interest expense on deposits from customers rose to RMB208,591 million, representing an increase of RMB56,619 million, or 37.26%, over 2011, mainly because the average cost rose by 37 basis points, and the average balance rose by 11.49% over 2011. The increase in the cost of deposits was mainly due to the following causes: First, the interest cost of time deposits rose by 67 basis points over 2011 as a result of the lagging effect of interest rate hikes in 2011. Second, under the expectation of further interest rate cuts, the proportion of the average balance of time deposits in total deposits rose by 3.09 percentage points to 48.45%.

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Interest expense on deposits and placements from banks and non-bank financial institutions

Interest expense on deposits and placements from banks and non-bank financial institutions reached RMB31,808 million, an increase of RMB11,344 million, or 55.43%, over 2011, largely because the average cost of deposits from banks and non-bank financial institutions increased by 78 basis points as affected by the rising market rates.

Interest expense on financial assets sold under repurchase agreements

Interest expense on financial assets sold under repurchase agreements increased by RMB1,021 million year-on-year to RMB2,254 million. This was primarily because of the increase in the average balance of financial assets sold under repurchase agreements.

Net fee and commission income

(In millions of RMB, except percentages)	Year ended 31 December 2012	Year ended 31 December 2011	Change (%)
Fee and commission income	96,218	89,494	7.51
Bank card fees	20,137	14,910	35.06
Consultancy and advisory fees	19,722	17,488	12.77
Agency service fees	12,772	14,210	(10.12)
Settlement and clearing fees	11,423	13,484	(15.28)
Wealth management service fees	9,381	7,907	18.64
Commission on trust and fiduciary activities	8,380	7,732	8.38
Electronic banking service fees	4,760	4,246	12.11
Credit commitment fees	2,636	2,369	11.27
Guarantee fees	1,931	2,495	(22.61)
Others	5,076	4,653	9.09
Fee and commission expense	(2,711)	(2,500)	8.44
Net fee and commission income	93,507	86,994	7.49

In 2012, the Group's net fee and commission income increased by 7.49% over 2011 to RMB93,507 million. The ratio of net fee and commission income to operating income dropped by 1.56 percentage points to 20.22%. The slower growth rate of net fee and commission income was mainly due to the following factors: First, with the slowdown of economic growth in China, growth rates of market-related products fell. Second, the regulatory standards tended to be more stringent, calling for a higher standard in setting service fees. Third, the Group voluntarily waived service charges on certain personal and small business customers.

Bank card fees grew by 35.06% to RMB20,137 million. In this amount, fees from credit cards nearly doubled, mainly because income from installment transactions grew fast as a result of expanded customer base and multiple innovative products. Income from debit cards and quasi credit cards maintained a steady and fast growth due to the rising number of personal customers, optimised products and more convenient transaction channels.

Consultancy and advisory fees increased by 12.77% over 2011 to RMB19,722 million. The growth rate fell substantially from 2011, mainly due to the decrease in income from routine financial advisory services. Income from new financial advisory services and cost advisory service maintained fast growth.

Agency service fees decreased by 10.12% to RMB12,772 million. This was mainly because income from agency fund sales decreased sharply due to the gloomy securities market. Income from insurance agency services decreased over 2011 due to the shrinkage of the bank insurance market. Income from financial services for housing reform recorded a good growth.

Settlement and clearing fees decreased by 15.28% to RMB11,423 million. This was largely because of a decrease in income from RMB settlements over 2011. Income from personal foreign currency settlement and agency fund clearing grew well.

Wealth management service fees increased by 18.64% to RMB9,381 million. The Group was dedicated to satisfying customers' needs for investment and wealth management, and strove to provide differentiated products to customers with different risk and channel preferences. Besides the traditional wealth management products, the Group also launched exclusive wealth management products for private banking customers and electronic banking channel.

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Commission on trust and fiduciary activities was RMB8,380 million, up 8.38% over 2011. In this amount, fees from custodial service for insurance assets and enterprise annuities grew rapidly, while the income from custodial service for securities investment funds dropped noticeably as affected by the securities market.

Electronic banking service fees grew by 12.11% to RMB4,760 million. This was mainly due to the rapid growth of customer base and steady expansion of trading volume of electronic banking channels including online banking, mobile phone banking and SMS financial service. Meanwhile, the Group launched multiple preferential and convenient electronic banking products including “Joy Life” and “College Student Benefit”.

Going forward, the Group will continue to maintain its enthusiasm for development and innovation, and make greater efforts in product innovation, service upgrade, customer retention and expansion in accordance with the market conditions and demands of customers, to promote the healthy and sustainable development of the fee-based business.

Net trading gain

Net trading gain was RMB1,863 million, an increase of RMB1,475 million, or 380.15%, over the previous year. This was mainly due to the increase in the realised income from derivatives and the decrease of revaluation losses of financial assets at fair value through profit or loss.

Net gain arising from investment securities

Net gain arising from investment securities was RMB3,536 million, an increase of RMB1,780 million, or 101.37%, over 2011. This was mainly because the realised investment gains from available-for-sale financial assets increased.

Other net operating income

In 2012, the Group reaped other net operating income of RMB10,186 million, an increase of RMB4,651 million, or 84.03%, over 2011. This was mainly because the insurance business of CCB Life, which was acquired by the Group in June 2011, grew rapidly, and its profit for the full year of 2012 was consolidated.

Operating expenses

(In millions of RMB, except percentages)	Year ended 31 December 2012	Year ended 31 December 2011
Staff costs	79,710	71,388
Premises and equipment expenses	23,484	20,397
Business taxes and surcharges	30,233	24,229
Other business costs	5,620	1,112
Others	32,034	27,411
Total operating expenses	171,081	144,537
Cost-to-income ratio	29.60%	29.93%

In 2012, the Group's total operating expenses increased by RMB26,544 million, or 18.36%, year-on-year to RMB171,081 million; and total operating expenses increased by RMB21,982 million, or 15.29%, over 2011, by excluding the expenditures of the insurance business of CCB Life. Cost-to-income ratio fell by 0.33 percentage points to 29.60% year-on-year.

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Staff costs were RMB79,710 million, an increase of RMB8,322 million, up 11.66% over 2011, lower than the growth rates of profit before tax and net profit. Premises and equipment expenses were RMB23,484 million, up 15.13%. Business taxes and surcharges were RMB30,233 million, an increase of RMB6,004 million, up 24.78% in line with higher taxable income over 2011. Other business costs were RMB5,620 million, an increase of RMB4,508 million, up 405.40% over 2011. This was mainly because the insurance business of CCB Life, acquired by the Group in June 2011, grew rapidly and its cost for the full year of 2012 was consolidated. Other operating expenses increased by RMB4,623 million, or 16.87% over 2011 to RMB32,034 million, largely because the marketing costs increased as a result of business development and intense market competition.

Impairment losses

(In millions of RMB)	Year ended 31 December 2012	Year ended 31 December 2011
Loans and advances to customers	38,330	32,403
Investments	1,296	1,610
Available-for-sale financial assets	(236)	1,130
Held-to-maturity investments	1,126	(15)
Debt securities classified as receivables	406	495
Fixed assets	5	1
Others	410	1,769
Impairment losses	40,041	35,783

In 2012, impairment losses were RMB40,041 million, an increase of RMB4,258 million, or 11.90%, over 2011. In this amount, impairment losses on loans and advances to customers were RMB38,330 million, an increase of RMB5,927 million, mainly because the Group made prudent provisions by fully considering the impact of changes in external environment on credit asset quality; impairment losses on investments were RMB1,296 million, a decrease of RMB314 million, mainly because part of the allowances for impairment losses on available-for-sale financial assets were reversed, while impairment losses on held-to-maturity investments increased as a result of the increase in corporate bonds which were collectively assessed; other impairment losses were RMB410 million, a decrease of RMB1,359 million over 2011, mainly because the asset structure of the non-principal-guaranteed wealth management business was optimised and part of the allowances were reversed.

Income tax expense

In 2012, the Group's income tax expense reached RMB57,837 million, an increase of RMB8,169 million over 2011. The Group's effective income tax rate was 23.00%, lower than the 25% statutory rate, largely because the interest income from the PRC government bonds held by the Group was non-taxable in accordance with tax regulations. Details on income tax expense are set out in the Note "Income Tax Expense" of the "Financial Statements" in this report.

Other net comprehensive income

In 2012, the Group recorded a negative value of RMB3,511 million in other net comprehensive income, a decrease of RMB1,593 million compared to 2011, mainly due to a fall in the fair value of the available-for-sale financial assets.

5 MANAGEMENT DISCUSSION AND ANALYSIS

5.1.2 Statement of Financial Position Analysis

Assets

The following table shows the composition of the Group's total assets as at the dates indicated.

(In millions of RMB, except percentages)	As at 31 December 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
Gross loans and advances to customers	7,512,312		6,496,411	
Allowances for impairment losses on loans	(202,433)		(171,217)	
Net loans and advances to customers	7,309,879	52.31	6,325,194	51.50
Investments ¹	2,866,648	20.52	2,741,750	22.32
Cash and deposits with central banks	2,458,069	17.59	2,379,809	19.38
Deposits and placements with banks and non-bank financial institutions	715,551	5.12	385,792	3.14
Financial assets held under resale agreements	316,685	2.27	200,045	1.63
Interest receivable	68,264	0.49	56,776	0.46
Others ²	237,732	1.70	192,468	1.57
Total assets	13,972,828	100.00	12,281,834	100.00

1. These comprise financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, and debt securities classified as receivables.

2. These comprise precious metals, positive fair value of derivatives, interests in associates and jointly controlled entities, fixed assets, land use rights, intangible assets, goodwill, deferred tax assets and other assets.

As at 31 December 2012, the Group's total assets stood at RMB13,972,828 million, an increase of RMB1,690,994 million, or 13.77%, over 2011. This was mainly due to increases in loans and advances to customers, deposits and placements with banks and non-bank financial institutions, and financial assets held under resale agreements. In this amount, net loans and advances to customers accounted for 52.31% of total assets, an increase of 0.81 percentage points over 2011. Deposits and placements with banks and non-bank financial institutions accounted for 5.12% of total assets, an increase of 1.98 percentage points. Financial assets held under resale agreements accounted for 2.27% of total assets, an increase of 0.64 percentage points. Investments decreased by 1.80 percentage points, accounting for 20.52% of total assets. Cash and deposits with central banks decreased by 1.79 percentage points, accounting for 17.59% of total assets.

Loans and advances to customers

(In millions of RMB, except percentages)	As at 31 December 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
Corporate loans and advances	4,963,050	66.07	4,400,421	67.74
Short-term loans	1,725,607	22.97	1,383,008	21.29
Medium to long-term loans	3,237,443	43.10	3,017,413	46.45
Personal loans and advances	2,017,826	26.86	1,677,910	25.83
Residential mortgages	1,528,757	20.35	1,312,974	20.21
Personal consumer loans	80,556	1.07	76,692	1.18
Personal business loans	101,776	1.36	78,716	1.21
Credit card loans	177,936	2.37	97,553	1.50
Other loans ¹	128,801	1.71	111,975	1.73
Discounted bills	137,558	1.83	111,181	1.71
Overseas operations and subsidiaries	393,878	5.24	306,899	4.72
Gross loans and advances to customers	7,512,312	100.00	6,496,411	100.00

1. These comprise individual commercial property mortgage loans, home equity loans and education loans.

5 MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2012, the Group's gross loans and advances to customers rose by RMB1,015,901 million, or 15.64%, over 2011, to RMB7,512,312 million.

Domestic corporate loans and advances of the Bank reached RMB4,963,050 million, an increase of RMB562,629 million, or 12.79%, over 2011. In this amount, loans to infrastructure sectors rose to RMB2,096,129 million, the increase of which accounted for 27.04% of the increase in corporate loans; loans to small and micro businesses amounted to RMB745,453 million, and agriculture-related loans totalled RMB1,274,899 million, up 17.97% and 21.43% respectively, both higher than the growth rate of total corporate loans. The Bank pushed forward the rectification of its loans to local government financing vehicles, strengthened the exit mechanism, and strictly followed the approval policies, leading to improved structure of loans to financing vehicles. Proportions of loans to industries classified as prudent supporting and gradual curtailing categories in total loans decreased by 0.89 percentage points and 0.26 percentage points respectively.

Domestic personal loans and advances of the Bank increased by RMB339,916 million, or 20.26%, to RMB2,017,826 million, which accounted for 26.86% of the gross loans and advances to customers, up 1.03 percentage points over 2011. In this amount, residential mortgages rose by RMB215,783 million, or 16.43%, to RMB1,528,757 million, mainly to support the financing needs for residential purpose; personal business loans increased by RMB23,060 million, or 29.30% over 2011, to RMB101,776 million; credit card loans rose by RMB80,383 million, or 82.40%, to RMB177,936 million.

Discounted bills increased by RMB26,377 million to RMB137,558 million year-on-year, chiefly used to meet the short-term financing needs of targeted prime customers.

Loans and advances to customers of overseas entities and subsidiaries rose by RMB86,979 million, or 28.34%, over 2011, to RMB393,878 million, largely attributable to the rapid loan growth in Hong Kong and other regions.

Distribution of loans by type of collateral

The table below sets forth the distribution of loans and advances by type of collateral as at the dates indicated.

(In millions of RMB, except percentages)	As at 31 December 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
Unsecured loans	2,084,988	27.76	1,655,537	25.48
Guaranteed loans	1,441,826	19.19	1,422,349	21.89
Loans secured by tangible assets other than monetary assets	3,176,420	42.28	2,787,776	42.92
Loans secured by monetary assets	809,078	10.77	630,749	9.71
Gross loans and advances to customers	7,512,312	100.00	6,496,411	100.00

Allowances for impairment losses on loans and advances to customers

(In millions of RMB)	Year ended 31 December 2012			
	Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances		Total
		which are collectively assessed	which are individually assessed	
As at 1 January	129,832	3,276	38,109	171,217
Charge for the year	22,878	1,371	23,024	47,273
Release during the year	-	-	(8,943)	(8,943)
Unwinding of discount	-	-	(1,612)	(1,612)
Transfers out	-	(5)	(232)	(237)
Write-offs	-	(832)	(5,821)	(6,653)
Recoveries	-	99	1,289	1,388
As at 31 December	152,710	3,909	45,814	202,433

The Group adhered to the prudent principle by fully considering the impact of changes in external environment including macro economy and government control policies on credit asset quality, and made full provisions for impairment losses on loans and advances to customers. As at 31 December 2012, the allowances for impairment losses on loans and advances to customers were RMB202,433 million, an increase of RMB31,216 million over 2011. The ratio of allowances to non-performing loans was 271.29%, up 29.85 percentage points over 2011. The ratio of allowances to total loans stood at 2.69%, up 0.05 percentage points over 2011.

5 MANAGEMENT DISCUSSION AND ANALYSIS

Investments

The following table shows the composition of the Group's investments by holding intention as at the dates indicated.

(In millions of RMB, 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	27,572	0.96	23,096	0.84
Available-for-sale financial assets	701,041	24.46	675,058	24.62
Held-to-maturity investments	1,918,322	66.92	1,743,569	63.60
Debt securities classified as receivables	219,713	7.66	300,027	10.94
Total investments	2,866,648	100.00	2,741,750	100.00

As at 31 December 2012, total investments increased by RMB124,898 million, or 4.56%, over 2011 to RMB2,866,648 million. In this amount, financial assets at fair value through profit or loss increased by RMB4,476 million, or 19.38%; available-for-sale financial assets increased by RMB25,983 million, or 3.85%; held-to-maturity investments increased by RMB174,753 million, or 10.02%; debt securities classified as receivables decreased by RMB80,314 million, or 26.77%, mainly due to the repayment of Cinda debt securities.

The following table sets forth the composition of the Group's investments by nature as at the dates indicated.

(In millions of RMB, except percentages)	As at 31 December 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
Debt securities investments	2,847,441	99.33	2,719,007	99.17
Equity instruments	17,967	0.63	22,451	0.82
Funds	1,240	0.04	292	0.01
Total investments	2,866,648	100.00	2,741,750	100.00

Debt securities investments

The following table sets forth the composition of the Group's debt instruments by issuer as at the dates indicated.

(In millions of RMB, except percentages)	As at 31 December 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
Government	939,182	32.98	901,187	33.14
Central banks	335,309	11.78	435,726	16.02
Policy banks	351,086	12.33	285,767	10.51
Banks and non-bank financial institutions	798,952	28.06	712,053	26.19
Public sector entities	341	0.01	196	0.01
Cinda	57,622	2.02	131,761	4.85
Other enterprises	364,949	12.82	252,317	9.28
Total investments in debt securities	2,847,441	100.00	2,719,007	100.00

The Group persisted in its sound investment and prudent trading philosophy, and proactively adjusted its operating strategy to achieve the balance of risks and returns, while maintaining safe liquidity. As at 31 December 2012, the Group's investments in debt securities totalled RMB2,847,441 million, an increase of RMB128,434 million, or 4.72% over 2011. In this amount, government debt securities were RMB939,182 million, an increase of RMB37,995 million, or 4.22%, over 2011; debt securities issued by policy banks increased by RMB65,319 million, or 22.86%, over 2011 to RMB351,086 million; debt securities issued by banks and non-bank financial institutions were RMB798,952 million, an increase of RMB86,899 million, or 12.20%, compared to 2011; debt securities issued by other enterprises increased by RMB112,632 million, or 44.64%, over 2011 to RMB364,949 million; debt securities issued by central banks decreased by RMB100,417 million, or 23.05% over 2011 to RMB335,309 million; Cinda debt securities decreased by RMB74,139 million over 2011 to RMB57,622 million, as part of the principal was repaid to the Bank.

5 MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the composition of the Group's debt instruments by currency as at the dates indicated.

(In millions of RMB, except percentages)	As at 31 December 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
RMB	2,775,236	97.46	2,667,800	98.12
USD	25,515	0.90	27,885	1.02
HKD	37,592	1.32	8,638	0.32
Other foreign currencies	9,098	0.32	14,684	0.54
Total investments in debt securities	2,847,441	100.00	2,719,007	100.00

As at 31 December 2012, the carrying amount of US sub-prime mortgage-backed securities held by the Group was US\$84 million, accounting for 0.72% of the foreign currency debt securities investment portfolio; the carrying amount of the Alt-A bonds held by the Group was US\$178 million, accounting for 1.54% of the foreign currency debt securities investment portfolio. The Group does not hold any debt securities issued by the governments and institutions of Greece, Portugal, Spain and Italy.

As foreign currency debt securities represent only a very small proportion of the Group's total assets, market value fluctuations for such debt securities will not have a significant effect on the Group's earnings.

Interest receivable

As at 31 December 2012, the Group's interest receivable was RMB68,264 million, an increase of RMB11,488 million, or 20.23%, over 2011. This was mainly due to the growth in loans and debt securities investments.

Liabilities

The following table shows the composition of the Group's total liabilities as at the dates indicated.

(In millions of RMB, except percentages)	As at 31 December 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
Deposits from customers	11,343,079	87.10	9,987,450	87.11
Deposits and placements from banks and non-bank financial institutions	1,097,743	8.43	1,044,954	9.11
Financial assets sold under repurchase agreements	2,360	0.02	10,461	0.09
Debt securities issued	262,991	2.02	168,312	1.47
Others ¹	317,046	2.43	253,996	2.22
Total liabilities	13,023,219	100.00	11,465,173	100.00

1. These comprise borrowings from central banks, financial liabilities at fair value through profit or loss, negative fair value of derivatives, accrued staff costs, taxes payable, interest payable, provisions, deferred tax liabilities and other liabilities.

As at 31 December 2012, the Group's total liabilities were RMB13,023,219 million, an increase of RMB1,558,046 million, or 13.59%, over 2011. In this amount, deposits from customers rose by RMB1,355,629 million, or 13.57% over 2011, and accounted for 87.10% of total liabilities; deposits and placements from banks and non-bank financial institutions increased by RMB52,789 million, or 5.05% over 2011, and accounted for 8.43% of total liabilities; financial assets sold under repurchase agreements decreased by RMB8,101 million, or 77.44%. Debt securities issued increased by RMB94,679 million over 2011, mainly because the Bank issued subordinated debt securities of RMB40 billion and the overseas entities issued more certificates of deposit.

5 MANAGEMENT DISCUSSION AND ANALYSIS

Deposits from customers

The following table sets forth the Group's deposits from customers by product type as at the dates indicated.

(In millions of RMB, except percentages)	As at 31 December 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
Corporate deposits	6,073,726	53.55	5,410,592	54.17
Demand deposits	3,714,628	32.75	3,493,316	34.98
Time deposits	2,359,098	20.80	1,917,276	19.19
Personal deposits	5,077,930	44.77	4,415,965	44.22
Demand deposits	2,092,791	18.45	1,829,399	18.32
Time deposits	2,985,139	26.32	2,586,566	25.90
Overseas operations and subsidiaries	191,423	1.68	160,893	1.61
Total deposits from customers	11,343,079	100.00	9,987,450	100.00

As at 31 December 2012, the Group's total deposits from customers reached RMB11,343,079 million, an increase of RMB1,355,629 million, or 13.57%, year-on-year. Domestic time deposits of the Bank increased by RMB840,395 million, or 18.66%, higher than the 9.11% growth of demand deposits, and accounted for 47.12% of total deposits from customers, an increase of 2.03 percentage points over 2011.

Shareholders' Equity

(In millions of RMB)	As at 31 December 2012	As at 31 December 2011
Share capital	250,011	250,011
Capital reserve	135,281	135,178
Investment revaluation reserve	3,023	6,383
Surplus reserve	86,718	67,576
General reserve	80,483	67,342
Retained earnings	391,034	289,266
Exchange reserve	(4,818)	(4,615)
Total equity attributable to equity shareholders of the Bank	941,732	811,141
Non-controlling interests	7,877	5,520
Total equity	949,609	816,661

As at 31 December 2012, the Group's total equity reached RMB949,609 million, an increase of RMB132,948 million year-on-year. The ratio of total equity to total assets for the Group was 6.80%. The daily average loan-to-deposit ratio for 2012 was 66.75%, up 2.05 percentage points over 2011.

5 MANAGEMENT DISCUSSION AND ANALYSIS

Capital Adequacy Ratio

The following table sets forth the information related to the Group's capital adequacy ratio as at the dates indicated.

(In millions of RMB, except percentages)	As at 31 December 2012	As at 31 December 2011
Core capital adequacy ratio¹	11.32%	10.97%
Capital adequacy ratio²	14.32%	13.68%
Components of capital base		
Core capital:		
Share capital	250,011	250,011
Capital reserve, investment revaluation reserve and exchange reserve ³	130,535	130,562
Surplus reserve and general reserve	167,196	134,918
Retained earnings ^{3,4}	323,735	229,649
Non-controlling interests	4,275	5,520
	875,752	750,660
Supplementary capital:		
General allowance for doubtful debts	76,605	66,180
Positive changes in fair value of financial instruments at fair value through profit or loss	1,563	3,675
Subordinated bonds issued	160,000	120,000
	238,168	189,855
Total capital base before deductions	1,113,920	940,515
Deductions:		
Goodwill	(1,456)	(1,662)
Unconsolidated equity investments	(17,882)	(12,402)
Others ⁵	(1,153)	(1,945)
Net capital	1,093,429	924,506
Risk-weighted assets⁶	7,637,705	6,760,117

- Core capital adequacy ratio is calculated by dividing the net amount of core capital, which is after deductions of 100% of goodwill and 50% of unconsolidated equity investments and other items, by risk-weighted assets.
- Capital adequacy ratio is calculated by dividing the net capital by risk-weighted assets.
- The investment revaluation reserve arising from the accumulated net positive changes in the fair value of available-for-sale financial assets is excluded from the core capital, and 50% of the balance is included in the supplementary capital. In addition, the unrealised accumulated net positive changes in fair value of financial instruments at fair value through profit or loss, net of income tax, are excluded from the core capital and included in the supplementary capital.
- The dividend proposed after the balance sheet date has been deducted from retained earnings.
- Others mainly represent investments in those asset backed securities specified by the CBRC which required reduction.
- The balances of risk-weighted assets include an amount equal to 12.5 times the Group's market risk capital.

In accordance with the *Measures for the Management of Capital Adequacy Ratios of Commercial Banks* and related regulations promulgated by the CBRC, as at 31 December 2012, the Group's capital adequacy ratio was 14.32% and the core capital adequacy ratio was 11.32%, up 0.64 and 0.35 percentage points respectively over 2011. The increases were largely due to the following reasons: First, the increase in the Group's profits pushed the growth rate of core capital to outrun that of risk-weighted assets. Second, the issuance of RMB40 billion subordinated debt securities in November 2012 has effectively consolidated the Group's capital base. Third, the Group continuously optimised the structure of capital allocation, and effectively controlled the growth of off-balance sheet risk-weighted assets.

5 MANAGEMENT DISCUSSION AND ANALYSIS

Leverage Ratio

As at 31 December 2012, the Group's leverage ratio was 5.41%, above the regulatory requirement of the CBRC.

(In millions of RMB, except percentages)	As at 31 December 2012
Leverage Ratio¹	5.41%
Core capital	875,752
Deductions from core capital	(10,974)
Net Core Capital	864,778
On-balance sheet assets after adjustment ²	13,984,994
Off-balance sheet items after adjustment ³	2,016,299
On and off-balance sheet assets after adjustment⁴	15,990,319

- Leverage ratio is calculated in accordance with relevant regulatory requirements. The net core capital is consistent with that used in the calculation of capital adequacy ratio by the Group.
- On-balance sheet assets after adjustment include derivatives using the current risk exposure approach and other on-balance sheet assets calculated.
- Off-balance sheet items after adjustment include unconditionally cancellable commitments with a conversion factor of 10% and other off-balance sheet items.
- On and off-balance sheet assets after adjustment = On-balance sheet assets after adjustment + Off-balance sheet items after adjustment – Deductions from core capital

Analysis of Off-Balance Sheet Items

The Group's off-balance sheet items include derivatives, commitments and contingent liabilities. Derivatives include interest rate contracts, exchange rate contracts, precious metal contracts, and equity instrument contracts. Please refer to Note "Derivatives" in the "Financial Statements" of this annual report for details on the nominal amounts and fair value of derivatives. Commitments and contingent liabilities include credit commitments, operating lease commitments, capital commitments, underwriting obligations, redemption obligations, outstanding litigation and disputes. Among these, credit commitments were the largest component, with an amount of RMB2,016,299 million as at 31 December 2012, an increase of RMB34,350 million over 2011. Its credit risk-weighted amount was RMB908,026 million, a decrease of RMB21,655 million from the previous year, largely because the Group strengthened off-balance sheet business management by imposing reasonable controls on the growth of off-balance sheet assets and clearing ineffective risk assets. Please refer to Note "Commitments and contingent liabilities" in the "Financial Statements" of this annual report for details on commitments and contingent liabilities.

5.1.3 Loan Quality Analysis

Distribution of Loans by the Five-Category Classification

The following table sets forth, as at the dates indicated, the distribution of the Group's loans by the five-category loan classification under which NPLs include substandard, doubtful and loss categories.

(In millions of RMB, except percentages)	As at 31 December 2012		As at 31 December 2011	
	Amount	% of total	Amount	% of total
Normal	7,233,287	96.29	6,227,770	95.87
Special mention	204,407	2.72	197,726	3.04
Substandard	32,745	0.43	38,974	0.60
Doubtful	33,713	0.45	23,075	0.35
Loss	8,160	0.11	8,866	0.14
Gross loans and advances to customers	7,512,312	100.00	6,496,411	100.00
Non-performing loans	74,618		70,915	
Non-performing loan ratio		0.99		1.09

In 2012, the Group stepped up credit structure adjustments, strengthened comprehensive post-lending management and risk prevention and mitigation, and expedited NPL disposal. As a result, credit asset quality continued to be stable. As at 31 December 2012, the Group's NPLs were RMB74,618 million, an increase of RMB3,703 million from 2011, while the NPL ratio dropped by 0.10 percentage points to 0.99%. The proportion of special mention loans slid to 2.72%, 0.32 percentage points lower from 2011.

5 MANAGEMENT DISCUSSION AND ANALYSIS

Distribution of Loans and NPLs by Product Type

The following table sets forth loans and NPLs by product type as at the dates indicated.

(In millions of RMB, except percentages)	As at 31 December 2012			As at 31 December 2011		
	Loans	NPLs	NPL ratio (%)	Loans	NPLs	NPL ratio (%)
Corporate loans and advances	4,963,050	67,575	1.36	4,400,421	63,692	1.45
Short-term loans	1,725,607	40,298	2.34	1,383,008	24,969	1.81
Medium to long-term loans	3,237,443	27,277	0.84	3,017,413	38,723	1.28
Personal loans and advances	2,017,826	5,895	0.29	1,677,910	5,178	0.31
Residential mortgages	1,528,757	2,809	0.18	1,312,974	2,630	0.20
Personal consumer loans	80,556	740	0.92	76,692	797	1.04
Personal business loans	101,776	580	0.57	78,716	198	0.25
Credit card loans	177,936	1,090	0.61	97,553	829	0.85
Other loans	128,801	676	0.52	111,975	724	0.65
Discounted bills	137,558	-	-	111,181	-	-
Overseas operations and subsidiaries	393,878	1,148	0.29	306,899	2,045	0.67
Total	7,512,312	74,618	0.99	6,496,411	70,915	1.09

As at 31 December 2012, the NPL ratio for domestic corporate loans and advances was 1.36%, a decrease of 0.09 percentage points from 2011, and that for personal loans and advances was 0.29%, a decrease of 0.02 percentage points over 2011. The Group strengthened overseas risk management and consolidated management at Group level, and expedited the disposal and mitigation of large exposures. The asset quality of overseas entities and subsidiaries improved steadily.

5 MANAGEMENT DISCUSSION AND ANALYSIS

Distribution of Loans and NPLs by Industry

The following table sets forth the loans and NPLs by industry as at the dates indicated.

(In millions of RMB, except percentages)	As at 31 December 2012				As at 31 December 2011			
	Loans	% of total	NPLs	NPL ratio (%)	Loans	% of total	NPLs	NPL ratio (%)
Corporate loans and advances	4,963,050	66.07	67,575	1.36	4,400,421	67.74	63,692	1.45
Manufacturing	1,275,213	16.97	30,690	2.41	1,084,612	16.70	25,577	2.36
Transportation, storage and postal services	856,728	11.40	3,208	0.37	742,368	11.43	7,038	0.95
Production and supply of electric power, heat, gas and water	593,497	7.90	3,157	0.53	569,517	8.77	3,929	0.69
Real estate	456,811	6.08	4,462	0.98	425,900	6.56	8,005	1.88
Leasing and commercial services	390,186	5.19	1,606	0.41	383,366	5.90	3,369	0.88
– Commercial services	377,550	5.03	1,590	0.42	373,145	5.74	3,347	0.90
Wholesale and retail trade	356,434	4.74	17,656	4.95	267,077	4.11	6,811	2.55
Water, environment and public utility management	235,694	3.14	223	0.09	226,560	3.49	1,065	0.47
Construction	218,808	2.91	1,654	0.76	187,166	2.88	1,908	1.02
Mining	196,666	2.62	458	0.23	165,806	2.55	599	0.36
– Exploitation of petroleum and natural gas	13,501	0.18	12	0.09	15,400	0.24	39	0.25
Education	66,183	0.88	362	0.55	84,984	1.31	734	0.86
Information transmission, software and information technology services	24,639	0.33	984	3.99	21,604	0.33	783	3.62
– Telecommunications, broadcast and television, and satellite transmission services	19,159	0.26	495	2.58	17,008	0.26	155	0.91
Others	292,191	3.91	3,115	1.07	241,461	3.72	3,874	1.60
Personal loans and advances	2,017,826	26.86	5,895	0.29	1,677,910	25.83	5,178	0.31
Discounted bills	137,558	1.83	–	–	111,181	1.71	–	–
Overseas operations and subsidiaries	393,878	5.24	1,148	0.29	306,899	4.72	2,045	0.67
Total	7,512,312	100.00	74,618	0.99	6,496,411	100.00	70,915	1.09

In 2012, in line with the 12th Five-Year Plan and changes in other external policies, the Group timely optimised its credit policies and structural adjustment plan, and refined its criteria in customer selection. It adhered to the limit management for various industries, and steadily promoted credit structural adjustments. As affected by macroeconomic environment and certain regional factors, the NPL ratios for manufacturing, and wholesale and retail trade industries rose.

Rescheduled Loans and Advances to Customers

The following table sets forth the Group's rescheduled loans and advances to customers as at the dates indicated.

(In millions of RMB, except percentages)	As at 31 December 2012		As at 31 December 2011	
	Amount	% of gross loans and advances	Amount	% of gross loans and advances
Rescheduled loans and advances to customers	2,563	0.03	2,692	0.04

As at 31 December 2012, rescheduled loans and advances to customers decreased by RMB129 million over 2011, to RMB2,563 million, accounting for 0.03% of gross loans and advances, down 0.01 percentage points over 2011.

5 MANAGEMENT DISCUSSION AND ANALYSIS

Overdue Loans and Advances to Customers

The following table sets forth the Group's overdue loans and advances to customers by overdue period as at the dates indicated.

(In millions of RMB, except percentages)	As at 31 December 2012		As at 31 December 2011	
	Amount	% of gross loans and advances	Amount	% of gross loans and advances
Overdue for no more than 3 months	24,715	0.33	21,815	0.34
Overdue for 3 months to 1 year	25,840	0.34	9,739	0.15
Overdue for 1 to 3 years	13,928	0.19	11,885	0.18
Overdue for over 3 years	12,593	0.17	13,553	0.21
Total overdue loans and advances to customers	77,076	1.03	56,992	0.88

As at 31 December 2012, overdue loans and advances to customers increased by RMB20,084 million to RMB77,076 million over 2011, mainly because short-term delinquencies rose as certain customers experienced difficulty in operation and liquidity with the slowdown of domestic economy.

5.1.4 Significant Accounting Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The major areas affected by the estimates and judgements include: impairment losses on loans and advances to customers, available-for-sale debt securities and held-to-maturity investments, impairment of available-for-sale equity instruments, fair value of financial instruments, reclassification of held-to-maturity investments, income taxes and employee retirement benefit obligations. Please refer to Note "Significant Accounting Policies and Accounting Estimates" in the "Financial Statements" of this annual report.

5.1.5 Differences between the Financial Statements Prepared under PRC GAAP and those Prepared under IFRS

There is no difference in the net profit for the year ended 31 December 2012 or total equity as at 31 December 2012 between the Group's consolidated financial statements prepared under PRC GAAP and those prepared under IFRS.

5.2 BUSINESS REVIEW

The Group's major business segments are corporate banking, personal banking, treasury business, and others including equity investments and overseas operations.

The following table sets forth, for the periods indicated, the profit before tax of each major business segment:

(In millions of RMB, except percentages)	Year ended 31 December 2012		Year ended 31 December 2011	
	Amount	% of total	Amount	% of total
Corporate banking	118,494	47.13	111,041	50.68
Personal banking	51,663	20.55	37,627	17.17
Treasury business	76,272	30.33	71,059	32.43
Others	5,010	1.99	(620)	(0.28)
Profit before tax	251,439	100.00	219,107	100.00

5 MANAGEMENT DISCUSSION AND ANALYSIS

5.2.1 Corporate Banking

The following table sets forth the major operating information and changes related to corporate banking:

(In millions of RMB, except percentages)	Year ended 31 December 2012	Year ended 31 December 2011	Change (%)
Net interest income	176,390	159,396	10.66
Net fee and commission income	40,116	39,170	2.42
Other operating income	444	789	(43.73)
Operating income	216,950	199,355	8.83
Operating expenses	(67,759)	(60,023)	12.89
Impairment losses	(30,697)	(28,291)	8.50
Profit before tax	118,494	111,041	6.71
	As at 31 December 2012	As at 31 December 2011	
Segment assets	5,368,220	4,643,350	15.61

Profit before tax from corporate banking segment increased by 6.71% over the previous year to RMB118,494 million, and accounted for 47.13% of the Group's profit before tax. In this amount, net interest income from corporate banking increased by 10.66% over the previous year, benefiting from the combined factors including the steady growth of corporate loans, higher pricing capability and repricing of existing loans; the net fee and commission income only increased by 2.42% over the previous year because income from certain products decreased due to regulatory and market factors.

Corporate deposits

As at 31 December 2012, domestic corporate deposits of the Bank amounted to RMB6,073,726 million, an increase of RMB663,134 million, or 12.26% over 2011. In this amount, demand deposits increased by 6.34%, and time deposits increased by 23.04%.

Corporate loans

Domestic corporate loans and advances of the Bank amounted to RMB4,963,050 million, an increase of RMB562,629 million, or 12.79%. Discounted bills amounted to RMB137,558 million, an increase of RMB26,377 million over 2011.

Loans were mainly granted to support the development of real economy with enhanced structure adjustments. Loans to infrastructure sectors totalled RMB2,096,129 million, an increase of RMB152,131 million. Agriculture-related loans amounted to RMB1,274,899 million, up 21.43%. In this amount, loans to new countryside construction grew steadily with an increase of RMB52,591 million. The Bank adhered to the principle of commercial sustainability, in terms of the development loans for indemnificatory housing projects, which increased by RMB33,350 million to RMB59,080 million. As a market leader in emerging businesses, the Bank recorded domestic factoring advances of RMB157,373 million, up 23.01%. The accumulated amount of loans granted to internet merchant business since 2008 was RMB95,164 million.

According to the SME standards jointly issued by four ministries and commissions including the Ministry of Industry and Information Technology in 2011, loans to small and micro businesses were RMB745,453 million, up 17.97%. The number of small and micro business customers reached 67,999, an increase of 6,580. Retail business process that is suitable for the characteristics of small and micro business has been initially built. The Group developed four major product categories, including "Growing Path", "Easy Loan", "Petty Loan", and "Credit Loan". It designed and developed "E.ccb.com Credit" products under the category of "Credit Loan", and developed "Credit Guarantee Loan" and "Supply Chain Loan" on the strength of government and core enterprises of the supply chains. The Bank was awarded "Excellent Service Institution for Small and Medium Enterprises" by China Association of Small and Medium Enterprises, as its small business development was well recognised by the wide community.

Loans to the "6+1" industries with excess capacity, including iron and steel, cement, coal chemical, plate glass, wind power equipment, polycrystalline silicon as well as the shipbuilding sector, decreased by RMB1,200 million from 2011. Loans to government financing vehicles were effectively controlled and cleaned up. Those classified under the regulatory category decreased by RMB18,295 million from 2011, and the loans fully covered by cash flows accounted for 93.90%. The Group effectively controlled property development loans. New granted loans were mainly in support of the real estate customers and the general residential projects with high credit rating, good business performance and proper closed management of project funds to discourage speculative and investment activities. The outstanding balance of property development loans was RMB415,770 million, a decrease of RMB3,390 million over 2011.

5 MANAGEMENT DISCUSSION AND ANALYSIS

Institutional business

The Bank expanded on its “Minben Tongda” brand, and promoted the sub-brand on comprehensive financial services for cultural sectors continuously. The Bank actively promoted marketing campaigns targeted at four cards, namely the financial social security card, the residents’ health card, the financial business card, and the PLA serviceman support card. The Bank continued to consolidate its advantage in traditional fiscal business, and obtained the qualification to act as the MOF’s agency bank for the collection of non-tax revenue to the central finance. The Bank ranked first in terms of number of customers of the central finance authorised payment and non-tax revenue collection agency service. The Bank vigorously promoted the online banking products related to the central finance authorised payment service. “Xincunguan” attracted 1.66 million new customers, pushing the total number of customers to 22.14 million. The number of contracted futures investment customers accounted for nearly 50% market share, ranking first in the market. The Bank was the first to launch securities pledged credit and monitoring business, expanding the individualised service functions of the credit business products.

International business

With the rapid growth of cross-border RMB business, the domestic cross-border RMB settlement volume totalled RMB586,234 million, an increase of 85.71% over 2011. International settlement volume reached US\$1,037,844 million, an increase of 23.25%. Trade finance recorded a 23.69% increase with a balance of RMB456,982 million on and off-balance sheet. With the innovation products including commodity financing hedging, cross-border RMB letter of credit re-advising with currency exchange, the Bank’s trade finance products covered the whole process of import and export such as pre-shipment, preparation of goods, and post-delivery. The Bank was awarded “Best Trade Finance Bank in China” by the *Global Finance*. The financing guarantee business branded as “Overseas Financing Guarantee” had rising market influence, and provided convenient and efficient comprehensive financial service solutions for Chinese-funded enterprises with global financing needs.

Asset custodial business

Asset custodial business made rapid progress, with a rising market position. At the end of 2012, the Bank’s assets under custody increased by 31.07% to RMB2.70 trillion. Securities investment funds under custody totalled RMB623,088 million, commanding the second largest market share. The number of securities investments funds under custody increased by 61, and the units of funds under custody increased by 155.3 billion. Insurance assets under custody totalled RMB419,485 million, an increase of 54.88% over 2011. The Bank had eight new Qualified Foreign Institutional Investor (QFII) customers, and was in a leading position among domestic peers in terms of Taiwan area and private equity investors. Recognised by domestic and international professionals for its outstanding custodial ability, the Bank won the “Best Custodian Bank in China” award for the fourth consecutive year by the *Global Custodian*.

Pension business

The personal pension accounts in operation totalled 2.56 million, up 25.49%. The pension assets under custody in operation amounted to RMB24,552 million, up 48.13%. The Bank made positive progress in product innovation, and developed “Yangyisifang Exclusive A” and “Exclusive B” pension asset management products. The Bank has built up a pension product framework consisting of four categories and fifteen products.

Treasury management and settlement business

At the end of 2012, the Bank had 3.40 million corporate RMB settlement accounts, an increase of 540 thousand over 2011; it had 760 thousand cash management customers, an increase of 330 thousand year-on-year. The launch of comprehensive cash management service of “Fund Collection Solutions” provided customers with “Rongzhi” integrated solutions for collection, payment, and fund budget management. The launch of cross-bank domestic letter of credit and the optimisation of corporate settlement card and fund certification businesses helped to consolidate the leading position of advantage products including all-in-one corporate accounts, and multiple-mode cash pool. The market influence of the Bank’s cash management service branded as “Yudao” steadily expanded.

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5.2.2 Personal Banking

The following table sets forth the major operating information and changes related to personal banking:

(In millions of RMB, except percentages)	Year ended 31 December 2012	Year ended 31 December 2011	Change (%)
Net interest income	111,464	84,918	31.26
Net fee and commission income	33,181	29,061	14.18
Other operating income	690	976	(29.30)
Operating income	145,335	114,955	26.43
Operating expenses	(85,831)	(73,361)	17.00
Impairment losses	(7,841)	(3,967)	97.66
Profit before tax	51,663	37,627	37.30
	As at 31 December 2012	As at 31 December 2011	
Segment assets	2,167,249	1,662,434	30.37

Personal banking segment achieved profit before tax of RMB51,663 million with a year-on-year increase of 37.30%, and accounted for 20.55% of the Group's profit before tax, 3.38 percentage points higher than that in the previous year. In this amount, net interest income increased by 31.26% as a result of the rapid growth of personal loans and the repricing of existing loans; net fee and commission income increased by 14.18%, benefiting from the growth of income from credit card, personal wealth management and other services. Based on the judgement on future risks and the prudent principle, the impairment losses increased by 97.66% over the previous year.

Personal deposits

The Bank actively carried out marketing activities, and domestic personal deposits of the Bank maintained stable growth. At the end of 2012, personal deposits rose to RMB5,077,930 million, up 14.99%. In this amount, demand deposits picked up by 14.40% and time deposits increased by 15.41%.

Personal loans

At the end of 2012, domestic personal loans of the Bank totalled RMB2,017,826 million, up 20.26%. Residential mortgages were primarily granted to support customers to buy ordinary apartments for residential purpose. The Bank proactively explored markets and consolidated its customer base, and the loan balance increased by RMB215,783 million to RMB1,528,757 million, ranking first in the market in terms of both loan balance and the increase. The Bank persisted in its standard of quality proprietor or private business owner customers plus effective collateral for personal business loans. With enhanced fundamental management and optimised operation model, personal business loans increased by RMB23,060 million to RMB101,776 million. Personal consumer loans persisted in selecting quality customer and developing healthily. Based on standard business operations and effective control of the flow of credit funds, the Bank focused on meeting real, reasonable and specific consumer demands such as auto purchases, home renovation, consumer durables purchases, education and travelling. At the end of 2012, personal consumer loans increased by RMB3,864 million to RMB80,556 million over 2011. The number of pilot branches for personal agriculture loans expanded to 16, with a loan balance of RMB6,727 million, an increase of RMB1,303 million.

Credit cards business

Credit card business maintained sustainable and healthy development with leading core business indicators among peers. Its market influence, product competitiveness, risk control ability, profitability and customer satisfaction were further enhanced. At the end of 2012, the Bank recorded 40.32 million credit cards with an increase of 8.07 million. The spending amount through credit cards reached RMB851,761 million, and the loan balance was RMB177,936 million. The Bank vigorously expanded electronic channels, and successively launched mobile phone, SMS, e-mail, telephone and other electronic channels for credit card application. The Bank consolidated and expanded the strength of its key products, leading the market both in terms of the number of auto cards, financial business cards and department store cards issued, and in terms of the number of customers with platinum credit cards and above. The Bank introduced IC credit card, mobile phone payment credit card and other new cards. The newly launched Long Card mall e-commerce platform has become an important channel for online payment, installment, point redemption, value-added service and other business.

5 MANAGEMENT DISCUSSION AND ANALYSIS

Entrusted housing finance business

The Bank continued to innovate its products and upgrade its service to provide whole process financial support for the collection, management and use of housing funds, and to provide specialised services to provident fund customers. At the end of 2012, housing fund deposits were RMB577,997 million, an increase of RMB71,042 million, while personal provident housing loans were RMB781,314 million, an increase of RMB165,107 million. The Bank actively promoted financial services for the new indemnificatory housing market, and granted personal indemnificatory housing loans of RMB11,535 million (including personal provident housing loans) to 63,400 low and middle-income residents in 2012, and provident fund loans of RMB8,932 million for indemnificatory housing projects.

Debit cards and other personal fee-based business

At the end of 2012, the number of debit cards issued increased by 76.15 million to 440 million. The spending amount through debit cards reached RMB2,368,735 million, and the fee and commission income was RMB9,066 million. The Bank issued 23.76 million financial IC debit cards. A total of 5.10 million express settlement cards targeted at individual business proprietors had been issued, an increase of 3.12 million cards. Trading of emerging precious metal products grew rapidly, and the trading volume of account silver and account platinum amounted to RMB123,290 million.

Private banking business

In 2012, the number of private banking customers increased by 18.82%, and their financial assets with the Bank increased by 30.19%. The accumulative number of wealth management cards and private banking cards issued was 135,500 and the settlement service capabilities continued to improve. The Bank launched multiple innovative products and services for its private banking customers, including comprehensive wealth planning, Hong Kong investment immigration, comprehensive financial services for study abroad, fortune loan, asset certificates, executive jet services, household wealth management education, and precious metals franchise service. The Bank launched private banking wealth butler service, and carried out a wide range of customised services. It enhanced multi-channel delivery capabilities for its products and services with the exclusive private banking online banking and hotline service. It enhanced the team building to improve the professional competence of its customer managers and wealth advisors.

Feature article: Housing finance & personal lending businesses

As the earliest bank to provide personal residential mortgage and provident housing fund service in the PRC market, the Bank follows people's demands and market changes, and improves its service quality continuously. It actively expands emerging businesses while consolidating its traditional advantageous business areas. As the largest bank in terms of personal residential mortgages and provident housing fund service in the market, it has assisted millions of people to fulfill their housing, living, and entrepreneurial dreams.

The Bank persists in supporting residential housing, and endeavours to provide customers with more innovative products and better professional services. The Bank launched "Safe House Trading" housing fund custody service, to safeguard housing transaction funds. It grants indemnificatory housing loans to low and middle-income groups, and continuously expands ways and methods for loan repayment. At the end of 2012, the personal residential mortgages increased by RMB215,783 million over 2011 to RMB1,528,757 million, ranking first in the market in terms of both loan balance and the increase.

Adhering to the philosophy of "supporting housing reform and serving common people", the Bank aims at providing high quality comprehensive financial services for housing reform. For over 20 years, the Bank has provided provident housing fund collection service to more than 100 million staff, and granted over RMB1.3 trillion of provident housing fund loans to over 8.5 million households. At present, the Bank cooperates with more than 1,700 provident housing fund management institutions, and provides financial services to more than one million participating entities and over 40 million participants. The Bank not only met the customers' routine needs of provident housing fund account management, fund collection and settlement, and account enquiry and reconciliation, but also took the lead to promote multiple services across the country, including provident housing fund loans combined with commercial mortgages, entrusted withdrawal and repayment of provident housing fund, small amount cross-bank payment of provident housing fund, and electronic enquiry of provident fund, enabling numerous people to benefit from the low-interest provident housing loan policy to full extent.

The product chain of "housing – living – business", designed around customers' life cycle, continues to improve. The Bank launched personal loans pledged with gold, "Easy Education Loan", "House Refurbishment Loan", "Fortune Loan" and other products to satisfy customers' diversified financial needs. The Bank also launched "e.ccb.com" e-commerce platform to provide personal petty loans and personal loans secured by monetary assets.

The Bank adopted integrated service modes by combining on- and off-line channels including personal loan centres, ehome.ccb.com, and 95533 customer service hotline, to provide 7 days 24 hours convenient personal loan services. The Bank has set up nearly 1,200 personal loan centres covering all the cities above the prefecture level and top hundred counties (cities), and built advanced centralised operation mode for personal loans among peers, effectively shortening processing time of loan origination.

5 MANAGEMENT DISCUSSION AND ANALYSIS

5.2.3 Treasury Business

The following table sets forth the major operating information and changes related to treasury business:

(In millions of RMB, except percentages)	Year ended 31 December 2012	Year ended 31 December 2011	Change (%)
Net interest income	61,280	59,298	3.34
Net fee and commission income	18,037	16,841	7.10
Net trading gain	1,895	2,047	(7.43)
Net income arising from investment securities	671	824	(18.57)
Other net operating gain/(loss)	871	(524)	(266.22)
Operating income	82,754	78,486	5.44
Operating expenses	(5,651)	(4,309)	31.14
Impairment losses	(831)	(3,118)	(73.35)
Profit before tax	76,272	71,059	7.34
	As at 31 December 2012	As at 31 December 2011	
Segment assets	6,065,163	5,411,041	12.09

Treasury businesses generated a profit before tax of RMB76,272 million, an increase of 7.34% over the previous year, and accounted for 30.33% of the Group's profit before tax. As a result of fast development of products including new financial advisory service, underwriting of debt securities, and wealth management, net fee and commission income grew by 7.10%. The Group enhanced its investment in treasury business, and the associated operating expenses increased by 31.14%. Impairment losses dropped by 73.35% over the previous year, mainly because the asset structure of the non-principal-guaranteed wealth management business was optimised and impairment losses were reversed.

Financial markets business

The year of 2012 is the "Management Year of the Financial Market Business". The Bank set a solid foundation for the sustainable and healthy development of financial market business through comprehensive review of its management mechanism, operating mode, business process and internal control system.

The Bank adhered to sound investment and prudent trading strategies in its financial market business. It sought a balance between risk and return while ensuring sound safety and liquidity, and the operating income maintained steady growth. With regard to the use of RMB fund, the Bank strengthened liquidity forecasts and active management, and actively expanded the financing channels to provide strong support for the Bank's liquidity safety. By accurately tracking the interest rate movements and reasonably arranging investment pace, it expanded investments in debt securities when the interest rates were relatively high. It also optimised the structure of asset types, and strengthened the adjustment to existing debt securities. As a result, the yield of RMB-denominated fixed income portfolio rose substantially over the previous year, and the yield of trading book was much higher than the market index. Moreover, the Bank ranked second in the over-the-counter trading volume of book-entry treasury bonds. With regard to the use of foreign currency funds, the Bank gave more funding support to its overseas entities. It prudently conducted inter-bank lending, staying alert to counterparty credit risks. It also actively optimised the structure of foreign currency debt securities investment portfolio, and positively reduced its holding of high-risk debenture bonds, thereby reducing its credit risk exposure.

The Bank actively expanded customer-driven foreign exchange trading business, leading to a steady increase in the transaction volume and associated income under the condition of weak growth in foreign trade. In 2012, the customer-driven foreign exchange trading volume reached US\$409,041 million, and the income was RMB4,573 million. The Bank promoted product innovation on RMB versus foreign currency options portfolio, and newly added the foreign currency trading service for six currencies to satisfy customer's demand for hedging.

Precious metal business grew rapidly, and the trading volume reached 32,100 tonnes, an increase of 229.33% over the previous year. The number of customers with the Bank's Account Precious Metals increased by 5.30 million because of the enhanced customer exploration. The Bank actively expanded its product lines to better serve its customers, delivering more innovative products such as Account Precious Metal trading in US dollars, repurchases of gold, leasing of silver and wealth management products linked with gold.

5 MANAGEMENT DISCUSSION AND ANALYSIS

Investment banking

The Bank enhanced the refined, standardised and comprehensive risk management over the investment banking business, in order to promote the sound and sustainable development in the arena. In 2012, the income from financial advisory services was RMB10,128 million. In this amount, income from new types of financial advisory services such as M&A and restructuring, debt restructuring, listing and refinancing amounted to RMB6,680 million, an increase of 27.29% over the previous year. The underwriting amounts of total debt financing instruments, short-term commercial papers, intermediate-term notes, and private placement bonds all ranked first in the market, bringing an income of RMB1,174 million, an increase of 33.41% over the previous year.

The Bank achieved sound growth in wealth management business, and independently issued 5,548 batches of wealth management products with an amount of RMB5,446,069 million. The year-end balance of wealth management products was RMB882,399 million. In this amount, the principal-guaranteed wealth management products were RMB357,682 million. The income from wealth management was RMB8,789 million, an increase of 16.10%. The Bank evaluated credit, market, liquidity, policy, legal, and management risks associated with wealth management products on a comprehensive basis, and conducted quantitative and qualitative analysis of risk exposures under different stress scenarios. The Bank also took measures to rectify its wealth management business, including improvement in file management, standardised use of funds, specialised management of collaterals, and standardisation of legal documents. It also tightened risk monitoring over the existing discretionary wealth management business, with the focus on the validity and effectiveness of collaterals, in order to ensure that such products can be honoured when due. In addition, the Bank adjusted the structure of its wealth management business by controlling high-risk assets, and raising the allocation to low-risk assets.

5.2.4 Overseas Business and Domestic Subsidiaries

Overseas business

The Group's overseas network is steadily expanding. The Melbourne Branch was successfully opened as the first tier-two overseas branch. At the end of 2012, the Group had overseas branches in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo, Seoul, New York, Ho Chi Minh City, Sydney and Melbourne; representative offices in Moscow and Taipei; and wholly-owned operating subsidiaries including CCB Asia, CCB International, and CCB London. Its overseas entities covered 13 countries and regions. The transformation of overseas business continued to advance, and CCB London became the first Chinese bank who issued RMB-denominated bonds in London. The Tokyo branch achieved licence upgrade and started retail business. At the end of 2012, total assets of overseas entities were RMB518,579 million, and the net profit was RMB2,334 million.

CCB Asia

China Construction Bank (Asia) Corporation Limited is one of the 23 licenced banks registered in Hong Kong with a registered capital of HK\$6,511 million. It is the Group's platform for retail and SME businesses in Hong Kong and Macau, with 50 outlets in the area. CCB Asia maintained sound development momentum under stringent risk control. At the end of 2012, its total assets were RMB141,628 million; shareholders' equity was RMB14,436 million. Loans to customers and deposits from customers were RMB95,599 million and RMB87,542 million respectively. The NPL ratio was 0.14%. Net profit was RMB629 million.

The number of customers of CCB Asia rose steadily. At the end of 2012, the number of customers totalled 221,000, an increase of 26,000 customers over the previous year. Leveraging on the development opportunity of the internationalisation of RMB and Hong Kong's position as an offshore centre for RMB, CCB Asia made rapid progress in RMB-related business. It successfully acted as a co-lead bank and bookkeeping bank for RMB government bonds for two consecutive years. For its efforts, CCB Asia won the "Capital Excellent RMB Services Award" by the Hong Kong magazine *Capital*. Through close collaboration with mainland branches, CCB Asia's collaborative business scale and service capacity also rose rapidly, with the outstanding loans to Chinese enterprises of RMB45,300 million. Credit card business continued to grow healthily, with an increase of 70 thousand credit card accounts and the total consumer spending reaching nearly RMB4,514 million.

CCB International

CCB International (Holdings) Limited is the Bank's wholly-owned subsidiary in Hong Kong, with a registered capital of US\$601 million. It offers investment banking related services, including sponsorship and underwriting for initial public offerings (IPO), M&A and restructuring, direct investment, asset management, securities brokerage and market research.

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In 2012, CCB International's corporate financing and financial advisory services developed steadily. It ranked top among the investment banking arms of Chinese banks in terms of the number of projects participated in as book runner. The competitiveness of its M&A services rose substantially. Debt instrument financing business achieved a breakthrough. CCB International helped the Bank issue RMB-denominated bonds in Hong Kong and London. It continued to maintain its edge in the asset management business with rising market presence in health care, culture, environmental protection, aviation and other industries. The brand image of CCB International was further enhanced, with multiple awards including "Annual Best Investment Bank in Hong Kong" from *The Asset* magazine, and "Golden Ox Investment Bank Award" from *China Securities Journal*. At the end of 2012, CCB International's total assets were RMB18,668 million, and shareholders' equity was RMB6,632 million. Net profit was RMB82 million.

CCB London

China Construction Bank (London) Limited is a wholly owned subsidiary of the Bank registered in the UK with a registered capital of US\$200 million. In March 2009, CCB London obtained the banking licence issued by UK Financial Services Authority (FSA). It is mainly engaged in corporate deposits and lending, international settlement and trade financing, British pound clearing, and treasury financial products.

CCB London proactively served the Chinese institutions in the UK, British companies with investment in China, and corporate customers involved in bilateral trade, expanding CCB's service channels in the UK and Europe. With its edge in clearing for British pound, CCB London gradually became the Group's British pound clearing centre, providing customers with convenient, fast, and efficient multi-currency clearing services. In November 2012, CCB London took the lead in issuing RMB-denominated offshore bond of RMB1 billion, establishing a leading position in Chinese banks in European market. At the end of 2012, the total assets of CCB London were RMB5,068 million, and shareholders' equity was RMB1,272 million. Net profit was RMB79 million.

Domestic subsidiaries

The Group is committed to provide multi-functional, integrated and one-stop comprehensive financial services to its wide customer base, and achieve synergistic development of all member companies through resource sharing, cross-selling and business collaboration. At the end of 2012, the Group had five domestic subsidiaries, namely CCB Financial Leasing, CCB Trust, Sino-German Bausparkasse, CCB Principal Asset Management, and CCB Life. The Group also initiated the establishment of 26 rural banks in Hunan Taojiang and many other places. The overall development of domestic subsidiaries was in a good shape with steady business expansion and sound asset quality. At the end of 2012, total assets of the domestic subsidiaries were RMB92,657 million; net profit was RMB1,355 million.

CCB Financial Leasing

CCB Financial Leasing Corporation Limited has a registered capital of RMB4.5 billion. In November 2012, the Bank acquired the remaining 24.90% interests in CCB Financial Leasing from Bank of America, and made CCB Financial Leasing its wholly-owned subsidiary. CCB Financial Leasing mainly engages in finance leasing, receiving security deposits from lessees, assigning rent receivables to commercial banks, issuing financial bonds, interbank lending, borrowing from financial institutions, and borrowing foreign exchange from overseas.

In 2012, CCB Financial Leasing made steady progress in its leasing business, strengthened risk management and internal control, and actively explored innovative leasing products. At the end of 2012, its total assets amounted to RMB40,288 million; shareholders' equity was RMB5,337 million. Net profit was RMB356 million.

CCB Trust

CCB Trust Co., Limited has a registered capital of RMB1,527 million. The Bank, Hefei Xingtai Holding Group Corporation Limited, and Hefei Municipal State-owned Assets Holding Corporation Limited held 67%, 27.5% and 5.5% of its shares respectively. CCB Trust is mainly engaged in trust services for funds, movable and immovable property, and marketable securities; fund investment; asset restructuring, M&A and project financing, corporate finance, and financial advisory services; securities underwriting; intermediary, consultancy, and credit investigation services; custody and safe deposit box services; lending, investment and guarantees with equity funds.

In 2012, while expanding its business scale and market share, CCB Trust continued to improve business structure, and refine its management and operation. At the end of 2012, the trust assets under management amounted to RMB350,777 million, up 83.92% from 2011. The total assets were RMB5,528 million, and shareholders' equity was RMB5,319 million. Net profit was RMB587 million.

Sino-German Bausparkasse

Sino-German Bausparkasse Co., Ltd. has a registered capital of RMB2 billion. The Bank and Bausparkasse Schwaebisch Hall AG held 75.10% and 24.90% of its shares respectively. Its business scope includes taking housing savings deposits, extending housing savings loans and personal residential mortgages, and extending development loans in support of the development and construction of economically affordable houses, low-rent houses, economically affordable rent houses and price-limited houses. This allowed it to establish itself as a specialised commercial bank with overall functions in housing financing sector.

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In 2012, Sino-German Bausparkasse's business developed rapidly. It achieved remarkable results in selling housing savings products, and exhibited notable advantage in indemnificatory housing loans. At the end of 2012, the total assets of Sino-German Bausparkasse were RMB17,425 million. Shareholders' equity was RMB2,152 million. Net profit increased to RMB102 million.

CCB Principal Asset Management

CCB Principal Asset Management Co., Ltd. has a registered capital of RMB200 million, of which the Bank contributed 65%, and Principal Financial Services, Inc. and China Huadian Capital Holdings Company Limited, contributed 25% and 10% of the shareholding respectively. It is engaged in raising and selling of funds, asset management as well as other businesses permitted by the CSRC.

In 2012, CCB Principal Asset Management completed fundraising for seven new funds including Jianxin Yueying Comfort Wealth Management Debt Securities Investments Funds, Jianxin Pure Debt Securities Investment Fund, and all of the funds operated steadily. At the end of 2012, CCB Principal Asset Management had total assets of RMB721 million, and shareholders' equity was RMB575 million. It managed 28 funds in total with a net asset value of RMB95,217 million. Its net profit was RMB131 million.

CCB Life

CCB Life Insurance Company Limited has a registered capital of RMB4,496 million, of which the Bank, China Life Insurance Co., Ltd. (Taiwan), the National Council for Social Security Fund, China Jianyin Investment Limited, Shanghai Jin Jiang International Investment and Management Company Limited, and Shanghai China-Sunlight Investment Co., Ltd contributed 51%, 19.9%, 14.27%, 5.08%, 4.9% and 4.85% respectively. In 2012, CCB Life increased its capital by RMB5,721 million, of which, the Bank contributed RMB2,892 million, and successfully initiated the National Council for Social Security Fund's investment in CCB Life. CCB Life's business scope includes personal insurance such as life, health, accidental injury insurance, reinsurance of the above-mentioned business, as well as the use of insurance fund permitted by the national laws and regulations.

In 2012, CCB Life pushed forward the development of its business lines with enhanced product development and service philosophy. At the end of 2012, the total assets of the company were RMB17,769 million; shareholders' equity was RMB7,053 million. Premium income for 2012 amounted to RMB5,868 million, and the net profit was RMB49.64 million.

Rural Banks

At the end of 2012, the Bank sponsored the establishment of 26 rural banks in Hunan Taojiang and many other places. The registered capital of these rural banks totalled RMB2,620 million, of which RMB1,326 million was contributed by the Bank.

The rural banks took multiple measures to support the farmers and rural areas based on local conditions. They introduced credit products such as co-guaranteed loans and business loans for farmers. While providing efficient financial services for "agriculture, farmers and rural areas" and small and micro-enterprises in the counties, the rural banks achieved sound operating results as well. At the end of 2012, the assets of the rural banks in operation totalled RMB10,926 million, and shareholders' equity was RMB2,516 million. Net profit for 2012 was RMB130 million. The deposits were RMB7,112 million; loans were RMB6,987 million, of which agriculture-related loans accounted for 91.75%. The non-performing loan ratio was 0.07%, reflecting effective controls on asset quality.

Feature Article: Integrated Operations and Synergistic Development

The Group's integrated operation strategy is to accelerate the development of the insurance, trust, investment banking, mutual funds, leasing, securities and other non-banking businesses, while developing banking as its core business. The Group endeavours to build an operating framework that covers interconnected markets and complementary businesses, with diversified income and decentralised and controllable risk, and realise customer-oriented functions selection, to provide customers with integrated and diversified financial services.

At the end of 2012, the Group had eight domestic and overseas operating subsidiaries and 26 rural banks, with businesses covering fund, leasing, trust, insurance, investment banking and other industries. The Group enjoyed the advantage in terms of type of licences compared to the peers and its integrated operation platform has been initially established.

Thanks to the parent bank's business channels and customer base, the subsidiaries grew at a much higher rate in terms of total assets and profits than the average growth rates of the Group and the industries. At the end of 2012, the total assets of the subsidiaries were RMB260,839 million; net profit for the year was RMB2,139 million. Asset quality remained good.

5 MANAGEMENT DISCUSSION AND ANALYSIS

5.2.5 Analysed by Geographical Segment

The following table sets forth the distribution of the Group's profit before tax by geographical segment:

(In millions of RMB, except percentages)	For the year ended 31 December 2012		For the year ended 31 December 2011	
	Amount	% of total	Amount	% of total
Yangtze River Delta	36,905	14.68	41,116	18.77
Pearl River Delta	32,907	13.09	28,973	13.22
Bohai Rim	36,917	14.68	33,749	15.40
Central	35,411	14.08	29,872	13.63
Western	39,686	15.79	31,443	14.35
Northeastern	14,586	5.80	12,049	5.50
Head office	51,851	20.62	41,601	18.99
Overseas	3,176	1.26	304	0.14
Profit before tax	251,439	100.00	219,107	100.00

The following table sets forth the distribution of the Group's loans and NPLs by geographical segment:

(In millions of RMB, except percentages)	As at 31 December 2012				As at 31 December 2011			
	Gross loans and advances	% of total	NPLs	NPL ratio (%)	Gross loans and advances	% of total	NPLs	NPL ratio (%)
Yangtze River Delta	1,670,643	22.24	32,941	1.97	1,476,118	22.72	19,264	1.31
Pearl River Delta	1,091,848	14.53	9,096	0.83	955,937	14.71	9,699	1.01
Bohai Rim	1,301,564	17.33	6,848	0.53	1,137,623	17.51	9,428	0.83
Central	1,195,748	15.92	9,635	0.81	1,051,837	16.19	11,885	1.13
Western	1,270,163	16.91	8,187	0.64	1,108,112	17.06	10,653	0.96
Northeastern	461,574	6.14	4,920	1.07	406,035	6.25	6,264	1.54
Head office	188,074	2.50	1,966	1.05	105,632	1.63	1,744	1.65
Overseas	332,698	4.43	1,025	0.31	255,117	3.93	1,978	0.78
Gross loans and advances to customers	7,512,312	100.00	74,618	0.99	6,496,411	100.00	70,915	1.09

The following table sets forth the distribution of the Group's deposits by geographical segment:

(In millions of RMB, except percentages)	For the year ended 31 December 2012		For the year ended 31 December 2011	
	Amount	% of total	Amount	% of total
Yangtze River Delta	2,215,637	19.53	2,067,000	20.70
Pearl River Delta	1,743,868	15.38	1,539,667	15.42
Bohai Rim	2,161,208	19.05	1,825,388	18.28
Central	2,054,347	18.11	1,774,126	17.76
Western	2,156,594	19.01	1,873,139	18.75
Northeastern	814,177	7.18	733,876	7.35
Head office	17,396	0.15	21,221	0.21
Overseas	179,852	1.59	153,033	1.53
Deposits from customers	11,343,079	100.00	9,987,450	100.00

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The following table sets forth the geographical distribution of the Group's assets, branches and staff:

	As at 31 December 2012					
	Assets (In millions of RMB)	% of total	Number of branches	% of total	Number of staff	% of total
Yangtze River Delta	2,453,994	17.57	2,422	16.94	54,676	15.39
Pearl River Delta	2,006,787	14.36	1,795	12.56	42,587	11.99
Bohai Rim	2,590,592	18.54	2,342	16.38	59,218	16.67
Central	2,171,327	15.54	3,395	23.75	78,602	22.12
Western	2,269,546	16.24	2,859	20.00	68,195	19.20
Northeastern	863,899	6.18	1,404	9.82	37,029	10.42
Head office	5,431,210	38.87	3	0.02	12,129	3.41
Overseas	518,579	3.71	76	0.53	2,854	0.80
Deferred tax assets	27,051	0.19				
Elimination	(4,360,157)	(31.20)				
Total	13,972,828	100.00	14,296	100.00	355,290	100.00

5.2.6 Distribution Channels

The Bank has an extensive distribution network. Through branches, customer self-service equipment, specialised service entities across the country and electronic banking service platform, the Bank provides its customers with convenient and high-quality banking services.

The Bank had a total of 14,121 operating outlets nationwide, including the head office, 38 tier-one branches, 310 tier-two branches, 9,954 sub-branches, 3,818 entities under the sub-branches and a specialised credit card centre at the head office. The number of operating outlets increased by 540 over the previous year. The Bank consolidated the retail outlet transformation and the star rating system was pushed on nicely, with continuous improvement in the service capability of outlets.

Self-service channel is the Bank's largest channel for accounting transactions. There were 56,968 ATMs with cash service in operation at the end of 2012, an increase of 24.81% over the previous year. There were 13,814 self-service banks in operation, an increase of 3,133 over the previous year.

In 2012, 66 private banking centres and wealth management centres were built, pushing the total number of such centres in operation to 311. There were 244 small business operating centres in the form of "Credit Factory", covering 204 cities at prefecture level. In addition, a total of 1,200 personal loan centres had been built, covering all cities at prefecture level and above as well as the top hundred counties (cities), and became the major channel for the Bank to provide its personal loan products and service.

The Bank's electronic banking business developed rapidly. The number of personal online banking customers increased by 41.07% to 119.26 million over the previous year; the number of transactions was 4,343 million, an increase of 7.50%. The number of corporate online banking customers reached 2.13 million, an increase of 54.10%; the number of transactions was 1,298 million, an increase of 33.96%. The number of mobile phone banking customers reached 83.90 million, an increase of 78.68%; the number of transactions was 381 million, an increase of 85.06%. The number of telephone banking customers was 124.33 million, an increase of 29.23%. The number of SMS customers amounted to 158.41 million, an increase of 34.18%. The ratio of the number of transactions through electronic banking to that through the front desk was 270.30%, an increase of 63.58% over the previous year. Monitoring indicators on the stability of both personal online banking system and mobile phone banking system reached 100%.

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In 2012, the Bank innovatively launched a private banking version and e-accounts for its personal online banking system. It expanded life services such as medical services and social insurance services, and developed new wealth management products such as personal foreign exchange trading and electronic savings bonds. Efforts were also made to develop online payment applications, and improve fundamentals such as online customer service. A total of 60 batches of online wealth management products were issued during the year. The Bank successfully completed the integration of corporate online banking system for its domestic branches, and launched its overseas edition, which was in trial operation in Hong Kong branch. The Bank launched a new client interface and “shake for account balance” service for its mobile phone banking customers. It became the first among its peers to launch the sales of wealth management products via 2D scan codes, and issued 4 batches during the year. For SMS financial services, the Bank launched personal and automated customer services via SMS, as well as Multimedia Message Service (MMS). The newly launched private banking online service consisted of seven models and hundreds of products and services, providing exclusive services for private banking clients, including wealth management reports, financial consulting specialists, self-service financial planning, value-added services, information and periodicals. “Ehome.ccb.com”, a real estate property trading and financing service platform, was introduced, which provided a one-stop comprehensive service for real estate property transaction and housing loans, achieving a break-through in the electronic service channel for personal loans. “E-Shangmaotong”, “Online Bids and Invitations”, “E-Dong Terminal”, and “SMS remittance” made it more convenient for the customers to do business with the Bank; “Joy Life” payment platform enabled the customers to make various payments and scenario application at home; “Student Benefit” provided multiple discounts specifically for college students.

Feature article: E.ccb.com e-commerce platform

On 28 June 2012, the Bank officially launched its e-commerce financial service platform – e.ccb.com. The platform provides corporate and retail customers engaging in e-commerce industry with professional services for release of product information, online transaction, payment and settlement, installment plan, loan financing, fund custody, and real estate transactions. E.ccb.com focuses on cash flows, and promotes CCB’s strengths in payment and settlement, credit financing and other financial services, as a breakthrough in traditional banking operations.

E.ccb.com consists of four sections, namely, e-commerce service, financial support service, operational management and risk management. E-commerce section mainly serves the customers that have electronic commercial needs, including corporate mall, retail mall, “ehome.ccb.com” and other services through electronic channel. Financial support service is to satisfy the financial needs of the independent e-commerce platform and the members of the platform in the process of electronic commercial activities. The service mainly includes payment and settlement service, fund custodial service, credit financing, credit card installment, and other innovative agency services such as investment and wealth management agency services. E.ccb.com adopts a centralised operation model, and conducts market management, fund management, credit underwriting and back office maintenance in a centralised manner. Based on CCB’s security structure and advanced firewall technology, the platform established risk management mechanism for business operation at par with that for a financial institution, covering preventive controls, on-going monitoring and post-transaction solution.

At the end of 2012, e.ccb.com had more than one million members, and more than ten thousand internet merchants; transaction volume in the corporate mall reached RMB3.5 billion, and the financing volume to merchants reached nearly RMB1 billion.

Going forward, e.ccb.com will continue to integrate the flows of information, fund and commodities, and try to satisfy the customers’ growing diversified needs with the help of its strength in traditional financial service, and push the Bank’s businesses in payment and settlement, financing and deposit towards electronic channels.

5.2.7 Information Technology

In 2012, the Bank intensified its efforts to building a “new generation core banking system”, and optimised the existing system to meet the requirements of business development, while ensuring secure and stable operations.

The Bank secured safe operations by clearly setting the responsibility to meet each safety target. It rigorously managed the production and modification of the systems. Both the production of application systems and modification of infrastructures have achieved unprecedented progress in recent years. By promoting “macro-operation” model in operation and maintenance, the Bank attained intensive and standardised operation. The operational efficiency reached a higher level as a result. In addition, the Bank enhanced risk controls over its electronic banking channel, improving its risk control capabilities in the area of information system. The availability rate of key systems such as the core banking system reached 99.99% or above.

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Building of the “new generation core banking system” is an all-round restructure of the Bank’s current application systems. The Bank’s goal is to establish a unified and centralised IT platform, and a lasting mechanism that ensures business innovation, process re-engineering and technological innovation, in order to support and lead the Bank in its comprehensive, multi-functional, and intensive operations in the future. In 2012, the Bank completed its capacity requirement planning covering six business value chains, and the major part of an enterprise-level modelling, which includes process model, data model, product model and user experience model. The requirements for development of the applications and application components in the first phase of the project were set. Having adopted the advanced service-oriented architecture (SOA), the Bank built 12 application platforms covering seven layers of application structure. Based on these 12 application platforms, the “new generation core banking system” will be developed. The actual building of “new generation core banking system” started from October 2012, and 13 projects were initiated, including corporate cash management, household cash management, financial markets, custody, agency collection and payment, and off-site audit projects.

The Bank optimised the existing systems to support business development. It added multiple functions such as registered capital verification service, agency sales of US dollar funds, and cash withdrawal from ATMs without a card. It established customer behaviour database and supported deeper data analysis of personal customer information, in order to identify customers’ behaviour and support marketing initiatives more accurately. It also optimised the functions of retail scorecard application and behaviour model, aiming at improving the comprehensive risk management system.

5.2.8 Staff and Human Resources Management

At the end of 2012, the Bank had 348,955 staff members, an increase of 5.92% compared with the previous year (besides, the Bank had 21,363 workers dispatched by labour leasing companies, a decrease of 27.85% over 2011). The staff members with academic qualifications of bachelor’s degrees or above were 185,214, or 53.08%, and the number of local employees in overseas branches and representative offices was 468. In addition, the Bank had to assume the expenses of 43,805 retired employees. The subsidiaries had 6,335 employees (besides, the subsidiaries had 281 workers dispatched by labour leasing companies). The subsidiaries had to assume the expenses of 22 retired employees.

The composition of the Group’s employees by age, academic qualifications and responsibilities is as follows:

Category	Classification	Number of employees	% of total
Age	Below 30	99,113	27.90
	31 to 40	95,479	26.87
	41 to 50	128,575	36.19
	51 to 59	31,917	8.98
	Over 60	206	0.06
Academic qualification	Doctor’s degree	456	0.13
	Master’s degree	17,490	4.92
	Bachelor’s degree	171,157	48.18
	Associate degree	121,887	34.31
	Post-secondary	22,507	6.33
	High school and below	21,793	6.13
Responsibilities	Corporate banking	49,643	13.98
	Personal banking	178,357	50.20
	Financial market business	839	0.24
	Finance and accounting	28,262	7.95
	Management	18,912	5.32
	Risk management, internal audit, legal and compliance	12,269	3.45
	Information technology	22,662	6.38
	Others	44,346	12.48
Total		355,290	100.00

The Bank aims to establish an intensive, standardised and scientific remuneration system, which will make due contribution to strategic development of the Bank. According to the Articles of Association of the Bank, the Bank’s major allocation rules and other significant matters relating to staff remuneration need to be proposed to the nomination and compensation committee under the Board for assessment and approval. Material proposals relating to remuneration allocation are required to be voted and approved by the shareholders’ general meeting, or reported to the competent authorities of the state for approval and filing. Pursuant to relevant government policies, the annual remuneration standard of the Bank’s directors, supervisors and senior executives needs to be approved by the competent authorities of the state, and deferred payment for their performance compensation has been implemented.

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The Bank persisted in its principle of balancing internal fairness and external competition, and pairing post responsibilities with risk-adjusted contributions. It put greater emphasis on the value creation, frontline posts and sub-branch level staff when determining remuneration distribution, in order to increase the satisfaction level of its staff and better reflect their value to the Bank. When distributing the employees' performance compensation, the Bank encouraged behaviour that complied with the Bank's risk framework and long term financial indicators, and tried to truly reflect performance in terms of compensation. The Bank also established relevant compensation reduction measures for staff who were facing disciplinary actions or other penalties due to violation of rules or breach of duty.

The Bank continued to increase investment in training, and organised large-scale staff training. It not only provided general training programmes to all staff, but also organised specific training programmes for different levels of and groups of employees, including leadership enhancement trainings for managerial staff, qualification certificate trainings for professional staff, and job-related post trainings for frontline employees. In 2012, the Bank conducted 43,220 domestic and overseas training sessions, with a total enrollment of 2,302 thousand.

The subsidiaries determine their remuneration and human resources management rules independently in compliance with local legislations and regulatory requirements, based on the nature of their business. They make training plans for their staff in line with their own business needs.

5.3 RISK MANAGEMENT

In 2012, the Bank refined its comprehensive risk management framework, strengthened control over key business lines and potential risk fields, proactively dealt with practical issues in market risk management and operational risk management, with remarkably improved initiative, prospectiveness and effectiveness in terms of risk management.

Refining comprehensive risk management framework system. Based on regulatory requirements and business development needs, the Bank developed a comprehensive risk management approach, and defined the processes of recognition and measurement, monitoring and control, as well as reporting on various kinds of risks. Based on risks sorted out in different business lines and fields, the Bank developed a plan to set up a comprehensive risk management responsibility mechanism covering all employees, whole processes, all institutions and all risk types. This helped to establish a good foundation for a sound comprehensive risk management system. The Bank explored to establish a system to monitor and analyse various risks, enrich the comprehensive risk report, and conduct view research on comprehensive risk management, to improve the overall ability of risk warning and control.

Optimising the foundation of risk management. The Bank studied and formulated risk management policies on off-balance sheet business, and clarified risk selection and access bottom line for off-balance sheet business. The Bank improved the organisational system of risk management for overseas entities, standardised their credit risk classification and post-lending management, and launched risk investigation and analysis on their material loans. The Bank refined the country-specific risk management system, and scientifically made provisions for country-specific risk. It amended collateral management measures and completed the second phase of collateral system optimisation in order to support the revaluation and monitoring of the collaterals. The Bank developed risk management policies for wealth management business, clarified requirements on industries and customer selection standards, and integrated the wealth management business into the bank-wide unified credit approval management. It promoted the Group's consolidation risk management system, conveyed the bank's unified preference, policy, limit, standard and rating to all subsidiaries, and strengthened the risk management of cross-border and cross-industry institutions.

Completing the regulatory inspection and evaluation of advanced measurement on capital management. While maintaining the operation and maintenance and continuous monitoring of 27 corporate customer credit rating models, the Bank pertinently accomplished customer rating optimisation for wholesale and retail industry as well as newly established small businesses. It developed technology tools such as score cards for small and micro business application and behaviour, and for anti-fraud management of credit card business. The optimisation of launching and application of the nine score cards for credit card and personal loans well supported automated approval and bulk monitoring. Currently, the Bank has the ability to independently develop risk measurement tools. The implementation level of advanced measurement on capital management was basically in line with that of the world leading banks, which laid a solid foundation for the implementation of *Capital Management Measures for Commercial Banks* issued by the CBRC.

5.3.1 Risk Management Structure

The Board of Directors of the Bank has established Risk Management Committee, responsible for making risk management strategies and policies, monitoring the implementation, and evaluating the overall risk profile on a regular basis.

The Bank has established a centralised and vertical risk management organisation structure, with a vertical risk management line, consisting of "chief risk officer – risk supervisors – risk heads – risk managers".

At the head office level, the chief risk officer is responsible for comprehensive risk management under the direct leadership of the president. The Risk Management Department is responsible for overall risk reporting, formulating risk management policies, developing risk measurement tools, monitoring and analysis and other issues. The market risk management department and the risk management team for overseas entities under the Risk Management Department are responsible for the risk management of financial market business and overseas entities respectively. The Credit Management Department is responsible for credit approval and credit risk monitoring. Other departments at the head office perform their risk management duties within their respective scopes of duty.

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At branch level, there are risk supervisors in tier-one branches, who report to the chief risk officer, and are responsible for organising risk management and credit approval within the branch. There are risk heads at tier-two branches and risk managers at sub-branches, responsible for risk management in their respective branch or sub-branch. The risk management personnel have two reporting lines: the first reporting line is to risk management officers at higher levels, and the second is to managers of their respective entities or business units.

At subsidiary level, the Bank vigorously promotes the establishment of a comprehensive risk management framework. It strengthens prospective risk management and consolidation of risk management at group level, enhances internal control and internal audit system to lead and push forward the subsidiaries to launch their risk self-examination and investigation in order to discover and improve internal control deficiencies and problems in time.

5.3.2 Credit Risk Management

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

In 2012, by treating prevention of systematic and regional risks and maintaining the asset quality stable as its core tasks in credit risk management, the Bank enhanced risk control and early warning for key industries, regions, and large credit customers, dealt with risks in a timely and effective manner, and continued to promote credit structure adjustments. All these led to further improvement in the credit risk management and the asset quality remained stable.

Strengthening risk warning and precaution, as well as the prospectiveness of risk management. The Bank strengthened monitoring and analysis over the warning indicators of asset quality. For overdue loans, the Bank sent out respective reminders to involved branches, supervised the operation of each account, and circulated monthly notices, to effectively mitigate potential risks. Precautions were published, and countermeasures were adopted in advance for areas of photovoltaic industry, steel trade, shipping, agency trust, commercial property mortgage, external fraud, private enterprise, private lending, and financial risks of non-financial companies.

Performing proactive management over key points to prevent systematic and regional risks. The Bank conducted, by level and by category, on-site diagnosis and evaluations, and off-site investigation on key areas, made risk diagnosis of each large credit customer with potential risks, studied and judged over the key risk elements causing possible systematic risks, and established effective countermeasures to ensure proactive management and precise strike against the risks.

Accelerating response and handling of risks to ensure stable asset quality. According to the practical situation of risk exposures in the areas, the Bank carried out countermeasures, such as early recovery, transfer, restructuring, and strengthening the risk mitigation, to accelerate risk resolutions with improved efficiency.

Optimising credit policies to promote structure adjustments and operating capabilities. The Bank established credit policies of 2012, according to the general risk preference of the whole bank, specified the focus of credit business, and carried out active credit exit. With a close watch on the macroeconomic situation and market changes, the Bank made timely re-examination and adjustments to its credit policies. The Bank also differentiated the credit policies between regions, profiting from the comparative location advantages. The Bank well implemented the policies on the whole, and continuously optimised the structure adjustments, with a higher proportion of prime customers.

Adjusting credit authorisation in time to optimise the credit approval management system. The Bank optimised the overall control of credit authorisation over customer aggregate risk exposures, including wealth management business and entrusted loans, enhanced the comprehensive control of individual customer risk exposure, and standardised the sub-authorisation management of branches and sub-branches. In light of the development of business, the Bank timely revised the authorisation of branches and of credit operations. Differentiated credit approval mode was created for group clients, in compliance with the management concept of “active credit authorisation” and by enhancing the material risk judgement. The Bank published the *Management Measures on Global Credit Authorisation of China Construction Bank*, to encourage the sound development of cross-border financing activities between domestic and overseas branches, to promote the Bank’s management abilities and the related services around the world.

Deepening the development and application of risk management tools to promote the portfolio risk management abilities. The Bank carried out the unified measurement and management of economic capital of all on and off-balance sheet businesses, extended the management scope of industry limits, and explored sufficiently the use of economic capital and risk-adjusted return on capital (RAROC) in customer selection, product allocation, loan pricing, credit approval, resource allocation and performance appraisal. Corporate customer rating model and retail customer scorecards were developed and optimised to support the customer selection, credit authorisation and approval, product pricing, post-loan management and retail transformation. The Bank launched its credit risk stress testing system, covering the Bank’s credit assets portfolio, with multi-functions leading the industry. It conducted stress tests in areas such as macro economy, real estate industry and local government financing vehicles, providing strong support to the decision-making in operation and management.

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Concentration of credit risks

In line with regulatory requirements, the Group proactively adopted a series of measures to prevent large exposure concentration risk, including further tightening lending criteria, adjusting business structure, controlling the credit granting pace, revitalising existing credit assets and innovating products. At the end of 2012, the gross loans to the largest single borrower accounted for 3.86% of the net capital of the Group, while those to the ten largest customers accounted for 14.76% of the net capital.

Concentration of loans

Concentration indicator	As at 31 December 2012	As at 31 December 2011	As at 31 December 2010
Ratio of loans to the largest single customer (%)	3.86	3.30	2.76
Ratio of loans to the ten largest customers (%)	14.76	15.18	16.00

The Group's ten largest single borrowers as at the date indicated are as follows:

(In millions of RMB, except percentages)	Industry	As at 31 December 2012	
		Amount	% of total loans
Customer A	Transportation, storage and postal services	42,160	0.56
Customer B	Transportation, storage and postal services	17,009	0.23
Customer C	Manufacturing	16,739	0.22
Customer D	Transportation, storage and postal services	13,973	0.19
Customer E	Production and supply of electric power, heat, gas and water	12,185	0.16
Customer F	Transportation, storage and postal services	12,116	0.16
Customer G	Transportation, storage and postal services	11,981	0.16
Customer H	Transportation, storage and postal services	11,880	0.16
Customer I	Water, environment and public utility management	11,680	0.16
Customer J	Transportation, storage and postal services	11,640	0.15
Total		161,363	2.15

5.3.3 Liquidity Risk Management

Liquidity risk is the type of risk that occurs when, despite its debt servicing ability, the Bank cannot obtain sufficient funds in time, or at a reasonable cost, to meet the needs of asset growth or repay liabilities as they are due. The Bank's objective for liquidity risk management is to maintain a reasonable level of liquidity, and ensure the payment and settlement security in compliance with the regulatory requirements, while striving to enhance fund yields by deploying its funds in an effective and reasonable way.

In 2012, the PBC lowered the statutory deposit reserve ratio twice by a total of one percentage point, and continuously injected liquidity into the market through reverse repurchase transactions, gradually easing the tight liquidity situation in the interbank market. However, as the statutory deposit reserve ratio was still at a high level, the banks' function of creating derivative deposits was inhibited to some extent, leading to increased competition for deposits business. In response to its liquidity situation, the Bank took timely measures, including actively attracting deposits, adjusting the amounts of investments in debt securities, financial assets held under resale agreements, deposits with banks and non-bank financial institutions, and other products that have large influence on liquidity, and making flexible adjustments in accordance with its liquidity position. Through these effective measures, the Bank continued to maintain a reasonable level of liquidity, and ensured normal payment and settlement. The Bank conducted regular stress tests on its liquidity risk, in order to gauge its risk tolerance in extreme scenarios of low probability and other adverse circumstances. The results showed that under the stress scenarios, although liquidity risk increased, it stayed within a controllable range.

The following table sets forth the liquidity ratios of RMB and foreign currency of the Group:

(%)	Regulatory standard	As at 31 December 2012	As at 31 December 2011	As at 31 December 2010
Liquidity ratio	RMB	56.73	53.70	51.96
	Foreign currency	58.81	53.54	57.20

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The analysis of the remaining maturity of the Group's assets and liabilities as at the balance sheet date is set out below:

(In millions of RMB)	As at 31 December 2012							Total
	Indefinite	Repayable on demand	Within one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	
Assets								
Cash and deposits with central banks	2,154,098	303,971	-	-	-	-	-	2,458,069
Deposits and placements with banks and non-bank financial institutions	-	35,116	313,407	206,031	144,297	16,352	348	715,551
Financial assets held under resale agreements	-	-	218,245	57,071	41,369	-	-	316,685
Loans and advances to customers	30,078	196,222	247,909	533,660	2,007,674	1,806,324	2,488,012	7,309,879
Investments	30,568	-	25,732	65,398	526,289	1,166,984	1,054,043	2,869,014
Other assets	164,230	36,316	16,689	33,883	43,337	6,538	2,637	303,630
Total assets	2,378,974	571,625	821,982	896,043	2,762,966	2,996,198	3,545,040	13,972,828
Liabilities								
Borrowings from central banks	-	-	1,689	2,428	2,164	-	-	6,281
Deposits and placements from banks and non-bank financial institutions	-	431,321	482,961	60,519	113,158	9,784	-	1,097,743
Financial liabilities at fair value through profit or loss	-	20,000	9,401	6,263	1,587	-	-	37,251
Financial assets sold under repurchase agreements	-	-	1,779	410	171	-	-	2,360
Deposits from customers	-	5,891,342	1,036,919	1,035,687	2,326,505	1,041,891	10,735	11,343,079
Debt securities issued	-	-	12,098	30,170	52,082	30,197	138,444	262,991
Other liabilities	332	158,688	16,071	19,884	57,711	18,549	2,279	273,514
Total Liabilities	332	6,501,351	1,560,918	1,155,361	2,553,378	1,100,421	151,458	13,023,219
Long/(short) position in 2012	2,378,642	(5,929,726)	(738,936)	(259,318)	209,588	1,895,777	3,393,582	949,609
Long/(short) position in 2011	2,203,755	(5,439,243)	(575,536)	(432,250)	(180,834)	2,173,385	3,067,384	816,661

The Group regularly monitors the gap between its assets and liabilities for various maturities in order to assess its liquidity risk for different periods. As at 31 December 2012, the accumulated gap of various maturities of the Group was RMB949,609 million, an increase of RMB132,948 million over 2011. Despite the negative gap for repayment on demand totalling RMB5,929,726 million, the Group is expected to enjoy a stable funding source and maintain stable liquidity in the future given its strong and expansive deposit customer base, relatively stable core demand deposits, and steady growth in deposits.

5 MANAGEMENT DISCUSSION AND ANALYSIS

5.3.4 Market Risk Management

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

In 2012, the Bank watched closely on the market development trend, refined its market risk management policy system, innovated risk monitoring manner, and promoted the development of risk management system and tools, further enhancing its market risk management capability.

Improvement of the market risk management policy system. The Bank made policies for financial market business and market risk limit scheme for trading, clarified the orientation of market risk policies and the risk tolerance limits, created indicators, such as VaR limit of market risk capital, established an emergency mechanism of significant market risk, and enhanced the investment approval and post-investment management mechanism of credit-related debt securities investments, further optimising the counterparty credit risk management.

With a close watch on the market and business practices, innovating the monitoring model. The Bank continuously traced and monitored the performance of credit approval, authorisation and risk limits of the financial market business, timely published risk warning and reminders, and made specific improvements. Timely reporting and responses were made over the material market changes concerning the policy adjustments of interest rates and exchange rates, as well as the progress of European debt crisis. The Bank carried out recognition and review for new products, and researched to optimise the risk control process of new products to support business innovation.

Promoting the development of market risk measurement system and tools. The Bank conducted verification of measurement models, positions and market parameters and inspection of data quality, continuously enhanced the capabilities of valuation, verification and risk measurement, and completed the launch of treasury operation risk management system in overseas branches.

Value at Risk analysis

The Bank has separated on and off-balance sheet activities into two major categories, trading book and banking book. The Bank performs VaR analysis on its trading portfolio to measure and monitor the potential losses that could occur on risk positions taken, due to movements in market interest rates, foreign exchange rates and other market prices. The Bank calculates the VaR of RMB and foreign currency trading portfolio on a daily basis (at a confidence level of 99% and with a holding period of one-day).

The VaR analysis on the Bank's trading portfolio as at the balance sheet date and during the respective years is as follows:

(In millions of RMB)	2012				2011			
	As at 31 December	Average	Maximum	Minimum	As at 31 December	Average	Maximum	Minimum
Risk valuation of trading portfolio	53	63	116	26	57	90	263	12
– Interest rate risk	44	42	77	16	18	25	67	7
– Foreign exchange risk	32	41	96	14	49	84	260	8
– Commodity risk	–	4	80	–	8	25	73	1

Interest rate risk management

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

In 2012, the Bank further refined its interest rate risk system framework, and formulated emergency response scheme for the interest rate risk of its banking book. It conducted regular analysis by comprehensively using multiple tools such as interest rate sensitivity gap, net interest income sensitivity analysis, scenario simulation and stress testing, to enhance regular analysis and prediction of the net interest margin. The overall interest rate risk in 2012 was kept within the set tolerable level and the net interest margin remained stable. In response to influence of the interest rate liberalisation, the Bank adopted the pricing strategy, which combined the standardised and differentiated techniques, adjusted the authorisation in time, and optimised the system, to promptly respond to the demands of customers.

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Interest rate sensitivity gap analysis

The analysis of the next expected repricing dates or maturity dates (whichever are earlier) of the Group's assets and liabilities as at the balance sheet date is set out below:

(In millions of RMB)	As at 31 December 2012					Total
	Non-interest-bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years	
Assets						
Cash and deposits with central banks	186,811	2,271,258	-	-	-	2,458,069
Deposits and placements with banks and non-bank financial institutions	-	556,220	150,292	9,039	-	715,551
Financial assets held under resale agreements	-	275,316	41,369	-	-	316,685
Loans and advances to customers	-	3,848,626	3,346,574	46,068	68,611	7,309,879
Investments	21,572	275,869	659,380	932,291	979,902	2,869,014
Other assets	303,630	-	-	-	-	303,630
Total assets	512,013	7,227,289	4,197,615	987,398	1,048,513	13,972,828
Liabilities						
Borrowings from central banks	-	4,117	2,164	-	-	6,281
Deposits and placements from banks and non-bank financial institutions	-	1,002,507	85,452	9,784	-	1,097,743
Financial liabilities at fair value through profit or loss	20,000	15,664	1,587	-	-	37,251
Financial assets sold under repurchase agreements	-	2,189	171	-	-	2,360
Deposits from customers	61,385	7,904,321	2,328,493	1,041,442	7,438	11,343,079
Debt securities issued	-	54,137	43,740	26,670	138,444	262,991
Other liabilities	273,514	-	-	-	-	273,514
Total Liabilities	354,899	8,982,935	2,461,607	1,077,896	145,882	13,023,219
Interest rate sensitivity gap in 2012	157,114	(1,755,646)	1,736,008	(90,498)	902,631	949,609
Accumulated interest rate sensitivity gap in 2012		(1,755,646)	(19,638)	(110,136)	792,495	
Interest rate sensitivity gap in 2011	194,036	(1,770,699)	1,172,398	364,416	856,510	816,661
Accumulated interest rate sensitivity gap in 2011		(1,770,699)	(598,301)	(233,885)	622,625	

As at 31 December 2012, the repricing gap of the Group's assets and liabilities generally narrowed. The accumulated negative gap for a period less than one year was RMB19,638 million, which narrowed by RMB578,663 million compared to 2011, mainly due to the assets increases of deposits and placements with banks and non-bank financial institutions, and financial assets held under resale agreements. The Group's positive gap for a period more than one year was RMB812,133 million, which narrowed by RMB408,793 million over 2011, mainly due to the growth of long-term deposits.

Net interest income sensitivity analysis

Net interest income sensitivity analysis is based on two scenarios. The first is to assume that the interest rate for deposits with the PBC stays constant, and all yield curves rise or fall by 100 basis points in a parallel way; the second is to assume that the interest rates for deposits with the PBC and demand deposits stay constant, while the other yield curves rise or fall by 100 basis points in a parallel way.

The interest rate sensitivity of the Group's net interest income is set out below.

(In millions of RMB)	Change in net interest income			
	Rise by 100 basis points	Fall by 100 basis points	Rise by 100 basis points (demand deposit rates being constant)	Fall by 100 basis points (demand deposit rates being constant)
As at 31 December 2012	(36,670)	36,670	26,887	(26,887)
As at 31 December 2011	(37,516)	37,516	21,061	(21,061)

5 MANAGEMENT DISCUSSION AND ANALYSIS

Foreign exchange rate risk management

Foreign exchange rate risk is the risk of impact of adverse movement in foreign exchange rates on a bank's financial position. The Bank is exposed to foreign exchange rate risks primarily because it holds loans, deposits, marketable securities and financial derivatives that are denominated in currencies other than RMB.

In 2012, the Bank continuously optimised the measurement, monitoring and reporting system of foreign exchange rate risk, and regularly reported to the senior management the composition of indicators such as foreign exchange rate risk exposure, stress tests and movement analysis. The Bank attached importance to the construction of foreign exchange rate risk management system, and maintained a leading position among domestic peers in the system measurement capability. In terms of the transactional risk, the Bank optimised the measurement method of gold exchange rate risk exposure, while adjusted the measurement of US dollar exchange rate risk exposure to facilitate the trading in US dollar of the precious metal business of platinum and silver in the international market. In terms of the non-transactional risk, the Bank initiated the optimisation of asset and liability management system, to fully bring in the management data of overseas branches.

Currency Concentrations

(In millions of RMB)	As at 31 December 2012				As at 31 December 2011			
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	524,730	153,916	125,957	804,603	358,091	181,021	119,685	658,797
Spot liabilities	(432,029)	(161,150)	(178,574)	(771,753)	(276,244)	(179,624)	(139,599)	(595,467)
Forward purchases	409,707	9,581	232,258	651,546	303,678	11,648	107,787	423,113
Forward sales	(499,732)	(5,363)	(179,561)	(684,656)	(383,693)	(3,648)	(79,593)	(466,934)
Net options position	28	-	(1)	27	-	-	-	-
Net long position	2,704	(3,016)	79	(233)	1,832	9,397	8,280	19,509

As at 31 December 2012, the net exposure of the Group's foreign exchange rate risk was a negative value of RMB233 million, a decrease of RMB19,742 million compared to 2011, indicating the further decrease of the Bank's foreign exchange rate risk.

5.3.5 Operational and Reputation Risk Management and Consolidated Management

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

In 2012, the Bank strengthened its operational risk control, promoted the use of operational risk management tools, and carried forward the monitoring and inspection over key risk points. It also promoted business continuity management, and actively conducted contingency drills in order to secure the safe operation of various businesses.

Strengthening the use of operational risk management tools. The Bank further expanded the business coverage for self-assessment, and pertinently promoted the identification and preventive control of anti-fraud risk points in credit business and other major businesses. The Bank enhanced the comprehensiveness and accuracy level of loss data collection, accelerated the application of key risk indicators, and reinforced the monitoring and early warning over key risks.

Conducting monitoring and inspection over key risk points. The Bank re-examined, adjusted and extended the scope and contents of monitoring and inspection in light of risk changes. It enhanced operational risk controls over key business areas and key positions, including conducting risk investigation of external fraud in credit business to enhance the validity of credit business and anti-fraud management.

Re-examining and optimising the incompatible positions system. The Bank optimised the mechanism of checks and balances over different departments and positions, and strengthened the rigid constraints of position checks and balances.

Standardising management of employee behaviour. The Bank strengthened staff training and quality improvement, conducted strict accountability management when employees violate rules or breach duties. It also promoted and optimised the management of employee behaviour credits in order to prevent operational risks resulting from human factors.

Steadily promoting business continuity management. The Bank reviewed its contingency plan system, and pertinently enhanced its evaluation, upgrade and drills of related technical and business planning for the major production systems, to reinforce the response capability in case of emergencies.

5 MANAGEMENT DISCUSSION AND ANALYSIS

Consistently optimising evaluation over operational risk management. The Bank guided tier-one branches to promote the application of operational risk management tools and consolidate fundamental management in order to achieve steady improvements in both internal control and operational risk management.

Anti-money Laundering

In 2012, the Bank continued to strengthen the building of anti-money laundering (AML) management policies and systems. By optimising the rules for filtering suspicious transactions and customer risk level classification, the Bank improved the reporting data quality of AML. In addition, the Bank carried out reinforced trainings and information-sharing on AML, and conducted transformation research on AML, which helped to define the method and process of AML, which are more closely related to daily operation and management.

Reputation Risk Management

Reputation risk is the risk of negative impacts or damages to the banks' overall image, reputation and brand value, arising when commercial banks' operational, managerial and other behaviours or contingencies are reported negatively by the media.

In 2012, the Bank further emphasized on reputation risk management, enhanced the reputation risk awareness among all levels of management and staff, clarified duties and requirements, and improved accountability management. The Bank launched the new generation public sentiment monitoring system, and set up the quick response mechanism for public sentiment both vertically and horizontally, to improve the reporting and response efficiency for public sentiment. In addition, the Bank amended its reputation risk management measures on the Group level and enhanced reputation risk controls over its subsidiaries and overseas entities. The Bank made emergency planning for reputation risk matters, clarified working procedures, and organised emergency drills in order to improve the reputation risk management capability.

Consolidated Management

The Bank conducts consolidated management over its subsidiaries, and imposes comprehensive and continuous management over the Group's capital, finance and risks based on the single legal person, to identify, measure, monitor and assess the overall risk profile of the Group. In 2012, the Bank strengthened overall planning of consolidated management, optimised consolidated management system, and orderly conducted the follow-up consolidated management targeted at the weak links.

Reinforcing the Group's large risk exposure management. The Bank optimised the industry limit management scheme by incorporating the subsidiaries into the industry limit management scope. The Bank promoted the unified credit management on the Group level to prevent excessive concentration of risks.

Conducting monitoring and supervision of consolidated management. The Bank organised and conducted examinations on consolidated risks, and timely found out and improved internal control deficiencies. The Bank actively cooperated with the CBRC to conduct on-site inspection of connected businesses of the shadow bank as well as the related audit checks by the National Audit Office to promote the Group's compliance operation.

Enhancing risk management in other fields on the Group level. The Bank reinforced liquidity risk management on the Group level, and incorporated the liquidity risk profile of its subsidiaries into the Bank's liquidity risk monitoring report. The Bank standardised the prevention work related to the Group's legal risks, and made emergency response plans on material risks and contingencies in legal category. In addition, the Bank enhanced the data management of the Group's internal transactions, with improved consolidated management of internal transactions.

Promoting the building of consolidated management information system in an active manner. The Bank initially established an information reporting and submission platform of the consolidated management in compliance with both the internal and external management requirements. The Bank integrated the financial statements and the underlying data of its subsidiaries, and clarified the information reporting and submission mechanism for consolidated management, to improve the standardisation and accuracy.

5.3.6 Internal Audit

In order to promote the establishment of a sound and effective risk management mechanism, internal control system and corporate governance procedures, the Bank's internal audit department evaluates the effectiveness of the internal controls and risk management, the effect of corporate governance procedures, the efficiency of business operations, and the economic responsibilities of key managers, and puts forward suggestions for improvement on the basis of its internal audit. The internal audit department works in a relatively independent manner, and is managed vertically. It is responsible to and reports to the Board and the audit committee, as well as reports to the board of supervisors and senior management. There is an audit department at the head office, and 39 audit offices are at tier-one branches, responsible for managing and conducting audit projects.

In 2012, the internal audit department earnestly conducted various audit projects and performed its internal audit duties, with further improved audit quality and performance capability.

5 MANAGEMENT DISCUSSION AND ANALYSIS

Conducting key and comprehensive audit projects. The internal audit department increased the audit intensity in high-risk business sectors and regions, to improve the pertinence and effectiveness of audit projects. The department improved the audit initiatives by following up regulatory focus and fundamental management. The department enhanced audit follow-up and information management to promote the use of audit results in an active manner. Throughout the year, the department carried out 25 categories of systemic audit or audit investigation projects, including audits of small business loans, real estate loans, personal loans approval and post lending management, the New Basel Capital Accord related issues and the data centre. Audit offices conducted selected audit projects based on the specific operation, management and risk characteristics of respective branches, further supplementing the coverage and depth of the audits. The Board, board of supervisors and senior management attached great importance to the audit findings, actively urged the rectifications, and pushed branches and departments in the head office to reinforce risk controls and optimise related rules, business processes, and IT systems.

Optimising audit mechanism and enhancing responsibilities to continuously improve audit quality. The internal audit department tried hard to improve the duty awareness of its whole staff, optimised relevant work procedures and mechanism, and revised audit standards. It enhanced the audit quality management as well as the internal management of audit offices, conducted internal evaluation for audit offices and took strict controls over assessment, incentives and disciplines.

Consolidating fundamentals, enhancing specialisation and launching the activity of "Audit Capability Enhancement Year". The internal audit department conducted specialised research on performing audit responsibilities, deepened and expanded the research domain of special subjects. The department continuously carried out research & development and promotion of off-site audit technical tools, and enhanced the safety management of data information. It strengthened the building of internal audit team, optimised its team structure, and organised various training programmes to ensure talent supply for the audit work.

5.4 PROSPECTS

In 2013, the domestic and foreign economic environment is expected to remain complicated. While the US economy continues to experience a weak recovery, Euro zone countries face the following impact of debt crisis, the Japanese economy is still in a recession, and the economic growth in emerging economies starts to slow down. Due to the collective reasons, the global economy is expected to face downturn pressure. For the domestic market, the fundamentals of economic situation will make progress while ensuring stability despite the downturn pressure of economic growth and industries with excess capacity, and China's GDP is expected to increase by more than 7.5% in 2013.

For banking industry, both favourable and adverse factors have impacts on the development of the industry. The new Chinese government adheres to the strategy of expanding domestic demand, emphasizes on the importance of guaranteeing and improving livelihood sectors by promoting new types of industrialisation, informatisation, urbanisation and agricultural modernisation. Such actions are likely to provide the Bank with more development opportunities. On the contrary, market competition tends to be more intensive as both non-bank financial institutions and quasi-bank institutions intervene in banking businesses including wealth management, payment and settlement. Reform of interest rate liberalisation may have a greater impact on bank's operations and the cut in bank card fees may result in less fees and commission income.

For the Group, development opportunities remain plentiful in 2013. Business potentials in traditional advantageous banking services, such as loans to infrastructure sectors, cost advisory services continue to grow as intensified investment and financing activities in both urban public service system and indemnificatory housing construction. In the process of upgrading industrial structure, M&A, and acceleration of external migration, demands for green credit, M&A loans and cross-border RMB business are expected to grow rapidly. The market potential in internet, third-party payment, and the internet of things construction is unlimited while services such as internet banking and "e.ccb.com" e-commerce platform have great development opportunities. Meanwhile, the Group faces a number of challenges in operation and management. The CBRC announced new regulatory requirements in the national banking regulatory meeting in 2013. The Group faces greater pressure on risk control and asset quality.

In 2013, the Group will continue to support the development of real economy, deepen structural adjustments and business transformation, and take strict control over all kinds of risks to ensure sound business development. Efforts will be made in the following areas. First, the Group will consolidate its market share of deposits and enhance the deposit stability. Second, the growth rate of RMB-denominated loans for 2013 is expected to be around 12% and loans will be granted to businesses with less capital occupation and better operating performance. Third, the Group will vigorously expand on fee-based business, collect fees in compliance with laws and regulations, and cultivate growth potentials by capitalising on key products. Forth, the Group will accelerate the development of strategic businesses, such as electronic banking, financial social security cards, cash management and pension business. Fifth, the Group will continue to consolidate its operation and management foundation, exert efforts to expand on effective customer base, promote the construction of operating outlets, and continuously improve its pricing ability. In addition, the Group will carefully organise the first phase of function release of the "new generation core banking system", and prepare the implementation the *Capital Management Measures for Commercial Banks*. It will reinforce the risk control in key areas, and improve the management of internal control and compliance.

6 CHANGES IN SHARE CAPITAL AND PARTICULARS OF SHAREHOLDERS

6.1 CHANGES IN SHARES

Unit: share

	1 January 2012		Increase/(Decrease) during the reporting period					31 December 2012		
	Number of shares	Percentage (%)	Issuance of additional shares	Bonus issue	Shares		Others	Sub-total	Number of shares	Percentage (%)
					converted from capital reserve					
I. Shares subject to selling restrictions	-	-	-	-	-	-	-	-	-	-
II. Shares not subject to selling restrictions										
1. RMB ordinary shares	9,593,657,606	3.84	-	-	-	-	-	-	9,593,657,606	3.84
2. Overseas listed foreign investment shares	91,105,429,499	36.44	-	-	-	810,000,000	810,000,000	810,000,000	91,915,429,499	36.76
3. Others ¹	149,311,890,381	59.72	-	-	-	(810,000,000)	(810,000,000)	(810,000,000)	148,501,890,381	59.40
III. Total number of shares	250,010,977,486	100.00	-	-	-	-	-	-	250,010,977,486	100.00

1. H-shares of the Bank free from selling restrictions held by the promoters of the Bank, i.e. Huijin, Baosteel Group, State Grid, and Yangtze Power.

6.2 DETAILS OF SECURITIES ISSUANCE AND LISTING

Pursuant to resolutions in the annual general meeting of 2009, the first A shareholders class meeting of 2010 and the first H shareholders class meeting of 2010, upon approvals by domestic and overseas regulatory bodies, the Bank implemented the rights issue plan in year 2010 and allotted the rights shares to A shareholders and H shareholders on the basis of 0.7 rights shares for every ten existing shares. The Bank issued 593,657,606 A rights shares and 15,728,235,880 H rights shares at a price of RMB3.77 per share and HK\$4.38 per share respectively, the dealings of which commenced on 19 November 2010 and 16 December 2010 respectively. After the completion of the rights issue, the total shares of the Bank increased to 250,010,977,486 shares, including 9,593,657,606 A-shares and 240,417,319,880 H-shares. The net proceeds raised from the rights issue are equivalent to RMB61,159 million, all of which are used to strengthen the capital base of the Bank.

Pursuant to the resolution of the first extraordinary general meeting of 2011, upon approvals of the CBRC and PBC, in November 2011, the Bank issued subordinated bonds of RMB40 billion in the national interbank bond market, with a term of 15 years and a fixed coupon rate of 5.70%. At the end of the tenth year, the issuer has an option to redeem the bonds with conditions. In November 2012, the Bank again issued subordinated bonds of RMB40 billion, with a term of 15 years and a fixed coupon rate of 4.99%. At the end of the tenth year, the issuer has an option to redeem the bonds with conditions. All proceeds raised from the issuance of subordinated bonds are used to replenish the supplementary capital of the Bank.

6 CHANGES IN SHARE CAPITAL AND PARTICULARS OF SHAREHOLDERS

6.3 NUMBER OF SHAREHOLDERS AND PARTICULARS OF SHAREHOLDINGS

At the end of the reporting period, the Bank had a total of 837,725 shareholders, of which 53,223 were holders of H-shares and 784,502 were holders of A-shares. As at 18 March 2013, the Bank had a total of 820,951 shareholders, of which 52,746 were holders of H-shares and 768,205 were holders of A-shares.

Unit: share

Total number of shareholders 837,725 (Total number of registered holders of A-shares and H-shares as at 31 December 2012)

Particulars of shareholdings of the top ten shareholders

Name of shareholder	Nature of shareholder	Shareholding percentage (%)	Total number of shares held	Number of shares subject to selling restrictions	Number of shares pledged or frozen
Huijin	State-owned	57.03	142,590,494,651 (H-shares)	None	None
		0.18	444,270,519 (A-shares)	None	None
HKSCC Nominees Limited ¹	Foreign legal person	28.22	70,551,277,133 (H-shares)	None	Unknown
Temasek ¹	Foreign legal person	7.15	17,878,670,050 (H-shares)	None	None
State Grid ^{1,2}	State-owned	1.16	2,895,782,730 (H-shares)	None	None
Baosteel Group	State-owned	0.80	2,000,000,000 (H-shares)	None	None
		0.13	318,860,498 (A-shares)	None	None
Bank of America	Foreign legal person	0.80	2,000,000,000 (H-shares)	None	None
China Ping An Life Insurance Company Limited – Traditional – Ordinary insurance products	Domestic non-state-owned legal person	0.76	1,907,104,725 (A-shares)	None	None
Yangtze Power ¹	State-owned	0.41	1,015,613,000 (H-shares)	None	None
Reca Investment Limited	Foreign legal person	0.34	856,000,000 (H-shares)	None	None
China Ping An Life Insurance Company Limited -Traditional – High interest rate insurance products	Domestic non-state-owned legal person	0.24	593,906,825 (A-shares)	None	None

- On 4 May 2012, Temasek declared interests on the website of Hong Kong Stock Exchange. It disclosed that it held the interests of 17,878,670,050 H-shares of the Bank. As at 31 December 2012, State Grid and Yangtze Power held 2,895,782,730 H-shares and 1,015,613,000 H-shares of the Bank respectively, all of which were held under the name of HKSCC Nominees Limited. Besides the H-shares of the Bank held by Temasek, State Grid and Yangtze Power, another 70,551,277,133 H-shares of the Bank were held under the name of HKSCC Nominees Limited.
- As at 31 December 2012, the holding of H-shares of the Bank by State Grid through its wholly-owned subsidiaries was as follows: Yingda International Holdings Group Co. Ltd. held 856,000,000 shares, State Grid International Development Limited held 1,315,282,730 shares, Shandong Luneng Group Co., Ltd. held 374,500,000 shares and State Grid International Development Co., Ltd. held 350,000,000 shares.
- Some of the shareholders mentioned above are subject to management by the same entity. Apart from this, the Bank has not been aware of any connected relation or acting in concert among the shareholders.

6.4 SUBSTANTIAL SHAREHOLDERS OF THE BANK

Huijin is the controlling shareholder of the Bank, holding 57.21% of the shares of the Bank at the end of the reporting period. Huijin is a wholly state-owned investment company established in accordance with the Company Law on 16 December 2003 with the approval of the State Council. Its registered capital and paid-in capital are both RMB828,209 million. Its legal representative is Mr. Lou Jiwei and its organisation code is 71093296-1. Huijin makes equity investment in key state-owned financial corporations as authorised by the State Council, and exercises the contributor's rights and obligations in key state-owned financial corporations up to its contribution on behalf of the state to achieve preservation and appreciation of state-owned financial assets. Huijin does not engage in any other commercial operations, nor does it intervene in daily operations of the key state-owned financial corporations controlled by Huijin.

Considering the audited financial report of Huijin for the year 2012 cannot be provided until all the institutions in which Huijin holds interests finish the audits of their financial statements, the following financial data are the audited data for the year 2011. As at 31 December 2011, the total assets of Huijin were RMB2,020,950,210.8 thousand, total liabilities were RMB148,784,181.0 thousand, and shareholders' equity was RMB1,872,166,029.8 thousand. Net profit for 2011 was RMB337,478,750.8 thousand. Net cash flows from operating activities, investing activities and financing activities for 2011 were a negative value of RMB37,693,774.5 thousand.

6 CHANGES IN SHARE CAPITAL AND PARTICULARS OF SHAREHOLDERS

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

No.	Institution Name	Shareholding percentage held by Huijin (%)
1	China Development Bank Corporation	47.63
2	Industrial and Commercial Bank of China Limited ^{1,2}	35.46
3	Agricultural Bank of China Limited ^{1,2}	40.21
4	Bank of China Limited ^{1,2}	67.72
5	China Construction Bank Corporation ^{1,2}	57.21
6	China Everbright Bank Company Limited ¹	48.37
7	China Export & Credit Insurance Corporation ³	73.63
8	China Reinsurance (Group) Corporation	84.91
9	New China Life Insurance Company Limited ^{1,2}	31.23
10	China Jianyin Investment Limited	100.00
11	China Galaxy Financial Holdings 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 Co., Ltd.	70.00
19	Guotai Junan Investment Management Co., Ltd.	14.54

1. As at 31 December 2012, the A-share listed companies held by Huijin, the controlling shareholder of the Bank;

2. As at 31 December 2012, the H-share listed companies held by Huijin, the controlling shareholder of the Bank;

3. As at 31 December 2012, the procedures for industrial and commercial registration in relation to Huijin's equity investment in China Export & Credit Insurance Corporation are still in process.

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

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

7 CORPORATE GOVERNANCE REPORT

The Bank is committed to maintaining high-level corporate governance practice. In strict compliance with China's Company Law, Law on Commercial Banks and other laws and regulations, as well as the listing rules of the relevant stock exchanges, the Bank optimised its corporate governance structure and improved related rules based on its corporate governance practices. During the reporting period, the Bank elected new executive directors and independent non-executive directors, and amended the Articles of Association of the Bank, Rules of Procedures for the Shareholders' General Meeting, Rules of Procedures for the Board of Directors, and Rules of Procedures for the Board of Supervisors. The Bank also amended the Management Measures on Insider of Insider Information.

The Bank has complied with the code provisions of the *Corporate Governance Code and Corporate Governance Report* as set out in Appendix 14 of the Listing Rules of Hong Kong Stock Exchange. The Bank has also substantially complied with the recommended best practices therein.

During the reporting period, the Bank recorded and registered information of relevant insiders. Neither illegal insider trading nor abnormal fluctuations of stock price caused by leaks of insider information were found.

7.1 SHAREHOLDERS' GENERAL MEETING

Powers of shareholders' general meeting

The shareholders' general meeting is the authoritative body of the Bank and mainly exercises the following functions and powers:

- determining the operating guidelines and investment plans of the Bank;
- electing and changing directors and supervisors (except for employee representative supervisors), and determining the remuneration of relevant directors and supervisors;
- considering and approving the Bank's annual financial budgets, final accounts, profit distribution plans and loss recovery plans;
- adopting resolutions related to matters including the increase or reduction of registered capital, and merger, split, dissolution and liquidation of the Bank;
- adopting resolutions related to the issuance and listing of corporate bonds or other marketable securities;
- adopting resolutions related to material acquisitions and repurchase of the Bank's shares;
- adopting resolutions to engage, dismiss or cease to retain certified public accountants;
- amending the Articles of Association and other basic corporate governance documents of the Bank.

Details of shareholders' general meetings convened

On 16 January 2012, the Bank held the first extraordinary general meeting of 2012, which considered and approved the election of Mr. Wang Hongzhang to serve as the executive director of the Bank. The executive directors Mr. Zhang Jianguo, Mr. Chen Zuofu and Mr. Zhu Xiaohuang, the non-executive directors Mr. Wang Yong, Mr. Zhu Zhenmin, Ms. Li Xiaoling, Mr. Lu Xiaoma and Ms. Chen Yuanling, Mr. Dong Shi and the independent non-executive director Mr. Zhao Xijun attended the meeting.

On 7 June 2012, the Bank held the 2011 annual general meeting, which considered and approved the 2011 report of the board of directors, report of the board of supervisors, final financial accounts, profit distribution plan, compensation distribution and settlement plan for directors and supervisors, 2012 fixed assets investment budget, appointment of auditors for 2012, election of directors, amendments to the Articles of Association of the Bank, Rules of Procedures for the Shareholders' General Meeting, Rules of Procedures for the Board of Directors, and Rules of Procedures for the Board of Supervisors. The executive directors Mr. Wang Hongzhang, Mr. Zhang Jianguo, Mr. Chen Zuofu and Mr. Zhu Xiaohuang, the non-executive directors Mr. Wang Yong, Mr. Zhu Zhenmin, Ms. Li Xiaoling, Mr. Lu Xiaoma and Ms. Chen Yuanling, Mr. Dong Shi and the independent non-executive directors Lord Peter Levene, Mr. Yam Chi Kwong, Joseph, Rt Hon Dame Jenny Shipley, Mr. Zhao Xijun and Mr. Wong Kai-Man attended the meeting. The attendance rate of directors was 100%. The domestic and international auditors of the Bank also attended the 2011 annual shareholders' general meeting.

The above shareholders' general meetings were held in compliance with relevant legal procedures, the resolutions of which were published on the website of Hong Kong Stock Exchange on 16 January 2012 and 7 June 2012, respectively, and on the website of the Shanghai Stock Exchange and the designated newspaper for information disclosure on 17 January 2012 and 8 June 2012, respectively.

7.2 BOARD OF DIRECTORS

Responsibilities of the Board

The Board is the executive body of the shareholders' general meeting, which is responsible to the general meeting of shareholders, and performs the following functions and duties in accordance with relevant laws:

- convening the general meeting of shareholders and reporting to the general meeting of shareholders;
- implementing the resolutions of the general meeting of shareholders;
- determining the Bank's development strategy, and supervising the implementation of the development strategy;
- deciding on operational plans, investment plans and risk capital allocation plans of the Bank;
- preparing annual financial budget plans, final accounting plans, profit distribution plans and loss recovery plans;
- preparing plans related to the increase or reduction of registered capital, the issuance and listing of convertible bonds, subordinated bonds, corporate bonds or other marketable securities; and plans related to merger, split, dissolution and liquidation of the Bank;
- preparing plans related to material acquisitions and repurchase of the Bank's shares;
- exercising other powers under the Articles of Association of the Bank and as authorised by the general meeting of shareholders.

The Board's implementation of resolutions of the general meeting of shareholders

In 2012, the Board strictly implemented the resolutions of shareholders' general meeting and matters authorised by the shareholders' general meeting to the Board, earnestly implementing the proposals approved by the shareholders' general meeting, including the profit distribution plan for 2011, appointment of auditors for 2012, amendments to the Articles of Association of the Bank, Rules of Procedures for the Shareholders' General Meeting, Rules of Procedures for the Board of Directors, and Rules of Procedures for the Board of Supervisors and the issuance of RMB-denominated subordinated bonds.

Composition of the Board

Currently the Board comprises 12 directors, including two executive directors, namely, Mr. Wang Hongzhang and Mr. Zhang Jianguo; five non-executive directors, namely, Mr. Wang Yong, Mr. Zhu Zhenmin, Ms. Li Xiaoling, Ms. Chen Yuanling and Mr. Dong Shi; and five independent non-executive directors, namely, Mr. Yam Chi Kwong, Joseph, Rt Hon Dame Jenny Shipley, Ms. Elaine La Roche, Mr. Zhao Xijun and Mr. Wong Kai-Man.

The term of office of directors of the Bank is three years, and directors may be re-elected upon expiration of their term of office.

Chairman and president

Mr. Wang Hongzhang is the chairman of the Board and the legal representative of the Bank, and is responsible for the business strategy and overall development of the Bank.

Mr. Zhang Jianguo is the president of the Bank, and is responsible for the daily management of the Bank's business operations. The president is appointed by the Board, responsible to the Board, and performs his duties in accordance with provisions of the Articles of Association and authorisation of the Board.

The roles of the chairman of the Board and the president are separate, each with clearly defined duties.

7 CORPORATE GOVERNANCE REPORT

Trainings of directors

The Bank holds regular trainings for the directors and encourages the directors to participate in professional development seminars and related courses organised by the relevant professional institutions, in order to help them understand the latest development or changes of laws and regulations relevant to performing their duties.

In 2012, all directors of the Bank, namely, Mr. Wang Hongzhang, Mr. Zhang Jianguo, Mr. Wang Yong, Mr. Zhu Zhenmin, Ms. Li Xiaoling, Ms. Chen Yuanling, Mr. Dong Shi, Mr. Yam Chi Kwong, Joseph, Rt Hon Dame Jenny Shipley, Ms. Elaine La Roche, Mr. Zhao Xijun and Mr. Wong Kai-Man participated in trainings regarding corporate governance, regulatory policies, information disclosure and risk management organised by the Bank. In addition, Mr. Wang Yong, Mr. Zhu Zhenmin, Ms. Li Xiaoling, Ms. Chen Yuanling, and Mr. Dong Shi also took part in the trainings organised by the China securities regulatory authorities.

Operation of the Board

The Board convenes regular meetings, generally no less than six times a year; extraordinary meetings are convened if and when necessary. Board meetings may be convened by means of on-site conference or written resolutions. The agenda for regular board meetings are scheduled upon consultation with each director. Board meeting documents and relevant materials are usually circulated to all directors and supervisors 14 days in advance of board meetings.

All directors keep contact with the secretary to the Board and the company secretary, to ensure compliance with board procedures and all applicable rules and regulations. Detailed minutes of board meetings are kept, and minutes are circulated to all attending directors for review after the meeting. Directors will provide revising suggestions after receiving the minutes. After the minutes are finalised, the secretary to the Board will circulate the minutes to all directors as soon as possible. Minutes of the board meetings are kept by the secretary to the Board, and are available for review by directors at any time.

Communication and reporting mechanism has been established between the Board, directors and senior management. The president reports his work to the Board on a regular basis, and is supervised by the Board. Relevant senior executives are invited to attend board meetings from time to time to provide explanations or reply to enquiries.

At board meetings, directors can put forward their opinions freely, and major decisions shall only be made after deliberate discussions. Directors may also engage external advisers following certain procedures, at the Bank's expense, to provide independent professional advice if they deem necessary. If any director has material interests in a proposal to be considered by the Board, the director to whom it concerns must abstain from the discussion and voting of the relevant proposal, and will not counted in the quorum of the relevant proposal.

The Bank effected directors' liability insurance policy for all directors in 2012.

Compliance with Model Code for Securities Transactions by Directors

The Bank has adopted a code of practice in relation to securities transactions by directors and supervisors as set out in the *Model Code for Securities Transactions by Directors of Listed Issuers* in Appendix 10 of the Listing Rules of Hong Kong Stock Exchange. All directors and supervisors had complied with the provisions of this code in the year ended 31 December 2012.

7 CORPORATE GOVERNANCE REPORT

Board meetings

In 2012, the Board convened nine meetings in total on 16 January, 23 March, 22 April, 27 April, 14 May, 7 June, 24 August, 26 October, and 14 December respectively. Major resolutions approved by the board meetings included the amendments to the corporate governance documents, fixed assets investment budget, financial reports, profit distribution, election of director candidates and appointment of senior management personnel, Measures of Overall Risk Management, Basic Regulations for Internal Control, Management Policies on Business Continuity, and Management Measures on Insider of Insider Information. Relevant information was disclosed pursuant to the provisions in relevant laws, regulations and listing rules of the listing venues. Individual attendance records of the directors in board meetings in 2012 are set out as follows:

Board members	Number of meetings attended in person/Number of meetings during term of office	Number of meetings attended by proxy/Number of meetings during term of office	Attendance rate (%)
Executive directors			
Mr. Wang Hongzhang	8/8	0/8	100
Mr. Zhang Jianguo	8/9	1/9	100
Non-executive directors			
Mr. Wang Yong	9/9	0/9	100
Mr. Zhu Zhenmin	9/9	0/9	100
Ms. Li Xiaoling	9/9	0/9	100
Ms. Chen Yuanling	9/9	0/9	100
Mr. Dong Shi	9/9	0/9	100
Independent non-executive directors			
Mr. Yam Chi Kwong, Joseph	7/9	2/9	100
Rt Hon Dame Jenny Shipley	7/9	2/9	100
Ms. Elaine La Roche	2/2	0/2	100
Mr. Zhao Xijun	9/9	0/9	100
Mr. Wong Kai-Man	9/9	0/9	100
Resigned directors			
Mr. Chen Zuofu	7/7	0/7	100
Mr. Zhu Xiaohuang	5/6	1/6	100
Mr. Lu Xiaoma	7/8	1/8	100
Lord Peter Levene	4/5	1/5	100

Performance of duties by independent directors

Currently the Bank has five independent non-executive directors, exceeding one third of the total number of directors of the Bank, which is in compliance with the provisions of relevant laws, regulations and Articles of Association of the Bank. The audit committee, risk management committee, nomination and compensation committee and related party transactions committee under the Board are all chaired by independent non-executive directors.

The independent non-executive directors of the Bank do not have any business or financial interests in the Bank and its subsidiaries, and neither do they assume any management positions in the Bank. The independence of the independent non-executive directors of the Bank was in compliance with the relevant regulatory requirements.

In 2012, the independent non-executive directors actively attend the board meetings and relevant special committees. During the session of meetings, our independent non-executive directors enhanced their understanding about business development of branches and subsidiaries by means of on-site investigation and informal discussion. The independent non-executive directors of the Bank gave their opinions actively on board meetings, and provided suggestions on the business development and significant decisions of the Bank, which promoted the scientific decision-making of the Board. During the reporting period, the Bank's independent non-executive directors did not raise any objections to the relevant matters reviewed by the Board.

7 CORPORATE GOVERNANCE REPORT

Special statement and independent opinion given by the independent directors regarding the external guarantees provided by the Bank

Pursuant to the relevant provisions and requirements under the circular of Zheng Jian Fa [2003] No. 56 issued by the CSRC, the independent directors of the Bank, including Mr. Yam Chi Kwong, Joseph, Rt Hon Dame Jenny Shipley, Ms. Elaine La Roche, Mr. Zhao Xijun and Mr. Wong Kai-Man made the following statements on external guarantees provided by the Bank based on the principles of fairness, justice, and objectiveness:

The external guarantee business provided by the Bank has been approved by the PBC and the CBRC, and is part of the ordinary business of the Bank. With regard to the risks arising from guarantee business, the Bank formulated specific management measures, operational processes and approval procedures, and carried out the business accordingly. The guarantee business of the Bank is mainly in the form of letter of guarantees. As at 31 December 2012, the balance of letter of guarantees issued by the Group was approximately RMB606,661 million.

Delegation of powers by the Board

The division of power between the Board and senior management is implemented in strict compliance with the Articles of Association of the Bank and other corporate governance documents. By virtue of the authorisation conferred by the Articles of Association and the Board, the president makes decisions within his scope of authority on operations, management and other issues to be decided, including:

- presiding over the operation and management of the Bank and initiating the implementation of board resolutions;
- submitting operational plans and investment proposals of the Bank to the Board and implementing the proposals upon approval of the Board;
- formulating proposals for the establishment of internal management departments;
- formulating the basic management system of the Bank;
- formulating specific rules and regulations of the Bank;
- proposing to the Board the appointment or dismissal of executive vice presidents and other senior management officers (excluding the chief audit officer and the secretary to the Board);
- exercising other powers conferred by the Articles of Association of the Bank and the Board.

Accountability of the directors in relation to the financial report

The directors are responsible for overseeing the preparation of the financial report for each financial period to give a true and fair view of the Group's financial position, operating results and cash flow for that period. In preparing the financial report for the year ended 31 December 2012, the directors have selected appropriate accounting policies, applied them consistently, and made judgements and estimates that are prudent and reasonable.

During the reporting period, in accordance with the provisions of relevant laws, regulations and listing rules of the listing venues, the Bank has released 2011 annual report, the report for the first quarter of 2012, half-year report 2012, and the report for the third quarter of 2012 on time.

Independent operating capability of the Bank

The Bank is independent from its controlling shareholder Huijin with respect to business, personnel, assets, organisations and finance. The Bank has independent and complete operating assets, independent operating capability and the ability to survive in the market on its own strength.

Internal transactions

The internal transactions of the Bank cover credit and guarantees, asset transfer, receivables and payables, service charges, and agency transactions between the Bank and subsidiaries as well as between the subsidiaries. The internal transactions of the Bank were in line with regulatory requirements, and did not bring about the negative impact upon the Group's sound operation.

Please refer to Note in the "Financial Statements" of this annual report for details of the internal transactions as defined by domestic laws and regulations.

Impact of restructuring, reorganisation and others on peer competition and related party transaction

During its restructuring, the former China Construction Bank was split into the Bank and Jiayin. Jiayin is positioned as a company for investment and disposal of financial assets, which has no conflict with the positioning of the Bank and would not lead to the problem of peer competition.

In July 2009, Jiayin transferred all of its shares of the Bank to Huijin. According to provisions of the *Rules Governing the Listing of Stocks on Shanghai Stock Exchange*, transactions between Jiayin and the Bank would not be regarded as related party transactions.

The Bank had no issues of peer competition or related party transactions caused by character of the industry, state policies, or mergers and acquisitions.

Internal control

The Board is responsible for establishing and maintaining an adequate internal control system for financial reports. The internal control of financial reports aims to assure the truthfulness, completeness and reliability of financial reports, and to prevent significant misreporting risk. The Board has assessed the internal control relating to financial reports pursuant to the *Basic Standard for Enterprises Internal Control*, and deemed that it was effective on 31 December 2012.

The Bank actively conducted on-site testing and off-site assessment of internal control, and the internal control assessment covered all management levels and departments, domestic institutions, overseas entities, subsidiaries and its products and business lines. In the process of the internal control assessment, the Bank has not found material and significant internal control deficiencies. And the matters that need to be improved did not constitute material impact on the Bank's operations and management. The Bank has paid keen attention to such matters and will take further action for continuing improvement.

The Bank thoroughly implemented the *Basic Standard for Enterprises Internal Control* and the guidelines ancillary thereto issued by five ministries/commissions including the MOF. It established the Internal Control and Compliance Department, and clarified the responsible departments that assumed the duty of internal control management at branch and sub-branch level, and preliminarily built up the organisational system for internal control and compliance management.

The Bank formulated the basic rules for internal control, clarified the objectives, principles and management requirements of internal control by focusing on the five elements including internal environment, risk assessment, control activities, information and communication, and internal monitoring, which serves as the fundamental system for implementing internal control of the Bank.

The Bank formulated rules for internal control assessment, clarified contents, procedures and measures for internal control assessment. It promoted all staff management, comprehensive and whole process management of internal control by assessing the control status of key control points in its main business processes. The Bank formulated internal control regulations implementation guidelines for its subsidiaries to guide them to improve their internal control management.

The Bank proposed a three-year development plan on the internal control system, and clarified the objectives, contents, responsibilities and schedules for the development of the internal control system in the next three years, to ensure the continuous improvement of the internal control system.

In August 2011, the Board approved the *Measures on Accountability of Major Mistakes in Information Disclosure of Annual Report*, and established the rules for the accountability of major mistakes. During the reporting period, the Bank did not have any major mistakes in information disclosure of annual report.

7 CORPORATE GOVERNANCE REPORT

7.3 COMMITTEES UNDER THE BOARD

There are five committees established under the Board: the strategy development committee, audit committee, risk management committee, nomination and compensation committee and related party transactions committee. Among these committees, more than half of the members of the audit committee, nomination and compensation committee and related party transactions committee are independent non-executive directors.

Strategy development committee

The strategy development committee consists of ten directors. Mr. Wang Hongzhang, currently serves as chairman of the strategy development committee. Members include Mr. Wang Yong, Mr. Zhu Zhenmin, Mr. Yam Chi Kwong, Joseph, Ms. Li Xiaoling, Rt Hon Dame Jenny Shipley, Mr. Zhang Jianguo, Ms. Chen Yuanling, Ms. Elaine La Roche and Mr. Dong Shi.

The primary responsibilities of the strategy development committee include:

- drafting strategic development plans, supervising and assessing implementation thereof;
- reviewing annual operational plans and fixed assets investment budgets;
- reviewing the implementation of the annual operational plans and fixed assets investment budgets;
- evaluating the coordinated development of various businesses;
- reviewing material restructuring and re-organisation plans; and
- reviewing significant investment and financing projects.

In 2012, the strategy development committee convened four meetings in total, researching on the macroeconomic and financial situation and significant strategy issues, grasping the correct development direction, propelling business structure adjustments, speeding up the development of the strategic business and overseas business, reinforcing the capital management and risk control, strengthening the fundamental constructions related to customers, products and channels, and consolidating the foundation for business development.

Members of strategy development committee	Number of meetings attended in person/ Number of meetings during term of office	Number of meetings attended by proxy/ Number of meetings during term of office	Attendance rate (%)
Mr. Wang Hongzhang	4/4	0/4	100
Mr. Wang Yong	4/4	0/4	100
Mr. Zhu Zhenmin	4/4	0/4	100
Mr. Yam Chi Kwong, Joseph	4/4	0/4	100
Ms. Li Xiaoling	4/4	0/4	100
Rt Hon Dame Jenny Shipley	3/4	1/4	100
Mr. Zhang Jianguo	3/4	1/4	100
Ms. Chen Yuanling	4/4	0/4	100
Ms. Elaine La Roche	1/1	0/1	100
Mr. Dong Shi	4/4	0/4	100
Resigned members			
Mr. Chen Zuofu	2/2	0/2	100
Mr. Zhu Xiaohuang	1/2	1/2	100
Mr. Lu Xiaoma	3/3	0/3	100
Lord Peter Levene	1/1	0/1	100

In 2013, the strategy development committee will continue to adhere to comprehensive, multi-functional and intensive development philosophy and continue to promote strategic transformation and structural adjustments. It will also refine operational management mechanism, actively promote fee-based business, strategic business and emerging business, promote the sound and rapid development of overseas business, strengthen the technological support, and speed up product innovation and process optimisation to continuously improve the integrated competitiveness and sustainable development ability of the Bank.

7 CORPORATE GOVERNANCE REPORT

Audit committee

The audit committee consists of six directors. Mr. Wong Kai-Man currently serves as chairman of the audit committee. Members include Ms. Li Xiaoling, Rt Hon Dame Jenny Shipley, Ms. Elaine La Roche, Mr. Zhao Xijun and Mr. Dong Shi. The composition of the members of the audit committee is in compliance with the domestic and overseas regulatory requirements.

The primary responsibilities of the audit committee include:

- monitoring the financial report, reviewing the disclosure of accounting information and significant events;
- monitoring and assessing the internal controls;
- monitoring and assessing the internal auditing work;
- monitoring and assessing the external auditing work;
- paying attention to potential misconducts;
- reporting work to the Board, reporting to the Board the issues within the scope of functions and duties of the committee, decisions or suggestions, and maintaining communication and cooperation with other special committees;
- other duties and powers authorised by the Board.

In 2012, the audit committee convened seven meetings in total, reviewing the financial reports for 2011, the first half of 2012, and the first and third quarter of 2012. The audit committee actively pushed forward the implementation and assessment of enterprise internal control standards, and tracked the rectification against audit findings by internal and external audits. The audit committee reviewed the internal audit working plan, and monitored and assessed the internal audit periodically. The audit committee seriously monitored and evaluated the external audit work, and reviewed the working plan for periodic financial report audit and the audit results, and urged the external auditors to issue audit report on time.

Pursuant to requirements by the CSRC and the annual report working rules of the audit committee, the audit committee reviewed the financial report of the Bank, and communicated and discussed with the management as to the major accounting policies and accounting estimates and formed written opinions. The audit committee reviewed the Bank's financial report again in respect to the initial audit opinions given by the external auditors, communicated with the management and external auditors, discussed matters such as the accounting standards and methods adopted in the financial statements, internal monitoring and financial report, and urged the auditors to submit the summary audit report to the Board. The audit committee reviewed and approved the 2012 financial report of the Bank, and submitted the proposal to the Board for consideration.

Members of audit committee	Number of meetings attended in person/ Number of meetings during term of office	Number of meetings attended by proxy/ Number of meetings during term of office	Attendance rate (%)
Mr. Wong Kai-Man	7/7	0/7	100
Ms. Li Xiaoling	7/7	0/7	100
Rt Hon Dame Jenny Shipley	6/7	1/7	100
Ms. Elaine La Roche	2/2	0/2	100
Mr. Zhao Xijun	7/7	0/7	100
Mr. Dong Shi	7/7	0/7	100

In 2013, the audit committee will deepen the monitoring of the regular financial reports, push forward the implementation and assessment of enterprise internal control standards, supervise and evaluate the internal and external audits, improve the effectiveness of communication and cooperation between internal and external auditors, and cooperate with external regulations.

7 CORPORATE GOVERNANCE REPORT

Risk management committee

The risk management committee consists of six directors. Mr. Yam Chi Kwong, Joseph, currently serves as chairman of the risk management committee. Members include Mr. Wang Yong, Mr. Zhang Jianguo, Ms. Chen Yuanling, Mr. Zhao Xijun and Mr. Wong Kai-Man.

The primary responsibilities of the risk management committee include:

- reviewing the risk management policies in accordance with the overall strategy of the Bank, monitoring and assessing their implementation and effectiveness;
- providing guidance on establishing the risk management system;
- monitoring and assessing the organisational structure, working procedures and effectiveness for risk management department, and proposing changes for improvement;
- reviewing the risk report, conducting periodic assessments of the risk management system, and providing opinions in relation to further improvements to the risk management;
- evaluating the performance of the Bank's senior management personnel responsible for risk management; and
- supervising the compliance of core businesses, management systems and major operation activities of the Bank, etc.

In 2012, the risk management committee convened four meetings in total. It optimised its working rules and proposed opinions and suggestions on various tasks including the rectification and implementation of evaluation and examination opinions on the New Basel Capital Accord by the CBRC, construction of the new credit procedures, reporting of significant risk events and refinement of internal management system. The risk management committee paid close attention to the impact of the international and domestic economic and financial situations on the Bank, continuously improved risk management system and strengthened comprehensive risk management. It followed and assessed the comprehensive risk conditions of the Bank periodically, continuously promoted the preparation work for the implementation of the advanced measurement on capital management, and attached great importance to the risk management of wealth management business, off-balance sheet business, overseas business, government financing vehicle loans, real estate loans, financial market business and information technology, etc. It also enhanced the compliance and operational risk management and strengthened control over non-compliance cases.

Members of risk management committee	Number of meetings attended in person/ Number of meetings during term of office	Number of meetings attended by proxy/ Number of meetings during term of office	Attendance rate (%)
Mr. Yam Chi Kwong, Joseph	4/4	0/4	100
Mr. Wang Yong	4/4	0/4	100
Mr. Zhang Jianguo	3/4	1/4	100
Ms. Chen Yuanling	4/4	0/4	100
Mr. Zhao Xijun	4/4	0/4	100
Mr. Wong Kai-Man	4/4	0/4	100
Resigned members			
Mr. Chen Zuofu	3/3	0/3	100
Mr. Zhu Xiaohuang	1/2	1/2	100
Mr. Lu Xiaoma	1/1	0/1	100

In 2013, the risk management committee will continue to conscientiously perform their duties, promote the fulfilment of various regulatory requirements, further improve comprehensive risk management system, and continue to strengthen the management of credit risk, market risk, operational risk and compliance risk. It will also steadily promote the implementation of the advanced measurement on capital management to improve risk management.

7 CORPORATE GOVERNANCE REPORT

Nomination and compensation committee

The nomination and compensation committee consists of five directors. Rt Hon Dame Jenny Shipley currently serves as chairperson of the nomination and compensation committee. Members include Mr. Wang Yong, Mr. Zhu Zhenmin, Ms. Elaine La Roche and Mr. Wong Kai-Man.

The primary responsibilities of the nomination and compensation committee include:

- formulating criteria and procedures for the selection and appointment of directors and senior management;
- proposing candidates for directors, presidents, chief audit officer, secretary to the Board and board committee members to the Board;
- evaluating the structure, number of members and formation of the Board (including terms of expertise, knowledge and experience), and proposing suggestions on the adjustment of the Board to implement the corporate strategies;
- evaluating candidates for senior management nominated by the president;
- formulating development plans for senior management and back-up personnel for key positions;
- formulating performance evaluation measures for directors and senior management and submitting to the Board for deliberation;
- formulating compensation plans for directors, supervisors and senior management and submitting to the Board for deliberation;
- reviewing the compensation management system submitted by the president;
- proposing advice to the compensation plan for supervisors in accordance with the performance assessment of the supervisors by the board of supervisors; and
- monitoring the implementation of the Bank's performance assessment and compensation systems.

In 2012, the nomination and compensation committee convened five meetings in total. It refined its operational rules and proposed opinions and suggestions on the election and performance evaluation of the directors as well as the settlement and distribution of the compensation of directors, supervisors and senior management. Regarding nomination, the nomination and compensation committee reviewed proposals for electing director candidates, appointing senior management personnel and electing the members of the Board committees. Regarding compensation, the nomination and compensation committee organised the settlement scheme of the compensation for directors, supervisors and senior management for 2011, studied detailed implementation rules for the distribution of compensation for directors, supervisors and senior management for 2012. Regarding the fundamental work, the nomination and compensation committee debriefed the progress of the supplementary mechanism of members of the Board, staff remuneration analysis and human resources management projects.

Members of nomination and compensation committee	Number of meetings attended in person/ Number of meetings during term of office	Number of meetings attended by proxy/ Number of meetings during term of office	Attendance rate (%)
Rt Hon Dame Jenny Shipley	4/5	1/5	100
Mr. Wang Yong	5/5	0/5	100
Mr. Zhu Zhenmin	4/5	1/5	100
Ms. Elaine La Roche	1/1	0/1	100
Mr. Wong Kai-Man	5/5	0/5	100
Resigned member			
Lord Peter Levene	3/3	0/3	100

In 2013, the nomination and compensation committee will continue to accomplish the work in connection with nomination, further advance the remuneration and appraisal measures for directors, supervisors and senior management of the Bank in accordance with the national remuneration policies. The committee will propose the settlement of compensation for directors, supervisors and senior management for 2012 according to the operation results of the Bank and comprehensive consideration of various factors, and pay attention to the remuneration system and the training for staff at all levels of the Bank.

7 CORPORATE GOVERNANCE REPORT

Related party transactions committee

The related party transactions committee consists of three directors. Mr. Zhao Xijun currently serves as chairman of the related party transactions committee. Members include Rt Hon Dame Jenny Shipley and Mr. Wong Kai-Man.

The primary responsibilities of the related party transactions committee include:

- formulating and proposing standards for material related party transactions and the system for management of related party transactions, as well as the internal approval and filing system of the Bank, and submitting the above standards for approval to the Board;
- identifying the related parties of the Bank;
- receiving filings on general related party transactions; and
- reviewing material related party transactions.

In 2012, the related party transactions committee convened four meetings in total. The committee paid close attention to the development of regulatory requirements, and debriefed reports on related party transaction and its management periodically; studied the variation of main related parties and related party transactions, and provided early warning on the compliance risk; paid attention to the integration of the management of related party transactions and the new generation core banking system; attached importance to the internal audit of related party transactions; engaged external advisors to provide special consultations on the management of related party transactions and implemented the relevant proposals in order to improve the management of related party transactions.

Members of related party transactions committee	Number of meetings attended in person/ Number of meetings during term of office	Number of meetings attended by proxy/ Number of meetings during term of office	Attendance rate (%)
Mr. Zhao Xijun	4/4	0/4	100
Rt Hon Dame Jenny Shipley	3/4	1/4	100
Mr. Wong Kai-Man	4/4	0/4	100
Resigned members			
Mr. Chen Zuofu	3/3	0/3	100
Mr. Zhu Xiaohuang	1/2	1/2	100

In 2013, the related party transactions committee will continue to focus on the progress of the implementation of the management consultation proposals of related party transactions, and gradually realise related-party transaction management functions in the new generation core banking system; periodically debrief the reports on the related-party transactions and the management, and timely study and resolve problems; continuously pay attention to the related party transactions of the major related parties, and review major related party transactions to control the risks from the related party transactions; identify the related parties of the Bank and receive filings of general related party transactions.

7.4 BOARD OF SUPERVISORS

Responsibilities of the board of supervisors

The board of supervisors, being the supervisory body of the Bank, is accountable to the shareholders' general meeting and performs the following functions and duties in accordance with relevant laws:

- supervising the performance of the Board, senior management and their members;
- requiring the directors and senior management personnel to correct their acts when their acts infringe the interests of the Bank;
- inspecting and supervising the financial activities of the Bank;
- verifying the financial information, including the financial report, business report and profit distribution proposal that are proposed to the shareholders' general meeting by the Board; and
- exercising other powers authorised by the shareholders' general meeting and the Articles of Association of the Bank.

7 CORPORATE GOVERNANCE REPORT

Composition of the board of supervisors

The board of supervisors currently consists of nine supervisors, including four shareholder representative supervisors, namely Mr. Zhang Furong, Ms. Liu Jin, Mr. Song Fengming and Mr. Zhang Huajian, three employee representative supervisors, namely Mr. Jin Panshi, Mr. Li Weiping and Ms. Huang Shuping, and two external supervisors, namely Mr. Guo Feng and Mr. Dai Deming.

The term of office of the supervisors is three years, and they may be re-elected upon expiration of their term of office. The shareholder representative supervisors and the external supervisors of the Bank are elected by the shareholders' general meeting, and the employee representative supervisors are elected by the employee representative organisation.

Chairman of the board of supervisors

Mr. Zhang Furong is the chairman of the board of supervisors of the Bank and is responsible for organisation and performance of duties of the board of supervisors.

Operation of the board of supervisors

The board of supervisors convenes regular meetings, generally not less than four times a year, and extraordinary meetings are convened, if and when required. Meetings of the board of supervisors may be convened by on-site conference or written resolutions. Supervisors are generally notified in written ten days prior to the convening of the board of supervisors' meeting. Matters concerning such meeting are specified in the written notice. During the meeting, the supervisors are free to express their opinions, and decisions on important matters are only made after detailed discussions.

Detailed minutes are prepared for the meetings of the board of supervisors. At the end of each meeting, minutes will be circulated to all attending supervisors for review and comments. After finalising the minutes, the board of supervisors' office shall be responsible for distributing the final version of the minutes to all supervisors.

The board of supervisors may engage external legal advisors or certified public accountants when necessary to discharge its duties, and the Bank will bear all related expenses. The Bank takes necessary measures and methods to ensure supervisors' right to information, and provides relevant information and materials to them in accordance with related regulations.

Members of the board of supervisors may attend board meetings as non-voting attendees, and the board of supervisors may, as it considers appropriate, assign supervisors to attend as non-voting attendees such meetings of the Bank as meetings of board committees, annual work conference, symposia of general managers of branches, analytic meetings on operating conditions, and president executive meetings. The board of supervisors of the Bank conducts supervisory work through measures such as inspection and review of information, off-site monitoring and analysis and on-site specific inspection, visits and symposia, and performance and due diligence evaluation.

The Bank effected supervisors' liability insurance policy for all the supervisors in 2012.

7 CORPORATE GOVERNANCE REPORT

Meetings of the board of supervisors

In 2012, the board of supervisors convened seven meetings in total on 17 February, 9 March, 23 March, 27 April, 13 July, 22 August, 26 October respectively. Major resolutions approved by the board of supervisors meetings included report of the board of supervisors, supervisory working plan, periodic financial reports of the Bank, profit distribution plan, etc. Relevant information was disclosed pursuant to the provisions in relevant laws, regulations and listing rules of the listing venues. The following table sets forth the attendance records of each of the supervisors in the meetings of the board of supervisors in 2012:

Members of the board of supervisors	Number of meetings attended in person/ Number of meetings during term of office	Number of meetings attended by proxy/ Number of meetings during term of office	Attendance rate (%)
Shareholder representative supervisors			
Mr. Zhang Furong	7/7	0/7	100
Ms. Liu Jin	7/7	0/7	100
Mr. Song Fengming	7/7	0/7	100
Mr. Zhang Huajian	7/7	0/7	100
Employee representative supervisors			
Mr. Jin Panshi	6/7	1/7	100
Mr. Li Weiping	5/7	2/7	100
Ms. Huang Shuping	7/7	0/7	100
External supervisors			
Mr. Guo Feng	7/7	0/7	100
Mr. Dai Deming	6/7	1/7	100

7.5 COMMITTEES UNDER THE BOARD OF SUPERVISORS

The performance and due diligence supervision committee and the finance and internal control supervision committee are established under the board of supervisors.

Performance and due diligence supervision committee

The performance and due diligence supervision committee consists of six supervisors. Mr. Zhang Furong serves as chairman of the performance and due diligence supervision committee. Members include Ms. Liu Jin, Mr. Song Fengming, Mr. Jin Panshi, Mr. Li Weiping and Mr. Guo Feng.

The primary responsibilities of the performance and due diligence supervision committee include:

- formulating the rules, work plans and proposals and implementation plans for supervision and examination in connection with the supervision of the performance and degree of diligence of the board of directors, senior management and their members; and implementing and organising the implementation of such rules, plans and proposals after the board of supervisors' approval;
- giving evaluation report on the performance of duties by the board of directors and senior management as well as their members; and
- formulating performance evaluation measures for the supervisors and organising the implementation of such measures.

7 CORPORATE GOVERNANCE REPORT

In 2012, the performance and due diligence supervision committee convened four meetings in total. The performance and due diligence supervision committee studied and formulated the annual work plan for performance supervision and evaluation, reviewed and formulated evaluation reports on the annual performance of the Board and its special committees, senior management, directors and senior management personnel; conducted work symposia with some principals in charge of the branches.

Members of the Performance and Due Diligence Supervision Committee	Number of meetings attended in person/ Number of meetings during term of office	Number of meetings attended by proxy/ Number of meetings during term of office	Attendance rate (%)
Mr. Zhang Furong	3/4	1/4	100
Ms. Liu Jin	4/4	0/4	100
Mr. Song Fengming	4/4	0/4	100
Mr. Jin Panshi	3/4	1/4	100
Mr. Li Weiping	3/4	1/4	100
Mr. Guo Feng	4/4	0/4	100

In 2013, the performance and due diligence supervision committee will, in accordance with the new requirements of external regulations, further improve the ways and means of performance and due diligence supervision, and strengthen the performance and due diligence supervision and evaluation of the board of directors, senior management and their members.

Finance and internal control supervision committee

The finance and internal control supervision committee consists of six supervisors. Mr. Dai Deming serves as chairman of the finance and internal control supervision committee. Members include Ms. Liu Jin, Mr. Song Fengming, Mr. Zhang Huajian, Mr. Jin Panshi and Ms. Huang Shuping.

The primary functions and responsibilities of the finance and internal control supervision committee include:

- formulating the rules, work plans and proposals in connection with the finance and internal control; and implementing or organising the implementation of such rules, plans, and proposals upon the approval of the board of supervisors;
- examining the annual financial reports and the profit distribution proposals, and providing suggestions on such reports to the board of supervisors; and
- assisting the board of supervisors in organising the implementation of supervision and inspections on the finance and internal control of the Bank, as required by circumstances.

In 2012, the finance and internal control supervision committee convened five meetings in total, researched and formulated the annual work plan for finance and internal control supervision; reviewed the periodic financial reports, profit distribution plans and internal control evaluation report; debriefed reports on internal audit findings and internal control evaluation; conducted supervision on the internal control, acquisition and disposal of material assets, related party transactions and implementation of the registration management system of the insiders of insider information; strengthened the supervision of the Bank's finance, internal control and risk management by ways of materials analysis, interviews and discussion, debriefing specific reports, communicating with the headquarter departments and the external auditors, and investigation and research, etc.

Members of the Finance and Internal Control Supervision Committee	Number of meetings attended in person/ Number of meetings during term of office	Number of meetings attended by proxy/ Number of meetings during term of office	Attendance rate (%)
Mr. Dai Deming	4/5	1/5	100
Ms. Liu Jin	5/5	0/5	100
Mr. Song Fengming	5/5	0/5	100
Mr. Zhang Huajian	5/5	0/5	100
Mr. Jin Panshi	4/5	1/5	100
Ms. Huang Shuping	5/5	0/5	100

In 2013, the finance and internal control supervision committee will pay close attention to the key issues and areas of the Bank's finance, internal control and risk management, make more efforts in research and investigation as well as analysis, and continue to refine the supervisory work.

7 CORPORATE GOVERNANCE REPORT

7.6 AUDITORS' REMUNERATION

PricewaterhouseCoopers Zhong Tian CPAs Limited Company is appointed as the domestic auditor for the audit of the financial report of the Bank and its major domestic subsidiaries for the year of 2012 and PricewaterhouseCoopers is appointed as the international auditor for the audit of the financial report of the Bank and its overseas subsidiaries for the year of 2012. PricewaterhouseCoopers Zhong Tian CPAs Limited Company is appointed as the auditor for the audit of the internal control of the Bank for the year of 2012.

Auditors' fees for the audit of the financial report (including the audit of the internal control) of the Group and other services paid to PricewaterhouseCoopers Zhong Tian CPAs Limited Company, PricewaterhouseCoopers and other PricewaterhouseCoopers member firms by the Group for the year ended 31 December 2012 are set out as follows:

(In millions of RMB)	2012	2011
Fees for the audit of the financial statements	140.00	140.00
Other service fees	4.35	2.43

PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers have served the office for two consecutive years (for the years of 2011 and 2012) providing auditing services to the Bank. In 2010, KPMG Huazhen and KPMG provided auditing services to the Bank.

7.7 FURTHER INFORMATION

Shareholders' rights

Right to convene an extraordinary shareholders' general meeting

Any shareholder, individually or jointly holding more than 10% of the total issued voting shares of the Bank, has the right to request the Board in writing to convene an extraordinary general meeting.

The Board shall reply in writing within ten days after receiving the request. In case the Board approves the holding of the meeting, it shall issue corresponding meeting notice within five days after the resolution is made. In case the Board refuses to hold the meeting or has no reply, the proposing shareholder may propose to the board of supervisors in writing. In case the board of supervisors approves the holding of the meeting, it shall issue corresponding meeting notice within five days after receiving the proposal. In case the board of supervisors fails to issue the meeting notice, the shareholder, individually or jointly holding more than 10% of the Bank's shares for more than consecutively 90 days, may convene and preside over an extraordinary general meeting on his own.

Right to raise proposals to the shareholders' general meeting

Any shareholder, individually or jointly holding more than 3% of the shares of the Bank, has the right to raise proposals to the shareholders' general meeting. Any shareholder, individually or jointly holding more than 1% of the shares of the Bank, has the right to raise proposals regarding the nomination of the candidates for independent directors and external supervisors.

Proposals for the shareholders' general meetings shall be submitted to the convenor of such meeting prior to the issuance of the notice of such meeting; after the issuance of the notice, any shareholder, individually or jointly holding more than 3% of shares of the Bank, has the right to bring up extraordinary proposals. Extraordinary proposals on the nomination shall be submitted to the convenor of the meeting 35 days prior to the meeting and extraordinary proposals on other issues shall be submitted to the convenor of the meeting in writing 20 days prior to the meeting.

Right to raise proposals to the Board

Any shareholder, individually or jointly holding more than 10% of the total issued voting shares of the Bank, may raise proposals to the Board.

Right to raise enquiries to the Board

In accordance with the provisions of the Articles of Association of the Bank, the shareholders have the right to obtain relevant information, including the Articles of Association, status of the share capital, financial report, report of the board of directors and report of the board of supervisors.

7 CORPORATE GOVERNANCE REPORT

Effective communication with shareholders

The Bank exchanges opinions with the shareholders through many channels such as the shareholders' general meetings, results announcement conferences, road shows, receptions of visitors and telephone enquiries. In 2012, the Bank organised and arranged results announcement conferences and analysts' on-site briefings and conference calls during the period of annual and interim results publication. Relevant announcements of results are published on designated newspapers and websites for shareholders' review.

During the reporting period, the Bank amended the Articles of Association of the Bank, Rules of Procedures for the Shareholders' General Meeting, Rules of Procedures for the Board of Directors, and Rules of Procedures for the Board of Supervisors. (The full text of the amended Articles of Association of the Bank has been published on the website of the Hong Kong Stock Exchange on 28 September 2012 and on the website of the Shanghai Stock Exchange on 8 October 2012 respectively. For details of amendments, please refer to Circular for 2011 Shareholders' General Meeting published on the website of the Hong Kong Stock Exchange on 22 April 2012 as well as the meeting materials for 2011 Shareholders' General Meeting published on the website of the Shanghai Stock Exchange on 23 April 2012 respectively.)

Trainings of the company secretary

The company secretary has attended relevant professional trainings during the reporting period, which was in compliance with the stipulations in Article 3.29 of the Listing Rules of Hong Kong Stock Exchange.

Shareholder enquiries

Any enquiries related to your shareholding, including transfer of shares, change of address, loss reporting of share certificates and dividend notes, should be sent in writing to the following addresses:

A-share:

China Securities Depository and Clearing Corporation Limited, Shanghai Branch
36th Floor, China Insurance Building
166 Lujiazui East Road, Pudong District, Shanghai, China
Telephone: (8621) 5870-8888
Facsimile: (8621) 5889-9400

H-share:

Computershare Hong Kong Investor Services Limited
Rooms 1712-16, 17th Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong
Telephone: (852) 2862-2863
Facsimile: (852) 2865-0990/(852) 2529-6087

Investor relations

Enquiries to the Board may be directed to:

Board of directors office
China Construction Bank Corporation
No. 25, Financial Street, Xicheng District, Beijing, China
Telephone: (8610) 6621-5533
Facsimile: (8610) 6621-8888
Email: ir@ccb.com

Board of directors office – Hong Kong Office
China Construction Bank Corporation
12/F, AIA Central, 1 Connaught Road Central, Central, Hong Kong
Telephone: (852) 2532-9637
Facsimile: (852) 2523-8185

This annual report is available on the following websites of the Bank (www.ccb.com), Shanghai Stock Exchange (www.sse.com.cn) and Hong Kong Stock Exchange (www.hkex.com.hk). If you have any queries on reading this annual report, please call our hotline at (8610) 6621-5533 or (852) 2532-9637. If you have any comments or advice on the annual report, please send email to ir@ccb.com.

8 PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

8.1 PARTICULARS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors of the Bank

Name	Position	Gender	Age	Term of Office
Wang Hongzhang	Chairman, executive director	Male	58	January 2012 to 2014 annual general meeting
Zhang Jianguo	Vice chairman, executive director, president	Male	58	June 2010 to 2012 annual general meeting
Wang Yong	Non-executive director	Male	51	June 2010 to 2012 annual general meeting
Zhu Zhenmin	Non-executive director	Male	63	August 2010 to 2012 annual general meeting
Li Xiaoling	Non-executive director	Female	55	June 2010 to 2012 annual general meeting
Chen Yuanling	Non-executive director	Female	49	August 2010 to 2012 annual general meeting
Dong Shi	Non-executive director	Male	47	September 2011 to 2013 annual general meeting
Yam Chi Kwong, Joseph	Independent non-executive director	Male	64	August 2010 to 2012 annual general meeting
Jenny Shipley	Independent non-executive director	Female	61	June 2010 to 2012 annual general meeting
Elaine La Roche	Independent non-executive director	Female	63	September 2012 to 2014 annual general meeting
Zhao Xijun	Independent non-executive director	Male	49	August 2010 to 2012 annual general meeting
Wong Kai-Man	Independent non-executive director	Male	62	June 2010 to 2012 annual general meeting

Resigned Directors

Chen Zuofu	Executive director, executive vice president	Male	58	June 2012 to October 2012
Zhu Xiaohuang	Executive director, executive vice president	Male	56	July 2010 to August 2012
Lu Xiaoma	Non-executive director	Male	46	August 2010 to November 2012
Peter Levene	Independent non-executive director	Male	71	June 2010 to 2011 annual general meeting

Supervisors of the Bank

Name	Position	Gender	Age	Term of Office
Zhang Furong	Chairman of the board of supervisors	Male	60	September 2010 to 2012 annual general meeting
Liu Jin	Shareholder representative supervisor	Female	48	June 2010 to 2012 annual general meeting
Song Fengming	Shareholder representative supervisor	Male	66	June 2010 to 2012 annual general meeting
Zhang Huajian	Shareholder representative supervisor	Male	57	August 2011 to 2013 annual general meeting
Jin Panshi	Employee representative supervisor	Male	48	June 2010 to 2012 annual general meeting
Li Weiping	Employee representative supervisor	Male	59	June 2010 to 2012 annual general meeting
Huang Shuping	Employee representative supervisor	Female	59	June 2010 to 2012 annual general meeting
Guo Feng	External supervisor	Male	50	June 2010 to 2012 annual general meeting
Dai Deming	External supervisor	Male	50	June 2010 to 2012 annual general meeting

8 PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Senior management of the Bank

Name	Position	Gender	Age	Term of Office
Zhang Jianguo	President	Male	58	July 2006 to
Zhu Hongbo	Executive vice president	Male	50	February 2012 to
Hu Zheyi	Executive vice president	Male	58	March 2009 to
Pang Xiusheng	Executive vice president	Male	54	February 2010 to
Zhao Huan	Executive vice president	Male	49	May 2011 to
Zhang Gengsheng	Member of senior management	Male	52	December 2010 to
Zeng Jianhua	Chief financial officer	Male	55	March 2011 to
Huang Zhiling	Chief risk officer	Male	52	February 2011 to
Yu Jingbo	Chief audit officer	Male	55	March 2011 to
Chen Caihong	Secretary to the Board	Male	56	August 2007 to
Xu Huibin	Controller of wholesale banking	Male	55	March 2011 to
Tian Huiyu	Controller of retail banking	Male	47	March 2011 to
Wang Guiya	Controller of investment and wealth management banking	Male	48	March 2011 to

During the reporting period, some of the Bank's supervisors and senior executives indirectly held H-shares of the Bank via employee stock incentive plan before they assumed duties of their current positions. Mr. Zhang Huajian held 18,999 H-shares, Mr. Li Weiping held 20,446 H-shares, Ms. Huang Shuping 21,910 H-shares, Mr. Zhao Huan 18,292 H-shares, Mr. Zhang Gengsheng 19,304 H-shares, Mr. Zeng Jianhua 25,838 H-shares, Mr. Huang Zhiling 18,751 H-shares, Mr. Yu Jingbo 22,567 H-shares and Mr. Chen Caihong 19,417 H-shares, Mr. Xu Huibin 20,004 H-shares, and Mr. Wang Guiya 19,724 H-shares. Apart from the above, all other directors, supervisors and senior executives do not hold any shares of the Bank.

8 PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Compensation for directors, supervisors and senior management in 2012

Unit: RMB'000

Name	Fees	Remuneration paid	Contribution by the employer to compulsory insurances, housing allowances, etc.	Total (before tax) ¹	Other compensation from corporate shareholders
Wang Hongzhang	–	732	344	1,076	–
Zhang Jianguo	–	696	360	1,056	–
Wang Yong ⁴	–	–	–	–	780
Zhu Zhenmin ⁴	–	–	–	–	780
Li Xiaoling ⁴	–	–	–	–	780
Chen Yuanling ⁴	–	–	–	–	750
Dong Shi ⁴	–	–	–	–	750
Yam Chi Kwong, Joseph	380	–	–	380	–
Jenny Shipley	440	–	–	440	–
Elaine La Roche	130	–	–	130	–
Zhao Xijun	410	–	–	410	–
Wong Kai-Man	440	–	–	440	–
Zhang Furong	–	672	360	1,032	–
Liu Jin	–	474	276	750	–
Song Fengming	270	–	–	270	–
Zhang Huajian ²	50	–	–	50	–
Jin Panshi ³	50	–	–	50	–
Li Weiping ³	50	–	–	50	–
Huang Shuping ³	50	–	–	50	–
Guo Feng	250	–	–	250	–
Dai Deming	270	–	–	270	–
Zhu Hongbo	–	624	314	938	–
Hu Zheyi	–	624	314	938	–
Pang Xiusheng	–	624	314	938	–
Zhao Huan	–	624	314	938	–
Zhang Gengsheng	–	605	307	912	–
Zeng Jianhua	–	594	276	870	–
Huang Zhiling	–	594	276	870	–
Yu Jingbo	–	594	276	870	–
Chen Caihong	–	594	276	870	–
Xu Huibin	–	594	276	870	–
Tian Huiyu	–	594	276	870	–
Wang Guiya	–	594	276	870	–
Resigned directors					
Chen Zuofu	–	624	314	938	–
Zhu Xiaohuang	–	416	208	624	–
Lu Xiaoma ⁴	–	–	–	–	688
Peter Levene	180	–	–	180	–

1. Full compensations for chairman of the Board, President, chairman of the board of supervisors, some directors, supervisors and senior management members have not been finalised in accordance with the latest policies. Their remaining compensation details will be disclosed when determined.
2. Compensation before tax paid for working as the shareholder representative supervisor of the Bank.
3. Compensation before tax paid for working as the employee representative supervisor of the Bank.
4. Compensation from Huijin for working as the director of the Bank during the reporting period.

8 PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Wang Yong	Non-executive director	Mr. Wang has served as a director since June 2007. Mr. Wang is currently an employee of the Bank's substantial shareholder, Huijin, and concurrently a director of China Export & Credit Insurance Corporation. Mr. Wang was an inspector of the Balance of Payments Department of the SAFE from August 2004 to March 2007, and served consecutively as deputy director-general of the Foreign Investment Administration Department, deputy director-general of the Capital Account Management Department and director-general of the Balance of Payments Department of the SAFE from January 1997 to August 2004. Mr. Wang is a senior economist. He graduated from Jilin University with a bachelor's degree in world economics in 1984 and a master's degree in world economics in 1987.
Zhu Zhenmin	Non-executive director	Mr. Zhu has served as a director since August 2010. He was an inspector of the Tax Bureau of the MOF from October 2007 to October 2009, a director of the Bank from September 2004 to June 2007, director-general of the Tax Bureau of the MOF from December 2003 to September 2004, director-general of the Tax Bureau of the MOF and concurrently director of the General Office of Customs Tariff Commission under the State Council from September 2002 to December 2003, and deputy director-general of the Tax Bureau of the MOF from August 1997 to September 2002. Mr. Zhu graduated with a degree in finance from the Central Institute of Finance Administration in 1987. Mr. Zhu is currently an employee of the Bank's substantial shareholder, Huijin.
Li Xiaoling	Non-executive director	Ms. Li has served as a director since June 2007. Ms. Li was a deputy inspector of Budget Department of the MOF from January 2006 to June 2007, and an assistant inspector of Budget Department of the MOF from May 2001 to January 2006. Ms. Li is an economist and graduated from Beijing Normal University in 2003 with a master's degree in political economics. Ms. Li is currently an employee of the Bank's substantial shareholder, Huijin.
Chen Yuanling	Non-executive director	Ms. Chen has served as a director since August 2010. She was a partner of Beijing Kang Da Law Firm from November 2007 to August 2010. Previously, she was a partner and lawyer of Beijing DeHeng Law Offices from May 2005 to November 2007, a lawyer of Beijing JunZeJun Law Offices from May 2002 to May 2005 and a senior manager of the Legal Department of China Securities Corporation from March 2001 to May 2002. Ms. Chen is a first-grade lawyer. She graduated with a bachelor's degree in law from the law faculty of Peking University in 1985 and graduated from post-graduate level class in accounting at the Business School of Jilin University in 2000. Ms. Chen is currently an employee of the Bank's substantial shareholder, Huijin.
Dong Shi	Non-executive director	Mr. Dong has served as a director since September 2011. He has served as a director of both China Reinsurance (Group) Corporation and China Reinsurance Asset Management Co., Ltd. since October 2008. Mr. Dong served consecutively as Assistant Special Inspector of the State Council, Division-Chief of the Supervisory Committee of Central Enterprises Working Commission and Deputy Director-General of the Foreign Affairs Bureau under the State-owned Assets Supervision and Administration Commission from August 1998 to September 2008. Mr. Dong made a study visit to the Federal Reserve of the United States in 1994 and studied at RMIT University in Australia in 1996. Mr. Dong is a senior economist and accountant. Mr. Dong graduated from Zhengzhou University with a bachelor's degree in finance in 1988 and obtained his master's degree in economic law from the Renmin University of China in 2002. Mr. Dong is currently an employee of the Bank's substantial shareholder, Huijin.
Yam Chi Kwong, Joseph	Independent non-executive director	Mr. Yam Chi Kwong, Joseph, has served as a director since August 2010. He was Chief Executive of the Hong Kong Monetary Authority from 1993 to September 2009 and Director of the Office of the Exchange Fund of Hong Kong from 1991 to 1993. Mr. Yam held a number of positions in the Hong Kong Government from 1971 to 1991. Mr. Yam is currently the Executive Vice President of the China Society for Finance and Banking in the PRC, a Distinguished Research Fellow of the Institute of Global Economics and Finance at the Chinese University of Hong Kong and Chairman of Macroprudential Consultancy Limited. Mr. Yam is also a member of the advisory committees of a number of academic and private institutions focusing in finance. Mr. Yam graduated from the University of Hong Kong with first class honours in 1970, receiving a Bachelor of Social Sciences degree. He also obtained his post-graduate diploma in Statistics and National Accounting from the Institute of Social Studies of the Hague, the Netherlands in 1974. Over the years, he was conferred a number of honorary doctorate degrees and professorships from universities in Hong Kong and overseas. Mr. Yam was awarded the Commander of the Most Excellent Order of the British Empire in 1995, the Gold Bauhinia Star by the Hong Kong Special Administrative Region Government in 2001, and the highest honour of the Grand Bauhinia Medal by the Hong Kong Special Administrative Region Government in 2009.

8 PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Jenny Shipley	Independent non-executive director	Rt Hon Dame Jenny Shipley has served as a director since November 2007. She is currently the Chairperson of Momentum Consulting, Senior Money International, the Financial Services Council of New Zealand and Genesis Energy, a New Zealand state-owned energy company. Dame Jenny is director of Transtasman Resource, and Managing Director in her consultancy company Jenny Shipley New Zealand Limited. As a professional director, keynote speaker and advisor, she tracks economic, social and geo-political mega trends globally. She was a Member of the New Zealand Parliament from 1987 to 2002 and held the key role of Prime Minister of New Zealand from 1997 to 1999. She held a range of other key leadership positions including Minister of Women's Affairs, Minister of Social Welfare, Minister of Health, Minister responsible for Radio New Zealand, Minister of Transport, Minister of Accident & Compensation, Minister of State-Owned Enterprises, and Minister of State Services from 1990 to 1997.
Elaine La Roche	Independent non-executive director	Ms. La Roche has served as a director since September 2012. She currently serves as the Senior Advisor of the China International Capital Corporation Limited. From March 2012, she has served as the independent non-executive director of Marsh and Mc Clennan, a global risk management and human resources consulting company. Ms. Elaine La Roche served as independent non-executive director of the Bank from June 2005 to June 2011, and the vice chairman of J.P. Morgan (China) Securities from 2008 to 2010. From 1978 to 2000, Ms. Elaine La Roche consecutively held several positions in Morgan Stanley. In 1998, she was assigned from Morgan Stanley to serve as the chief executive officer of China International Capital Corporation Limited. Thereafter, Ms. Elaine La Roche served as the chief executive officer of Salisbury Pharmacy Group and the chairperson of the board of Linktone, a NASDAQ listed company. Ms. Elaine La Roche graduated from Georgetown University School of Foreign Service with a bachelor's degree in international affairs and from the American University with a master's degree in business administration in finance.
Zhao Xijun	Independent non-executive director	Mr. Zhao has served as a director since August 2010. As a professor, he is currently Deputy Dean of the School of Finance of Renmin University of China. Mr. Zhao was Director of International Office of Renmin University of China from 2001 to 2005, Department Head of the Finance Department of the School of Finance of Renmin University of China from 1995 to 2001 and a research fellow of the International Department of China Securities Regulatory Commission from 1994 to 1995. Mr. Zhao currently serves as an external director of China Coal Technology & Engineering Group Corporation (an unlisted company), an independent director of Xuchang Bank Corporation (an unlisted company) and an independent director of Beijing Gate-guard Information Security Technology Stock Co., Ltd (an unlisted company). Mr. Zhao was a visiting scholar in University of Sherbrooke and McGill University, Canada from 1989 to 1990 and Nijenrode University, Netherlands from 1995 to 1996. Mr. Zhao graduated from Wuhan University with a bachelor's degree in Scientific French in 1985, a master's degree in finance from the Finance Department of Renmin University of China in 1987 and a PhD in finance from the School of Finance of Renmin University of China in 1999.
Wong Kai-Man	Independent non-executive director	Mr. Wong has served as a director since November 2007 and is currently a director of Victor and William Fung Foundation Limited and Fung (1906) Foundation Limited, an honorary associate professor of the School of Business of the University of Hong Kong, and an independent non-executive director of Shangri-la Asia Limited, SCMP Group Limited, SUNeVision Holdings Ltd. and VTech Holdings Limited, which are listed on the Hong Kong Stock Exchange. He is a non-executive director of the Securities and Futures Commission. In addition, he serves in a number of government committees and the boards of non-governmental organisations. Mr. Wong was a partner of PricewaterhouseCoopers Hong Kong and retired from that post in June 2005 with 32 years of experience in accounting. Mr. Wong was a member of the GEM Listing Committee of the Hong Kong Stock Exchange from 1999 to 2003. Mr. Wong obtained his bachelor degree in Physics from the University of Hong Kong and his master degree in Business Administration from the Chinese University of Hong Kong. Mr. Wong is a fellow of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants of the United Kingdom. Mr. Wong was appointed as a Justice of the Peace in 2002 and awarded Bronze Bauhinia Star in 2007 by the Hong Kong Special Administrative Region Government, and awarded an honorary fellow by Lingnan University, Hong Kong in 2007.

8 PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Supervisors of the Bank

Zhang Furong	Chairman of the board of supervisors	Mr. Zhang has served as chairman of the board of supervisors since September 2010. He served as executive director and executive vice president of Industrial and Commercial Bank of China Limited (ICBC) from October 2005 to July 2010. Mr. Zhang served as executive vice president of ICBC from 2000, assistant president of ICBC, general manager of Human Resources Department from 1997, deputy general manager of ICBC Liaoning Branch and general manager of ICBC Dalian Branch from 1994, chief of the Accounting Division and deputy general manager of ICBC Liaoning Branch from 1986. Mr. Zhang joined ICBC in 1984, and joined the PBC in 1971. Mr. Zhang is also vice chairman of the Banking Accounting Society of China and vice chairman of Financial Planning Standards Council of China. Mr. Zhang graduated from Liaoning Finance and Economics College and obtained a master's degree in economics and a doctorate degree in finance from Dongbei University of Finance and Economics.
Liu Jin	Shareholder representative supervisor	Ms. Liu has served as a supervisor since September 2004 and served concurrently as director of board of supervisors office since November 2004. Ms. Liu was a dedicated supervisor of deputy director-general level at the board of supervisors of China Construction Bank from July 2003 to September 2004, dedicated supervisor of deputy director-general level at the board of supervisors of the People's Insurance Company of China and China Reinsurance Company from November 2001 to July 2003. Ms. Liu is a senior economist and graduated from Hunan Finance and Economics College with a bachelor's degree in finance in 1984. She graduated from postgraduate finance programme of Shaanxi Finance and Economics College in 1999 and from the Research Institute for Fiscal Science of the MOF with a doctorate degree in public finance in 2008.
Song Fengming	Shareholder representative supervisor	Mr. Song has served as a supervisor since June 2010. He served as an independent non-executive director of the Bank from September 2004 to June 2010. Mr. Song is a professor and supervisor for doctorate students and co-chairman of China Centre for Financial Research at Tsinghua University. Mr. Song has been the dean of the department of international trade and finance of School of Economics and Management at Tsinghua University from 1995 to 2006. He was an associate professor and director of the Division of International Trade and Finance of the same school from 1988 to 1992, and served as a lecturer and the dean of the management department of Jiangsu University of Science and Technology from 1982 to 1988. Mr. Song obtained his bachelor's degree in computational mathematics from Peking University in 1970, his master's degree in enterprise management from Shanghai Jiaotong University in 1982, and his Ph.D. degree in systems engineering from Tsinghua University in 1988. He pursued his post-doctorate research at the University of California, Riverside, from 1992 to 1995.
Zhang Huajian	Shareholder representative supervisor	Mr. Zhang has served as a supervisor since August 2011. He has served as general manager of the disciplinary and supervisory department of the Bank since March 2007. He served as deputy general manager of the human resources department of the Bank from June 2005 to March 2007 (general manager level at the head office), deputy general manager of the human resources department of China Construction Bank from February 2001 to June 2005, and deputy general manager of the personnel and education department of China Construction Bank from December 1996 to February 2001. Mr. Zhang is a senior economist. He graduated from Hubei Finance and Economics College with a bachelor's degree in infrastructure finance and credit in 1984.

8 PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Jin Panshi	Employee representative supervisor	Mr. Jin has served as an employee representative supervisor since June 2010. He served as a shareholder representative supervisor from September 2004 to June 2010. He has been general manager of the information technology management department of the Bank since January 2010. Mr. Jin was general manager of the audit department of the Bank from December 2007 to January 2010. Mr. Jin was deputy general manager of the audit department of China Construction Bank from June 2001 to September 2004. Mr. Jin is a senior engineer and a Certified Information Systems Auditor and graduated from Jilin University of Technology with a bachelor's degree in computer application in 1986, and a master's degree in computer application from the same university in 1989. Mr. Jin graduated from Tsinghua University with an EMBA degree in 2010.
Li Weiping	Employee representative supervisor	Mr. Li has served as a supervisor since June 2010. He has served as general manager of the human resources department of the Bank since August 2008. Mr. Li was acting as general manager of the human resources department of the Bank from May 2008 to August 2008, the deputy general manager of Beijing Branch from August 2005 to May 2008, deputy general manager of Guangdong Branch from July 2001 to August 2005, and deputy general manager of Shenzhen Branch from February 1995 to July 2001. Mr. Li is a senior economist and graduated from Zhongnan University of Economics and Law with a bachelor's degree in finance.
Huang Shuping	Employee representative supervisor	Ms. Huang has served as a supervisor since June 2010. She has served as director of Chengdu Audit Sub-Bureau of the Bank since December 2010. Ms. Huang served as general manager of Chongqing Branch from September 2001 to December 2010. Ms. Huang was deputy general manager of Sichuan Branch from March 1993 to September 2001. Ms. Huang is a senior economist. Ms. Huang graduated from Sichuan Provincial Fiscal School majoring in Finance and Accounting in 1975, and graduated from Harbin Advanced Investment Specialised School majoring in Infrastructure Finance and Credit in 1991, and graduated from Wuhan University with a bachelor's degree in International Finance in 1997.
Guo Feng	External supervisor	Mr. Guo has served as a supervisor since March 2005. Mr. Guo has been dean of the law school of Central University of Finance and Economics since January 2007. Mr. Guo has been a professor at the law school of Central University of Finance and Economics and director of the Research Institute of Financial and Economic Law of the same university since December 2004. He was an associate professor at the law school of Renmin University of China from June 1993 to December 2004, and deputy director of the Institute of Financial Law of the same university from February 1993 to December 2004. Mr. Guo was a visiting scholar at the law school of the City Polytechnic of Hong Kong from January 1993 to June 1993. He obtained his master's degree in civil and commercial law from Renmin University of China in 1986 and his Ph.D. degree in civil and commercial law from the same university in 1995.
Dai Deming	External supervisor	Mr. Dai has served as a supervisor since June 2007. Mr. Dai has served as a professor of accounting department of Renmin University of China since June 1996, dean of accounting department of Business School at Renmin University of China from October 2001 to September 2010. Mr. Dai pursued his post-doctorate research at Hitotsubashi University from October 1997 to September 1999, and served as deputy dean of accounting department of Renmin University of China from May 1996 to October 1997, and associate professor of accounting department of the same University from June 1993 to May 1996. Mr. Dai currently serves as an independent director of China South Locomotive & Rolling Stock Corporation Limited and Shanxi Taigang Stainless Steel Co., Ltd. Mr. Dai obtained his bachelor's degree in industry accounting from Hunan College of Finance and Economics in 1983, master's degree in accounting from Zhongnan University of Economics in 1986 and Ph.D. degree in accounting from Renmin University of China in 1991.

8 PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Senior management of the Bank

Zhang Jianguo	Vice chairman, executive director, president	See "Directors of the Bank".
Zhu Hongbo	Executive vice president	Mr. Zhu has served as executive vice president since February 2012. He has served as the chief disciplinary officer of the Bank since December 2011. He was executive vice president and chief disciplinary officer of Agricultural Bank of China Limited from February 2010 to December 2011. He was the chief disciplinary officer of Agricultural Bank of China from April 2008 to February 2010. Mr. Zhu served as a member of senior management of Agricultural Bank of China and general manager of Beijing Branch of Agricultural Bank of China from June 2006 to April 2008. Mr. Zhu previously served consecutively as deputy director and director of the general office of Agricultural Bank of China, general manager of Hainan Branch, Jiangsu Branch and Beijing Branch of Agricultural Bank of China from November 1995 to June 2006. Mr. Zhu is a senior economist. He obtained a bachelor's degree in finance from Central University of Finance and Economics in 1983 and received a Ph.D. degree in management science and engineering from Nanjing University in 2008.
Hu Zheyi	Executive vice president	Mr. Hu has served as executive vice president since March 2009. He has served as member of senior management since December 2008. Mr. Hu was director-general of the macro-economy research department of the Research Office of the State Council from September 2004 to December 2008. He worked at macro-economy research department of the Research Office of the State Council as division chief and deputy director-general successively from October 1998 to September 2004. From March 1992 to September 1998, Mr. Hu worked in the head office of the PBC as deputy division chief and division chief successively. Mr. Hu graduated from South China University of Technology in 1982 with a bachelor's degree in chemical automation and instruments. He then obtained his master's degree in technological economics and system engineering from the Management School of Tianjin University in 1988. Mr. Hu graduated from School of Economics and Management of Tsinghua University with a Ph. D. degree in technological economics in 1992.
Pang Xiusheng	Executive vice president	Mr. Pang has served as executive vice president since February 2010. He served as chief financial officer from April 2006 to March 2011, executive vice chairman of the Bank's asset and liability committee from March 2006 to April 2006, director of the Bank's restructuring office from April 2005 to March 2006, general manager of Zhejiang Branch of China Construction Bank from June 2003 to April 2005, and acting as general manager of Zhejiang Branch of China Construction Bank from April 2003 to June 2003. Mr. Pang served consecutively as deputy general manager of treasury and planning department, deputy general manager of planning and finance department, and general manager of planning and finance department of China Construction Bank from September 1995 to April 2003. Mr. Pang is a senior economist, and a recipient of a special grant by PRC government. He graduated from postgraduate programme in technological economics from Harbin Industrial University in 1995.
Zhao Huan	Executive vice president	Mr. Zhao has served as executive vice president of the Bank since May 2011. Mr. Zhao Huan has served as member of senior management of the Bank from December 2010. He was general manager of Shanghai Branch of the Bank from September 2007 to December 2010, head of Shanghai Branch of the Bank from July 2007 to September 2007, general manager of the corporate banking department of the Bank from June 2006 to July 2007, deputy general manager of the corporate banking department of China Construction Bank from April 2004 to June 2006, deputy general manager of Xiamen Branch of China Construction Bank from July 2003 to April 2004, and deputy general manager of the corporate banking department of China Construction Bank from March 2001 to May 2003. Mr. Zhao is a senior economist. He obtained his bachelor's degree in management and engineering from Xi'an Jiaotong University in 1986.

8 PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Zhang Gengsheng	Member of senior management	Mr. Zhang has served as member of senior management of the Bank since December 2010. Mr. Zhang was general manager of the group clients department and deputy general manager of Beijing Branch of the Bank from October 2006 to December 2010, general manager of the banking business department and the group clients department from March 2004 to October 2006, deputy general manager of the banking business department from June 2000 to March 2004 (in charge of overall management from March 2003), general manager of the Three Gorges Branch from September 1998 to June 2000, and deputy general manager of Three Gorges Branch from December 1996 to September 1998. Mr. Zhang is a senior economist. He obtained his bachelor's degree in infrastructure finance and credit from Liaoning Finance and Economics College in 1984 and an Executive MBA degree from Peking University in 2010.
Zeng Jianhua	Chief Financial Officer	Mr. Zeng has served as the Bank's Chief Financial Officer since March 2011. He served as general manager of Guangdong Branch of the Bank from September 2007 to March 2011. Mr. Zeng was consecutively the head of Guangdong Branch from July 2007 to September 2007, general manager of Shenzhen Branch of the Bank from October 2004 to July 2007, deputy general manager of the asset and liability management department of China Construction Bank from July 2003 to October 2004, and deputy general manager of Hunan Branch of China Construction Bank from February 1996 to July 2003. Mr. Zeng is a senior economist and obtained his Ph.D. degree in enterprise management from Hunan University in 2005.
Huang Zhiling	Chief Risk Officer	Mr. Huang has served as the Bank's Chief Risk Officer since February 2011. He served as general manager of the risk management department of the Bank from April 2006. Mr. Huang was consecutively the director of the asset disposal review committee of China Cinda Asset Management Corporation from December 2000 to April 2006, director of asset disposal decision-making committee office of China Cinda Asset Management Corporation from November 2000 to December 2000, director of president office and director of the party committee office of China Cinda Asset Management Corporation from August 1999 to November 2000, deputy general manager of administrative office and secretary to the party team of China Construction Bank from June 1997 to August 1999. Mr. Huang is a researcher and a recipient of a special grant by PRC government. He obtained his Ph.D. degree in finance from Shaanxi Institute of Finance and Economics in 1991.
Yu Jingbo	Chief Audit Officer	Mr. Yu has served as the Bank's Chief Audit Officer since March 2011. Mr. Yu served as general manager of the audit department of the Bank from April 2011 to October 2012, general manager of Zhejiang Branch of the Bank from March 2005 to March 2011. Mr. Yu was consecutively deputy general manager (in charge) of Zhejiang Branch of China Construction Bank from July 2004 to March 2005, deputy general manager of Zhejiang Branch of China Construction Bank from August 1999 to July 2004, and general manager of Hangzhou Branch of China Construction Bank from April 1997 to August 1999. Mr. Yu is a senior engineer. Mr. Yu obtained his bachelor's degree in industrial and civil architecture from Tongji University in 1985 and his master's degree in enterprise management from Hangzhou University in 1998.
Chen Caihong	Secretary to the Board	Mr. Chen has served as secretary to the Board since August 2007. Mr. Chen was general manager of Seoul Branch of China Construction Bank from December 2003 to July 2007. Mr. Chen served consecutively as deputy director, director of administrative office, deputy general manager of Fujian Branch, and head of preparation team for Seoul Branch of China Construction Bank from March 1997 to December 2003. Mr. Chen is a senior economist. He graduated from Hubei Finance and Economics College with a bachelor's degree in infrastructure economics in 1982 and obtained his master's degree in public finance from the Research Institute for Fiscal Science of the MOF in 1986.

8 PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Xu Huibin	Controller of wholesale banking	Mr. Xu has served as controller of the Bank's wholesale banking since March 2011. Mr. Xu served as general manager of Henan Branch of the Bank from May 2006 to March 2011. From May 1994 to May 2006, Mr. Xu served consecutively as deputy director of fund raising and savings department, deputy general manager of retail business department, deputy general manager of personal banking department, head and general manager of banking business department, general manager of personal banking business department, deputy director of personal banking business committee, and general manager of personal finance department of China Construction Bank. Mr. Xu is a senior economist, and a recipient of a special grant by PRC government. He obtained the Excellent Contribution Award of China Construction Bank and May 1st Labour Medal of Henan Province. Mr. Xu obtained his bachelor's degree in infrastructure finance and credit from Liaoning Finance and Economics College in 1983.
Tian Huiyu	Controller of retail banking	Mr. Tian has served as controller of the Bank's retail banking since March 2011. Mr. Tian has served concurrently as general manager of Beijing Branch of the Bank since April 2011. He served as the head of Beijing Branch from March 2011 to April 2011. He served consecutively as deputy general manager of Shanghai Branch, head and general manager of Shenzhen Branch from December 2006 to March 2011, vice president of Shanghai Bank from July 2003 to December 2006; vice president of Trust Investment Branch of China Cinda Asset Management Co., Ltd from July 1998 to July 2003. Mr. Tian is a senior economist. He obtained his bachelor's degree in infrastructure finance and credit from Shanghai University of Finance and Economics in 1987 and his master's degree in public management from Columbia University in 2002.
Wang Guiya	Controller of investment and wealth management banking	Mr. Wang has served as controller of investment and wealth management banking since March 2011. He served as general manager of the investment banking department of the Bank from August 2006 to February 2013 and served concurrently as chairman of CCB International from January 2007 to August 2010, deputy general manager and general manager of planning and finance department of China Construction Bank from July 2000 to August 2006. Mr. Wang is a senior economist. He obtained his bachelor's degree in application mathematics from Anhui University in 1984 and an Executive MBA degree from Peking University in 2005.

Company secretary and qualified accountant of the Bank

Cheng Pui Ling, Cathy	Company secretary	Ms. Cheng has served as the Bank's company secretary since June 2012. She has been company secretary of China Construction Bank (Asia) Corporation Limited since December 2010. She has over 20 years of legal and company secretarial experience, serving various corporations, including Industrial and Commercial Bank of China Limited, Industrial and Commercial Bank of China (Asia) Limited, Cheung Kong (Holdings) Limited and PCCW Limited. In 1989, she obtained her bachelor's degree in law from the University of Hong Kong. In 1992, she obtained the qualification of solicitor from the High Court of Hong Kong Special Administrative Region.
Yuen Yiu Leung	Qualified Accountant	Mr. Yuen has served as the Bank's qualified accountant since August 2005. Mr. Yuen has been head of finance department of Hong Kong Branch of the Bank since September 2004, and has also been head of finance department of CCB International from January 2006 to May 2011. Prior to that, Mr. Yuen held the same position in the Hong Kong Branch of China Construction Bank from October 1995 to September 2004 and he served in several capacities at the internal control, finance and accounting functions of Standard Chartered Bank. Mr. Yuen is a fellow of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, UK and the Chartered Institute of Management Accountants, UK and an associate of the Institute of Chartered Accountants in England & Wales. Mr. Yuen graduated from Hong Kong Polytechnic University with a professional diploma in management accountancy in 1988 and obtained a master's degree in business administration from University of Wales in cooperation with Manchester Business School in 1998.

9 REPORT OF THE BOARD OF DIRECTORS

Principal activities

The Group is engaged in a range of banking services and related financial services.

Profit and dividends

The profit of the Group for the year ended 31 December 2012 and the Group's financial position as at that date are set out in the "Financial Statements" of this annual report. The financial position and operating results as well as related changes during the reporting period are set out in the "Management Discussion and Analysis" of this annual report.

In accordance with the resolutions passed at the annual general meeting 2011 held on 7 June 2012, the Bank paid an annual cash dividend for 2011 of RMB0.2365 per share (including tax), totalling approximately RMB59,128 million, to all of its shareholders whose names appeared on the register of members on 21 June 2012.

The Board recommends a cash dividend for 2012 of RMB0.268 per share (including tax), subject to the approval of the annual general meeting 2012.

Pursuant to the *Articles of Association* of the Bank, the after-tax profits of the Bank shall be distributed in accordance with the following order: making up for the losses of the previous years, allocating the statutory reserve fund, allocating general reserve fund, allocating discretionary reserve fund and paying for the dividend of the shareholders. The dividend may be distributed in form of cash or shares.

The Bank has sound procedures and mechanism for the decision-making of profit distribution. During the process of drafting the profit distribution plan, the Board extensively collected the opinions and requests from the shareholders, protected the legal rights and interests of the small and medium investors, and submitted the profit distribution plan to the general meeting for approval. The independent directors conducted due diligence and played their due roles in the decision-making process of the profit distribution plan. The Bank attaches great importance to the return of shareholders, and constantly pays cash dividends to the shareholders.

The amounts of cash dividends and ratios of cash dividends to net profit of the Bank for the years from 2010 to 2012 are as follows:

(In millions of RMB, except percentages)	2010	2011	2012
Cash dividends	53,052	59,128	67,003
Ratio of cash dividends to net profit ¹	39.34%	34.93%	34.68%

1. The net profit refers to the net profit attributable to equity shareholders of the Bank on a consolidated basis. Please refer to Note "Profit Distributions" in the "Financial Statements" of annual reports of the related years for details of cash dividends.

Reserves

Please refer to the consolidated statement of changes in equity for details of the movements in the reserves of the Group for the year ended 31 December 2012.

Summary of financial information

Please refer to the "Financial Highlights" of this annual report for the summary of the operating results, assets and liabilities of the Group for the five years ended 31 December 2012.

Donations

Donations made by the Group for the year ended 31 December 2012 were RMB23 million.

Property and equipment

Please refer to Note "Fixed Assets" in the "Financial Statements" of this annual report for details of movements in the property and equipment of the Group for the year ended 31 December 2012.

Retirement benefits

Please refer to Note "Accrued Staff Costs" in the "Financial Statements" of this annual report for details of the retirement benefits provided to employees of the Group.

Major customers

For the year ended 31 December 2012, the aggregate amount of interest income and other operating income generated from the five largest customers of the Group represented an amount not exceeding 30% of the total interest income and other operating income of the Group.

9 REPORT OF THE BOARD OF DIRECTORS

Ultimate parent company and its subsidiaries

Please refer to “Changes in Share Capital and Particulars of Shareholders-Substantial Shareholders of the Bank” and Note “Investments in Subsidiaries” in the “Financial Statements” for details of the Bank’s ultimate parent company and its subsidiaries respectively as at 31 December 2012.

Share capital and public float

As of 31 December 2012, the Bank issued 250,010,977,486 shares in total (including 240,417,319,880 H-shares and 9,593,657,606 A-shares) and had 837,725 registered shareholders. The Bank complied with the relevant requirements regarding public float under relevant laws and regulations as well as the listing rules of its listing venues.

Purchase, sale and redemption of shares

There was no purchase, sale or redemption by the Bank or any of its subsidiaries of the shares of the Bank during the reporting period.

Pre-emptive rights

The *Articles of Association* of the Bank and the relevant PRC laws do not have such provisions under which the Bank’s shareholders have pre-emptive rights. The *Articles of Association* provides that if the Bank wishes to increase its capital, it may issue new shares to investors, may issue new shares to or by way of distribution to existing shareholders, may transfer its capital reserve to share capital, or by other means permitted by laws and regulations.

Use of proceeds

The proceeds raised from the rights issue of A-shares and H-shares in 2010 are all used to strengthen the capital base of the Bank.

The Bank issued subordinated bonds amounted to RMB40 billion in November 2011 and November 2012 respectively, all the proceeds raised from which are used to replenish the supplementary capital of the Bank.

Top ten shareholders and their shareholdings

The top ten shareholders of the Bank and their respective shareholdings at the end of 2012 are stated in “Changes in Share Capital and Particulars of Shareholders” of this annual report.

Directors, supervisors and senior management

Please refer to the “Profiles of Directors, Supervisors and Senior Management” of this annual report for details of directors, supervisors and senior management of the Bank.

Independence of the independent non-executive directors

All the independent non-executive directors of the Bank are independent, and their independence is in compliance with the independence guidelines set out in Rule 3.13 of the Listing Rules of Hong Kong Stock Exchange.

Material interests and short positions

As at 31 December 2012, the interests and short positions of substantial shareholders and other persons in the shares of the Bank as recorded in the register required to be kept under section 336 of the SFO of Hong Kong were as follows:

Name	Interests in H-shares and short positions	Nature	% of issued H-shares	% of total issued shares
Huijin ¹	133,262,144,534	Long position	59.31	57.03
Temasek ²	17,878,670,050	Long position	7.44	7.15

1. On 22 May 2009, Huijin declared interests on the website of Hong Kong Stock Exchange. It disclosed that it held the interests of 133,262,144,534 H-shares of the Bank, accounting for 59.31% and 57.03% of the H-shares issued (224,689,084,000 shares) and total shares issued (233,689,084,000 shares) at that time respectively. As at 31 December 2012, according to the H-share register of members of the Bank, Huijin directly held 142,590,494,651 H-shares of the Bank, accounting for 59.31% and 57.03% of the H-shares issued (240,417,319,880 shares) and total shares issued (250,010,977,486 shares) at the end of the period respectively.

2. This is pursuant to the declaration of Temasek to Hong Kong Stock Exchange on 4 May 2012.

9 REPORT OF THE BOARD OF DIRECTORS

Directors' and supervisors' interests and short positions in shares, underlying shares and debentures of the Bank

Except for the fact that Mr. Zhang Huajian, Mr. Li Weiping and Ms. Huang Shuping, the supervisors of the Bank, indirectly held 18,999 H-shares, 20,446 H-shares and 21,910 H-shares of the Bank, respectively, by participating in the employee stock incentive plan before they were appointed as supervisors, as at 31 December 2012, none of the directors and supervisors of the Bank had any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO of Hong Kong) as recorded in the register required to be kept under Section 352 of the SFO of Hong Kong or as otherwise notified to the Bank and Hong Kong Stock Exchange pursuant to *Model Code for Securities Transactions by Directors of Listed Issuers* in Appendix 10 of the Listing Rules.

As of 31 December 2012, except for the employee stock incentive plan, the Bank had not granted its directors or supervisors, or their respective spouses or children below the age of 18, any other rights to subscribe for the shares or debentures of the Bank or any of its associated corporations.

Directors' financial, business and family relationships

There are no relationships among the directors of the Bank, including financial, business, family or other material relationships.

Directors' and supervisors' interests in contracts and service contracts

For the year 2012, no director or supervisor of the Bank had any interest, whether directly or indirectly, in any contract of significance in relation to the Group's business with the Bank or any of its holding companies or subsidiaries or subsidiaries of the Bank's holding companies, apart from their respective service contracts.

None of the directors and supervisors of the Bank has entered into service contracts with the Bank that cannot be terminated by the Bank within one year without payment of compensation (other than statutory compensation).

Directors' interests in competing businesses

None of the directors of the Bank directly or indirectly has any interest that constitutes or may constitute a competing business of the Bank.

Corporate governance

The Bank is committed to maintaining the highest level of corporate governance practice. Please refer to the "Corporate Governance Report" of this annual report for details of corporate governance practices adopted by the Bank and its compliance with the *Corporate Governance Code* and *Corporate Governance Report*.

Connected transactions

Continuing connected transactions as defined by the Listing Rules of Hong Kong Stock Exchange of the Bank are as follows:

Taking deposits from connected persons

The Bank provides commercial banking services and products to its customers. Such services and products include taking deposits. Customers who place deposits with the Bank include the Bank's connected persons under the Listing Rules of Hong Kong Stock Exchange. Therefore, such deposit activities are continuing connected transactions under the Listing Rules of Hong Kong Stock Exchange.

The Bank takes deposits from its connected persons on normal commercial terms that are comparable to independent third parties or more favourable for the Bank, without using any assets of the Bank as mortgages. These transactions are exempt continuing connected transactions under rule 14A.65 (4) of the Listing Rules of Hong Kong Stock Exchange, and thus are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules of Hong Kong Stock Exchange.

Loans and credit facilities granted by the Bank to connected persons

The Bank extends loans and credit facilities (including long-term loans, short-term loans, consumption credit, credit card loans, mortgages, guarantees, mortgages for third party loans, comfort letters and discounted bills) to its customers in the ordinary and usual course of its business on normal commercial terms with reference to prevailing market rates. Customers who utilise the loans and credit facilities of the Bank include its connected persons defined in the Listing Rules of Hong Kong Stock Exchange. Therefore, these loans and credit facilities are continuing connected transactions under the Listing Rules of Hong Kong Stock Exchange.

The loans and credit facilities extended by the Bank to its connected persons in the ordinary and usual course of its business are based on normal commercial terms that are comparable to independent third parties or more favourable for the Bank. These transactions are exempt continuing connected transactions under rule 14A.65 (1) of the Listing Rules of Hong Kong Stock Exchange, and thus are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules of Hong Kong Stock Exchange.

9 REPORT OF THE BOARD OF DIRECTORS

Service contracts between the Bank and its directors and supervisors

The Bank entered into service contracts and indemnification agreements with each of its directors and supervisors. These contracts are exempt connected transactions under the Listing Rules of Hong Kong Stock Exchange, and thus are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules of Hong Kong Stock Exchange.

Please refer to the "Financial Statements" of this annual report and the notes therein for details of the connected transactions as defined by domestic laws and regulations.

Remuneration policy for the directors, supervisors and senior management

The Bank has endeavoured to improve its remuneration management measures and performance assessment systems for its directors, supervisors and senior management as guided by the relevant policies of China.

The Bank's remuneration policy for directors, supervisors and senior management is based on the principle of combining incentives and disciplines, short-term incentives and long-term incentives, and governmental regulations and market adjustment, and has defined a structured remuneration system comprising basic annual salary, performance annual salary, mid-term and long-term incentives, allowances and welfare income. The Bank participates in the relevant PRC mandatory retirement schemes for its directors, supervisors, senior management and other employees. Since the state has not issued relevant policies, the Bank does not implement mid-term and long-term incentive plan for directors, supervisors and senior management.

Registration and management of insiders

In 2012, the Bank amended the *Management Measures on Insider of Insider Information*, which was reviewed and approved by the Board. During the reporting period, pursuant to the *Management Measures on Insider of Insider Information*, relevant laws and regulations, and other rules and requirements of the Bank, the Bank strictly conducted the secrecy system regarding insider information, standardised the information transfer process, strengthened insider information management and controlled scope of insider of insider information.

The Bank is not aware of any insider trading of the shares of the Bank on the basis of insider information during the reporting period.

Compliance with Hong Kong Banking (Disclosure) Rules

In preparing the financial report for 2012, the Bank has complied with the *Banking (Disclosure) Rules*, Chapter 155M of the Banking Ordinance of Hong Kong.

Auditors

A proposal in relation to engage auditors of the Bank for the year 2012 was reviewed and approved on the 2011 annual general meeting. The Bank's domestic auditor for the year 2012 was PricewaterhouseCoopers Zhong Tian CPAs Limited and its international auditor was PricewaterhouseCoopers for the year 2012. The engagement term lasts for one year, from the date of the 2011 annual general meeting to the date of the 2012 annual general meeting.

By order of the board of directors

Wang Hongzhang

Chairman

22 March 2013

10 REPORT OF THE BOARD OF SUPERVISORS

In 2012, pursuant to the provisions of laws and regulations and the Articles of Association of the Bank, the board of supervisors earnestly performed its duties, proactively conducted supervision on duty performance, finance, internal control and risk management, and played a role in improving the corporate governance and promoting the sustainable and sound development of the Bank.

Particulars of Major Work

- The board of supervisors convened meetings of the board of supervisors in pursuant to laws and regulations. During the year, the board of supervisors convened seven general meetings of the board of supervisors, in which 14 resolutions on the agenda were reviewed and approved, including but not limited to the report of the board of supervisors and the performance assessment reports; five special reports were debriefed, including but not limited to risk management and process bank construction; major issues were discussed, including but not limited to Report on Self-examination and Self-correction of Compliant Operation of the Bank and opinions on the amendments to the Articles of Association of the Bank. Four meetings of the performance and due diligence supervision committee and five meetings of the finance and internal control supervision committee were convened.
- The board of supervisors earnestly conducted duty performance supervision and assessment. The board of supervisors exercised its supervision of the performance of the Board, senior management and their members, by various means including attending meetings, inspecting analysis materials, reviewing performance reports, holding interviews and seminars, and making performance assessment. The board of supervisors organised and conducted annual performance supervision and assessment work, proposing the assessment reports of the Board, committees under the Board, senior management, directors, and senior executives. In accordance with regulatory requirements, the board of supervisors conducted self-assessment of the work of board of supervisors and supervisors' annual performance.
- The board of supervisors endeavoured in conducting qualified finance supervision. By focusing on the compilation, verification, and disclosure of periodic financial reports, the board of supervisors communicated with relevant functional departments and external auditors on a regular basis, strengthened analysis of major issues that may affect the truthfulness, accuracy and completeness of the financial reports, and timely presented opinions and suggestions. The board of supervisors conducted specific surveys on financial policies, performance assessment and other issues. In accordance with regulatory requirements, the board of supervisors conducted supervision on the use of proceeds, the preparation work of implementing new capital management measures and other matters.
- The board of supervisors proactively engaged in internal control supervision. The highlighted focus was directed towards the implementation of the *Basic Standard for Enterprises Internal Control*. The board of supervisors debriefed reports on key findings in internal audit and internal control compliance, organised special surveys on internal control and analysed the audit and rectification work, and strengthened supervision on the internal control construction and assessment work. According to the requirements of the security regulatory authorities, the board of supervisors organised and completed self-examination and self-correction of the compliant operation of the Bank.
- The board of supervisors strengthened risk management supervision. It particularly supervised the establishment and improvement of comprehensive risk management framework and performance of related parties. The board of supervisors investigated and analysed important matters with regard to risk management, paid attention to major risk disposal, quality of credit assets, management of off-balance sheet business and risk control for wealth management business, and provided timely reminders or opinions and suggestions.
- The board of supervisors paid attention to important matters bearing upon the Bank's sustainable and sound development and new circumstances and issues in the Bank's operation and management. It actively provided reference opinions and suggestions and regarding reform and development, corporate governance improvement and risk management. The board of supervisors organised five specific surveys including credit management and the formulation and implementation of credit policies, understood the difficulties and problems in the operation management and business development of the operating outlets by holding seminars at different branch-levels, and urged related parties to study and solve these matters.
- The board of supervisors continuously strengthened self-improvement. It improved supervision working mechanism, enhanced the supervision force for risk management, amended corporate governance documents including the *Rules of Procedures of Board of Supervisors*, and organised trainings for supervisors. All members of the board of supervisors performed their duties in a diligent manner, attended meetings on time, participated in the discussion and deliberation regarding relevant resolutions and motions. They proactively attended the meetings of the Board, the committees under the Board and the senior management as non-voting delegates, and participated in the related work organised by the board of supervisors, the committees and the Bank, and diligently fulfilled their obligations.

10 REPORT OF THE BOARD OF SUPERVISORS

Independent Opinions on Relevant Matters of the Bank

Operations in compliance with laws and regulations

During the reporting period, the Bank carried out its operation in compliance with the law and its decision making procedure was in compliance with the provisions of applicable laws and regulations as well as the Articles of Association of the Bank. Its directors and senior executives fulfilled their duties in a diligent manner. The board of supervisors did not find any of their acts in the performance of their duties that were in breach of applicable laws and regulations as well as the Articles of Association of the Bank or damaged the Bank's interest.

Financial reporting

The 2012 financial report of the Bank accurately and fairly reflected the financial position and operating results of the Bank.

Use of proceeds

During the reporting period, the Bank issued RMB40 billion subordinated bonds. All the proceeds were used to supplement the capital base of the Bank in accordance with the undertaking of the Bank.

Acquisition and sale of assets

During the reporting period, the board of supervisors was not aware of any insider transactions or any acts in acquisition or sale of assets detrimental to the interests of shareholders or leading to a drain on the Bank's assets.

Connected transactions

The board of supervisors was not aware of any connected transactions that were detrimental to the interests of the Bank during the reporting period.

Internal control

During the reporting period, the Bank consistently enhanced and improved its internal control. The board of supervisors had no objection to the 2012 Internal Control Assessment Report.

Performance of social responsibilities

During the reporting period, the Bank performed its social responsibilities in a proactive manner. The board of supervisors had no objection to the 2012 Social Responsibility Report.

Opinions on performance assessment of directors, supervisors and senior executives of the Bank

All directors, supervisors and senior executives were evaluated as qualified in the 2012 performance assessment process.

By order of the board of supervisors

Zhang Furong

Chairman of the board of supervisors

22 March 2013

11 MAJOR ISSUES

Material litigations, arbitrations and matters questioned by the majority media

There were no material litigations or arbitrations of the Bank, and no matters in relation to the Bank that were questioned by the majority media, during the reporting period.

Debt and claim between related parties

There was no non-operational capital occupation by the controlling shareholder or other related parties of the Bank during the reporting period.

Acquisition and sale of major assets and merger of enterprises

On 27 November 2012, upon the approval of the CBRC, the Bank completed the closing procedure of its acquisition of 24.9% shares in CCB Financial Leasing from Bank of America. CCB Financial Leasing has become a wholly-owned subsidiary of the Bank thereafter.

In June 2012, CCB Life, a subsidiary of the Bank, increased its capital by RMB5,721 million, of which, the Bank contributed RMB2,892 million. Thereafter, the National Council for Social Security Fund has become the third largest shareholder of CCB Life. In July 2012, the application for capital increase was approved by the CIRC.

Progress of implementation of employee stock incentive plan

Pursuant to the relevant PRC policies, the Bank did not implement a new round of stock incentive plan during the reporting period.

Material related party transactions

There were no material related party transactions during the reporting period. All related party transactions were conducted on the basis of commercial principles and just, fair and open principles and at prices no more favourable than those offered to independent third parties in similar transactions.

Material contracts and their performance

During the reporting period, the Bank did not enter into any material arrangements for custody, contracting or lease of other companies' assets, or allow its assets to be subject to such arrangements by other companies. The guarantee business is an off-balance sheet service in the ordinary course of the Bank's business, and the Bank did not have any material guarantees that need to be disclosed except for the financial guarantee services within its business scope as approved by the regulators. The Bank did not entrust any material cash assets to others for management during the reporting period.

Performance of undertakings given by the Bank or shareholders holding 5% or more of the shares

On 10 October 2012, Huijin increased its shareholding of A-shares of the Bank by 2,814,057 shares through the trading system of the Shanghai Stock Exchange, and undertook to continue to increase its shareholdings of the Bank on the secondary market in its own name in the following six months. Other than the above, the Bank's shareholders did not give new undertakings during the reporting period. All undertakings given by the shareholders had been fulfilled by the end of the reporting period.

Penalties

During the reporting period, the Bank, the directors, the supervisors, the senior management and the actual controller had no record of being subject to investigations by relevant authorities, coercive measures by judicial or disciplinary departments, transfer to judicial organs or criminal investigation and punishment. The Bank, the Board, the directors, the supervisors and the senior management had no record of being subject to inspections, administrative penalties and public censures by the CSRC or public censures by the stock exchanges of the Bank's listing venues. The directors and supervisors of the Bank had no record of being subject to any civil judgements for conducting fraud, breach of responsibilities or other inappropriate behaviors against honesty.

11 MAJOR ISSUES

Other shareholding or share participations

Investments in securities

Number	Type of securities	Stock code	Stock abbreviation	Initial investment amount (RMB)	Number of shares held	Carrying amount at the end of the period (RMB)	% of total securities investments at the end of the period	Gain/Loss during the reporting period (RMB)
1	Listed stock	600537	EGING PV	200,912,727	48,936,822	284,753,226	4.08	(399,520,866)
2	Listed stock	000906	ZMD	273,165,835	46,552,901	229,394,039	3.29	(32,733,611)
3	Listed stock	1303.HK	Huili Res	124,887,351	126,348,589	217,295,939	3.11	74,022,776
4	Listed stock	1115.HK	Tibet 5100	93,327,980	79,000,000	159,355,939	2.28	26,674,950
5	Listed stock	871.HK	Xiangyu Dredg	184,839,709	69,000,000	113,121,902	1.62	10,535,863
6	Listed stock	300117	Jiayu Stock	16,544,157	8,261,000	60,717,055	0.87	(2,568,396)
7	Listed stock	8083.HK	InnovationPay	77,150,487	300,000,000	56,657,389	0.81	6,750,668
8	Listed stock	1231.HK	Newton Res	87,083,612	61,920,000	47,273,961	0.68	995,241
9	Listed stock	111.HK	CINDA INTL HLDG	53,175,218	59,621,200	43,602,315	0.62	-
10	Listed stock	803.HK	Prosperity Intl	45,311,584	117,462,858	30,679,718	0.44	(10,855,900)
Other securities investments held at the end of the period				6,314,182,523		5,736,579,288	82.19	(722,962,206)
Gain/Loss from disposal of securities investments during the reporting period								126,664,658
Total				7,470,581,183		6,979,430,771	100.00	(922,996,823)

- The top ten listed securities held by the Group at the end of the period are arranged according to the percentage of the carrying amount in total securities investments of the Group at the end of the period.
- Investments in securities in this table refer to stocks, warrants, convertible bonds and other investments, in which the investments in stocks represent those classified as financial assets at fair value through profit or loss of the Group.
- Other securities investments refer to the securities investments other than the top ten securities.

Interests of the Bank in shares of other listed companies

Stock code	Stock abbreviation	Initial investment amount (RMB)	numbers of shareholding at the beginning of the period	% of shareholding at the beginning of the period	numbers of shareholding at the end of the period	% of shareholding at the end of the period	Carrying amount at the end of the period (RMB)	Gain/Loss during the reporting period (RMB)	Changes in equity during the reporting period (RMB)	Accounting item	Sources of shares
601600	CHALCO	758,427,946	686,895,697	5.08	609,146,645	4.50	3,124,922,289	469,600,326	(1,188,159,381)	Available-for-sale financial assets	Investment held through debt equity swap
000792	QINGHAI SALT LAKE	135,653,599	62,424,881	3.92	62,004,881	3.90	1,661,730,811	19,312,773	(333,073,763)	Available-for-sale financial assets	Investment held through debt equity swap
600068	G.C.L	307,222,950	222,916,932	6.39	198,321,051	5.69	1,088,782,570	115,634,660	(589,575,855)	Available-for-sale financial assets	Investment held through debt equity swap
600984	SCMC	12,024,602	19,464,078	13.75	6,620,349	4.68	43,694,303	61,430,489	(30,524,844)	Available-for-sale financial assets	Investment held through debt equity swap
Total		1,213,329,097	991,701,588		876,092,926		5,919,129,973	665,978,248	(2,141,333,843)		

- The table shows the shares of other listed companies which are 1% or more than 1% held by the Group and classified as available-for-sale financial assets.
- Gain/Loss during the reporting period refers to the effect of the investment on the consolidated net profit of the Group for the reporting period.

11 MAJOR ISSUES

Interests in non-listed financial institutions

Name of the company	Initial investment amount (RMB)	numbers of shareholding at the beginning of the period	% of shareholding at the beginning of the period	numbers of shareholding at the end of the period	% of shareholding at the end of the period	Carrying amount at the end of the period (RMB)	Gain/Loss during the reporting period (RMB)	Changes in equity during the reporting period (RMB)	Accounting item	Sources of shares
Xiamen International Bank	300,000,000	50,000,000	2.49	50,000,000	2.49	300,000,000	-	-	Available-for-sale financial assets	Purchase
HuiShang Bank Corporation Ltd.	228,835,900	225,548,176	2.76	225,548,176	2.76	228,835,900	22,554,818	-	Available-for-sale financial assets	Establishment, increase in share capital
China UnionPay Co., Ltd.	221,250,000	142,500,000	4.87	142,500,000	4.87	220,657,006	4,900,000	-	Available-for-sale financial assets	Establishment, increase in share capital
QBE Hongkong and Shanghai Insurance Limited	98,758,409	19,939,016	25.50	19,939,016	25.50	140,651,681	18,296,770	-	Interests in associates and jointly controlled entities	Purchase
China Guangfa Bank Co., Ltd.	48,558,031	13,423,847	0.09	13,423,847	0.09	48,558,031	-	-	Available-for-sale financial assets	Establishment of investment
Evergrowing Bank Co., Ltd. ³	41,125,000	95,823,000	1.58	111,154,680	1.58	41,125,000	-	-	Available-for-sale financial assets	Establishment of investment
Huarong Xiangjiang Bank	3,500,000	3,536,400	0.09	3,536,400	0.09	980,000	-	-	Available-for-sale financial assets	Establishment of investment

- These do not include subsidiaries contained in the consolidated statements.
- Allowances for impairment losses have been deducted from the carrying amount at the end of the period.
- Evergrowing Bank Co., Ltd. distributed 1.6 bonus shares for every existing ten shares during the reporting period.

Purchase and disposal of shares of other listed companies

Stock name	Number of shares at the beginning of the period	Number of shares purchased during the reporting period	Number of shares disposed during the reporting period	Number of shares at the end of the period	Amount of funds used (RMB)	Investment gain (RMB)
Total	2,231,927,509	869,831,298	(1,575,913,773)	1,525,845,034	6,480,071,322	65,988,373



羅兵咸永道

To the shareholders of China Construction Bank Corporation

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

We have audited the consolidated financial statements of China Construction Bank Corporation (the "Bank") and its subsidiaries (together, the "Group") set out on pages 92 to 208, which comprise the consolidated and Bank statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated and Bank statements of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 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.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 22 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Note	2012	2011
Interest income		603,241	482,247
Interest expense		(250,039)	(177,675)
Net interest income	6	353,202	304,572
Fee and commission income		96,218	89,494
Fee and commission expense		(2,711)	(2,500)
Net fee and commission income	7	93,507	86,994
Net trading gain	8	1,863	388
Dividend income	9	239	158
Net gain arising from investment securities	10	3,536	1,756
Other operating income, net	11	10,186	5,535
Operating income		462,533	399,403
Operating expenses	12	(171,081)	(144,537)
		291,452	254,866
Impairment losses on:			
– Loans and advances to customers		(38,330)	(32,403)
– Others		(1,711)	(3,380)
Impairment losses	13	(40,041)	(35,783)
Share of profits less losses of associates and jointly controlled entities		28	24
Profit before tax		251,439	219,107
Income tax expense	16	(57,837)	(49,668)
Net profit		193,602	169,439
Other comprehensive income:			
Loss of available-for-sale financial assets arising during the year		(2,597)	(966)
Less: Income tax relating to available-for-sale financial assets		636	318
Reclassification adjustments for (loss)/gain included in profit or loss		(1,381)	265
		(3,342)	(383)
Exchange difference on translating foreign operations		(201)	(1,577)
Others		32	42
Other comprehensive income for the year, net of tax		(3,511)	(1,918)
Total comprehensive income for the year		190,091	167,521
Net profit attributable to:			
Equity shareholders of the Bank		193,179	169,258
Non-controlling interests		423	181
		193,602	169,439
Total comprehensive income attributable to:			
Equity shareholders of the Bank		189,648	167,401
Non-controlling interests		443	120
		190,091	167,521
Basic and diluted earnings per share (in RMB Yuan)	17	0.77	0.68

The notes on pages 99 to 208 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

(Expressed in millions of RMB, unless otherwise stated)

	Note	2012	2011
Assets:			
Cash and deposits with central banks	18	2,458,069	2,379,809
Deposits with banks and non-bank financial institutions	19	585,898	276,752
Precious metals		38,419	22,718
Placements with banks and non-bank financial institutions	20	129,653	109,040
Financial assets at fair value through profit or loss	21	27,572	23,096
Positive fair value of derivatives	22	12,671	14,127
Financial assets held under resale agreements	23	316,685	200,045
Interest receivable	24	68,264	56,776
Loans and advances to customers	25	7,309,879	6,325,194
Available-for-sale financial assets	26	701,041	675,058
Held-to-maturity investments	27	1,918,322	1,743,569
Debt securities classified as receivables	28	219,713	300,027
Interests in associates and jointly controlled entities	30	2,366	2,069
Fixed assets	31	113,946	94,222
Land use rights	32	16,232	16,457
Intangible assets	33	2,061	1,660
Goodwill	34	1,651	1,662
Deferred tax assets	35	27,051	21,410
Other assets	36	23,335	18,143
Total assets		13,972,828	12,281,834
Liabilities:			
Borrowings from central banks		6,281	2,220
Deposits from banks and non-bank financial institutions	39	977,487	966,229
Placements from banks and non-bank financial institutions	40	120,256	78,725
Financial liabilities at fair value through profit or loss	41	37,251	33,656
Negative fair value of derivatives	22	11,541	13,310
Financial assets sold under repurchase agreements	42	2,360	10,461
Deposits from customers	43	11,343,079	9,987,450
Accrued staff costs	44	32,708	35,931
Taxes payable	45	53,271	47,189
Interest payable	46	123,215	80,554
Provisions	47	5,058	5,180
Debt securities issued	48	262,991	168,312
Deferred tax liabilities	35	332	358
Other liabilities	49	47,389	35,598
Total liabilities		13,023,219	11,465,173
Equity:			
Share capital	50	250,011	250,011
Capital reserve	51	135,281	135,178
Investment revaluation reserve	52	3,023	6,383
Surplus reserve	53	86,718	67,576
General reserve	54	80,483	67,342
Retained earnings	55	391,034	289,266
Exchange reserve		(4,818)	(4,615)
Total equity attributable to equity shareholders of the Bank		941,732	811,141
Non-controlling interests		7,877	5,520
Total equity		949,609	816,661
Total liabilities and equity		13,972,828	12,281,834

Approved and authorised for issue by the Board of Directors on 22 March 2013.

Zhang Jianguo

Vice chairman, executive director and president

Wong Kai-Man

Independent non-executive director

Zhao Xijun

Independent non-executive director

The notes on pages 99 to 208 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

(Expressed in millions of RMB, unless otherwise stated)

	Note	2012	2011
Assets:			
Cash and deposits with central banks	18	2,443,276	2,373,493
Deposits with banks and non-bank financial institutions	19	584,538	279,861
Precious metals		38,419	22,718
Placements with banks and non-bank financial institutions	20	138,015	110,533
Financial assets at fair value through profit or loss	21	16,206	8,715
Positive fair value of derivatives	22	11,667	13,073
Financial assets held under resale agreements	23	316,624	200,045
Interest receivable	24	67,581	56,420
Loans and advances to customers	25	7,142,317	6,189,363
Available-for-sale financial assets	26	681,416	663,583
Held-to-maturity investments	27	1,915,811	1,742,342
Debt securities classified as receivables	28	217,741	299,765
Investments in subsidiaries	29	16,676	11,950
Fixed assets	31	110,343	93,369
Land use rights	32	16,181	16,404
Intangible assets	33	1,564	1,176
Deferred tax assets	35	27,517	22,003
Other assets	36	40,858	34,077
Total assets		13,786,750	12,138,890
Liabilities:			
Borrowings from central banks		6,169	2,210
Deposits from banks and non-bank financial institutions	39	980,497	970,033
Placements from banks and non-bank financial institutions	40	77,640	45,654
Financial liabilities at fair value through profit or loss	41	34,533	30,966
Negative fair value of derivatives	22	10,045	12,354
Financial assets sold under repurchase agreements	42	891	11,594
Deposits from customers	43	11,250,000	9,906,093
Accrued staff costs	44	31,822	35,182
Taxes payable	45	52,862	46,950
Interest payable	46	122,804	80,312
Provisions	47	5,058	5,180
Debt securities issued	48	245,024	158,050
Deferred tax liabilities	35	-	23
Other liabilities	49	33,884	27,712
Total liabilities		12,851,229	11,332,313
Equity:			
Share capital	50	250,011	250,011
Capital reserve	51	135,204	135,178
Investment revaluation reserve	52	3,078	6,472
Surplus reserve	53	86,718	67,576
General reserve	54	79,444	66,645
Retained earnings	55	381,844	281,491
Exchange reserve		(778)	(796)
Total equity		935,521	806,577
Total liabilities and equity		13,786,750	12,138,890

Approved and authorised for issue by the Board of Directors on 22 March 2013.

Zhang Jianguo

Vice chairman, executive director and president

Wong Kai-Man

Independent non-executive director

Zhao Xijun

Independent non-executive director

The notes on pages 99 to 208 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Attributable to equity shareholders of the Bank								Total equity
	Share capital	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Exchange reserve	Non-controlling interests	
As at 1 January 2012	250,011	135,178	6,383	67,576	67,342	289,266	(4,615)	5,520	816,661
Movements during the year	-	103	(3,360)	19,142	13,141	101,768	(203)	2,357	132,948
(1) Total comprehensive income for the year	-	32	(3,360)	-	-	193,179	(203)	443	190,091
(2) Changes in share capital	-	71	-	-	-	-	-	1,999	2,070
i Capital injection by non-controlling interests	-	26	-	-	-	-	-	2,803	2,829
ii Non-controlling interests of new subsidiaries	-	-	-	-	-	-	-	529	529
iii Change in shareholdings in subsidiaries	-	45	-	-	-	-	-	(1,333)	(1,288)
(3) Profit distribution	-	-	-	19,142	13,141	(91,411)	-	(85)	(59,213)
i Appropriation to surplus reserve	-	-	-	19,142	-	(19,142)	-	-	-
ii Appropriation to general reserve	-	-	-	-	13,141	(13,141)	-	-	-
iii Appropriation to equity shareholders	-	-	-	-	-	(59,128)	-	(85)	(59,213)
As at 31 December 2012	250,011	135,281	3,023	86,718	80,483	391,034	(4,818)	7,877	949,609
As at 1 January 2011	250,011	135,136	6,706	50,681	61,347	195,950	(3,039)	4,113	700,905
Movements during the year	-	42	(323)	16,895	5,995	93,316	(1,576)	1,407	115,756
(1) Total comprehensive income for the year	-	42	(323)	-	-	169,258	(1,576)	120	167,521
(2) Changes in share capital	-	-	-	-	-	-	-	1,325	1,325
i Acquisition of subsidiaries	-	-	-	-	-	-	-	599	599
ii Capital injection by non-controlling interests	-	-	-	-	-	-	-	435	435
iii Non-controlling interests of new subsidiaries	-	-	-	-	-	-	-	315	315
iv Change in shareholdings in subsidiaries	-	-	-	-	-	-	-	(24)	(24)
(3) Profit distribution	-	-	-	16,895	5,995	(75,942)	-	(38)	(53,090)
i Appropriation to surplus reserve	-	-	-	16,895	-	(16,895)	-	-	-
ii Appropriation to general reserve	-	-	-	-	5,995	(5,995)	-	-	-
iii Appropriation to equity shareholders	-	-	-	-	-	(53,052)	-	(38)	(53,090)
As at 31 December 2011	250,011	135,178	6,383	67,576	67,342	289,266	(4,615)	5,520	816,661

The notes on pages 99 to 208 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

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

	Share capital	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Exchange reserve	Total equity
As at 1 January 2012	250,011	135,178	6,472	67,576	66,645	281,491	(796)	806,577
Movements during the year	-	26	(3,394)	19,142	12,799	100,353	18	128,944
(1) Total comprehensive income for the year	-	26	(3,394)	-	-	191,422	18	188,072
(2) Profit distribution	-	-	-	19,142	12,799	(91,069)	-	(59,128)
i Appropriation to surplus reserve	-	-	-	19,142	-	(19,142)	-	-
ii Appropriation to general reserve	-	-	-	-	12,799	(12,799)	-	-
iii Appropriation to equity shareholders	-	-	-	-	-	(59,128)	-	(59,128)
As at 31 December 2012	250,011	135,204	3,078	86,718	79,444	381,844	(778)	935,521
As at 1 January 2011	250,011	135,136	6,743	50,681	60,608	188,525	(339)	691,365
Movements during the year	-	42	(271)	16,895	6,037	92,966	(457)	115,212
(1) Total comprehensive income for the year	-	42	(271)	-	-	168,950	(457)	168,264
(2) Profit distribution	-	-	-	16,895	6,037	(75,984)	-	(53,052)
i Appropriation to surplus reserve	-	-	-	16,895	-	(16,895)	-	-
ii Appropriation to general reserve	-	-	-	-	6,037	(6,037)	-	-
iii Appropriation to equity shareholders	-	-	-	-	-	(53,052)	-	(53,052)
As at 31 December 2011	250,011	135,178	6,472	67,576	66,645	281,491	(796)	806,577

The notes on pages 99 to 208 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Note	2012	2011
Cash flows from operating activities			
Profit before tax		251,439	219,107
<i>Adjustments for:</i>			
– Impairment losses	13	40,041	35,783
– Depreciation and amortisation	12	13,889	12,497
– Unwinding of discount		(1,612)	(1,413)
– Revaluation loss on financial instruments at fair value through profit or loss		661	1,396
– Share of profit less losses of associates and jointly controlled entities		(28)	(24)
– Dividend income	9	(239)	(158)
– Unrealised foreign exchange loss		322	3,013
– Interest expense on subordinated bonds issued		5,734	3,561
– Net gain on disposal of investment securities	10	(3,536)	(1,756)
– Net gain on disposal of fixed assets and other long-term assets		(67)	(489)
		306,604	271,517
<i>Changes in operating assets:</i>			
Net increase in deposits with central banks and with banks and non-bank financial institutions		(212,062)	(479,504)
Net increase in placements with banks and non-bank financial institutions		(6,186)	(39,399)
Net increase in loans and advances to customers		(1,028,588)	(849,238)
Net increase in financial assets held under resale agreements		(116,642)	(18,952)
Increase in other operating assets		(37,491)	(35,472)
		(1,400,969)	(1,422,565)
<i>Changes in operating liabilities:</i>			
Net increase in borrowings from central banks		4,090	530
Net increase in placements from banks and non-bank financial institutions		42,278	14,509
Net increase in deposits from customers and from banks and non-bank financial institutions		1,373,562	1,212,274
Net (decrease)/increase in financial assets sold under repurchase agreements		(8,101)	5,540
Net increase in certificates of deposit issued		53,554	36,447
Income tax paid		(56,946)	(41,897)
Increase in other operating liabilities		54,741	48,659
		1,463,178	1,276,062
Net cash from operating activities		368,813	125,014

The notes on pages 99 to 208 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Note	2012	2011
Cash flows from investing activities			
Proceeds from sale and redemption of investments		608,345	1,146,554
Dividends received		250	160
Proceeds from disposal of fixed assets and other long-term assets		1,200	1,409
Purchase of investment securities		(730,417)	(971,164)
Purchase of fixed assets and other long-term assets		(34,939)	(23,312)
Acquisition of subsidiaries, associates and jointly controlled entities		(294)	(1,063)
Net cash (used in)/from investing activities		(155,855)	152,584
Cash flows from financing activities			
Issue of bonds		41,951	39,945
Capital contribution by non-controlling interests		3,332	750
Dividends paid		(59,220)	(53,078)
Interest paid on bonds issued		(5,562)	(3,200)
Cash paid relating to other financing activities		(1,288)	(51)
Net cash used in financing activities		(20,787)	(15,634)
Effect of exchange rate changes on cash and cash equivalents		(1,714)	(4,800)
Net increase in cash and cash equivalents		190,457	257,164
Cash and cash equivalents as at 1 January	56	558,463	301,299
Cash and cash equivalents as at 31 December	56	748,920	558,463
Cash flows from operating activities include:			
Interest received		588,972	461,477
Interest paid, excluding interest expense on bonds issued		(201,861)	(159,565)

The notes on pages 99 to 208 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

1 COMPANY INFORMATION

The history of China Construction Bank Corporation (the "Bank") dates back to 1954, which was previously known as the People's Construction Bank of China when it was established. It administered and disbursed government funds for construction and infrastructure related projects under the state economic plan. The People's Construction Bank of China gradually became a full service commercial bank following the establishment of China Development Bank in 1994 to assume its policy lending functions. In 1996, the People's Construction Bank of China changed its name to China Construction Bank ("CCB"). On 17 September 2004, China Construction Bank Corporation was formed as a joint-stock commercial bank in the People's Republic of China (the "PRC") as a result of a separation procedure undertaken by our predecessor, China Construction Bank. In October 2005 and September 2007, the Bank's H-shares and A-shares were listed on Hong Kong Stock Exchange (Stock Code: 939) and Shanghai Stock Exchange (Stock Code: 601939) respectively.

The Bank obtained its finance permit No.B0004H111000001 from the China Banking Regulatory Commission (the "CBRC") of the PRC. The Bank obtained its business license No.100000000039122 from the State Administration for Industry and Commerce of the PRC. The registered office of the Bank is located at No.25, Finance Street, Xicheng District, Beijing, the PRC.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management, trustee, finance leasing, investment banking, insurance and other financial services. The Group mainly operates in Mainland China and also has several overseas branches and subsidiaries. For the purpose of these financial statements, Mainland China refers to the PRC excluding Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC and Taiwan. Overseas refers to countries and regions other than Mainland China.

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

These financial statements were authorised for issue by the board of directors of the Bank on 22 March 2013.

2 BASIS OF PREPARATION

The Group used the calendar year as the accounting year, which is from 1 January to 31 December.

These financial statements for the year ended 31 December 2012 comprise the Bank and its subsidiaries and the Group's interests in associates and jointly controlled entities.

(1) Basis of measurement

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

(2) Functional and presentation currency

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

(3) Use of estimates and judgements

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

3 STATEMENT OF COMPLIANCE

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

The Group has adopted new or revised IFRSs effective for the current year. There is no early adoption of any new IFRSs not yet effective for the year ended 31 December 2012. The following revised IFRS adopted was relevant to these financial statements:

- IFRS 7 (amendments), *Financial Instruments Disclosure On Transfer of Financial Assets* – These amendments are issued as part of the IASB’s comprehensive review of off balance sheet activities. The amendments promote transparency in the reporting of transfer transactions and improve users’ understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity’s financial position, particularly those involving securitisation of financial assets.

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

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Consolidated financial statements

(a) *Business combinations*

The consideration transferred by the acquirer for the acquisition and the identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Where the cost of a business combination exceeds the Group’s interest in the fair value of the acquiree’s identifiable net assets, the difference is recognised as goodwill in accordance with the accounting policies set out in Note 4(9); where the cost of a business combination is less than the Group’s interest in the fair value of the acquiree’s identifiable net assets, the difference is recognised in profit or loss.

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

(b) *Subsidiaries and non-controlling interests*

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(1) Consolidated financial statements (continued)

(c) *Special purpose entities*

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

(d) *Associates and jointly controlled entities*

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

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

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

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

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

(2) Translation of foreign currencies

(a) *Translation of foreign currency transactions*

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

(b) *Translation of financial statements denominated in foreign currencies*

Foreign currency financial statements of overseas branches and subsidiaries are translated into RMB for the preparation of consolidated financial statements. At the end of each reporting period, the assets and liabilities in the financial statements denominated in foreign currencies are translated into RMB at the spot exchange rates ruling at that date. The income and expenses of foreign operations are translated into RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the transaction dates. Foreign exchange differences arising from foreign operations are recognised as “exchange reserve” in the shareholders’ equity in the statement of financial position. The effect of exchange rate changes on cash is presented separately in the statement of cash flows.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments

(a) *Categorisation*

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

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

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

A financial asset or financial liability is classified as held for trading if it is: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative (except for a derivative that is a designated and effective hedging instrument or a financial guarantee contract).

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

Held-to-maturity investments

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

Loans and receivables

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

Available-for-sale financial assets

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

Other financial liabilities

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(b) *Derivatives and embedded derivatives*

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

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

(c) *Recognition and derecognition*

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

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

The difference between the carrying amount of the financial asset derecognised and the consideration received and the cumulative changes in fair value previously recognised in equity are recognised in profit or loss.

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

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

The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(d) *Measurement*

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(e) Impairment

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

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

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

Loans and receivables and held-to-maturity investments

Individual assessment

Loans and receivables and held-to-maturity investments, which are considered individually significant, are assessed individually for impairment. If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred on an individual basis, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate, and recognised in profit or loss.

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

Collective assessment

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(e) Impairment (continued)

Loans and receivables and held-to-maturity investments (continued)

Collective assessment (continued)

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

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

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

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

Impairment reversal and loan write-off

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

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

Rescheduled loans

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

Available-for-sale financial assets

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(3) Financial instruments (continued)

(f) *Fair value measurement*

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

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

(g) *Offsetting*

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

(h) *Securitisations*

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

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

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

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

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

(4) Precious metals

Precious metals comprise gold and other precious metals. Precious metals that are acquired by the Group principally for trading purpose are initially recognised at fair value and re-measured at fair value less cost to sell. The changes in fair value less cost to sell are recognised in profit or loss. Precious metals that are not acquired by the Group principally for trading purpose are carried at lower of cost and net realisable value.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(5) Fixed assets

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

(a) Cost

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

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

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

(b) Depreciation and impairment

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

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

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

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

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

(c) Disposal

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

(6) Lease

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

(a) Finance lease

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(6) Lease (continued)

(b) Operating lease

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

(7) Land use rights

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

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

(8) Intangible assets

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

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

(9) Goodwill

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

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

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

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

(10) Repossessed assets

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

(a) *Testing CGU with goodwill for impairment*

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

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

At the time of impairment testing of a CGU or group of CGUs to which goodwill has been allocated, there may be an indication of an impairment of an asset within the CGU containing the goodwill. In such circumstances, the Group tests the asset for impairment first, and recognises any impairment loss for that asset before testing for impairment on the CGU or group of CGUs containing the goodwill. Similarly, there may be an indication of an impairment of a CGU within a group of CGUs containing the goodwill. In such circumstances, the entity tests the CGU for impairment first, and recognises any impairment loss for that CGU, before testing for impairment the group of CGUs to which the goodwill is allocated.

(b) *Impairment loss*

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to the profit or loss.

For a CGU or a group of CGUs, the amount of impairment loss firstly reduces the carrying amount of any goodwill allocated to the CGU or group of CGUs, and then reduces the carrying amount of other assets (other than goodwill) within the CGU or group of CGUs, pro rata on the basis of the carrying amount of each asset.

(c) *Reversing an impairment loss*

If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

An impairment loss in respect of goodwill is not reversed.

(12) Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditures incurred by the Group in exchange for services rendered by employees. Except for termination benefits, employee benefits are recognised as a liability in the period in which the associated services are rendered by its employees, with a corresponding increase in cost of relevant assets or the expenses in profit or loss. Where payment or settlement is deferred and the effect of discount would be material, these amounts are stated at their present values in the statement of financial position.

(a) *Defined contribution retirement schemes*

Pursuant to the relevant laws and regulations in the PRC, the Group has joined defined contribution retirement schemes for the employees arranged by local government labor and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the local government organisations. The contributions are charged to the profit or loss on an accrual basis. When employees retire, the local government labor and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

In addition to the statutory provision schemes, the Bank's employees have joined the annuity scheme set up by the Bank under "CCBC Annuity Scheme" (the "scheme") in accordance with state enterprise annuity regulations. The Bank has made annuity contributions in proportion to its employees' gross wages, which are expensed in profit or loss when the contributions are made.

(b) *Housing fund and other social insurance*

In accordance with the related laws, regulations and policies of the PRC, the Group participates in mandatory social insurance programmes, including housing fund, basic medical insurance, unemployment insurance, work injury insurance and maternity insurance etc. The Group makes housing fund and social insurance contributions to government agencies in proportion to each employees' salary and expenses monthly and recognises them in profit or loss on an accrual basis.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(12) Employee benefits (continued)

(c) *Supplementary retirement benefits*

The Group pays supplementary retirement benefits for its employees in Mainland China who retired on or before 31 December 2003 in addition to the contributions made to statutory insurance schemes.

The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of obligations that the Group is committed to pay to the employees after their retirement using actuarial techniques. At the end of each reporting period, such obligations are discounted with interest yield of government bonds with similar duration. In calculating the Group's obligations, to the extent that any cumulative unrecognised gains or losses exceed 10% of the present value of the obligation at the end of each reporting period, that portion is recognised in profit or loss. Otherwise, the gain or loss is not recognised.

The liability recognised in the statement of financial position in respect of supplementary retirement benefits is the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

(d) *Early retirement expenses*

The Group recognises the present value of all its liabilities to employees who voluntarily agreed to retire early. The early retirement benefit payments are made by the Group from the date of early retirement to the regulated retirement date. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when incurred.

(e) *Termination benefits*

Where the Group terminates the employment relationship with employees before the end of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision is recognised for the compensation arising from termination of employment relationship, with a corresponding charge to the profit or loss for the current period, when both of the following conditions are satisfied: (i) the Group has a formal plan for termination of employment relationship or has made an offer for voluntary redundancy, which will be implemented immediately; (ii) the Group cannot unilaterally withdraw from the termination plan or the redundancy offer.

(f) *Staff incentive plan*

As approved by the board of directors, for the purposes of providing incentives and rewards to eligible employees for their past services, the Group awards a specified amount of staff compensation to the staff incentive plan independently managed by a designated staff committee for those eligible participating employees. The Group recognises its contribution to the plan when it has a present legal or constructive obligation to make such payment and a reliable estimate of the obligation can be made.

(13) Provisions and contingent liabilities

A provision is recognised in the statement of financial position if, as the result of a past event, the Group has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows.

A potential obligation arising from a past transaction or event whose existence can only be confirmed by the occurrence or nonoccurrence of future uncertain events; or a present obligation that arises from past transactions or events where it is not probable that an outflow of economic benefits is required to settle the obligation or the amount of the obligation cannot be measured reliably, is disclosed as a contingent liability unless the probability of outflow of economic benefit is remote.

(14) Financial guarantees

Financial guarantees are contracts that require the Group as the guarantor (the "issuer") to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs when a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in "other liabilities". The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognised in the statement of financial position if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(15) Fiduciary activities

The Group's fiduciary business refers to the management of assets for customers in accordance with custody agreements signed by the Group and securities investment funds, insurance companies, annuity plans and other organisations. The Group fulfils its fiduciary duty and receives relevant fees in accordance with these agreements, and does not take up any risks and rewards related to the assets under custody, which are recorded as off-balance sheet items.

The Group conducts entrusted lending business, whereby it enters into entrusted loan agreements with customers. Under the terms of these agreements, the customers provide funding (the "entrusted funds") to the Group, and the Group grants loans to third parties (the "entrusted loans") according to the instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, entrusted loans and funds are recorded as off-balance sheet items at their principal amounts and no impairment assessments are made for these entrusted loans.

(16) Income recognition

Provided it is probable that economic benefits will flow to the Group and the amount, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(a) Interest income

Interest income for interest bearing financial instruments is recognised in profit or loss based on effective interest method. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis.

The effective interest method is a method of calculating the amortised cost of financial assets and liabilities and of allocating the interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest on the impaired financial assets is recognised using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

(b) Fee and commission income

Fee and commission income is recognised in profit or loss when the corresponding service is provided. Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Group making a loan, the fee is recognised as commission on expiry.

(c) Finance income from finance leases and hire purchase contracts

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

(d) Dividend income

Dividend income from unlisted equity investments is recognised in profit or loss on the date when the Group's right to receive payment is established. Dividend income from a listed equity investment is recognised when the share price of the investment goes ex-dividend.

(17) Income tax

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods. Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax also arises from unused tax losses and unused tax credits. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(17) Income tax (continued)

Current income tax and movements in deferred tax balances are recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

At the end of each reporting period, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled according to the requirements of tax laws. The Group also considers the possibility of realisation and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. Otherwise, the balances of deferred tax assets and deferred tax liabilities, and movements therein, are presented separately from each other and are not offset.

(18) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(19) Profit distribution

Proposed dividends which are declared and approved after the end of each reporting period are not recognised as a liability in the statement of financial position and are instead disclosed as a subsequent event after the end of each reporting period in the note to the financial statements. Dividends payable are recognised as liabilities in the period in which they are approved.

(20) Related parties

If the Group has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. The Group's related parties include but are not limited to the following:

- (a) the Bank's parents;
- (b) the Bank's subsidiaries;
- (c) other entities which are controlled by the Bank's parents;
- (d) an investor who has joint control over the Group;
- (e) an investor who can exercise significant influence over the Group;
- (f) an associate of the Group;
- (g) a jointly controlled entity of the Group;
- (h) principal individual investors of the Group, and close family members of such individuals (principal individual investors are the individual investors who have the power, directly or indirectly, to control, jointly control or exercise significant influence over another party);
- (i) key management personnel of the Group and close family members of such individuals (key management personnel represent those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of that entity);
- (j) key management personnel of the Bank's parents and close family members of such individuals;
- (k) other entities that are controlled or jointly controlled by the Group's principal individual investors, key management personnel, or close family members of such individuals; and
- (l) a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(21) Operating segments

The identification of operating segments of the Group is on the basis of internal reports that are regularly reviewed by the Group's chief operating decision makers in order to allocate resources to the segment and assess its performance. On the basis of the operating segments, the Group identifies the reportable segments, using a combination of factors including products and services, geographical areas, regulatory environments etc., which the management has chosen for organisation. The operating segments that meet the specified criteria have been aggregated, and the operating segments that meet quantitative thresholds have been reported separately.

The amount reported for each operating segment item is the measure reported to the chief operating decision makers for the purposes of allocating resources to the segment and assessing its performance. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

(a) Impairment losses on loans and advances, and available-for-sale and held-to-maturity debt investments

The Group reviews the portfolios of loans and advances, and available-for-sale and held-to-maturity debt investments periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows identified with an individual loan and advance, an available-for-sale or a held-to-maturity debt investment. It also includes observable data indicating adverse changes in the repayment status of borrowers or issuers in the assets portfolio or national or local economic conditions that correlate with defaults on the assets in the portfolio.

The impairment loss for a loan that is individually assessed for impairment is the decrease in the estimated discounted future cash flows. Same principle is adopted for impairment loss on a held-to-maturity debt investment which is individually assessed, except that as a practical expedient, the Group may measure the impairment loss on the basis of the instrument's fair value using an observable market price at the measurement date. The impairment loss for an available-for-sale debt investment is the difference between the acquisition cost (net off any principal repayments and amortisation) and the fair value, less any impairment loss previously recognised in profit or loss at the measurement date.

When loans and advances and held-to-maturity debt investments are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances and held-to-maturity debt investments that are being assessed. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual losses.

(b) Impairment of available-for-sale equity instruments

For available-for-sale equity instruments, a significant or other-than-temporary decline in fair value below cost is considered to be objective evidence of impairment. In determining whether a decline in fair value has been significant or other-than-temporary, the Group considers if the fair value of an available-for-sale equity instrument as at the balance sheet date is lower than 50% (including 50%) of its initial cost of investment or the lower than its initial cost of investment for more than a year (including one year) together with other relevant considerations.

(c) Fair value of financial instruments

The fair value of financial instruments that are traded in an active market is based on their quoted market prices in an active market at the valuation date. A quoted market price is a price from an active market where price information is readily and regularly available from an exchange or from a dealer quotation and where this price information represents actual and recurring market transactions on an arm's length basis.

For all other financial instruments, the Group determines fair values using valuation techniques which include discounted cash flow models, as well as other types of valuation model. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign currency exchange rates. Where discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and the discount rate used is a market rate at the end of each reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on maximised observable market data at the end of each reporting period. However, where market data are not available, the Group needs to make the best estimates on such unobservable market data.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(21) Operating segments (continued)

(d) *Reclassification of held-to-maturity investments*

In evaluating whether the requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements. Change of the Group in sustaining the intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

(e) *Income taxes*

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(f) *Employee retirement benefit obligations*

The Group has established liabilities in connection with benefits payable to certain retired employees. The amounts of employee benefit expense and these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, pension benefit inflation rates, medical benefit inflation rates, and other factors. Actual results that differ from the assumptions are recognised to the extent that any cumulative unrecognised gains or losses exceed 10% of the present value of the obligation at the end of each reporting period. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect the Group's expense and liability related to its employee retirement benefit obligations.

5 TAXATION

The Group's main applicable taxes and tax rates are as follows:

Business tax

Business tax is charged at 5% on taxable income.

City construction tax

City construction tax is calculated as 1% – 7% of business tax.

Education surcharge

Education surcharge is calculated as 3% of business tax.

Income tax

The income tax rate that is applicable to the Bank and its subsidiaries in Mainland China is 25%. Taxation on overseas operations is charged at the relevant local rates. Tax paid on overseas operations is set off to the extent which is allowed under the relevant income tax laws of the PRC. All tax exemptions are determined upon approval from the relevant tax authorities.

Current liabilities arising from the above taxes are presented as "taxes payable" in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

6 NET INTEREST INCOME

	2012	2011
Interest income arising from:		
Deposits with central banks	34,694	31,282
Deposits with banks and non-bank financial institutions	17,664	4,302
Placements with banks and non-bank financial institutions	3,196	1,539
Financial assets at fair value through profit or loss	825	577
Financial assets held under resale agreements	5,552	7,888
Investment securities	99,619	89,139
Loans and advances to customers		
– Corporate loans and advances	318,950	255,718
– Personal loans and advances	114,041	84,302
– Discounted bills	8,700	7,500
Total	603,241	482,247
Interest expense arising from:		
Borrowings from central banks	(21)	(17)
Deposits from banks and non-bank financial institutions	(28,867)	(17,990)
Placements from banks and non-bank financial institutions	(2,941)	(2,474)
Financial liabilities at fair value through profit or loss	(1)	(2)
Financial assets sold under repurchase agreements	(2,254)	(1,233)
Debt securities issued	(7,364)	(3,987)
Deposits from customers		
– Corporate deposits	(102,804)	(77,086)
– Personal deposits	(105,787)	(74,886)
Total	(250,039)	(177,675)
Net interest income	353,202	304,572

Notes:

(1) Interest income from impaired financial assets is listed as follows:

	2012	2011
Impaired loans and advances	1,612	1,413
Other impaired financial assets	377	423
Total	1,989	1,836

(2) Interest expense on financial liabilities with maturity over five years mainly represented the interest expense on debt securities issued.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

7 NET FEE AND COMMISSION INCOME

	2012	2011
Fee and commission income		
Bank card fees	20,137	14,910
Consultancy and advisory fees	19,722	17,488
Agency service fees	12,772	14,210
Settlement and clearing fees	11,423	13,484
Wealth management service fees	9,381	7,907
Commission on trust and fiduciary activities	8,380	7,732
Electronic banking service fees	4,760	4,246
Credit commitment fees	2,636	2,369
Guarantee fees	1,931	2,495
Others	5,076	4,653
Total	96,218	89,494
Fee and commission expense		
Bank card transaction fees	(1,757)	(1,540)
Inter-bank transaction fees	(378)	(342)
Others	(576)	(618)
Total	(2,711)	(2,500)
Net fee and commission income	93,507	86,994

8 NET TRADING GAIN

	2012	2011
Debt securities	226	(89)
Derivatives	1,299	1,102
Equity investments	(421)	(2,019)
Others	759	1,394
Total	1,863	388

For the year ended 31 December 2012, trading loss related to financial assets designated at fair value through profit or loss of the Group amounted to RMB203 million (2011: loss RMB1,547 million). Trading gain related to financial liabilities designated at fair value through profit or loss of the Group amounted to RMB1,680 million (2011: gain RMB2,011 million).

9 DIVIDEND INCOME

	2012	2011
Dividend income from listed trading equity investments	16	46
Dividend income from available-for-sale equity investments		
– Listed	146	26
– Unlisted	77	86
Total	239	158

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

10 NET GAIN ARISING FROM INVESTMENT SECURITIES

	2012	2011
Net gain on sale of available-for-sale financial assets	1,885	813
Net revaluation gain reclassified from other comprehensive income on disposal	1,546	810
Net gain on sale of held-to-maturity investments	103	133
Net gain on sale of receivables	2	–
Total	3,536	1,756

11 OTHER OPERATING INCOME, NET

	2012	2011
Insurance related income	5,868	879
Net foreign exchange gain	1,504	1,451
Net gain on disposal of repossessed assets	72	172
Net gain on disposal of fixed assets	67	489
Others	2,675	2,544
Total	10,186	5,535

Net foreign exchange gain or loss includes gains and losses in connection with the translation of foreign currency denominated monetary assets and liabilities, and net realised and unrealised gains and losses on foreign exchange derivatives (including those foreign exchange swaps, foreign exchange options and cross interest currency swaps entered into in order to economically hedge long positions in foreign currency assets).

12 OPERATING EXPENSES

	2012	2011
Staff costs		
– Salaries, bonuses, allowances and subsidies	54,352	49,703
– Defined contribution retirement schemes	10,214	8,495
– Other social insurance and welfare	7,807	6,581
– Housing funds	4,685	3,989
– Union running costs and employee education costs	2,205	2,013
– Supplementary retirement benefits	366	387
– Early retirement expenses	73	210
– Compensation to employees for termination of employment relationship	8	10
	79,710	71,388
Premises and equipment expenses		
– Depreciation charges	11,685	10,397
– Rent and property management expenses	6,070	5,177
– Maintenance	2,516	2,149
– Utilities	1,872	1,643
– Others	1,341	1,031
	23,484	20,397
Business taxes and surcharges	30,233	24,229
Amortisation expenses	2,204	2,100
Audit fees	144	153
Other general and administrative expenses	35,306	26,270
Total	171,081	144,537

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

13 IMPAIRMENT LOSSES

	2012	2011
Loans and advances to customers		
– Additions	47,273	42,628
– Releases	(8,943)	(10,225)
Available-for-sale debt securities	(337)	1,106
Available-for-sale equity investments	101	24
Held-to-maturity investments	1,126	(15)
Debt securities classified as receivables	406	495
Fixed assets	5	1
Others	410	1,769
Total	40,041	35,783

14 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The aggregate of the emoluments before individual income tax in respect of the directors and supervisors who held office during the year is as follows:

	2012				
	Fees RMB'000	Remuneration paid RMB'000	Contributions to defined contribution retirement schemes RMB'000	Other benefits in kind (note (v)) RMB'000	Total (note(i)) RMB'000
Executive directors					
Wang Hongzhang (note (ii)&(vi))	-	732	33	311	1,076
Zhang Jianguo (note (vi))	-	696	33	327	1,056
Non-executive directors					
Wang Yong (note (iii))	-	-	-	-	-
Zhu Zhenmin (note (iii))	-	-	-	-	-
Li Xiaoling (note (iii))	-	-	-	-	-
Chen Yuanling (note (iii))	-	-	-	-	-
Dong Shi (note (ii)&(iii))	-	-	-	-	-
Independent non-executive directors					
Yam Chi Kwong, Joseph	380	-	-	-	380
Dame Jenny Shipley	440	-	-	-	440
Elaine La Roche (note (ii))	130	-	-	-	130
Zhao Xijun	410	-	-	-	410
Wong Kai-Man	440	-	-	-	440
Supervisors					
Zhang Furong (note (vi))	-	672	33	327	1,032
Liu Jin (note (vi))	-	474	33	243	750
Song Fengming	270	-	-	-	270
Zhang Huajian (note (ii)&(iv))	50	-	-	-	50
Jin Panshi (note (iv))	50	-	-	-	50
Li Weiping (note (iv))	50	-	-	-	50
Huang Shuping (note (iv))	50	-	-	-	50
Guo Feng	250	-	-	-	250
Dai Deming	270	-	-	-	270

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

14 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

	2012				
	Fees RMB'000	Remuneration paid RMB'000	Contributions to defined contribution retirement schemes RMB'000	Other benefits in kind (note (v)) RMB'000	Total (note(i)) RMB'000
Former executive director					
Chen Zuofu (note (ii)&(vi))	-	624	33	281	938
Zhu Xiaohuang (note (ii)&(vi))	-	416	21	187	624
Former non-executive directors					
Lu Xiaoma (note (ii)&(iii))	-	-	-	-	-
Former independent non-executive directors					
Lord Peter Levene (note (ii))	180	-	-	-	180
	2,970	3,614	186	1,676	8,446

	2011						
	Basic annual salaries RMB'000	Annual performance bonus RMB'000	Allowance RMB'000	Welfare RMB'000	Total (before tax) (note(vii)) RMB'000	Including: deferral payment RMB'000	The actual payment in 2011 (before tax) RMB'000
Executive directors							
Wang Hongzhang (note (ii))	-	-	-	-	-	-	-
Zhang Jianguo	419	1,105	-	333	1,857	553	1,304
Chen Zuofu (note (ii))	395	1,043	-	287	1,725	521	1,204
Zhu Xiaohuang (note (ii))	395	1,043	-	287	1,725	521	1,204
Non-executive directors							
Wang Yong (note (iii))	-	-	-	-	-	-	-
Zhu Zhenmin (note (iii))	-	-	-	-	-	-	-
Li Xiaoling (note (iii))	-	-	-	-	-	-	-
Lu Xiaoma (note (ii)&(iii))	-	-	-	-	-	-	-
Chen Yuanling (note (iii))	-	-	-	-	-	-	-
Dong Shi (note (ii)&(iii))	-	-	-	-	-	-	-
Independent non-executive directors							
Lord Peter Levene (note (ii))	-	-	360	-	360	-	360
Yam Chi Kwong, Joseph	-	-	380	-	380	-	380
Dame Jenny Shipley	-	-	432	-	432	-	432
Zhao Xijun	-	-	410	-	410	-	410
Wong Kai-Man	-	-	440	-	440	-	440

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

14 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

	2011						
	Basic annual salaries RMB'000	Annual performance bonus RMB'000	Allowance RMB'000	Welfare RMB'000	Total (before tax) (note(vii)) RMB'000	Including: deferral payment RMB'000	The actual payment in 2011 (before tax) RMB'000
Supervisors							
Zhang Furong	409	1,080	–	334	1,823	540	1,283
Liu Jin	302	797	–	250	1,349	399	950
Song Fengming	–	–	270	–	270	–	270
Zhang Huajian (note (ii)&(iv))	–	–	17	–	17	–	17
Jin Panshi (note (iv))	–	–	50	–	50	–	50
Li Weiping (note (iv))	–	–	50	–	50	–	50
Huang Shuping (note (iv))	–	–	50	–	50	–	50
Guo Feng	–	–	250	–	250	–	250
Dai Deming	–	–	270	–	270	–	270
Former executive directors							
Guo Shuqing (note (ii))	387	1,023	–	278	1,688	511	1,177
Former non-executive directors							
Wang Shumin (note (ii)&(iii))	–	–	–	–	–	–	–
Sue Yang (note (ii))	–	–	325	–	325	–	325
Former independent non-executive directors							
Elaine La Roche (note (ii))	–	–	220	–	220	–	220
	2,307	6,091	3,524	1,769	13,691	3,045	10,646

Notes:

- (i) The amounts of emoluments for the year ended 31 December 2012 in respect of the services rendered by the directors and supervisors are subject to the approval of the Bank's shareholders in 2012 Annual General Meeting.
- (ii) Upon election at the first Extraordinary General Meeting and Board meeting of the Bank in 2012 and approval of the CBRC, Mr. Wang Hongzhang commenced his position as chairman and executive director of the Bank since January 2012.
- Upon the conclusion of the 2010 Annual General Meeting of the Bank, Ms. Elaine La Roche ceased to serve as independent non-executive director of the Bank due to the expiration of her term of office. Upon resolution at the 2011 Annual General Meeting and approval of the CBRC, Ms. Elaine La Roche commenced her position as independent non-executive director of the Bank since September 2012.
- Upon the conclusion of the 2011 Annual General Meeting of the Bank, Lord Peter Levene ceased to serve as independent non-executive director of the Bank due to the expiration of his term of office.
- Mr. Zhu Xiaohuang ceased to serve as executive director and executive vice president of the Bank due to his personal variation of work since 22 August 2012.
- Mr. Chen Zuofu ceased to serve as executive director and executive vice president of the Bank due to his personal variation of work since 24 October 2012.
- Mr. Lu Xiaoma ceased to serve as non-executive director of the Bank due to his personal variation of work since 22 November 2012.
- Upon election at the 2010 Annual General Meeting and approval of the CBRC, Mr. Dong Shi commenced his position as non-executive director of the Bank since September 2011.
- Mr. Guo Shuqing ceased to serve as the chairman and executive director of the Bank due to the arrangement of the national finance work since 28 October 2011.
- Upon the next day of the conclusion of the 2010 Annual General Meeting of the Bank, Ms. Wang Shumin ceased to serve as non-executive director of the Bank due to her personal variation of work.
- Ms. Sue Yang ceased to serve as non-executive director of the Bank due to personal reasons since 11 October 2011.
- Upon election at the first Extraordinary General Meeting of the Bank in 2011, Mr. Zhang Huajian commenced his position as shareholder representative supervisor of the Bank.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

14 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

Notes: (continued)

- (iii) The Bank does not need to pay the emoluments of non-executive directors appointed by Huijin for the services rendered in 2012 and 2011.
- (iv) The amounts only included fees for their services as supervisors.
- (v) Other benefits in kind included the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included the Bank's contribution to its own corporate annuity plan (which was set up in accordance with the relevant policies issued by the government authorities) and supplementary medical insurance.

None of the directors and supervisors received any inducements or compensation for loss of office, or waived any emoluments during the years ended 31 December 2011 and 2012.
- (vi) The total compensation package for these directors and supervisors 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 on the Group's and the Bank's financial statements for the year ended 31 December 2012. The final compensation will be disclosed in a separate announcement when determined.
- (vii) The total compensation package for certain directors and supervisors for the year ended 31 December 2011 had not been finalised in accordance with regulations of the PRC relevant authorities till the date that the 2011 financial statements were announced. The aforesaid total compensation package for the directors and supervisors for the year ended 31 December 2011 was the final amount and the Bank made the relevant supplementary announcement on 8 June 2012.

15 INDIVIDUALS WITH HIGHEST EMOLUMENTS

None of the five individuals with the highest emoluments are directors or supervisors whose emoluments are disclosed in Note 14. The aggregate of the emoluments before individual income tax in respect of the five highest paid individuals during the year is as follows:

	2012 RMB'000	2011 RMB'000
Salaries and allowance	15,068	12,781
Variable compensation	16,560	32,452
Contributions to defined contribution retirement schemes	1,564	902
Other benefit in kind	215	186
	33,407	46,321

The number of these individuals whose emoluments before individual income tax are within the following bands is set out below.

	2012	2011
RMB5,000,001 – RMB5,500,000	1	–
RMB5,500,001 – RMB6,000,000	1	–
RMB6,000,001 – RMB6,500,000	1	–
RMB6,500,001 – RMB7,000,000	1	–
RMB8,000,001 – RMB8,500,000	–	1
RMB8,500,001 – RMB9,000,000	–	1
RMB9,000,001 – RMB9,500,000	1	1
RMB9,500,001 – RMB10,000,000	–	1
RMB10,000,001 – RMB10,500,000	–	1

None of these individuals received any inducements, or compensation for loss of office, or waived any emoluments during the year ended 31 December 2012 and 2011.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

16 INCOME TAX EXPENSE

(1) Income tax expense

	2012	2011
Current tax	61,802	55,325
– Mainland China	60,939	54,812
– Hong Kong	614	401
– Other countries and regions	249	112
Adjustments for prior years	606	(2,277)
Deferred tax	(4,571)	(3,380)
Total	57,837	49,668

The provisions of income taxes for Mainland China and Hong Kong are calculated at 25% and 16.5% of the estimated taxable income from Mainland China and Hong Kong operations for the year respectively. Taxation for other overseas operations is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

(2) Reconciliation between income tax expense and accounting profit

	2012	2011
Profit before tax	251,439	219,107
Income tax calculated at statutory tax rate	62,860	54,777
Non-deductible expenses		
– Staff costs	1,278	586
– Others	838	678
	2,116	1,264
Non-taxable income		
– Interest income from PRC government bonds	(7,554)	(6,606)
– Others	(191)	(260)
	(7,745)	(6,866)
Total	57,231	49,175
Adjustments on income tax for prior years which affect profit or loss	606	493
Income tax expense	57,837	49,668

17 EARNINGS PER SHARE

Basic earnings per share for the year ended 31 December 2012 and 2011 have been computed by dividing the net profit attributable to equity shareholders of the Bank by the weighted average number of ordinary shares outstanding during the years. There was no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the year ended 31 December 2012 and 2011.

	2012	2011
Net profit attributable to shareholders of the Bank	193,179	169,258
Weighted average number of shares (in million shares)	250,011	250,011
Basic and diluted earnings per share attributable to shareholders of the Bank (in RMB Yuan)	0.77	0.68

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

18 CASH AND DEPOSITS WITH CENTRAL BANKS

	Note	Group		Bank	
		2012	2011	2012	2011
Cash		72,653	58,308	72,393	58,061
Deposits with central banks					
– Statutory deposit reserves	(1)	2,140,099	1,982,150	2,138,410	1,980,915
– Surplus deposit reserves	(2)	231,318	324,568	218,474	319,734
– Fiscal deposits		13,999	14,783	13,999	14,783
Subtotal		2,385,416	2,321,501	2,370,883	2,315,432
Total		2,458,069	2,379,809	2,443,276	2,373,493

- (1) The Group places statutory deposit reserves with the People's Bank of China ("PBOC") and overseas central banks where it has operations. The statutory deposit reserves are not available for use in the Group's daily business.

As at the end of the reporting period, the statutory deposit reserve rates in Mainland China of the Bank were as follows:

	2012	2011
Reserve rate for RMB deposits	20.0%	21.0%
Reserve rate for foreign currency deposits	5.0%	5.0%

The statutory RMB deposit reserve rates applicable to domestic subsidiaries of the Group are determined by the PBOC.

The amounts of statutory deposit reserves placed with the central banks of overseas countries are determined by local jurisdictions.

- (2) The surplus deposit reserve maintained with the PBOC is mainly for the purpose of clearing.

19 DEPOSITS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	Group		Bank	
	2012	2011	2012	2011
Banks	583,014	274,228	581,716	277,427
Non-bank financial institutions	2,891	2,533	2,829	2,443
Gross balances	585,905	276,761	584,545	279,870
Allowances for impairment losses (Note 37)	(7)	(9)	(7)	(9)
Net balances	585,898	276,752	584,538	279,861

(2) Analysed by geographical sectors

	Group		Bank	
	2012	2011	2012	2011
Mainland China	557,348	252,409	557,048	257,902
Overseas	28,557	24,352	27,497	21,968
Gross balances	585,905	276,761	584,545	279,870
Allowances for impairment losses (Note 37)	(7)	(9)	(7)	(9)
Net balances	585,898	276,752	584,538	279,861

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

20 PLACEMENTS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	Group		Bank	
	2012	2011	2012	2011
Banks	65,340	77,946	68,620	76,380
Non-bank financial institutions	64,362	31,159	69,444	34,218
Gross balances	129,702	109,105	138,064	110,598
Allowances for impairment losses (Note 37)	(49)	(65)	(49)	(65)
Net balances	129,653	109,040	138,015	110,533

(2) Analysed by geographical sectors

	Group		Bank	
	2012	2011	2012	2011
Mainland China	112,441	86,244	114,655	87,844
Overseas	17,261	22,861	23,409	22,754
Gross balances	129,702	109,105	138,064	110,598
Allowances for impairment losses (Note 37)	(49)	(65)	(49)	(65)
Net balances	129,653	109,040	138,015	110,533

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Analysed by nature

	Note	Group		Bank	
		2012	2011	2012	2011
Held for trading purpose	(1)				
– Debt securities		16,404	8,715	16,206	8,715
– Equity instruments		378	515	–	–
– Funds		443	34	–	–
		17,225	9,264	16,206	8,715
Designated at fair value through profit or loss	(2)				
– Debt securities		4,188	5,660	–	–
– Equity instruments		6,159	8,172	–	–
		10,347	13,832	–	–
Total		27,572	23,096	16,206	8,715

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Analysed by types of issuers

(1) Held for trading purpose

(a) Debt securities

	Group		Bank	
	2012	2011	2012	2011
Government	818	950	814	950
Central banks	80	2,830	80	2,830
Policy banks	904	752	904	752
Banks and non-bank financial institutions	3,149	1,369	3,149	1,369
Others	11,453	2,814	11,259	2,814
Total	16,404	8,715	16,206	8,715
Listed	198	–	–	–
– of which in Hong Kong	23	–	–	–
Unlisted	16,206	8,715	16,206	8,715
Total	16,404	8,715	16,206	8,715

(b) Equity instruments and funds

	Group	
	2012	2011
Banks and non-bank financial institutions	404	–
Others	417	549
Total	821	549
Listed	416	549
– of which in Hong Kong	240	488
Unlisted	405	–
Total	821	549

(2) Designated at fair value through profit or loss

(a) Debt securities

	Group	
	2012	2011
Policy banks	258	264
Banks and non-bank financial institutions	548	633
Others	3,382	4,763
Total	4,188	5,660
Listed	1,047	280
– of which in Hong Kong	965	31
Unlisted	3,141	5,380
Total	4,188	5,660

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Analysed by types of issuers (continued)

(2) Designated at fair value through profit or loss (continued)

(b) *Equity instruments*

	Group	
	2012	2011
Banks and non-bank financial institutions	804	618
Others	5,355	7,554
Total	6,159	8,172
Listed	1,399	1,961
– of which in Hong Kong	1,046	1,141
Unlisted	4,760	6,211
Total	6,159	8,172

There was no significant limitation on the ability of the Group and the Bank to dispose of financial assets at fair value through profit or loss.

22 DERIVATIVES

(1) *Analysed by type of contract*

Group

	2012			2011		
	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
Interest rate contracts	368,207	3,143	2,870	183,660	4,252	4,434
Exchange rate contracts	1,017,303	9,059	7,832	740,737	9,344	8,480
Other contracts	12,153	469	839	5,011	531	396
Total	1,397,663	12,671	11,541	929,408	14,127	13,310

Bank

	2012			2011		
	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
Interest rate contracts	360,165	3,127	2,831	172,652	4,203	4,356
Exchange rate contracts	905,066	8,382	7,155	631,047	8,851	7,941
Other contracts	10,667	158	59	3,137	19	57
Total	1,275,898	11,667	10,045	806,836	13,073	12,354

(2) *Analysed by credit risk-weighted amount*

	Group		Bank	
	2012	2011	2012	2011
Interest rate contracts	3,067	4,004	3,058	3,979
Exchange rate contracts	11,616	11,900	10,714	10,909
Other contracts	525	685	107	49
Total	15,208	16,589	13,879	14,937

The notional amounts of derivatives only represent the unsettled transaction volume as at the end of the reporting period. They do not represent the amounts at risk. The credit risk-weighted amount was computed in accordance with the rules set out by the CBRC and depended on the status of the counterparty and the maturity characteristics. It included customer driven transactions, which were hedged back to back.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

23 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

Financial assets held under resale agreements by underlying assets are shown as follows:

	Group		Bank	
	2012	2011	2012	2011
Securities				
– Government bonds	67,125	63,787	67,125	63,787
– Bills issued by the PBOC	3,733	14,810	3,733	14,810
– Debt securities issued by banks and non-bank financial institutions	144,215	107,467	144,154	107,467
Subtotal	215,073	186,064	215,012	186,064
Discounted bills	94,612	5,811	94,612	5,811
Loans and advances to customers	7,000	8,170	7,000	8,170
Total and net balances	316,685	200,045	316,624	200,045

24 INTEREST RECEIVABLE

	Group		Bank	
	2012	2011	2012	2011
Deposits with central banks	988	919	987	919
Deposits with banks and non-bank financial institutions	3,346	1,055	3,220	1,070
Financial assets held under resale agreements	807	580	807	580
Loans and advances to customers	20,408	16,674	20,006	16,334
Debt securities	42,398	37,060	42,218	36,978
Others	318	489	344	540
Gross balances	68,265	56,777	67,582	56,421
Allowances for impairment losses (Note 37)	(1)	(1)	(1)	(1)
Net balances	68,264	56,776	67,581	56,420

25 LOANS AND ADVANCES TO CUSTOMERS

(1) Analysed by nature

	Group		Bank	
	2012	2011	2012	2011
Corporate loans and advances				
– Loans	5,230,891	4,636,821	5,134,038	4,563,855
– Finance leases	38,630	36,095	–	–
	5,269,521	4,672,916	5,134,038	4,563,855
Personal loans and advances				
– Residential mortgages	1,543,966	1,330,198	1,528,757	1,312,974
– Personal business loans	104,096	80,075	101,776	78,716
– Personal consumer loans	84,631	79,515	80,556	76,692
– Credit cards	182,507	101,694	177,936	97,553
– Others	135,894	114,140	128,801	111,975
	2,051,094	1,705,622	2,017,826	1,677,910
Discounted bills	191,697	117,873	191,540	117,781
Gross loans and advances to customers	7,512,312	6,496,411	7,343,404	6,359,546
Allowances for impairment losses (Note 37)	(202,433)	(171,217)	(201,087)	(170,183)
– Individual assessment	(45,814)	(38,109)	(45,678)	(38,020)
– Collective assessment	(156,619)	(133,108)	(155,409)	(132,163)
Net loans and advances to customers	7,309,879	6,325,194	7,142,317	6,189,363

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(2) Analysed by assessment method of allowances for impairment losses

	(note (a)) Loans and advances for which collectively assessed	(note (b)) Impaired loans and advances		Total
		for which allowances are collectively assessed	for which allowances are individually assessed	
Group				
As at 31 December 2012				
Gross loans and advances to customers	7,437,694	5,991	68,627	7,512,312
Allowances for impairment losses	(152,710)	(3,909)	(45,814)	(202,433)
Net loans and advances to customers	7,284,984	2,082	22,813	7,309,879
As at 31 December 2011				
Gross loans and advances to customers	6,425,496	5,290	65,625	6,496,411
Allowances for impairment losses	(129,832)	(3,276)	(38,109)	(171,217)
Net loans and advances to customers	6,295,664	2,014	27,516	6,325,194
Bank				
As at 31 December 2012				
Gross loans and advances to customers	7,269,057	5,895	68,452	7,343,404
Allowances for impairment losses	(151,510)	(3,899)	(45,678)	(201,087)
Net loans and advances to customers	7,117,547	1,996	22,774	7,142,317
As at 31 December 2011				
Gross loans and advances to customers	6,288,878	5,178	65,490	6,359,546
Allowances for impairment losses	(128,898)	(3,265)	(38,020)	(170,183)
Net loans and advances to customers	6,159,980	1,913	27,470	6,189,363

(a) Loans and advances assessed on a collective basis for impairment are those graded normal or special mention.

(b) Impaired loans and advances include loans for which objective evidence of impairment exists and assessed:

- individually (including corporate loans and advances which are graded substandard, doubtful or loss); or
- collectively; these are portfolios of homogeneous loans (including personal loans and advances which are graded substandard, doubtful or loss).

The proportion of impaired loans and advances of the Group to gross loans and advances as at 31 December 2012 is 0.99% (2011: 1.09%).

The proportion of impaired loans and advances of the Bank to gross loans and advances as at 31 December 2012 is 1.01% (2011: 1.11%).

(c) The definitions of the loan classifications stated in notes (a) and (b) above are set out in Note 63(1).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(3) Movements of allowances for impairment losses

Group

	Note	2012			Total
		Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances		
			which are collectively assessed	which are individually assessed	
As at 1 January		129,832	3,276	38,109	171,217
Charge for the year		22,878	1,371	23,024	47,273
Release during the year		-	-	(8,943)	(8,943)
Unwinding of discount		-	-	(1,612)	(1,612)
Transfers out	(a)	-	(5)	(232)	(237)
Write-offs		-	(832)	(5,821)	(6,653)
Recoveries		-	99	1,289	1,388
As at 31 December		152,710	3,909	45,814	202,433

	Note	2011			Total
		Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances		
			which are collectively assessed	which are individually assessed	
As at 1 January		102,093	3,657	37,352	143,102
Charge for the year		27,806	217	14,605	42,628
Release during the year		-	-	(10,225)	(10,225)
Unwinding of discount		-	-	(1,413)	(1,413)
Transfers out	(a)	(67)	(8)	(718)	(793)
Write-offs		-	(676)	(2,654)	(3,330)
Recoveries		-	86	1,162	1,248
As at 31 December		129,832	3,276	38,109	171,217

Bank

	Note	2012			Total
		Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances		
			which are collectively assessed	which are individually assessed	
As at 1 January		128,898	3,265	38,020	170,183
Charge for the year		22,612	1,292	22,954	46,858
Release during the year		-	-	(8,921)	(8,921)
Unwinding of discount		-	-	(1,612)	(1,612)
Transfers out	(a)	-	(2)	(231)	(233)
Write-offs		-	(731)	(5,820)	(6,551)
Recoveries		-	75	1,288	1,363
As at 31 December		151,510	3,899	45,678	201,087

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(3) Movements of allowances for impairment losses (continued)

Bank (continued)

	Note	2011			Total
		Allowances for loans and advances which are collectively assessed	Allowances for impaired loans and advances		
			which are collectively assessed	which are individually assessed	
As at 1 January		101,335	3,648	37,278	142,261
Charge for the year		27,630	144	14,567	42,341
Release during the year		–	–	(10,220)	(10,220)
Unwinding of discount		–	–	(1,413)	(1,413)
Transfers out	(a)	(67)	(8)	(698)	(773)
Write-offs		–	(582)	(2,653)	(3,235)
Recoveries		–	63	1,159	1,222
As at 31 December		128,898	3,265	38,020	170,183

(a) Transfers out include the transfer for allowances for impairment losses to repossessed assets, and the exchange difference.

(4) Overdue loans analysed by overdue period

Group

	2012				Total
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	
Unsecured loans	3,630	1,310	897	1,151	6,988
Guaranteed loans	5,384	9,740	4,405	4,112	23,641
Loans secured by tangible assets other than monetary assets	14,550	12,328	7,717	6,664	41,259
Loans secured by monetary assets	1,151	2,462	909	666	5,188
Total	24,715	25,840	13,928	12,593	77,076
As a percentage of gross loans and advances to customers	0.33%	0.34%	0.19%	0.17%	1.03%

	2011				Total
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	
Unsecured loans	2,515	603	938	1,209	5,265
Guaranteed loans	2,732	2,958	2,781	4,558	13,029
Loans secured by tangible assets other than monetary assets	15,585	5,585	7,525	6,989	35,684
Loans secured by monetary assets	983	593	641	797	3,014
Total	21,815	9,739	11,885	13,553	56,992
As a percentage of gross loans and advances to customers	0.34%	0.15%	0.18%	0.21%	0.88%

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

25 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(4) Overdue loans analysed by overdue period (continued)

Bank

	2012				Total
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	
Unsecured loans	3,536	1,299	894	1,104	6,833
Guaranteed loans	5,371	9,686	4,336	4,112	23,505
Loans secured by tangible assets other than monetary assets	14,212	12,322	7,717	6,662	40,913
Loans secured by monetary assets	1,151	2,462	909	666	5,188
Total	24,270	25,769	13,856	12,544	76,439
As a percentage of gross loans and advances to customers	0.33%	0.35%	0.19%	0.17%	1.04%

	2011				Total
	Overdue within three months	Overdue between three months and one year	Overdue between one year and three years	Overdue over three years	
Unsecured loans	2,444	595	896	1,203	5,138
Guaranteed loans	2,731	2,892	2,781	4,558	12,962
Loans secured by tangible assets other than monetary assets	15,302	5,585	7,525	6,987	35,399
Loans secured by monetary assets	983	593	641	797	3,014
Total	21,460	9,665	11,843	13,545	56,513
As a percentage of gross loans and advances to customers	0.34%	0.15%	0.19%	0.21%	0.89%

Overdue loans represent loans of which the whole or part of the principal or interest are overdue for 1 day or more.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

26 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Analysed by nature

	Note	Group		Bank	
		2012	2011	2012	2011
Debt securities	(1)	688,814	661,036	672,073	651,585
Equity instruments	(2)	11,430	13,764	9,343	11,998
Funds	(2)	797	258	-	-
Total		701,041	675,058	681,416	663,583

(1) Debt securities

Analysed by type of issuers

	Group		Bank	
	2012	2011	2012	2011
Government	92,364	84,591	91,450	84,015
Central banks	100,176	144,830	95,473	141,810
Policy banks	76,655	59,175	76,655	59,165
Banks and non-bank financial institutions	192,276	156,185	184,917	151,626
Public sector entities	341	196	341	196
Other enterprises	227,002	216,059	223,237	214,773
Total	688,814	661,036	672,073	651,585
Listed	31,242	18,666	30,536	18,312
– of which in Hong Kong	1,284	1,906	1,117	1,906
Unlisted	657,572	642,370	641,537	633,273
Total	688,814	661,036	672,073	651,585

(2) Equity instruments and funds

	Group		Bank	
	2012	2011	2012	2011
Debt equity swap (“DES”) investments	7,931	10,607	7,931	10,607
Other equity instruments	3,499	3,157	1,412	1,391
Funds	797	258	-	-
Total	12,227	14,022	9,343	11,998
Listed	8,489	10,251	7,848	10,064
– of which in Hong Kong	623	632	623	617
Unlisted	3,738	3,771	1,495	1,934
Total	12,227	14,022	9,343	11,998

Pursuant to the DES arrangement by the PRC government in 1999, the Group obtained equity interests of certain entities in lieu of repayments of loans granted to them. According to relevant requirements, the Group is prohibited from being involved in management of the operations of these entities. In substance, the Group does not have any control, joint control or significant influence over these entities.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

27 HELD-TO-MATURITY INVESTMENTS

Analysed by types of issuers

	Group		Bank	
	2012	2011	2012	2011
Government	796,075	765,747	795,422	764,969
Central banks	235,053	270,122	235,053	270,122
Policy banks	273,270	225,576	273,270	225,576
Banks and non-bank financial institutions	526,376	475,703	525,879	475,504
Other enterprises	91,626	10,415	90,265	10,165
Gross balances	1,922,400	1,747,563	1,919,889	1,746,336
Allowances for impairment losses (Note 37)	(4,078)	(3,994)	(4,078)	(3,994)
Net balances	1,918,322	1,743,569	1,915,811	1,742,342
Listed outside Hong Kong	12,138	4,126	11,667	4,115
Unlisted	1,906,184	1,739,443	1,904,144	1,738,227
Total	1,918,322	1,743,569	1,915,811	1,742,342
Market value of listed securities	12,842	4,627	12,371	4,616

28 DEBT SECURITIES CLASSIFIED AS RECEIVABLES

All debt securities classified as receivables are unlisted and issued by the following entities in Mainland China:

	Note	Group		Bank	
		2012	2011	2012	2011
Government					
– Special government bond	(1)	49,200	49,200	49,200	49,200
– Others		755	742	530	530
The PBOC	(2)	–	17,944	–	17,944
Banks and non-bank financial institutions		79,707	82,336	77,960	82,286
China Cinda Assets Management Co., Ltd. (“Cinda”)	(3)	57,622	131,761	57,622	131,761
Other enterprises		33,450	18,659	33,450	18,659
Gross balances		220,734	300,642	218,762	300,380
Allowance for impairment losses (Note 37)		(1,021)	(615)	(1,021)	(615)
Net balances		219,713	300,027	217,741	299,765

(1) This represents a non-negotiable bond with a nominal value of RMB49,200 million issued by the Ministry of Finance (“MOF”) in 1998 to strengthen the capital base of CCB. The bond matures in 2028 and bears a fixed interest rate of 2.25% per annum. The PBOC approved the Bank’s use of the special government bond as eligible assets equivalent to the surplus deposit reserve at PBOC for clearing purpose.

(2) Debt securities issued by the PBOC mainly refer to PBOC bills issued specifically to the Bank. These bills matured and were fully repaid in 2012.

(3) China Cinda Assets Management Co., Ltd. (formerly known as China Cinda Asset Management Corporation) (“Cinda”) issued a bond (“Cinda Bond”) with a nominal value of RMB247 billion specifically to CCB in 1999 with a fixed coupon rate of 2.25%. Cinda Bond was extended for 10 years upon its expiry and the interest rate remained unchanged from 2009. Cinda has already repaid RMB189.4 billion of the principal amount of the bond as at 31 December 2012.

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(Expressed in millions of RMB, unless otherwise stated)

29 INVESTMENTS IN SUBSIDIARIES

(1) Investment cost

	2012	2011
Sing Jian Development Company Limited ("SJDCCL")	383	383
Sino-German Bausparkasse Corporation Limited ("Sino-German")	1,502	1,502
CCB Principal Asset Management Corporation Limited ("CCB Principal")	130	130
CCB International Group Holdings Limited ("CCBIG")	–	–
CCB Financial Leasing Corporation Limited ("CCBFLCL")	4,663	3,380
China Construction Bank (London) Limited ("CCB London")	1,361	1,361
Jianxin Trust Corporation Limited ("Jianxin Trust")	3,409	3,409
CCB Life Insurance Company Limited ("CCB Life")	3,902	1,010
Rural Banks	1,326	775
Total	16,676	11,950

The total investment amount of rural banks consists of investment costs of 26 rural banks in total, which are established and controlled by the Bank in substance (2011:16 rural banks).

(2) Major subsidiaries of the Group are unlisted enterprises; details of the investments in subsidiaries are as follows:

Name of company	Place of incorporation	Particulars of the issued and paid up capital	Principal activities	% of ownership directly held by the Bank	% of ownership indirectly held by the Bank	% of voting rights held by the Bank
SJDCCL	Hong Kong, the PRC	HK\$300 million	Investment	100%	–	100%
Sino-German	Tianjin, the PRC	RMB2,000 million	Loan and deposit taking business	75.1%	–	75.1%
CCB Principal	Beijing, the PRC	RMB200 million	Fund management services	65%	–	65%
CCBIG	Hong Kong, the PRC	HK\$1	Investment	100%	–	100%
CCBFLCL	Beijing, the PRC	RMB4,500 million	Financial leasing	100%	–	100%
CCB London	London, United Kingdom	US\$200 million	Commercial banking	100%	–	100%
Jianxin Trust	Anhui, the PRC	RMB1,527 million	Trust business	67%	–	67%
CCB Life	Shanghai, the PRC	RMB4,496 million	Insurance	51%	–	51%
Lanhye Investment Holdings Limited	British Virgin Islands	US\$1	Investment	–	100%	100%
CCB International (Holdings) Limited ("CCBI")	Hong Kong, the PRC	US\$601 million	Investment	–	100%	100%
China Construction Bank (Asia) Corporation Limited ("CCB Asia")	Hong Kong, the PRC	HK\$6,511 million	Commercial banking	–	100%	100%

Note: In November 2012, the Bank acquired the remaining non-controlling interests of 24.9% of CCBFLCL's total shareholding. Currently, CCBFLCL is in the process of changing its business registration.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

30 INTERESTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

(1) The movement of the Group's interests in associates and jointly controlled entities is as follows:

	2012	2011
As at 1 January	2,069	1,777
Acquisition during the year	294	348
Share of profits less losses	28	24
Cash dividend receivable	(11)	(3)
Effect of exchange difference and others	(14)	(77)
Total	2,366	2,069

(2) Details of the interests in major associate and jointly controlled entity are as follows:

Name of Company	Place of incorporation	Particulars of issued and paid up capital	Principal activity	% of ownership held	% of voting held	Total assets at year end	Total liabilities at year end	Revenue for the year	Net profit for the year
QBE Hong Kong and Shanghai Insurance Limited	Hong Kong, the PRC	HK\$78,192,220	Insurance	25.50%	25.50%	1,696	1,125	744	72
Diamond String Limited	Hong Kong, the PRC	HK\$10,000	Property investment	50.00%	50.00%	1,613	1,615	-	(4)
CCBT Private Equity Fund	Beijing, the PRC	RMB355 million	Investment management and consultancy	50.00%	50.00%	342	8	2	(14)
CCBT Fortune Private Equity Fund	Beijing, the PRC	RMB510 million	Investment management and consultancy	33.33%	33.33%	499	-	12	(3)

31 FIXED ASSETS

Group

	Bank premises	Construction in progress	Equipment	Others	Total
Cost/deemed cost					
As at 1 January 2012	65,691	18,933	30,075	23,233	137,932
Additions	8,001	13,316	7,759	3,883	32,959
Transfer in/(out)	6,090	(8,109)	51	1,968	-
Disposals	(257)	(1,249)	(1,900)	(1,332)	(4,738)
As at 31 December 2012	79,525	22,891	35,985	27,752	166,153
Accumulated depreciation					
As at 1 January 2012	(13,761)	-	(18,965)	(10,517)	(43,243)
Charge for the year	(2,585)	-	(4,717)	(4,383)	(11,685)
Disposals	50	-	1,840	1,269	3,159
As at 31 December 2012	(16,296)	-	(21,842)	(13,631)	(51,769)
Allowances for impairment losses (Note 37)					
As at 1 January 2012	(459)	-	(1)	(7)	(467)
Charge for the year	-	-	-	(5)	(5)
Disposals	32	-	-	2	34
As at 31 December 2012	(427)	-	(1)	(10)	(438)
Net carrying value					
As at 1 January 2012	51,471	18,933	11,109	12,709	94,222
As at 31 December 2012	62,802	22,891	14,142	14,111	113,946

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

31 FIXED ASSETS (CONTINUED)

Group (continued)

	Bank premises	Construction in progress	Equipment	Others	Total
Cost/deemed cost					
As at 1 January 2011	57,848	15,639	26,724	19,375	119,586
Additions through acquisition	–	–	10	52	62
Additions	3,808	10,150	5,053	3,158	22,169
Transfer in/(out)	4,396	(6,233)	62	1,775	–
Disposals	(361)	(623)	(1,774)	(1,127)	(3,885)
As at 31 December 2011	65,691	18,933	30,075	23,233	137,932
Accumulated depreciation					
As at 1 January 2011	(11,646)	–	(16,360)	(7,661)	(35,667)
Additions through acquisition	–	–	(8)	(45)	(53)
Charge for the year	(2,212)	–	(4,264)	(3,921)	(10,397)
Disposals	97	–	1,667	1,110	2,874
As at 31 December 2011	(13,761)	–	(18,965)	(10,517)	(43,243)
Allowances for impairment losses (Note 37)					
As at 1 January 2011	(476)	–	(3)	(6)	(485)
Charge for the year	–	–	–	(1)	(1)
Disposals	17	–	2	–	19
As at 31 December 2011	(459)	–	(1)	(7)	(467)
Net carrying value					
As at 1 January 2011	45,726	15,639	10,361	11,708	83,434
As at 31 December 2011	51,471	18,933	11,109	12,709	94,222

Bank

	Bank premises	Construction in progress	Equipment	Others	Total
Cost/deemed cost					
As at 1 January 2012	65,140	18,928	29,765	22,716	136,549
Additions	5,247	13,236	7,650	3,814	29,947
Transfer in/(out)	6,090	(8,109)	51	1,968	–
Disposals	(251)	(1,236)	(1,892)	(1,256)	(4,635)
As at 31 December 2012	76,226	22,819	35,574	27,242	161,861
Accumulated depreciation					
As at 1 January 2012	(13,680)	–	(18,762)	(10,272)	(42,714)
Charge for the year	(2,518)	–	(4,629)	(4,352)	(11,499)
Disposals	48	–	1,836	1,243	3,127
As at 31 December 2012	(16,150)	–	(21,555)	(13,381)	(51,086)
Allowances for impairment losses (Note 37)					
As at 1 January 2012	(459)	–	(1)	(6)	(466)
Disposals	32	–	–	2	34
As at 31 December 2012	(427)	–	(1)	(4)	(432)
Net carrying value					
As at 1 January 2012	51,001	18,928	11,002	12,438	93,369
As at 31 December 2012	59,649	22,819	14,018	13,857	110,343

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(Expressed in millions of RMB, unless otherwise stated)

31 FIXED ASSETS (CONTINUED)

Bank (continued)

	Bank premises	Construction in progress	Equipment	Others	Total
Cost/deemed cost					
As at 1 January 2011	57,296	15,636	26,458	19,083	118,473
Additions	3,806	10,131	5,006	2,978	21,921
Transfer in/(out)	4,395	(6,225)	62	1,768	-
Disposals	(357)	(614)	(1,761)	(1,113)	(3,845)
As at 31 December 2011	65,140	18,928	29,765	22,716	136,549
Accumulated depreciation					
As at 1 January 2011	(11,585)	-	(16,201)	(7,506)	(35,292)
Charge for the year	(2,192)	-	(4,216)	(3,869)	(10,277)
Disposals	97	-	1,655	1,103	2,855
As at 31 December 2011	(13,680)	-	(18,762)	(10,272)	(42,714)
Allowances for impairment losses (Note 37)					
As at 1 January 2011	(476)	-	(3)	(6)	(485)
Disposals	17	-	2	-	19
As at 31 December 2011	(459)	-	(1)	(6)	(466)
Net carrying value					
As at 1 January 2011	45,235	15,636	10,254	11,571	82,696
As at 31 December 2011	51,001	18,928	11,002	12,438	93,369

Notes:

(1) As at 31 December 2012, the ownership documentation for the Group's and the Bank's bank premises with a net carrying value of RMB16,492 million (2011: RMB11,222 million) was being finalised. However, management is of the view that the aforesaid matter would not affect the rights of the Group and the Bank to these assets nor have any significant impact on the business operation of the Group and the Bank.

(2) Analysed by remaining terms of the leases

The net carrying values of bank premises of the Group and the Bank as at the end of the reporting period are analysed by the remaining terms of the leases as follows:

	Group		Bank	
	2012	2011	2012	2011
Long term leases (over 50 years) held overseas	686	37	-	-
Medium term leases (10-50 years) held overseas	2,082	125	102	111
Short term leases (less than 10 years) held overseas	20	6	20	6
Long term leases (over 50 years) held in Mainland China	4,045	3,836	4,045	3,834
Medium term leases (10-50 years) held in Mainland China	54,047	45,990	53,563	45,573
Short term leases (less than 10 years) held in Mainland China	1,922	1,477	1,919	1,477
Total	62,802	51,471	59,649	51,001

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

32 LAND USE RIGHTS

Group

	2012	2011
Cost/deemed cost		
As at 1 January	20,475	20,458
Additions	327	172
Disposals	(44)	(155)
As at 31 December	20,758	20,475
Amortisation		
As at 1 January	(3,872)	(3,387)
Charge for the year	(522)	(508)
Disposals	10	23
As at 31 December	(4,384)	(3,872)
Allowances for impairment losses (Note 37)		
As at 1 January	(146)	(149)
Disposals	4	3
As at 31 December	(142)	(146)
Net carrying value		
As at 1 January	16,457	16,922
As at 31 December	16,232	16,457

Bank

	2012	2011
Cost/deemed cost		
As at 1 January	20,417	20,397
Additions	314	172
Disposals	(43)	(152)
As at 31 December	20,688	20,417
Amortisation		
As at 1 January	(3,867)	(3,383)
Charge for the year	(508)	(507)
Disposals	10	23
As at 31 December	(4,365)	(3,867)
Allowances for impairment losses (Note 37)		
As at 1 January	(146)	(149)
Disposals	4	3
As at 31 December	(142)	(146)
Net carrying value		
As at 1 January	16,404	16,865
As at 31 December	16,181	16,404

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33 INTANGIBLE ASSETS

Group

	Software	Others	Total
Cost/deemed cost			
As at 1 January 2012	4,245	539	4,784
Additions	899	23	922
Disposals	(46)	(17)	(63)
As at 31 December 2012	5,098	545	5,643
Amortisation			
As at 1 January 2012	(3,033)	(83)	(3,116)
Charge for the year	(494)	(24)	(518)
Disposals	44	16	60
As at 31 December 2012	(3,483)	(91)	(3,574)
Allowances for impairment losses (Note 37)			
As at 1 January 2012	(1)	(7)	(8)
As at 31 December 2012	(1)	(7)	(8)
Net carrying value			
As at 1 January 2012	1,211	449	1,660
As at 31 December 2012	1,614	447	2,061
Cost/deemed cost			
As at 1 January 2011	3,906	49	3,955
Additions through acquisition	48	424	472
Additions	409	71	480
Disposals	(118)	(5)	(123)
As at 31 December 2011	4,245	539	4,784
Amortisation			
As at 1 January 2011	(2,626)	(11)	(2,637)
Additions through acquisition	(27)	–	(27)
Charge for the year	(491)	(74)	(565)
Disposals	111	2	113
As at 31 December 2011	(3,033)	(83)	(3,116)
Allowances for impairment losses (Note 37)			
As at 1 January 2011	(1)	(7)	(8)
As at 31 December 2011	(1)	(7)	(8)
Net carrying value			
As at 1 January 2011	1,279	31	1,310
As at 31 December 2011	1,211	449	1,660

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

33 INTANGIBLE ASSETS (CONTINUED)

Bank

	Software	Others	Total
Cost/deemed cost			
As at 1 January 2012	4,127	102	4,229
Additions	849	23	872
Disposals	(43)	(17)	(60)
As at 31 December 2012	4,933	108	5,041
Amortisation			
As at 1 January 2012	(2,970)	(75)	(3,045)
Charge for the year	(475)	(7)	(482)
Disposals	42	16	58
As at 31 December 2012	(3,403)	(66)	(3,469)
Allowances for impairment losses (Note 37)			
As at 1 January 2012	(1)	(7)	(8)
As at 31 December 2012	(1)	(7)	(8)
Net carrying value			
As at 1 January 2012	1,156	20	1,176
As at 31 December 2012	1,529	35	1,564
Cost/deemed cost			
As at 1 January 2011	3,858	38	3,896
Additions	386	69	455
Disposals	(117)	(5)	(122)
As at 31 December 2011	4,127	102	4,229
Amortisation			
As at 1 January 2011	(2,604)	(11)	(2,615)
Charge for the year	(477)	(66)	(543)
Disposals	111	2	113
As at 31 December 2011	(2,970)	(75)	(3,045)
Allowances for impairment losses (Note 37)			
As at 1 January 2011	(1)	(7)	(8)
As at 31 December 2011	(1)	(7)	(8)
Net carrying value			
As at 1 January 2011	1,253	20	1,273
As at 31 December 2011	1,156	20	1,176

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

34 GOODWILL

- (1) The goodwill is attributable to the expected synergies arising from the acquisition of CCB Asia on 29 December 2006, Jianxin Trust on 29 July 2009 and CCB Life on 29 June 2011. Movement of the goodwill is as follows:

	2012	2011
As at 1 January	1,662	1,534
Additions through acquisitions	-	194
Effect of exchange difference	(11)	(66)
As at 31 December	1,651	1,662

(2) Impairment test for CGU containing goodwill

The Group calculated the recoverable amount of the CGU using cash flow projections based on financial forecasts approved by management. The average growth rate used by the Group is consistent with the forecasts included in industry reports. The discount rate used reflects specific risks relating to the relevant segments.

Based on the result of the impairment test, no impairment losses on goodwill were recognised as at 31 December 2012 (2011: nil).

35 DEFERRED TAX

	Group		Bank	
	2012	2011	2012	2011
Deferred tax assets	27,051	21,410	27,517	22,003
Deferred tax liabilities	(332)	(358)	-	(23)
Total	26,719	21,052	27,517	21,980

(1) Analysed by nature

Group

	2012		2011	
	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets				
- Fair value adjustments	(5,938)	(1,488)	(9,066)	(2,271)
- Allowances for impairment losses	105,164	26,208	86,022	21,386
- Early retirement benefits and accrued salaries	25,318	6,321	22,755	5,689
- Others	(15,056)	(3,990)	(12,758)	(3,394)
Total	109,488	27,051	86,953	21,410
Deferred tax liabilities				
- Fair value adjustments	(1,235)	(297)	(1,323)	(309)
- Allowances for impairment losses	17	4	(46)	(11)
- Others	(176)	(39)	(148)	(38)
Total	(1,394)	(332)	(1,517)	(358)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

35 DEFERRED TAX (CONTINUED)

(1) Analysed by nature (continued)

Bank

	2012		2011	
	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred tax assets/ (liabilities)
Deferred tax assets				
– Fair value adjustments	(5,926)	(1,487)	(9,106)	(2,281)
– Allowances for impairment losses	104,587	26,093	85,634	21,320
– Early retirement benefits and accrued salaries	25,069	6,267	22,606	5,651
– Others	(9,979)	(3,356)	(7,268)	(2,687)
Total	113,751	27,517	91,866	22,003
Deferred tax liabilities				
– Fair value adjustments	–	–	(55)	(13)
– Allowances for impairment losses	–	–	(46)	(11)
– Others	–	–	4	1
Total	–	–	(97)	(23)

(2) Movements of deferred tax

Group

	Early retirement benefits and accrued salaries	Fair value adjustments	Allowances for impairment losses	Others	Total
As at 1 January 2012	5,689	(2,580)	21,375	(3,432)	21,052
Recognised in profit or loss	632	(301)	4,837	(597)	4,571
Recognised in other comprehensive income	–	1,096	–	–	1,096
As at 31 December 2012	6,321	(1,785)	26,212	(4,029)	26,719
As at 1 January 2011	4,688	(2,919)	15,760	53	17,582
Recognised in profit or loss	998	210	5,615	(3,443)	3,380
Recognised in other comprehensive income	–	229	–	–	229
Addition through acquisition	3	(100)	–	(42)	(139)
As at 31 December 2011	5,689	(2,580)	21,375	(3,432)	21,052

Bank

	Early retirement benefits and accrued salaries	Fair value adjustments	Allowances for impairment losses	Others	Total
As at 1 January 2012	5,651	(2,294)	21,309	(2,686)	21,980
Recognised in profit or loss	616	(293)	4,784	(670)	4,437
Recognised in other comprehensive income	–	1,100	–	–	1,100
As at 31 December 2012	6,267	(1,487)	26,093	(3,356)	27,517
As at 1 January 2011	4,657	(2,694)	15,689	1,118	18,770
Recognised in profit or loss	994	198	5,620	(3,804)	3,008
Recognised in other comprehensive income	–	202	–	–	202
As at 31 December 2011	5,651	(2,294)	21,309	(2,686)	21,980

The Group and the Bank did not have significant unrecognised deferred tax as at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

36 OTHER ASSETS

	Note	Group		Bank	
		2012	2011	2012	2011
Reposessed assets	(1)				
– Buildings		1,398	1,553	1,398	1,549
– Land use rights		233	219	233	219
– Others		61	60	60	60
		1,692	1,832	1,691	1,828
Long-term deferred expenses		625	493	564	462
Receivables from CCBIG	(2)	–	–	20,681	18,205
Other receivables		20,942	15,920	17,704	13,696
Leasehold improvements		2,566	2,401	2,542	2,389
Subtotal		25,825	20,646	43,182	36,580
Allowances for impairment losses (Note 37)					
– Reposessed assets		(217)	(278)	(217)	(278)
– Others		(2,273)	(2,225)	(2,107)	(2,225)
Total		23,335	18,143	40,858	34,077

- (1) During the year ended 31 December 2012, the original cost of reposessed assets disposed of by the Group amounted to RMB623 million (2011: RMB473 million). The Group intends to dispose of reposessed assets through various methods including auction, competitive bidding and disposal.
- (2) Receivables from CCBIG represent lending to CCBIG, a wholly owned subsidiary, for acquisition of equity investments and capital injection to other subsidiaries. The receivables are unsecured, non-interest bearing and without fixed repayment term.

37 MOVEMENTS OF ALLOWANCES FOR IMPAIRMENT LOSSES

Group

	Note	2012				As at 31 December
		As at 1 January	Charge for the year/ (Write-back)	Transfer out	Write-offs	
Deposits with banks and non-bank financial institutions	19	9	(1)	–	(1)	7
Placements with banks and non-bank financial institutions	20	65	(9)	–	(7)	49
Interest receivable	24	1	–	–	–	1
Loans and advances to customers	25(3)	171,217	38,330	(461)	(6,653)	202,433
Held-to-maturity investments	27	3,994	1,126	(29)	(1,013)	4,078
Debt securities classified as receivables	28	615	406	–	–	1,021
Fixed assets	31	467	5	–	(34)	438
Land use rights	32	146	–	–	(4)	142
Intangible assets	33	8	–	–	–	8
Other assets	36	2,503	297	–	(310)	2,490
Total		179,025	40,154	(490)	(8,022)	210,667

Transfer out includes the exchange difference.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

37 MOVEMENTS OF ALLOWANCES FOR IMPAIRMENT LOSSES (CONTINUED)

Group (continued)

	Note	2011				As at 31 December
		As at 1 January	Charge for the year/ (Write-back)	Transfer in/(out)	Write-offs	
Deposits with banks and non-bank financial institutions	19	11	(16)	14	–	9
Placements with banks and non-bank financial institutions	20	84	(37)	35	(17)	65
Interest receivable	24	1	–	–	–	1
Loans and advances to customers	25(3)	143,102	32,403	(958)	(3,330)	171,217
Held-to-maturity investments	27	5,003	(15)	(192)	(802)	3,994
Debt securities classified as receivables	28	120	495	–	–	615
Fixed assets	31	485	1	–	(19)	467
Land use rights	32	149	–	–	(3)	146
Intangible assets	33	8	–	–	–	8
Other assets	36	2,981	(169)	–	(309)	2,503
Total		151,944	32,662	(1,101)	(4,480)	179,025

Bank

	Note	2012				As at 31 December
		As at 1 January	Charge for the year/ (Write-back)	Transfer out	Write-offs	
Deposits with banks and non-bank financial institutions	19	9	(1)	–	(1)	7
Placements with banks and non-bank financial institutions	20	65	(9)	–	(7)	49
Interest receivable	24	1	–	–	–	1
Loans and advances to customers	25(3)	170,183	37,937	(482)	(6,551)	201,087
Held-to-maturity investments	27	3,994	1,126	(29)	(1,013)	4,078
Debt securities classified as receivables	28	615	406	–	–	1,021
Fixed assets	31	466	–	–	(34)	432
Land use rights	32	146	–	–	(4)	142
Intangible assets	33	8	–	–	–	8
Other assets	36	2,503	96	–	(275)	2,324
Total		177,990	39,555	(511)	(7,885)	209,149

	Note	2011				As at 31 December
		As at 1 January	Charge for the year/ (Write-back)	Transfer in/(out)	Write-offs	
Deposits with banks and non-bank financial institutions	19	11	(16)	14	–	9
Placements with banks and non-bank financial institutions	20	84	(37)	35	(17)	65
Interest receivable	24	1	–	–	–	1
Loans and advances to customers	25(3)	142,261	32,121	(964)	(3,235)	170,183
Held-to-maturity investments	27	5,003	(15)	(192)	(802)	3,994
Debt securities classified as receivables	28	120	495	–	–	615
Fixed assets	31	485	–	–	(19)	466
Land use rights	32	149	–	–	(3)	146
Intangible assets	33	8	–	–	–	8
Other assets	36	2,978	(242)	–	(233)	2,503
Total		151,100	32,306	(1,107)	(4,309)	177,990

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

38 AMOUNTS DUE FROM/TO SUBSIDIARIES

Amounts due from subsidiaries of the Bank are analysed by assets category as follows:

	2012	2011
Deposits with banks and non-bank financial institutions	7,593	9,118
Placements with banks and non-bank financial institutions	12,670	7,750
Interest receivable	43	136
Loans and advances to customers	760	-
Available-for-sale financial assets	2,022	3,333
Other assets	20,809	18,394
Total	43,897	38,731

Amounts due to subsidiaries of the Bank are analysed by liabilities category as follows:

	2012	2011
Deposits from banks and non-bank financial institutions	7,631	4,587
Placements from banks and non-bank financial institutions	3,321	2,397
Financial assets sold under repurchase agreements	-	1,133
Deposits from customers	5,279	1,633
Interest payable	97	78
Other liabilities	2	42
Total	16,330	9,870

39 DEPOSITS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	Group		Bank	
	2012	2011	2012	2011
Banks	506,141	461,574	508,097	464,173
Non-bank financial institutions	471,346	504,655	472,400	505,860
Total	977,487	966,229	980,497	970,033

(2) Analysed by geographical sectors

	Group		Bank	
	2012	2011	2012	2011
Mainland China	974,231	966,085	972,348	968,168
Overseas	3,256	144	8,149	1,865
Total	977,487	966,229	980,497	970,033

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

40 PLACEMENTS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

(1) Analysed by type of counterparties

	Group		Bank	
	2012	2011	2012	2011
Banks	119,988	77,474	77,434	44,692
Non-bank financial institutions	268	1,251	206	962
Total	120,256	78,725	77,640	45,654

(2) Analysed by geographical sectors

	Group		Bank	
	2012	2011	2012	2011
Mainland China	49,406	33,045	20,899	5,745
Overseas	70,850	45,680	56,741	39,909
Total	120,256	78,725	77,640	45,654

41 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2012	2011	2012	2011
Structured financial instruments	5,117	11,332	2,399	8,642
Financial liabilities related to precious metals	32,134	22,324	32,134	22,324
Total	37,251	33,656	34,533	30,966

The Group's and the Bank's financial liabilities at fair value through profit or loss are those designated at fair value through profit or loss. As at the end of reporting period, the difference between the fair value of these financial liabilities and the contractual payables at maturity is not material. The amounts of changes in the fair value of these financial liabilities that are attributable to changes in credit risk are considered not significant during the year presented and cumulatively as at 31 December 2012 and 2011.

42 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

Financial assets sold under repurchase agreements by underlying assets are shown as follows:

	Group		Bank	
	2012	2011	2012	2011
Securities				
– PBOC bills	–	10,010	–	10,010
– Government bonds	1,281	–	–	–
– Standard bonds	130	–	–	–
	1,411	10,010	–	10,010
Discounted bills	949	451	891	451
Loans	–	–	–	1,133
Total	2,360	10,461	891	11,594

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

43 DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2012	2011	2012	2011
Demand deposits				
– Corporate customers	3,816,312	3,576,929	3,806,391	3,569,524
– Personal customers	2,107,369	1,839,812	2,092,833	1,829,426
Subtotal	5,923,681	5,416,741	5,899,224	5,398,950
Time deposits (including call deposits)				
– Corporate customers	2,392,797	1,949,188	2,365,610	1,920,555
– Personal customers	3,026,601	2,621,521	2,985,166	2,586,588
Subtotal	5,419,398	4,570,709	5,350,776	4,507,143
Total	11,343,079	9,987,450	11,250,000	9,906,093

Deposits from customers include:

	Group		Bank	
	2012	2011	2012	2011
(1) Pledged deposits				
– Deposits for acceptance	124,367	104,880	124,423	104,699
– Deposits for letter of credit	42,616	59,445	42,616	59,441
– Deposits for guarantee	34,443	40,570	34,443	40,570
– Others	192,272	158,088	195,045	157,986
Total	393,698	362,983	396,527	362,696
(2) Outward remittance and remittance payables	8,722	9,508	8,592	9,434

(3) As at 31 December 2012, the deposits arising from wealth management products with principal guaranteed by the Group and the Bank were RMB355,284 million (2011:RMB154,062 million).

44 ACCRUED STAFF COSTS

Group

	Note	2012		
		As at 1 January	Accrued	As at 31 December
Salaries, bonuses, allowances and subsidies		19,871	54,352	(50,735)
Defined contribution retirement schemes		552	10,214	(10,160)
Other social insurance and welfare		1,630	7,807	(7,462)
Housing funds		124	4,685	(4,675)
Union running costs and employee education costs		1,174	2,205	(2,110)
Supplementary retirement benefits	(1)	7,032	598	(6,995)
Early retirement benefits		5,542	210	(1,156)
Compensation to employees for termination of employment relationship		6	8	(9)
Total		35,931	80,079	(83,302)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

44 ACCRUED STAFF COSTS (CONTINUED)

Group (continued)

	Note	2011			As at 31 December
		As at 1 January	Accrued	Paid	
Salaries, bonuses, allowances and subsidies		14,873	49,703	(44,705)	19,871
Defined contribution retirement schemes		492	8,495	(8,435)	552
Other social insurance and welfare		1,265	6,581	(6,216)	1,630
Housing funds		112	3,989	(3,977)	124
Union running costs and employee education costs		954	2,013	(1,793)	1,174
Supplementary retirement benefits	(1)	6,901	638	(507)	7,032
Early retirement benefits		6,765	409	(1,632)	5,542
Compensation to employees for termination of employment relationship		7	10	(11)	6
Total		31,369	71,838	(67,276)	35,931

Bank

	Note	2012			As at 31 December
		As at 1 January	Accrued	Paid	
Salaries, bonuses, allowances and subsidies		19,222	52,455	(48,949)	22,728
Defined contribution retirement schemes		550	10,076	(10,023)	603
Other social insurance and welfare		1,544	7,690	(7,368)	1,866
Housing funds		124	4,643	(4,634)	133
Union running costs and employee education costs		1,162	2,187	(2,093)	1,256
Supplementary retirement benefits	(1)	7,032	598	(6,995)	635
Early retirement benefits		5,542	210	(1,156)	4,596
Compensation to employees for termination of employment relationship		6	8	(9)	5
Total		35,182	77,867	(81,227)	31,822

	Note	2011			As at 31 December
		As at 1 January	Accrued	Paid	
Salaries, bonuses, allowances and subsidies		14,133	48,153	(43,064)	19,222
Defined contribution retirement schemes		491	8,397	(8,338)	550
Other social insurance and welfare		1,169	6,525	(6,150)	1,544
Housing funds		111	3,968	(3,955)	124
Union running costs and employee education costs		945	1,997	(1,780)	1,162
Supplementary retirement benefits	(1)	6,901	638	(507)	7,032
Early retirement benefits		6,765	409	(1,632)	5,542
Compensation to employees for termination of employment relationship		7	10	(11)	6
Total		30,522	70,097	(65,437)	35,182

(1) Supplementary retirement benefits

The Group's obligations in respect of the supplementary retirement benefits as at the end of the reporting period were calculated using the projected unit credit actuarial cost method and reviewed by qualified staff (a member of Society of Actuaries of the United States of America) of an external independent actuary: Towers, Perrin, Forster & Crosby, Inc., Hong Kong.

The group has established an independent custodian account for the supplementary retirement benefits. The assets under the custodian accounts are plan assets. As at 31 December 2012, the plan assets under the custodian account were all bank deposits, amounted to RMB6,370 million (2011: nil).

NOTES TO THE FINANCIAL STATEMENTS

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44 ACCRUED STAFF COSTS (CONTINUED)

(1) Supplementary retirement benefits (continued)

(a) *Breakdowns of supplementary retirement benefits obligations of the Group and the Bank are as follows:*

	2012	2011
Fair value of plan assets	6,370	–
Supplementary retirement benefits obligations	635	7,032
Unrecognised actuarial losses	64	1
Present value of supplementary retirement benefit obligations	7,069	7,033

(b) *Movements of supplementary retirement benefits of the Group and the Bank are as follows:*

	2012	2011
As at 1 January	7,032	6,901
Payments made	(625)	(507)
Expenses recognised in profit or loss		
– Interest cost	232	251
– Past service costs	366	387
Payments for plan assets	(6,370)	–
As at 31 December	635	7,032

Interest cost was recognised in other general and administrative expenses. Past service costs were recognised in staff costs.

(c) *Principal actuarial assumptions of the Group and the Bank as at the end of the reporting period are as follows:*

	2012	2011
Discount rate	3.50%	3.50%
Health care cost increase rate	7.00%	7.00%
Average expected future lifetime of eligible employees	13.1 years	13.6 years

(2) The Group and the Bank had no overdue balance of accrued staff costs as at the end of the reporting period.

45 TAXES PAYABLE

	Group		Bank	
	2012	2011	2012	2011
Income tax	44,361	38,899	44,076	38,747
Business tax and surcharges	8,373	7,752	8,281	7,688
Others	537	538	505	515
Total	53,271	47,189	52,862	46,950

46 INTEREST PAYABLE

	Group		Bank	
	2012	2011	2012	2011
Deposits from banks and non-bank financial institutions	2,652	1,405	2,671	1,392
Deposits from customers	117,974	76,850	117,724	76,665
Debts securities issued	2,137	1,921	2,137	1,921
Others	452	378	272	334
Total	123,215	80,554	122,804	80,312

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(Expressed in millions of RMB, unless otherwise stated)

47 PROVISIONS

	Group and Bank	
	2012	2011
Litigation provisions	741	896
Others	4,317	4,284
Total	5,058	5,180

48 DEBT SECURITIES ISSUED

	Note	Group		Bank	
		2012	2011	2012	2011
Certificates of deposit issued	(1)	101,223	48,451	84,195	38,189
Bonds issued	(2)	1,934	–	995	–
Subordinated bonds issued	(3)	159,834	119,861	159,834	119,861
Total		262,991	168,312	245,024	158,050

(1) Certificates of deposit were mainly issued by overseas branches and CCB Asia.

(2) Bonds issued

	Note	Group		Bank	
		2012	2011	2012	2011
3.20% fixed rate RMB bonds	(a)	940	–	–	–
3.08% fixed rate RMB bonds	(b)	500	–	500	–
3.25% fixed rate RMB bonds	(c)	500	–	500	–
Total nominal value		1,940	–	1,000	–
Less: unamortised issuance costs		(6)	–	(5)	–
Carrying value as at 31 December		1,934	–	995	–

(a) 3.20% fixed rate RMB bonds were issued in November 2012 in London, and will mature on 29 November, 2015.

(b) 3.08% fixed rate RMB bonds were issued in June 2012 in Hong Kong, and will mature on 28 June, 2014.

(c) 3.25% fixed rate RMB bonds were issued in June 2012 in Hong Kong, and will mature on 28 June, 2015.

(3) Subordinated bonds issued

The carrying value of the Group and the Bank's subordinated bonds issued upon the approval of the PBOC and the CBRC is as follows:

	Note	Group and Bank	
		2012	2011
3.20% subordinated fixed rate bonds maturing in February 2019	(a)	12,000	12,000
4.00% subordinated fixed rate bonds maturing in February 2024	(b)	28,000	28,000
3.32% subordinated fixed rate bonds maturing in August 2019	(c)	10,000	10,000
4.04% subordinated fixed rate bonds maturing in August 2024	(d)	10,000	10,000
4.80% subordinated fixed rate bonds maturing in December 2024	(e)	20,000	20,000
5.70% subordinated fixed rate bonds maturing in November 2026	(f)	40,000	40,000
4.99% subordinated fixed rate bonds maturing in November 2027	(g)	40,000	–
Total nominal value		160,000	120,000
Less: Unamortised issuance cost		(166)	(139)
Carrying value as at 31 December		159,834	119,861

(a) The interest rate per annum on the subordinated fixed rate bonds issued in February 2009 is 3.20%. The Group has an option to redeem the bonds on 26 February 2014. If they are not redeemed by the Group, the interest rate will increase to 6.20% per annum from 26 February 2014 for the next five years.

(b) The interest rate per annum on the subordinated fixed rate bonds issued in February 2009 is 4.00%. The Group has an option to redeem the bonds on 26 February 2019. If they are not redeemed by the Group, the interest rate will increase to 7.00% per annum from 26 February 2019 for the next five years.

(c) The interest rate per annum on the subordinated fixed rate bonds issued in August 2009 is 3.32%. The Group has an option to redeem the bonds on 11 August 2014. If they are not redeemed by the Group, the interest rate will increase to 6.32% per annum from 11 August 2014 for the next five years.

(d) The interest rate per annum on the subordinated fixed rate bonds issued in August 2009 is 4.04%. The Group has an option to redeem the bonds on 11 August 2019. If they are not redeemed by the Group, the interest rate will increase to 7.04% per annum from 11 August 2019 for the next five years.

(e) The interest rate per annum on the subordinated fixed rate bonds issued in December 2009 is 4.80%. The Group has an option to redeem the bonds on 22 December 2019. If they are not redeemed by the Group, the interest rate will increase to 7.80% per annum from 22 December 2019 for the next five years.

(f) The interest rate per annum on the subordinated fixed rate bonds issued in November 2011 is 5.70%, which will be kept fixed in the duration. The Group has an option to redeem the bonds on 7 November 2021, subject to an approval from relevant authority.

(g) The interest rate per annum on the subordinated fixed rate bonds issued in November 2012 is 4.99%, which will be kept fixed in the duration. The Group has an option to redeem the bonds on 21 November 2022, subject to an approval from relevant authority.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

49 OTHER LIABILITIES

	Group		Bank	
	2012	2011	2012	2011
Deferred income	10,150	7,455	10,035	7,296
Insurance reserve of CCB life	7,574	2,670	-	-
Capital expenditure payable	5,831	5,518	5,831	5,517
Dormant accounts	2,381	2,193	2,381	2,193
Settlement accounts	1,752	452	1,742	452
Securities underwriting and redemption payable	1,395	2,000	1,395	2,000
Payment and collection clearance accounts	439	572	439	572
Payables to China Jianyin Investment Limited	83	107	83	107
Others	17,784	14,631	11,978	9,575
Total	47,389	35,598	33,884	27,712

50 SHARE CAPITAL

	Group and Bank	
	2012	2011
Listed in Hong Kong (H share)	240,417	240,417
Listed in Mainland China (A share)	9,594	9,594
Total	250,011	250,011

All H and A shares are ordinary shares, have a par value of RMB1.00 per share and rank pari passu with the same rights and benefits.

51 CAPITAL RESERVE

	Group		Bank	
	2012	2011	2012	2011
Share premium	135,118	135,047	135,047	135,047
Others	163	131	157	131
Total	135,281	135,178	135,204	135,178

52 INVESTMENT REVALUATION RESERVE

The changes in fair value of available-for-sale financial assets were recognised in "investment revaluation reserve". Movements of investment revaluation reserve are as follows:

Group

	2012		
	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
As at 1 January	8,492	(2,109)	6,383
Losses during the year			
– Debt securities	(1,238)	296	(942)
– Equity instruments and funds	(1,383)	346	(1,037)
	(2,621)	642	(1,979)
Reclassification adjustments			
– Impairment	(337)	84	(253)
– Disposals	(1,546)	387	(1,159)
– Others	42	(11)	31
	(1,841)	460	(1,381)
As at 31 December	4,030	(1,007)	3,023

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

52 INVESTMENT REVALUATION RESERVE (CONTINUED)

Group (continued)

	2011		
	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
As at 1 January	9,024	(2,318)	6,706
Gains/(losses) during the year			
– Debt securities	5,118	(1,203)	3,915
– Equity instruments and funds	(6,004)	1,501	(4,503)
	(886)	298	(588)
Reclassification adjustments			
– Impairment	1,106	(277)	829
– Disposals	(810)	202	(608)
– Others	58	(14)	44
	354	(89)	265
As at 31 December	8,492	(2,109)	6,383

Bank

	2012		
	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
As at 1 January	8,566	(2,094)	6,472
Losses during the year			
– Debt securities	(1,179)	271	(908)
– Equity instruments	(1,505)	376	(1,129)
	(2,684)	647	(2,037)
Reclassification adjustments			
– Impairment	(355)	89	(266)
– Disposals	(1,497)	375	(1,122)
– Others	42	(11)	31
	(1,810)	453	(1,357)
As at 31 December	4,072	(994)	3,078

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

52 INVESTMENT REVALUATION RESERVE (CONTINUED)

Bank (continued)

	2011		
	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
As at 1 January	9,039	(2,296)	6,743
Gains/(losses) during the year			
– Debt securities	4,942	(1,151)	3,791
– Equity instruments	(5,825)	1,456	(4,369)
	(883)	305	(578)
Reclassification adjustments			
– Impairment	1,106	(277)	829
– Disposals	(754)	188	(566)
– Others	58	(14)	44
	410	(103)	307
As at 31 December	8,566	(2,094)	6,472

Others refer to the amortisation of accumulated losses previously recognised in revaluation reserve for the year. These accumulated losses were related to certain debt securities reclassified from available-for-sale financial assets to held-to-maturity investments in prior years.

53 SURPLUS RESERVE

Surplus reserves consist of statutory surplus reserve fund and discretionary surplus reserve fund.

The Bank is required to allocate 10% of its net profit, as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the MOF on 15 Feb 2006 and since, to the statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital. After making appropriations to the statutory surplus reserve fund, the Bank may also allocate its net profit to the discretionary surplus reserve fund upon approval by shareholders in annual general meetings.

54 GENERAL RESERVE

The general reserve of the Group and the Bank is set up based upon the requirements of:

	Note	Group		Bank	
		2012	2011	2012	2011
MOF	(1)	79,182	66,458	79,182	66,458
Hong Kong Banking Ordinance	(2)	819	596	105	105
Other regulatory bodies in Mainland China	(3)	324	205	–	–
Other overseas regulatory bodies		158	83	157	82
Total		80,483	67,342	79,444	66,645

- Pursuant to relevant regulations issued by the MOF, the Bank has to appropriate a certain amount of its net profit as general reserve to cover potential losses against its assets. In accordance with the 'Regulation on Management of Financial Institutions for Reserves' (Cai Jin [2012] No. 20), issued by the Ministry of Finance on 30 March 2012, the general reserve balance for financial institutions should not be lower than 1.5% of the ending balance of gross risk-bearing assets. Institutions which face challenges to increase its general reserve to 1.5% at once can do so in stages, over a 5 year period from 1 July 2012.
- Pursuant to requirements of the Hong Kong Banking Ordinance, the Group's banking operations in Hong Kong are required to set aside amounts in a regulatory reserve in respect of losses which it will, or may, incur on loans and advances to customers, in addition to impairment losses recognised in accordance with the accounting policies of the Group. Transfers to and from the regulatory reserve are made through retained earnings.
- Pursuant to the relevant regulatory requirements in Mainland China, the Bank's subsidiaries are required to appropriate a certain amount of its net profit as general reserve.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

55 PROFIT DISTRIBUTION

In the Annual General Meeting held on June 7th 2012, the shareholders approved the profit distribution for the year ended 31 December 2011. The Bank appropriated cash dividend for the year ended 31 December 2011 in an aggregate amount of RMB59,128 million.

On 22 March 2013, Board of Directors proposed the following profit distribution scheme for the year ended 31 December 2012:

- (1) Appropriate statutory surplus reserve amounted to RMB19,142 million, based on 10% of the net profit of the Bank amounted to RMB191,422 million for the year 2012 (2011: RMB16,895 million). It has been recorded in "Surplus reserve" as at the end of the reporting period.
- (2) Appropriate general reserve amounted to RMB71,068 million, pursuant to relevant regulations issued by MOF (2011: RMB12,723 million).
- (3) Appropriate cash dividend RMB0.268 per share before tax (2011: RMB0.2365 per share) and in aggregation amount of RMB67,003 million to all shareholders. Proposed dividends at the end of the reporting period are not recognised as a liability.

Above proposed profit distribution scheme is subject to the approval of shareholders in the Annual General Meeting. Cash dividends will be distributed to all shareholders registered at the relevant date upon approval.

56 NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

	2012	2011
Cash	72,653	58,308
Surplus deposit reserves with central banks	231,318	324,568
Demand deposits with banks and non-bank financial institutions	36,454	33,072
Deposits with banks and non-bank financial institutions with original maturity with or within three months	330,045	78,795
Placements with banks and non-bank financial institutions with original maturity with or within three months	78,450	63,720
Total	748,920	558,463

57 CREDIT ASSETS SECURITISATION TRANSACTIONS

The Group enters into securitisation transactions in normal course of business by which it transfers credit assets to special purpose vehicles ("SPVs") which issue asset-backed securities to investors. The Group may retain interests in the form of subordinated tranches which would give rise to the Group's continuing involvement in the transferred assets. Those financial assets are recognised on the statement of financial positions to the extent of the Group's continuing involvement.

As at 31 December 2012, loans with an original carrying amount of RMB7,177 million (2011: RMB7,177 million) have been securitised by the Group under arrangements in which the Group retained a continuing involvement in such assets. As at 31 December 2012, the carrying amount of assets that the Group continued to recognise was RMB834 million (2011: RMB839 million), and liabilities was RMB506 million (2011: RMB508 million).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

58 OPERATING SEGMENTS

The Group has presented the operating segments in a manner consistent with the way in which information is reported internally to the Group's chief operating decision makers for the purposes of resource allocation and performance assessment. Measurement of segment assets and liabilities and segment income and results is based on the Group's accounting policies.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense". Interest income and expense earned from third parties are referred to as "external net interest income/expense".

Segment revenues, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income and results are determined before intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the period to acquire fixed assets, intangible assets and other long-term assets.

(1) Geographical segments

The Group operates principally in Mainland China with branches covering all provinces, autonomous regions and municipalities directly under the central government, and several subsidiaries located in Mainland China. The Group also has bank branch operations in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo, Seoul, New York, Sydney and Ho Chi Minh City and certain subsidiaries operations in Hong Kong and London.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches and subsidiaries that generate the income. Segment assets, liabilities and capital expenditure are allocated based on their geographical location.

Geographical segments of the Group, as defined for management reporting purposes, are defined as follows:

- "Yangtze River Delta" refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Shanghai Municipality, Jiangsu Province, Zhejiang Province, City of Ningbo and City of Suzhou;
- "Pearl River Delta" refers to the following areas where the tier-1 branches of the Bank operate: Guangdong Province, City of Shenzhen, Fujian Province and City of Xiamen;
- "Bohai Rim" refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Beijing Municipality, Shandong Province, Tianjin Municipality, Hebei Province and City of Qingdao;
- the "Central" region refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Shanxi Province, Guangxi Autonomous Region, Hubei Province, Henan Province, Hunan Province, Jiangxi Province, Hainan Province, Anhui Province and the Three Gorges Area;
- the "Western" region refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Sichuan Province, Chongqing Municipality, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Inner Mongolia Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region; and
- the "Northeastern" region refers to the following areas where the tier-1 branches and the subsidiaries of the Bank operate: Liaoning Province, Jilin Province, Heilongjiang Province and City of Dalian.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

58 OPERATING SEGMENTS (CONTINUED)

(1) Geographical segments (continued)

	2012								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	Total
External net interest income	56,937	31,121	29,810	37,911	44,028	13,241	137,357	2,797	353,202
Internal net interest income/(expense)	5,510	12,350	20,595	15,405	12,660	8,907	(77,436)	2,009	-
Net interest income	62,447	43,471	50,405	53,316	56,688	22,148	59,921	4,806	353,202
Net fee and commission income	19,596	15,572	14,949	14,819	12,436	5,709	9,127	1,299	93,507
Net trading gain/(loss)	707	607	313	100	261	132	226	(483)	1,863
Dividend income	10	1	-	67	20	76	50	15	239
Net gain arising from investment securities	831	-	-	478	650	238	1,296	43	3,536
Other operating income, net	6,295	269	54	369	887	102	1,418	792	10,186
Operating income	89,886	59,920	65,721	69,149	70,942	28,405	72,038	6,472	462,533
Operating expenses	(34,976)	(22,123)	(25,484)	(28,932)	(27,925)	(12,380)	(16,111)	(3,150)	(171,081)
Impairment losses	(18,005)	(4,890)	(3,320)	(4,795)	(3,331)	(1,439)	(4,076)	(185)	(40,041)
Share of profits less losses of associates and jointly controlled entities	-	-	-	(11)	-	-	-	39	28
Profit before tax	36,905	32,907	36,917	35,411	39,686	14,586	51,851	3,176	251,439
Capital expenditure	4,689	3,417	4,452	6,133	5,346	3,014	4,593	2,812	34,456
Depreciation and amortisation	2,407	1,575	1,970	2,522	2,255	1,185	1,821	154	13,889
Segment assets	2,453,994	2,006,787	2,590,592	2,170,917	2,269,546	863,899	5,431,210	516,623	18,303,568
Interests in associates and jointly controlled entities	-	-	-	410	-	-	-	1,956	2,366
	2,453,994	2,006,787	2,590,592	2,171,327	2,269,546	863,899	5,431,210	518,579	18,305,934
Deferred tax assets									27,051
Elimination									(4,360,157)
Total assets									13,972,828
Segment liabilities	2,452,082	2,002,197	2,583,373	2,163,987	2,261,857	860,707	4,568,513	490,328	17,383,044
Deferred tax liabilities									332
Elimination									(4,360,157)
Total liabilities									13,023,219
Off-balance sheet credit commitments	517,083	376,871	441,783	255,566	249,619	104,579	13,002	57,796	2,016,299

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

58 OPERATING SEGMENTS (CONTINUED)

(1) Geographical segments (continued)

	2011								Total
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	Northeastern	Head Office	Overseas	
External net interest income	46,645	24,815	27,473	32,486	36,034	11,469	123,007	2,643	304,572
Internal net interest income/(expense)	7,534	12,700	18,169	12,322	10,936	7,055	(69,224)	508	-
Net interest income	54,179	37,515	45,642	44,808	46,970	18,524	53,783	3,151	304,572
Net fee and commission income	21,011	15,556	13,917	13,360	11,845	5,467	4,692	1,146	86,994
Net trading gain/(loss)	507	465	290	257	259	121	957	(2,468)	388
Dividend income	7	-	-	48	11	-	43	49	158
Net gain arising from investment securities	64	-	5	434	17	41	1,147	48	1,756
Other operating income, net	1,436	378	209	547	863	122	340	1,640	5,535
Operating income	77,204	53,914	60,063	59,454	59,965	24,275	60,962	3,566	399,403
Operating expenses	(27,277)	(19,330)	(22,096)	(24,795)	(23,856)	(10,622)	(13,634)	(2,927)	(144,537)
Impairment losses	(8,811)	(5,611)	(4,218)	(4,780)	(4,666)	(1,604)	(5,727)	(366)	(35,783)
Share of profits less losses of associates and jointly controlled entities	-	-	-	(7)	-	-	-	31	24
Profit before tax	41,116	28,973	33,749	29,872	31,443	12,049	41,601	304	219,107
Capital expenditure	3,631	2,690	3,224	4,522	4,166	1,932	2,546	93	22,804
Depreciation and amortisation	2,107	1,451	1,847	2,259	1,978	1,020	1,727	108	12,497
Segment assets	2,309,626	1,773,562	2,241,298	1,874,631	1,982,662	769,288	5,140,899	441,119	16,533,085
Interests in associates and jointly controlled entities	-	-	-	-	-	-	-	2,069	2,069
	2,309,626	1,773,562	2,241,298	1,874,631	1,982,662	769,288	5,140,899	443,188	16,535,154
Deferred tax assets									21,410
Elimination									(4,274,730)
Total assets									12,281,834
Segment liabilities	2,304,167	1,769,903	2,232,283	1,869,614	1,976,095	766,375	4,402,281	418,827	15,739,545
Deferred tax liabilities									358
Elimination									(4,274,730)
Total liabilities									11,465,173
Off-balance sheet credit commitments	565,867	365,648	406,115	245,292	233,361	103,085	12,002	50,579	1,981,949

(2) Business segments

Business segments, as defined for management reporting purposes, are as follows:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit taking and wealth management services, agency services, financial consulting and advisory services, cash management services, remittance and settlement services, custody services and guarantee services, etc.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

58 OPERATING SEGMENTS (CONTINUED)

(2) Business segments (continued)

Personal banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans, deposit taking and wealth management services, card business, remittance services and agency services, etc.

Treasury business

This segment covers the Group's treasury operations. The treasury enters into inter-bank money market transactions, repurchase and resale transactions, and invests in debt securities. It also trades in derivatives and foreign currency for its own account. The treasury carries out customer-driven derivatives, foreign currency and precious metal trading. Its function also includes the management of the Group's overall liquidity position, including the issuance of debt securities.

Others

These represent equity investments and the revenues, results, assets and liabilities of overseas branches and subsidiaries.

	2012				
	Corporate banking	Personal banking	Treasury business	Others	Total
External net interest income/(expenses)	215,820	(4,278)	134,933	6,727	353,202
Internal net interest (expenses)/income	(39,430)	115,742	(73,653)	(2,659)	-
Net interest income	176,390	111,464	61,280	4,068	353,202
Net fee and commission income	40,116	33,181	18,037	2,173	93,507
Net trading gain/(loss)	3	448	1,895	(483)	1,863
Dividend income	-	-	-	239	239
Net gain arising from investment securities	-	-	671	2,865	3,536
Other operating income, net	441	242	871	8,632	10,186
Operating income	216,950	145,335	82,754	17,494	462,533
Operating expenses	(67,759)	(85,831)	(5,651)	(11,840)	(171,081)
Impairment losses	(30,697)	(7,841)	(831)	(672)	(40,041)
Share of profits less losses of associates and jointly controlled entities	-	-	-	28	28
Profit before tax	118,494	51,663	76,272	5,010	251,439
Capital expenditure	9,195	20,498	1,043	3,720	34,456
Depreciation and amortisation	4,066	9,064	461	298	13,889
Segment assets	5,368,220	2,167,249	6,065,163	477,840	14,078,472
Interests in associates and jointly controlled entities	-	-	-	2,366	2,366
	5,368,220	2,167,249	6,065,163	480,206	14,080,838
Deferred tax assets					27,051
Elimination					(135,061)
Total assets					13,972,828
Segment liabilities	6,529,675	5,744,452	335,719	548,102	13,157,948
Deferred tax liabilities					332
Elimination					(135,061)
Total liabilities					13,023,219
Off-balance sheet credit commitments	1,641,277	317,226	-	57,796	2,016,299

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

58 OPERATING SEGMENTS (CONTINUED)

(2) Business segments (continued)

	2011				Total
	Corporate banking	Personal banking	Treasury business	Others	
External net interest income/(expenses)	181,180	(3,644)	122,483	4,553	304,572
Internal net interest (expenses)/income	(21,784)	88,562	(63,185)	(3,593)	-
Net interest income	159,396	84,918	59,298	960	304,572
Net fee and commission income	39,170	29,061	16,841	1,922	86,994
Net trading gain/(loss)	7	688	2,047	(2,354)	388
Dividend income	-	-	-	158	158
Net gain arising from investment securities	-	-	824	932	1,756
Other operating income/(expenses), net	782	288	(524)	4,989	5,535
Operating income	199,355	114,955	78,486	6,607	399,403
Operating expenses	(60,023)	(73,361)	(4,309)	(6,844)	(144,537)
Impairment losses	(28,291)	(3,967)	(3,118)	(407)	(35,783)
Share of profits less losses of associates and jointly controlled entities	-	-	-	24	24
Profit before tax	111,041	37,627	71,059	(620)	219,107
Capital expenditure	6,783	14,818	826	377	22,804
Depreciation and amortisation	3,717	8,120	453	207	12,497
Segment assets	4,643,350	1,662,434	5,411,041	700,464	12,417,289
Interests in associates and jointly controlled entities	-	-	-	2,069	2,069
	4,643,350	1,662,434	5,411,041	702,533	12,419,358
Deferred tax assets					21,410
Elimination					(158,934)
Total assets					12,281,834
Segment liabilities	5,911,337	4,981,889	160,905	569,618	11,623,749
Deferred tax liabilities					358
Elimination					(158,934)
Total liabilities					11,465,173
Off-balance sheet credit commitments	1,689,179	242,191	-	50,579	1,981,949

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

59 ENTRUSTED LENDING BUSINESS

As at the end of the reporting period, the entrusted loans and funds were as follows:

	Group		Bank	
	2012	2011	2012	2011
Entrusted loans	1,103,938	1,027,817	1,096,907	971,331
Entrusted funds	1,103,938	1,027,817	1,096,907	971,331

60 PLEDGED ASSETS

(1) Assets pledged as security

(a) Carrying value of pledged assets analysed by category

	Group		Bank	
	2012	2011	2012	2011
Pledged deposits	268	388	268	388
Loans	-	-	-	1,133
Discounted bills	949	451	891	451
Bonds	1,411	597	1,101	597
PBOC bills	-	10,110	-	10,110
Total	2,628	11,546	2,260	12,679

(b) Carrying value of pledged assets analysed by asset type

	Group		Bank	
	2012	2011	2012	2011
Deposits with banks and non-bank financial institutions	268	388	268	388
Loans and advances to customers	949	451	891	1,584
Available-for-sale financial assets	806	597	1,101	597
Held-to-maturity investments	605	10,110	-	10,110
Total	2,628	11,546	2,260	12,679

(2) Collateral accepted as securities for assets

The Group conducts resale agreements under usual and customary terms of placements, and holds collateral for these transactions. As at 31 December 2012 and 2011, the Group did not hold any collateral for resale agreements, which it was permitted to sell or repledge in the absence of default for the transactions.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

61 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Credit commitments

Credit commitments take the form of undrawn loan facilities which are approved and contracted, unutilised credit card limits, financial guarantees, letters of credit etc. The Group assesses and makes allowance for any probable losses accordingly.

The contractual amounts of loans and credit card commitments represent the cash outflows should the contracts be fully drawn upon. The amounts of guarantees and letters of credit represent the maximum potential loss that would be recognised if counterparties failed completely to perform as contracted. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers.

As credit commitments may expire without being drawn upon, the total of the contractual amounts set out in the following table do not represent the expected future cash outflows.

	Group		Bank	
	2012	2011	2012	2011
Loan commitments				
– with an original maturity under one year	168,906	129,745	165,906	127,134
– with an original maturity of one year or over	272,360	349,032	272,303	348,992
Credit card commitments	343,698	266,447	317,226	242,191
	784,964	745,224	755,435	718,317
Bank acceptances	344,848	335,517	344,692	335,391
Financing guarantees	165,294	189,258	166,959	188,537
Non-financing guarantees	441,367	439,322	441,253	439,231
Sight letters of credit	28,246	42,778	28,246	42,778
Usance letters of credit	203,972	203,810	203,478	204,242
Others	47,608	26,040	48,645	28,288
Total	2,016,299	1,981,949	1,988,708	1,956,784

(2) Credit risk-weighted amount

The credit risk-weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% of contingent liabilities and commitments.

	Group		Bank	
	2012	2011	2012	2011
Credit risk-weighted amount of contingent liabilities and commitments	908,026	929,681	906,866	928,188

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

61 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(3) Operating lease commitments

The Group and the Bank lease certain property and equipment under operating leases, which typically run for an initial period of one to five years and may include an option to renew the lease when all terms are renegotiated. As at the end of the reporting period, the future minimum lease payments under non-cancellable operating leases for property and equipment were as follows:

	Group		Bank	
	2012	2011	2012	2011
Within one year	3,973	3,363	3,719	3,130
After one year but within two years	2,976	2,640	2,846	2,503
After two years but within three years	2,268	1,836	2,224	1,770
After three years but within five years	2,699	2,130	2,678	2,113
After five years	1,662	1,467	1,653	1,461
Total	13,578	11,436	13,120	10,977

(4) Capital commitments

As at the end of the reporting period, the Group and the Bank had capital commitments as follows:

	Group		Bank	
	2012	2011	2012	2011
Contracted for	4,351	4,793	4,311	4,759
Authorised but not contracted for	6,332	5,802	6,306	5,782
Total	10,683	10,595	10,617	10,541

(5) Underwriting obligations

As at 31 December 2012, there was no unexpired underwriting commitment of the Group and the Bank (2011: nil).

(6) Government bonds redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations, which represent the nominal value of government bonds underwritten and sold by the Group and the Bank, but not yet matured as at 31 December 2012, were RMB49,022 million (2011: RMB72,205 million)

(7) Outstanding litigation and disputes

As at 31 December 2012, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB2,735 million (2011: RMB2,173 million). Provisions have been made for the estimated losses arising from such litigations based upon the opinions of the Group's internal and external legal counsels (Note 47). The Group considers that the provisions made are reasonable and adequate.

(8) Provision against commitments and contingent liabilities

The Group and the Bank assessed and made provisions for any probable outflow of economic benefits in relation to the above commitments and contingent liabilities in accordance with their accounting policies (Note 4 (13)).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

62 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Transactions with parent companies and their affiliates

The parent companies of the Group are CIC and Huijin.

Approved by the State Council, CIC was established on 29 September 2007 with a registered capital of RMB1,550 billion. As a wholly owned subsidiary of CIC, Huijin exercises its rights and obligations as an investor on behalf of PRC government.

Huijin was incorporated on 16 December 2003 as a wholly state-owned investment company with the approval of the State Council. It was registered in Beijing with a registered capital of RMB828,209 million. Its principal activities are equity investments as authorised by the State Council, without engaging in other commercial operations. As at 31 December 2012, Huijin directly held 57.21% shares of the Bank.

The related companies under parent companies include the subsidiaries under parent companies and other associates and jointly controlled entities.

The Group's transactions with parent companies and their affiliates mainly include deposit taking, entrusted asset management, operating leases, lending, purchase and sale of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under general commercial terms.

The Group has issued subordinated debts with a nominal value of RMB160 billion (2011: RMB120 billion). These are bearer bonds and tradable in secondary market. Accordingly, the Group has no information in respect of the amount of the bonds held by the affiliates of parent companies as at the end of the reporting period.

(a) Transactions with parent companies

In the ordinary course of the business, material transactions that the Group and the Bank entered into with parent companies are as follows:

Amounts

	2012		2011	
	Amount	Ratio to similar transactions	Amount	Ratio to similar transactions
Interest income	578	0.10%	578	0.12%
Interest expense	461	0.18%	113	0.06%

Balances outstanding as at the end of the reporting period

	2012		2011	
	Balance	Ratio to similar transactions	Balance	Ratio to similar transactions
Interest receivable	186	0.27%	186	0.33%
Held-to-maturity investments	16,680	0.87%	16,680	0.96%
Deposits from customers	20,018	0.18%	3,559	0.04%
Interest payable	306	0.25%	22	0.03%
Credit commitments	288	0.02%	288	0.01%

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

62 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(1) Transactions with parent companies and their affiliates (continued)

(b) Transactions with the affiliates of parent companies

In the ordinary course of the business, material transactions that the Group and the Bank entered into with the affiliates of parent companies are as follows:

Amounts

	Note	2012		2011	
		Amount	Ratio to similar transactions	Amount	Ratio to similar transactions
Interest income		32,571	5.40%	27,761	5.76%
Interest expense		2,552	1.02%	2,372	1.34%
Fee and commission income		426	0.44%	495	0.55%
Fee and commission expense		-	-	56	2.24%
Operating expenses	(i)	1,387	0.81%	1,025	0.71%

Balances outstanding as at the end of the reporting period

	Note	2012		2011	
		Balance	Ratio to similar transactions	Balance	Ratio to similar transactions
Deposits with banks and non-bank financial institutions		48,134	8.22%	41,033	14.83%
Placements with banks and non-bank financial institutions		19,114	14.74%	21,941	20.12%
Financial assets at fair value through profit or loss		2,783	10.09%	2,106	9.12%
Positive fair value of derivatives		1,237	9.76%	529	3.74%
Financial assets held under resale agreements		15,175	4.79%	10,007	5.00%
Interest receivable		13,199	19.34%	11,358	20.00%
Loans and advances to customers		40,233	0.55%	33,244	0.53%
Available for sale financial assets		176,896	25.23%	134,765	19.96%
Held-to-maturity investments		487,608	25.42%	443,695	25.45%
Debt securities classified as receivables		69,549	31.65%	64,549	21.51%
Other assets	(ii)	12	0.05%	32	0.18%
Deposits from banks and non-bank financial institutions	(iii)	72,956	7.46%	67,006	6.93%
Placements from banks and non-bank financial institutions		41,447	34.47%	33,744	42.86%
Negative fair value of derivatives		559	4.85%	514	3.86%
Financial assets sold under repurchase agreements		1,181	50.04%	-	-
Deposits from customers		21,856	0.19%	40,238	0.40%
Interest payable		153	0.12%	163	0.20%
Other liabilities		-	-	234	0.66%
Credit commitments		8,172	0.49%	7,822	0.39%

(i) Operating expenses mainly represent rental expenses paid by the Group for leased assets, including properties and motor vehicles, owned by parent companies and its affiliates, and fees for related services provided by parent companies and its affiliates.

(ii) Other assets mainly represent other receivables from the affiliates of parent companies.

(iii) Deposits from the affiliates of parent companies are unsecured and are repayable under general commercial terms.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

62 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(2) Transactions with associates and jointly controlled entities of the Group

Transactions between the Group and its associates and jointly controlled entities are conducted in the normal and ordinary course of the business and under general commercial terms as those transactions conducted between the Group and non-related companies outside the Group. In the ordinary course of the business, material transactions that the Group entered into with associates and jointly controlled entities are as follows:

Amounts

	2012	2011
Interest income	18	6
Interest expense	3	2

Balances outstanding as at the end of the reporting period

	2012	2011
Loans and advances to customers	860	497
Deposits from customers	736	824

(3) Transactions between the Bank and its subsidiaries

Transactions between the Bank and its subsidiaries are conducted in the normal and ordinary course of the business and under normal commercial terms as those transactions conducted between the Group and non-related companies outside the Group. All the inter-group transactions and inter-group balances are eliminated when preparing the consolidated financial statements as mentioned in Note 4(1)(b).

In the ordinary course of the business, material transactions that the Bank entered into with its subsidiaries are as follows:

Amounts

	2012	2011
Interest income	593	412
Interest expense	216	418
Fee and commission income	504	268
Fee and commission expense	38	32
Dividend income	102	85
Net trading gain	20	22
Other operating income, net	13	5

Balances outstanding as at the end of the reporting period are presented in Note 38.

As at 31 December 2012, the total maximum guarantee limit of guarantee letters issued by the Bank with its subsidiaries as beneficiary is RMB2,543 million (2011: RMB3,416 million).

For the year ended 31 December 2012, the transactions between subsidiaries of the Group are mainly deposit taking and ordinary receivables and payables. As at 31 December, 2012, the balances of the above transactions were RMB941 million (2011: RMB783 million) and RMB138 million (2011: RMB148 million) respectively.

(4) Transactions with other PRC state-owned entities

State-owned entities refer to those entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations. Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; purchase, sale, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group's pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

62 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(5) Key management personnel

Key management personnel are those persons having authorities and responsibilities for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and senior executives.

The compensation of directors and supervisors is disclosed in Note 14. The senior executives' annual compensation before individual income tax during the year is as follows:

	2012			
	Remuneration paid RMB'000	Contributions to defined contribution retirement schemes RMB'000	Other benefits in kind (note (i)) RMB'000	Total RMB'000
Executive vice president				
Zhu Hongbo (Note (ii))	624	33	281	938
Hu Zheyi (Note (ii))	624	33	281	938
Pang Xiusheng (Note (ii))	624	33	281	938
Zhao Huan (Note (ii))	624	33	281	938
Member of senior management				
Zhang Gengsheng (Note (ii))	605	33	274	912
Chief Financial Officer				
Zeng Jianhua (Note (ii))	594	33	243	870
Chief Risk Officer				
Huang Zhiling (Note (ii))	594	33	243	870
Chief Audit Officer				
Yu Jingbo (Note (ii))	594	33	243	870
Secretary to the board of directors				
Chen Caihong (Note (ii))	594	33	243	870
Controller of wholesale banking				
Xu Huibin (Note (ii))	594	33	243	870
Controller of retail banking				
Tian Huiyu (Note (ii))	594	33	243	870
Controller of investment and wealth management banking				
Wang Guiya (Note (ii))	594	33	243	870
	7,259	396	3,099	10,754

	2012				
	Salaries and allowance RMB'000	Variable compensation RMB'000	Contributions to defined contribution retirement schemes RMB'000	Other benefits in kind (note(i)) RMB'000	Total RMB'000
Company secretary					
Cheng Pui Ling	950	-	87	9	1,046
Qualified accountant					
Yuen Yiu Leung	2,212	398	163	26	2,799
Former company secretary					
Chan Mei Sheung	2,220	-	76	13	2,309
	5,382	398	326	48	6,154

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

62 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(5) Key management personnel (continued)

	2011						
	Basic annual salaries RMB'000	Annual performance bonus RMB'000	Allowance RMB'000	Welfare RMB'000	Total (before tax) (note(iii)) RMB'000	Including: deferral payment RMB'000	The actual payment in 2011 (before tax) RMB'000
Executive vice president							
Zhu Hongbo	–	–	–	–	–	–	–
Hu Zheyi	395	1,043	–	287	1,725	521	1,204
Pang Xiusheng	395	1,043	–	283	1,721	521	1,200
Zhao Huan	395	1,043	–	278	1,716	521	1,195
Member of senior management							
Zhang Gengsheng	384	1,012	–	271	1,667	506	1,161
Chief Financial Officer							
Zeng Jianhua	272	718	–	185	1,175	359	816
Chief Risk Officer							
Huang Zhiling	302	797	–	205	1,304	399	905
Chief Audit Officer							
Yu Jingbo	272	717	–	185	1,174	359	815
Secretary to the board of directors							
Chen Caihong	363	956	–	249	1,568	478	1,090
Controller of wholesale banking							
Xu Huibin	272	718	–	185	1,175	359	816
Controller of retail banking							
Tian Huiyu	272	718	–	177	1,167	359	808
Controller of investment and wealth management banking							
Wang Guiya	272	716	–	185	1,173	358	815
Former controller of wholesale banking							
Gu Jingpu	125	–	–	61	186	–	186
Former controller of retail banking							
Du Yajun	–	–	–	–	–	–	–
Former controller of investment and wealth management banking							
Mao Yumin	975	–	–	8	983	–	983
	4,694	9,481	–	2,559	16,734	4,740	11,994

	2011				
	Salaries and allowance RMB'000	Variable compensation RMB'000	Contributions to defined contribution retirement schemes RMB'000	Other benefits in kind (note(i)) RMB'000	Total RMB'000
Company secretary					
Chan Mei Sheung	2,297	1,823	184	13	4,317
Qualified accountant					
Yuen Yiu Leung	2,085	564	152	22	2,823
	4,382	2,387	336	35	7,140

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

62 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(5) Key management personnel (continued)

Notes:

- (i) Other benefits in kind included the Bank's contributions to medical fund, housing fund and other social insurances, which are payable to labour and security authorities based on the lower of certain percentage of the salaries and allowance or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included the Bank's contribution to its own corporate annuity plan (which was set up in accordance with the relevant policies issued by the government authorities) and supplementary medical insurance.
- (ii) The total compensation package for these key management personnel for the year ended 31 December 2012 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation to be adjusted for is not expected to have significant impact on the Group's and the Bank's financial statements for the year ended 31 December 2012. The final compensation will be disclosed in a separate announcement when determined.
- (iii) The total compensation package for certain key management personnel for the year ended 31 December 2011 had not been finalised in accordance with regulations of the PRC relevant authorities till the date that the 2011 financial statements were announced. The aforesaid total compensation package for the key management personnel for the year ended 31 December 2011 was the final amount and the Bank made the relevant supplementary announcement on 8 June 2012.

(6) Loans and advances to directors, supervisors and senior executives

The Group had no material balance of loans and advances to directors, supervisors and senior executives as at the end of reporting period. Those loans and advances to directors, supervisors and senior executives were conducted in the normal and ordinary course of the business and under normal commercial terms or on the same terms and conditions with those which are available to other employees, based on terms and conditions granted to third parties adjusted for risk reduction.

(7) Defined contribution retirement schemes

The Group participates in various defined contribution retirement schemes organised by municipal and provincial governments for its employees in Mainland China. For its overseas employees, the Group participates in various defined contribution retirement schemes at funding rates determined in accordance with the local practices and regulations. The details of the Group's defined contribution retirement schemes are described in Note 4 (12)(a).

63 RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- market risk
- liquidity risk
- operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's capital management.

Risk management framework

The Board of Directors have overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established Risk Management and Internal Control Committee, whose responsibilities include risk management and internal control assessment, convening of meetings and coordination. The committee assesses risk management and internal control challenges faced by the Group and analyses their effectiveness. It evaluates the rectification activities carried out by the Group in terms of key risk management issues and significant internal deficiencies. It also provides recommendations on risk management and internal control policies.

To identify, evaluate, monitor and manage risk, the Group has designed a comprehensive governance framework, internal control policies and procedures. The Chief Risk Officer, who reports directly to the President, is responsible for the Group's overall risk management. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures management, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Group Audit Committee is responsible for monitoring and evaluating internal controls, and monitoring the compliance of core business sectors and their management procedures. Internal Control Department assists the Audit Committee to execute the above mentioned responsibilities. It is responsible for establishing, managing, monitoring and evaluating the Group's internal control and compliance system and reporting to the Audit Committee.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(1) Credit risk

Credit risk management

Credit risk represents the financial loss that arises from the failure of a debtor or counterparty to discharge its contractual obligations or commitments to the Group.

Credit business

The Risk Management Department, under the supervision of the Chief Risk Officer, is responsible for establishing credit risk management policies and performing credit risk measurement and analysis. The Credit Management Department is responsible for monitoring the implementation of credit risk management policies and coordinating credit approval and credit ratings activities. The Credit Management Department works together with the Corporate Banking Department, the SME Business Department, the Institutional Banking Department, the International Business Department, the Group Clients Department, the Housing Finance & Personal Lending Department, the Credit Card Center, the Special Assets Resolution Department and Legal Affairs Department to implement credit risk management policies and procedures.

With respect to the credit risk management of corporate and institutional business, the Group has sped up the adjustment of its credit portfolio structure, enhanced post-lending monitoring, and refined the industry-specific guideline and policy baseline for credit approval. Management also fine-tuned the credit acceptance and exit policies, and optimised its economic capital and credit risk limit management. All these policies have implemented to improve the overall asset quality. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring. The Group performs pre-lending evaluations by assessing the entity's credit ratings based on internal rating criteria and assessing the risk and rewards with respect to the proposed project. Credit approvals are granted by designated Credit Approval Officers. The Group continually monitors loans, particularly those related to targeted industries, geographical segments, products and clients. Any adverse events that may significantly affect a borrower's repayment ability are reported timely and measures are implemented to prevent and control risks. The centralised risk management was also expedited in the cities where the first-tier branches are located, and the Bank will continue to explore the ways of specifying the operating characteristic for those branches, in addition to develop an intensive management for risk, reallocation of resource, and improving the quality and efficiency.

With respect to the personal credit business, the Group relies on credit assessment of applicants as the basis for loan approval. Customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The customer relationship managers then forward the application and recommendations to the loan-approval departments for consent. The Group monitors borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the recovery process according to standard personal loan recovery procedures.

To mitigate risks, the Group requests the customers to provide collateral and guarantees where appropriate. A fine management system and operating workflow for collateral was developed, and there is a guideline to specify the suitability of accepting specific types of collateral, as well as determining evaluation parameters. Collateral values, structures and legal covenants are regularly reviewed to ensure that they still serve their intended purposes and conform to market practices.

Credit grading classification

The Group adopts a loan risk classification approach to manage the loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their level of risk. Substandard, doubtful and loss loans are considered as impaired loans and advances when one or more events demonstrate there is objective evidence of a loss event which triggers impairment. The allowance for impairment loss on impaired loans and advances is collectively or individually assessed as appropriate.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

Credit grading classification (continued)

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' abilities to service their loans are apparently in question and they cannot rely entirely on normal business revenues to repay principal and interest. Certain losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

The Group has also applied the same grading criteria and management approach in classifying the off-balance sheet credit-related operations.

Treasury business

For risk management purposes, credit risk arising on debt securities and exposures relating to the Group's derivatives portfolio is managed independently and information thereon is disclosed in notes (1)(h) and (1)(i) below. The Group sets credit limits for treasury activities and monitors them regularly with reference to the fair values of the relevant financial instruments.

(a) *Maximum credit risk exposure*

The following table presents the maximum exposure to credit risk as at the end of the reporting period without taking into consideration any collateral held or other credit enhancement. In respect of the financial assets recognised in the statement of financial position, the maximum exposure to credit risk is represented by the carrying amount after deducting for any impairment allowance.

	Group		Bank	
	2012	2011	2012	2011
Deposits with central banks	2,385,416	2,321,501	2,370,883	2,315,432
Deposits with banks and non-bank financial institutions	585,898	276,752	584,538	279,861
Placements with banks and non-bank financial institutions	129,653	109,040	138,015	110,533
Financial assets at fair value through profit or loss	20,592	14,375	16,206	8,715
Positive fair value of derivatives	12,671	14,127	11,667	13,073
Financial assets held under resale agreements	316,685	200,045	316,624	200,045
Interest receivable	68,264	56,776	67,581	56,420
Loans and advances to customers	7,309,879	6,325,194	7,142,317	6,189,363
Available-for-sale debt securities	688,814	661,036	672,073	651,585
Held-to-maturity investments	1,918,322	1,743,569	1,915,811	1,742,342
Debt securities classified as receivables	219,713	300,027	217,741	299,765
Other financial assets	18,669	13,695	36,279	29,676
Total	13,674,576	12,036,137	13,489,735	11,896,810
Off-balance sheet credit commitments	2,016,299	1,981,949	1,988,708	1,956,784
Maximum credit risk exposure	15,690,875	14,018,086	15,478,443	13,853,594

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(b) *Distribution of loans and advances to customers in terms of credit quality is analysed as follows:*

	Note	Group		Bank	
		2012	2011	2012	2011
Individually assessed and impaired gross amount		68,627	65,625	68,452	65,490
Allowances for impairment losses		(45,814)	(38,109)	(45,678)	(38,020)
Subtotal		22,813	27,516	22,774	27,470
Collectively assessed and impaired gross amount		5,991	5,290	5,895	5,178
Allowances for impairment losses		(3,909)	(3,276)	(3,899)	(3,265)
Subtotal		2,082	2,014	1,996	1,913
Overdue but not impaired					
– not more than 90 days		15,846	14,567	15,405	14,209
Allowances for impairment losses	(i)	(1,778)	(696)	(1,769)	(696)
Subtotal		14,068	13,871	13,636	13,513
Neither overdue nor impaired					
– Unsecured loans		2,075,020	1,739,648	2,013,991	1,703,090
– Guaranteed loans		1,414,006	1,308,879	1,370,632	1,265,752
– Loans secured by tangible assets other than monetary assets		3,129,967	2,737,839	3,071,845	2,688,465
– Loans secured by monetary assets		802,855	624,563	797,184	617,362
Gross amount		7,421,848	6,410,929	7,253,652	6,274,669
Allowances for impairment losses	(i)	(150,932)	(129,136)	(149,741)	(128,202)
Subtotal		7,270,916	6,281,793	7,103,911	6,146,467
Total		7,309,879	6,325,194	7,142,317	6,189,363

(i) The balances represent collectively assessed allowances of impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(b) *Distribution of loans and advances to customers in terms of credit quality is analysed as follows (continued):*

Group

Within overdue but not impaired loans and advances and impaired loans and advances which are subject to individual assessment, the portion covered or not covered by collateral held are shown as follows:

	2012		
	Overdue but not impaired loans and advances		Impaired loans and advances which are subject to individual assessment
	Corporate	Personal	Corporate
Portion covered	1,026	10,388	12,084
Portion not covered	978	3,454	56,543
Total	2,004	13,842	68,627

	2011		
	Overdue but not impaired loans and advances		Impaired loans and advances which are subject to individual assessment
	Corporate	Personal	Corporate
Portion covered	170	11,935	17,607
Portion not covered	123	2,339	48,018
Total	293	14,274	65,625

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(b) *Distribution of loans and advances to customers in terms of credit quality is analysed as follows (continued):*

Bank

Within overdue but not impaired loans and advances and impaired loans and advances which are subject to individual assessment, the portion covered or not covered by collateral held are shown as follows:

	2012		
	Overdue but not impaired loans and advances		Impaired loans and advances which are subject to individual assessment
	Corporate	Personal	Corporate
Portion covered	860	10,215	12,081
Portion not covered	955	3,375	56,371
Total	1,815	13,590	68,452

	2011		
	Overdue but not impaired loans and advances		Impaired loans and advances which are subject to individual assessment
	Corporate	Personal	Corporate
Portion covered	45	11,766	17,605
Portion not covered	122	2,276	47,885
Total	167	14,042	65,490

The above collateral includes land use rights, buildings and equipment, etc. The fair value of collateral was estimated by the Group with reference to the latest available external valuations adjusted after taking into account the current realisation experience as well as the market situation.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(c) Loans and advances to customers analysed by economic sector concentrations

Group

	2012			2011		
	Gross loan balance	Percentage	Balance secured by collateral	Gross loan balance	Percentage	Balance secured by collateral
Corporate loans and advances						
– Manufacturing	1,314,545	17.50%	493,737	1,141,376	17.56%	393,347
– Transportation, storage and postal services	883,536	11.76%	358,998	765,763	11.79%	303,444
– Production and supply of electric power, gas and water	615,635	8.20%	157,825	591,315	9.10%	145,490
– Real estate	493,363	6.57%	422,272	465,899	7.17%	387,527
– Leasing and commercial services	392,363	5.22%	178,234	386,588	5.95%	168,593
– Wholesale and retail trade	399,601	5.32%	165,099	322,106	4.96%	113,374
– Water, environment and public utility management	235,762	3.14%	116,323	226,655	3.49%	100,239
– Construction	222,951	2.97%	82,876	190,096	2.93%	66,963
– Mining	208,738	2.78%	26,715	173,824	2.68%	26,793
– Education	66,247	0.88%	25,182	85,069	1.31%	35,214
– Telecommunications, computer services and software	33,811	0.45%	9,251	24,077	0.37%	7,271
– Others	402,969	5.36%	135,018	300,148	4.62%	111,642
Total corporate loans and advances	5,269,521	70.15%	2,171,530	4,672,916	71.93%	1,859,897
Personal loans and advances	2,051,094	27.30%	1,813,968	1,705,622	26.25%	1,558,628
Discounted bills	191,697	2.55%	–	117,873	1.82%	–
Total loans and advances to customers	7,512,312	100.00%	3,985,498	6,496,411	100.00%	3,418,525

Details of impaired loans, impairment allowances, charges, and amounts written off in respect of economic sectors which constitute 10% or more of total gross loans and advances to customers are as follows:

	2012				
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances	Charged to profit or loss during the year	Written off during the year
Manufacturing	30,924	(19,696)	(31,376)	12,917	2,725
Transportation, storage and postal services	3,325	(2,383)	(22,006)	2,791	77

	2011				
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances	Charged to profit or loss during the year	Written off during the year
Manufacturing	25,883	(15,167)	(25,254)	5,750	1,748
Transportation, storage and postal services	7,139	(3,636)	(18,106)	6,371	28

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(d) Loans and advances to customers analysed by geographical sector concentrations

Group

	2012			2011		
	Gross loan balance	Percentage	Balance secured by collateral	Gross loan balance	Percentage	Balance secured by collateral
Yangtze River Delta	1,670,643	22.24%	1,041,606	1,476,118	22.72%	882,276
Bohai Rim	1,301,564	17.33%	554,538	1,137,623	17.51%	497,565
Western	1,270,163	16.91%	725,755	1,108,112	17.06%	622,268
Central	1,195,748	15.92%	660,624	1,051,837	16.19%	567,187
Pearl River Delta	1,091,848	14.53%	707,773	955,937	14.71%	597,404
Northeastern	461,574	6.14%	238,941	406,035	6.25%	197,775
Head office	188,074	2.50%	410	105,632	1.63%	486
Overseas	332,698	4.43%	55,851	255,117	3.93%	53,564
Gross loans and advances to customers	7,512,312	100.00%	3,985,498	6,496,411	100.00%	3,418,525

Details of impaired loans and impairment allowances in respect of geographical sectors are as follows:

	2012		
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances
Yangtze River Delta	32,941	(19,634)	(35,725)
Central	9,635	(6,207)	(25,121)
Pearl River Delta	9,096	(5,514)	(25,073)
Western	8,187	(5,330)	(27,473)
Bohai Rim	6,848	(4,982)	(27,061)
Northeastern	4,920	(2,844)	(9,951)
Head Office	1,966	(802)	(4,040)
Overseas	1,025	(501)	(2,175)
Total	74,618	(45,814)	(156,619)

	2011		
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances
Yangtze River Delta	19,264	(9,721)	(29,988)
Central	11,885	(6,296)	(21,313)
Pearl River Delta	9,699	(5,458)	(21,106)
Western	10,653	(5,878)	(23,568)
Bohai Rim	9,428	(5,850)	(23,412)
Northeastern	6,264	(3,379)	(8,733)
Head Office	1,744	(864)	(2,978)
Overseas	1,978	(663)	(2,010)
Total	70,915	(38,109)	(133,108)

The definitions of geographical segments are set out in Note 58(1).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(d) Loans and advances to customers analysed by geographical sector concentrations (continued)

Bank	2012			2011		
	Gross loan balance	Percentage	Balance secured by collateral	Gross loan balance	Percentage	Balance secured by collateral
Yangtze River Delta	1,664,837	22.66%	1,039,630	1,472,744	23.17%	881,074
Western	1,270,054	17.30%	725,732	1,108,061	17.42%	622,253
Bohai Rim	1,248,330	17.00%	535,728	1,090,356	17.15%	483,614
Central	1,193,720	16.26%	660,355	1,050,747	16.52%	567,015
Pearl River Delta	1,091,848	14.87%	707,773	955,937	15.03%	597,404
Northeastern	461,571	6.29%	238,940	406,035	6.38%	197,775
Head office	188,074	2.56%	410	105,632	1.66%	486
Overseas	224,970	3.06%	12,944	170,034	2.67%	12,071
Gross loans and advances to customers	7,343,404	100.00%	3,921,512	6,359,546	100.00%	3,361,692

Details of impaired loans and impairment allowances in respect of geographical sectors are as follows:

	2012		
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances
Yangtze River Delta	32,937	(19,632)	(35,604)
Central	9,634	(6,207)	(25,085)
Pearl River Delta	9,096	(5,514)	(25,073)
Western	8,187	(5,330)	(27,471)
Bohai Rim	6,730	(4,902)	(26,360)
Northeastern	4,920	(2,844)	(9,951)
Head Office	1,966	(802)	(4,040)
Overseas	877	(447)	(1,825)
Total	74,347	(45,678)	(155,409)

	2011		
	Gross impaired loans	Individually assessed impairment allowances	Collectively assessed impairment allowances
Yangtze River Delta	19,264	(9,721)	(29,914)
Central	11,885	(6,296)	(21,289)
Pearl River Delta	9,699	(5,458)	(21,106)
Western	10,653	(5,878)	(23,567)
Bohai Rim	9,361	(5,829)	(22,924)
Northeastern	6,264	(3,379)	(8,733)
Head Office	1,743	(865)	(2,978)
Overseas	1,799	(594)	(1,652)
Total	70,668	(38,020)	(132,163)

The definitions of geographical segments are set out in Note 58(1).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(e) Loans and advances to customers analysed by types of collateral

	Group		Bank	
	2012	2011	2012	2011
Unsecured loans	2,084,988	1,655,537	2,023,753	1,618,823
Guaranteed loans	1,441,826	1,422,349	1,398,139	1,379,031
Loans secured by tangible assets other than monetary assets	3,176,420	2,787,776	3,118,078	2,738,008
Loans secured by monetary assets	809,078	630,749	803,434	623,684
Gross loans and advances to customers	7,512,312	6,496,411	7,343,404	6,359,546

(f) Rescheduled loans and advances to customers

Group

	2012		2011	
	Total	Percentage of gross loans and advances to customers	Total	Percentage of gross loans and advances to customers
Rescheduled loans and advances to customers	2,563	0.03%	2,692	0.04%
Of which:				
Rescheduled loans and advances overdue for more than 90 days	1,488	0.02%	977	0.01%

Bank

	2012		2011	
	Total	Percentage of gross loans and advances to customers	Total	Percentage of gross loans and advances to customers
Rescheduled loans and advances to customers	2,477	0.03%	2,575	0.04%
Of which:				
Rescheduled loans and advances overdue for more than 90 days	1,480	0.02%	975	0.01%

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(g) *Distribution of amounts due from banks and non-bank financial institutions in terms of credit quality is as follows:*

Amount due from banks and non-bank financial institutions includes deposits and placements with banks and non-bank financial institutions, and financial assets held under resale agreements of which counterparties are banks and non-bank financial institutions.

	Group		Bank	
	2012	2011	2012	2011
Individually assessed and impaired gross amount	82	102	82	102
Allowances for impairment losses	(56)	(74)	(56)	(74)
Subtotal	26	28	26	28
Neither overdue nor impaired				
– grade A to AAA	957,554	490,618	961,185	493,745
– grade B to BBB	4,169	92	4,096	92
– unrated	70,487	95,099	73,870	96,574
Subtotal	1,032,210	585,809	1,039,151	590,411
Total	1,032,236	585,837	1,039,177	590,439

Amounts neither overdue nor impaired are analysed above according to the Group and the Bank's internal credit rating. Unrated amounts due from banks and non-bank financial institutions include amounts due from a number of banks and non-bank financial institutions for which the Group and the Bank have not assigned an internal credit rating.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(h) Distribution of debt securities investments analysed by rating

The Group adopts a credit rating approach to manage the credit risk of the debt securities portfolio held. The ratings are obtained from Bloomberg Composite, or major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at the end of the reporting period are as follows:

Group

	2012					Total
	Unrated	AAA	AA	A	Lower than A	
Individually assessed and impaired gross amount						
– Banks and non-bank financial institutions	477	9	201	2,623	9,243	12,553
– Other enterprises	233	2,820	–	–	–	3,053
	710	2,829	201	2,623	9,243	15,606
Allowances for impairment losses						(6,610)
Subtotal						8,996
Neither overdue nor impaired						
– Government	930,308	1,538	7,233	157	–	939,236
– Central banks	311,712	3,549	19,246	–	1,253	335,760
– Policy banks	350,761	–	258	67	–	351,086
– Banks and non-bank financial institutions	724,862	48,278	9,561	7,952	2,293	792,946
– Cinda	57,622	–	–	–	–	57,622
– Public sector entities	–	–	84	–	259	343
– Other enterprises	44,339	306,628	10,353	1,740	1,278	364,338
	2,419,604	359,993	46,735	9,916	5,083	2,841,331
Allowances for impairment losses						(2,886)
Subtotal						2,838,445
Total						2,847,441

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(h) Distribution of debt securities investments analysed by rating (continued)

Group (continued)

	2011					Total
	Unrated	AAA	AA	A	Lower than A	
Individually assessed and impaired gross amount						
– Policy banks	–	–	–	45	–	45
– Banks and non-bank financial institutions	753	11	199	5,615	9,142	15,720
– Public sector entities	125	–	–	–	–	125
– Other enterprises	312	2,818	–	–	311	3,441
	1,190	2,829	199	5,660	9,453	19,331
Allowances for impairment losses						(8,674)
Subtotal						10,657
Neither overdue nor impaired						
– Government	891,088	2,642	7,029	473	83	901,315
– Central banks	429,101	4,574	2,187	–	185	436,047
– Policy banks	285,340	–	264	140	–	285,744
– Banks and non-bank financial institutions	644,925	33,578	14,415	8,018	3,765	704,701
– Cinda	131,761	–	–	–	–	131,761
– Public sector entities	–	63	87	–	65	215
– Other enterprises	5,157	234,469	5,418	3,250	1,593	249,887
	2,387,372	275,326	29,400	11,881	5,691	2,709,670
Allowances for impairment losses						(1,320)
Subtotal						2,708,350
Total						2,719,007

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(h) Distribution of debt securities investments analysed by rating (continued)

	2012					Total
	Unrated	AAA	AA	A	Lower than A	
Bank						
Individually assessed and impaired gross amount						
– Banks and non-bank financial institutions	443	9	201	2,623	9,243	12,519
– Other enterprises	76	2,820	–	–	–	2,896
	519	2,829	201	2,623	9,243	15,415
Allowances for impairment losses						(6,579)
Subtotal						8,836
Neither overdue nor impaired						
– Government	930,308	59	6,917	157	–	937,441
– Central banks	310,423	3,549	15,831	–	1,253	331,056
– Policy banks	350,761	–	–	67	–	350,828
– Banks and non-bank financial institutions	723,429	45,358	7,410	4,336	2,293	782,826
– Cinda	57,622	–	–	–	–	57,622
– Public sector entities	–	–	84	–	259	343
– Other enterprises	39,534	304,034	9,666	1,368	1,163	355,765
	2,412,077	353,000	39,908	5,928	4,968	2,815,881
Allowances for impairment losses						(2,886)
Subtotal						2,812,995
Total						2,821,831

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(1) Credit risk (continued)

(h) Distribution of debt securities investments analysed by rating (continued)

Bank (continued)

	2011					Total
	Unrated	AAA	AA	A	Lower than A	
Individually assessed and impaired gross amount						
– Policy banks	–	–	–	45	–	45
– Banks and non-bank financial institutions	753	11	199	5,615	9,142	15,720
– Public sector entities	125	–	–	–	–	125
– Other enterprises	312	2,818	–	–	311	3,441
	1,190	2,829	199	5,660	9,453	19,331
Allowances for impairment losses						(8,674)
Subtotal						10,657
Neither overdue nor impaired						
– Government	889,890	2,574	6,729	473	83	899,749
– Central banks	429,101	1,738	2,187	–	–	433,026
– Policy banks	285,340	–	–	130	–	285,470
– Banks and non-bank financial institutions	645,200	32,953	13,638	4,948	2,519	699,258
– Cinda	131,761	–	–	–	–	131,761
– Public sector entities	–	63	87	–	65	215
– Other enterprises	674	233,532	5,010	2,930	1,445	243,591
	2,381,966	270,860	27,651	8,481	4,112	2,693,070
Allowances for impairment losses						(1,320)
Subtotal						2,691,750
Total						2,702,407

(i) Credit risk arising from the Group's derivatives exposures

The majority of the Group's derivatives transactions with domestic customers are hedged back-to-back with overseas banks and non-bank financial institutions. The Group is exposed to credit risk both in respect of the domestic customers and the overseas banks and non-bank financial institutions. The Group manages this risk by monitoring this exposure on a regular basis.

(j) Settlement risk

The Group's activities may give rise to settlement risk at the time of the settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement or clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(2) Market risk

Market risk is the risk of loss, in respect of the Group's on and off balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's trading and non-trading business. A trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book. Non-trading book records those financial instruments and commodities which are not included in the trading book.

The Risk Management Department is responsible for formulating standardised market risk management policies and rules and supervising the implementation of market risk management policies and rules of the Bank. The Asset and Liability Management Department (the "ALM") and the International Business Department are responsible for managing the size and structure of the assets and liabilities in response to non-trading market risk. The Financial Market Department manages the Head Office's RMB and foreign currency investment portfolios, conducts proprietary and customer-driven transactions, as well as implementing market risk management policies and rules. The Audit Department is responsible for regularly performing independent audits of the reliability and effectiveness of the processes constituting the risk management system.

The Group is primarily exposed to structural interest rate risk arising from interest generating commercial banking assets and interest bearing commercial banking liabilities. Interest rate risk is inherent in many of its businesses and largely arises from mismatches between the re-pricing dates of assets and liabilities. The Group manages this risk through regular interest rate gap analysis.

The Group's foreign exchange exposure mainly comprises exposures from foreign currency portfolios within treasury proprietary investments in debt securities and money market placements, and currency exposures from its overseas business. The Group manages its foreign exchange exposure by spot foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives in the management of its own foreign currency asset and liability portfolios and structural positions.

The Group is also exposed to market risk in respect of its customer driven derivatives portfolio and manages this risk by entering into back-to-back hedging transactions on a trade-by-trade basis with overseas banks and non-bank financial institutions.

The Group considers that the market risk arising from stock prices in respect of its investment portfolios is minimal.

The Group monitors market risk separately in respect of trading portfolios and non-trading portfolios. Trading portfolios include exchange rate and interest rate derivatives as well as trading securities. The historical simulation model for the Value-at-risk ("VaR") analysis is a major tool used by the Bank to measure and monitor the market risk of its trading portfolio and available-for-sale debt securities. Net interest income sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major tools used by the Group to monitor the market risk of its overall businesses.

(a) VaR analysis

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to movements in market interest rates, foreign exchange rates and other market prices over a specified time horizon and at a given level of confidence. The Risk Management Department calculates interest rates, foreign exchange rates and commodity prices VaR for the Bank's trading portfolio. By reference to historical movements in interest rates, foreign exchange rates and commodity prices, the Risk Management Department calculates VaR on a daily basis for the trading portfolio and monitors regularly. VaR is calculated at a confidence level of 99% and with a holding period of one day.

A summary of the VaR of the Bank's trading portfolio as at the end of the reporting period and during the respective years is as follows:

	2012			
	As at 31 December	Average	Maximum	Minimum
Risk valuation of trading portfolio	53	63	116	26
– Interest rate risk	44	42	77	16
– Foreign exchange risk ⁽¹⁾	32	41	96	14
– Commodity risk	–	4	80	–

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(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(a) VaR analysis (continued)

	2011			
	As at 31 December	Average	Maximum	Minimum
Risk valuation of trading portfolio	57	90	263	12
– Interest rate risk	18	25	67	7
– Foreign exchange risk ⁽¹⁾	49	84	260	8
– Commodity risk	8	25	73	1

(1) The reporting of risk in relation to bullion is included in foreign exchange risk above.

VaR for each risk factor is the independently derived largest potential loss in a specific holding period and within a certain confidence level due to fluctuations solely in that risk factor. The individual VaRs did not add up to the total VaR as there was diversification effect due to correlation amongst the risk factors.

The above average, maximum and minimum VaR for interest rate risk, foreign exchange risk and diversification of the trading portfolio represent a breakdown of the average, maximum and minimum VaR for the whole portfolio and not the individual average, maximum and minimum VaR for each risk within the portfolio.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Within the model used there is 1 percent probability that losses could exceed the VaR;
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and
- The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

(b) Net interest income sensitivity analysis

In monitoring interest rate risk on its overall non-derivative financial assets and liabilities, the Bank regularly measures its future net interest income sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant financial position). An incremental 100 basis points parallel fall or rise in all yield curves, other than that applicable to balances with central banks, would increase or decrease annualised net interest income of the Group for the year by RMB36,670 million (2011: RMB37,516 million). Had the impact of yield curves movement for demand deposits from customers been excluded, the annualised net interest income of the Group for the year would decrease or increase by RMB26,887 million (2011: RMB21,061 million).

The above interest rate sensitivity is for illustration purposes only and is assessed based on simplified assumptions. The figures here indicate estimated net interest income movements under various predicted yield curve scenarios and subject to the Bank's current interest rate exposures. However, account has not been taken of the possible risk management measures that can be undertaken by the department who manage the interest related risk or related business departments to mitigate interest rate risk. In practice, the department who manage the interest related risk strives to reduce loss arising from interest rate risk while increasing its net income. These figures are estimated on the assumption that the interest rates on various maturities will move within similar ranges, and therefore do not reflect the potential net interest income changes in the event that interest rates on some maturities may change and others remain unchanged. Moreover, the above estimations are based on other simplified assumptions, including that all positions will be held to maturity and rolled over upon maturity.

(c) Interest rate repricing gap analysis

Interest rate risk refers to the risk where the market interest rates, tenor and other factors may experience unfavourable fluctuations which impact the overall profitability and fair value resulting in losses to the Bank. The key determinants of the Group's interest rate risk arises from the mismatch between the maturity periods of the assets and liabilities, and inconsistent pricing basis, resulting in re-pricing risk and basis risk.

The ALM is responsible for regularly monitoring the interest rate risk positions and measuring the interest rate re-pricing gap. The main reason for measuring the interest rate re-pricing gap is to assist in analysing the impact of interest rate changes on net interest income.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(c) Interest rate repricing gap analysis (continued)

The following tables indicate the effective interest rate ("EIR") for the respective year, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the reporting period.

Group

	Note	2012					Total	
		Effective interest rate (i)	Non-interest bearing	Within three months	Between three months and one year	Between one year and five years		More than five years
Assets								
Cash and deposits with central banks		1.51%	186,811	2,271,258	-	-	-	2,458,069
Deposits and placements with banks and non-bank financial institutions		3.62%	-	556,220	150,292	9,039	-	715,551
Financial assets held under resale agreements		4.26%	-	275,316	41,369	-	-	316,685
Loans and advances to customers	(ii)	6.29%	-	3,848,626	3,346,574	46,068	68,611	7,309,879
Investments	(iii)	3.58%	21,572	275,869	659,380	932,291	979,902	2,869,014
Other assets		-	303,630	-	-	-	-	303,630
Total assets		4.70%	512,013	7,227,289	4,197,615	987,398	1,048,513	13,972,828
Liabilities								
Borrowings from central banks		1.22%	-	4,117	2,164	-	-	6,281
Deposits and placements from banks and non-bank financial institutions		3.13%	-	1,002,507	85,452	9,784	-	1,097,743
Financial liabilities at fair value through profit or loss		1.41%	20,000	15,664	1,587	-	-	37,251
Financial assets sold under repurchase agreements		3.86%	-	2,189	171	-	-	2,360
Deposits from customers		1.98%	61,385	7,904,321	2,328,493	1,041,442	7,438	11,343,079
Debt securities issued		3.48%	-	54,137	43,740	26,670	138,444	262,991
Other liabilities		-	273,514	-	-	-	-	273,514
Total liabilities		2.12%	354,899	8,982,935	2,461,607	1,077,896	145,882	13,023,219
Asset-liability gap		2.58%	157,114	(1,755,646)	1,736,008	(90,498)	902,631	949,609

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(c) Interest rate repricing gap analysis (continued)

Group (continued)

	Note	2011					Total	
		Effective interest rate (i)	Non-interest bearing	Within three months	Between three months and one year	Between one year and five years		More than Five years
Assets								
Cash and deposits with central banks		1.54%	197,288	2,182,521	-	-	-	2,379,809
Deposits and placements with banks and non-bank financial institutions		2.75%	-	279,079	105,486	1,151	76	385,792
Financial assets held resale agreements		4.03%	-	198,966	1,079	-	-	200,045
Loans and advances to customers	(ii)	5.69%	-	3,485,517	2,746,432	26,964	66,281	6,325,194
Investments	(iii)	3.27%	24,811	258,463	465,984	1,098,204	896,357	2,743,819
Other assets		-	247,175	-	-	-	-	247,175
Total assets		4.27%	469,274	6,404,546	3,318,981	1,126,319	962,714	12,281,834
Liabilities								
Borrowings from central banks		0.98%	-	2,220	-	-	-	2,220
Deposits and placements from banks and non-bank financial institutions		2.35%	-	948,479	58,520	37,955	-	1,044,954
Financial liabilities at fair value through profit or loss		1.33%	12,683	11,669	9,304	-	-	33,656
Financial assets sold under repurchase agreements		5.67%	-	9,543	918	-	-	10,461
Deposits from customers		1.61%	44,435	7,185,234	2,057,323	692,825	7,633	9,987,450
Debt securities issued		3.41%	-	18,100	20,518	31,123	98,571	168,312
Other liabilities		-	218,120	-	-	-	-	218,120
Total liabilities		1.70%	275,238	8,175,245	2,146,583	761,903	106,204	11,465,173
Asset-liability gap		2.57%	194,036	(1,770,699)	1,172,398	364,416	856,510	816,661

Notes:

- (i) Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.
- (ii) For loans and advances to customers, the "within three months" category includes overdue amounts (net of allowances for impairment losses) of RMB32,017 million as at 31 December 2012 (2011: RMB25,121 million).
- (iii) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investment, debt securities classified as receivables and investments in associates and jointly controlled entities.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(c) Interest rate repricing gap analysis (continued)

Bank

	Note	2012					Total	
		Effective interest rate (i)	Non-interest bearing	Within three months	Between three months and one year	Between one year and five years		More than five years
Assets								
Cash and deposits with central banks		1.51%	174,909	2,268,367	-	-	-	2,443,276
Deposits and placements with banks and non-bank financial institutions		3.61%	-	562,619	154,634	5,300	-	722,553
Financial assets held under resale agreements		4.26%	-	275,255	41,369	-	-	316,624
Loans and advances to customers	(ii)	6.33%	-	3,722,030	3,309,848	42,133	68,306	7,142,317
Investments	(iii)	3.58%	26,019	263,703	655,096	928,676	974,356	2,847,850
Other assets		-	314,130	-	-	-	-	314,130
Total assets		4.70%	515,058	7,091,974	4,160,947	976,109	1,042,662	13,786,750
Liabilities								
Borrowings from central banks		1.18%	-	4,107	2,062	-	-	6,169
Deposits and placements from banks and non-bank financial institutions		3.04%	-	978,894	70,012	9,231	-	1,058,137
Financial liabilities at fair value through profit or loss		1.41%	17,282	15,664	1,587	-	-	34,533
Financial assets sold under repurchase agreements		3.84%	-	720	171	-	-	891
Deposits from customers		1.99%	39,421	7,854,948	2,314,521	1,034,105	7,005	11,250,000
Debt securities issued		3.56%	-	48,782	33,474	24,324	138,444	245,024
Other liabilities		-	256,475	-	-	-	-	256,475
Total liabilities		2.11%	313,178	8,903,115	2,421,827	1,067,660	145,449	12,851,229
Asset-liability gap		2.59%	201,880	(1,811,141)	1,739,120	(91,551)	897,213	935,521

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(c) Interest rate repricing gap analysis (continued)

Bank (continued)

	Note	2011					Total	
		Effective interest rate (i)	Non-interest bearing	Within three months	Between three months and one year	Between one year and five years		More than five years
Assets								
Cash and deposits with central banks		1.54%	192,636	2,180,857	–	–	–	2,373,493
Deposits and placements with banks and non-bank financial institutions		2.80%	–	277,365	112,959	24	46	390,394
Financial assets held under resale agreements		4.03%	–	198,966	1,079	–	–	200,045
Loans and advances to customers	(ii)	5.72%	–	3,371,429	2,729,704	22,166	66,064	6,189,363
Investments	(iii)	3.26%	23,949	253,680	460,878	1,093,014	894,834	2,726,355
Other assets		–	259,240	–	–	–	–	259,240
Total assets		4.27%	475,825	6,282,297	3,304,620	1,115,204	960,944	12,138,890
Liabilities								
Borrowings from central banks		0.98%	–	2,210	–	–	–	2,210
Deposits and placements from banks and non-bank financial institutions		2.30%	–	941,999	37,133	36,555	–	1,015,687
Financial liabilities at fair value through profit or loss		1.33%	12,683	11,669	6,614	–	–	30,966
Financial assets sold under repurchase agreements		4.85%	–	10,676	918	–	–	11,594
Deposits from customers		1.61%	40,221	7,119,711	2,047,688	691,184	7,289	9,906,093
Debt securities issued		3.52%	–	14,904	15,573	29,002	98,571	158,050
Other liabilities		–	207,713	–	–	–	–	207,713
Total liabilities		1.70%	260,617	8,101,169	2,107,926	756,741	105,860	11,332,313
Asset–liability gap		2.57%	215,208	(1,818,872)	1,196,694	358,463	855,084	806,577

Notes:

- (i) Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.
- (ii) For loans and advances to customers, the "within three months" category includes overdue amounts (net of allowances for impairment losses) of RMB31,466 million as at 31 December 2012 (2011: RMB24,664 million).
- (iii) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, debt securities classified as receivables and investments in subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(d) Currency risk

The Group's foreign exchange exposure mainly comprises exposures that arise from the foreign currency portfolio within the Treasury Department's proprietary investments, and currency exposures originated by the Group's overseas businesses.

The Group manages currency risk by spot and forward foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives (principally foreign exchange swaps and cross currency swaps) in the management of its own foreign currency asset and liability portfolios and structural positions.

The currency exposures of the Group's and the Bank's assets and liabilities as at the end of the reporting period are as follows:

Group

	Note	2012			Total
		RMB	USD (RMB equivalent)	Others (RMB equivalent)	
Assets					
Cash and deposits with central banks		2,367,297	71,040	19,732	2,458,069
Deposits and placements with banks and non-bank financial institutions	(i)	965,168	37,253	29,815	1,032,236
Loans and advances to customers		6,776,966	362,894	170,019	7,309,879
Investments		2,791,334	26,502	51,178	2,869,014
Other assets		218,268	18,729	66,633	303,630
Total assets		13,119,033	516,418	337,377	13,972,828
Liabilities					
Borrowings from central banks		419	5,789	73	6,281
Deposits and placements from banks and non-bank financial institutions	(ii)	859,782	143,732	96,589	1,100,103
Financial liabilities at fair value through profit or loss		32,214	2,077	2,960	37,251
Deposits from customers		10,943,649	210,074	189,356	11,343,079
Debt securities issued		200,704	41,251	21,036	262,991
Other liabilities		243,440	4,881	25,193	273,514
Total liabilities		12,280,208	407,804	335,207	13,023,219
Net position		838,825	108,614	2,170	949,609
Net notional amount of derivatives		25,805	(81,825)	56,931	911

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(d) Currency risk (continued)

Group (continued)

	Note	2011			Total
		RMB	USD (RMB equivalent)	Others (RMB equivalent)	
Assets					
Cash and deposits with central banks		2,253,657	45,133	81,019	2,379,809
Deposits and placements with banks and non-bank financial institutions	(i)	536,807	25,609	23,421	585,837
Loans and advances to customers		5,955,730	245,419	124,045	6,325,194
Investments		2,672,309	29,090	42,420	2,743,819
Other assets		218,568	22,703	5,904	247,175
Total assets		11,637,071	367,954	276,809	12,281,834
Liabilities					
Borrowings from central banks		16	2,203	1	2,220
Deposits and placements from banks and non-bank financial institutions	(ii)	856,133	81,819	117,463	1,055,415
Financial liabilities at fair value through profit or loss		22,323	8,545	2,788	33,656
Deposits from customers		9,690,386	164,752	132,312	9,987,450
Debt securities issued		132,920	20,399	14,993	168,312
Other liabilities		182,299	8,305	27,516	218,120
Total liabilities		10,884,077	286,023	295,073	11,465,173
Net position		752,994	81,931	(18,264)	816,661
Net notional amount of derivatives		44,469	(79,952)	36,194	711

Notes:

- (i) Including financial assets held under resale agreements.
- (ii) Including financial assets sold under repurchase agreements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(d) Currency risk (continued)

Bank

	Note	2012			Total
		RMB	USD (RMB equivalent)	Others (RMB equivalent)	
Assets					
Cash and deposits with central banks		2,352,692	71,033	19,551	2,443,276
Deposits and placements with banks and non-bank financial institutions	(i)	979,815	39,930	19,432	1,039,177
Loans and advances to customers		6,689,719	335,185	117,413	7,142,317
Investments		2,788,354	23,672	35,823	2,847,849
Other assets		237,427	17,139	59,565	314,131
Total assets		13,048,007	486,959	251,784	13,786,750
Liabilities					
Borrowings from central banks		306	5,790	73	6,169
Deposits and placements from banks and non-bank financial institutions	(ii)	831,012	137,212	90,804	1,059,028
Financial liabilities at fair value through profit or loss		32,215	2,077	241	34,533
Deposits from customers		10,923,026	193,900	133,074	11,250,000
Debt securities issued		185,617	39,683	19,724	245,024
Other liabilities		247,662	3,527	5,286	256,475
Total liabilities		12,219,838	382,189	249,202	12,851,229
Net position		828,169	104,770	2,582	935,521
Net notional amount of derivatives		28,700	(82,459)	54,616	857

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(2) Market risk (continued)

(d) Currency risk (continued)

Bank (continued)

	Note	2011			Total
		RMB	USD (RMB equivalent)	Others (RMB equivalent)	
Assets					
Cash and deposits with central banks		2,252,012	45,133	76,348	2,373,493
Deposits and placements with banks and non-bank financial institutions	(i)	543,655	30,651	16,133	590,439
Loans and advances to customers		5,898,547	220,940	69,876	6,189,363
Investments		2,671,599	27,916	26,840	2,726,355
Other assets		234,948	22,717	1,575	259,240
Total assets		11,600,761	347,357	190,772	12,138,890
Liabilities					
Borrowings from central banks		6	2,203	1	2,210
Deposits and placements from banks and non-bank financial institutions	(ii)	832,280	84,504	110,497	1,027,281
Financial liabilities at fair value through profit or loss		22,323	8,545	98	30,966
Deposits from customers		9,675,116	150,321	80,656	9,906,093
Debt securities issued		131,796	17,442	8,812	158,050
Other liabilities		193,377	7,920	6,416	207,713
Total liabilities		10,854,898	270,935	206,480	11,332,313
Net position		745,863	76,422	(15,708)	806,577
Net notional amount of derivatives		44,785	(69,562)	25,439	662

Notes:

- (i) Including financial assets held under resale agreements.
- (ii) Including financial assets sold under repurchase agreements.

(3) Liquidity risk

Liquidity risk is the type of risk that occurs when, despite its debt servicing ability, the Group cannot obtain sufficient funds in time, or obtain sufficient funds at a reasonable cost, to meet the needs of asset growth or repay liabilities when they are due. It is caused by mismatches of assets and liabilities in terms of their amounts and maturity dates. In accordance with liquidity policies, the Group monitors the future cash flows to ensure that an appropriate level of highly liquid assets is maintained.

At the Group level, liquidity is managed and coordinated through the ALM Department. The ALM Department is responsible for formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

- adopting a prudent strategy and ensuring sufficient funds are available at any moment to satisfy any payment request;
- optimising the Group's asset and liability structure, diversifying and stabilising the source of funds, and reserving an appropriate proportion of highly credit-rated and liquid asset portfolio; and
- managing and utilising centrally the Bank's liquid funds.

The Group uses a variety of methods including liquidity index analysis, analysis of remaining contractual maturities and undiscounted cash flow analysis to measure the liquidity risk. Gap analysis is used to predict the cash flow within one year. Various types of scenario analysis are then applied to assess the impact of liquidity risk.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(a) Maturity analysis

The following tables provide an analysis of the assets and liabilities of the Group and the Bank based on the remaining periods to repayment as at the end of the reporting period:

Group

	2012							Total
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with central banks	2,154,098	303,971	-	-	-	-	-	2,458,069
Deposits and placements with banks and non-bank financial institutions	-	35,116	313,407	206,031	144,297	16,352	348	715,551
Financial assets held under resale agreements	-	-	218,245	57,071	41,369	-	-	316,685
Loans and advances to customers	30,078	196,222	247,909	533,660	2,007,674	1,806,324	2,488,012	7,309,879
Investments								
- Financial assets at fair value through profit or loss	6,980	-	141	881	9,630	8,549	1,391	27,572
- Available-for-sale financial assets	19,226	-	12,390	31,634	134,744	309,731	193,316	701,041
- Held-to-maturity investments	1,628	-	13,201	31,989	381,915	779,035	710,554	1,918,322
- Debt securities classified as receivables	368	-	-	894	-	69,669	148,782	219,713
- Investments in associates and jointly controlled entities	2,366	-	-	-	-	-	-	2,366
Other assets	164,230	36,316	16,689	33,883	43,337	6,538	2,637	303,630
Total assets	2,378,974	571,625	821,982	896,043	2,762,966	2,996,198	3,545,040	13,972,828
Liabilities								
Borrowings from central banks	-	-	1,689	2,428	2,164	-	-	6,281
Deposits and placements from banks and non-bank financial institutions	-	431,321	482,961	60,519	113,158	9,784	-	1,097,743
Financial liabilities at fair value through profit or loss	-	20,000	9,401	6,263	1,587	-	-	37,251
Financial assets sold under repurchase agreements	-	-	1,779	410	171	-	-	2,360
Deposits from customers	-	5,891,342	1,036,919	1,035,687	2,326,505	1,041,891	10,735	11,343,079
Debt securities issued								
- Certificates of deposit issued	-	-	12,098	30,170	52,082	6,271	602	101,223
- Bonds issued	-	-	-	-	-	1,934	-	1,934
- Subordinated bonds issued	-	-	-	-	-	21,992	137,842	159,834
Other liabilities	332	158,688	16,071	19,884	57,711	18,549	2,279	273,514
Total liabilities	332	6,501,351	1,560,918	1,155,361	2,553,378	1,100,421	151,458	13,023,219
Long/(short) position	2,378,642	(5,929,726)	(738,936)	(259,318)	209,588	1,895,777	3,393,582	949,609
Notional amount of derivatives								
- Interest rate contracts	-	-	6,728	57,024	249,443	40,951	14,061	368,207
- Exchange rate contracts	-	-	227,623	223,317	513,178	45,284	7,901	1,017,303
- Other contracts	-	-	6,296	1,625	3,331	901	-	12,153
Total	-	-	240,647	281,966	765,952	87,136	21,962	1,397,663

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

Group (continued)

	2011							Total
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with central banks	1,996,932	382,877	-	-	-	-	-	2,379,809
Deposits and placements with banks and non-bank financial institutions	-	32,603	151,071	95,405	98,454	8,183	76	385,792
Financial assets held under resale agreements	-	-	185,613	13,353	1,079	-	-	200,045
Loans and advances to customers	33,363	104,292	236,117	456,647	1,647,945	1,674,416	2,172,414	6,325,194
Investments								
- Financial assets at fair value through profit or loss	8,722	-	2	201	6,382	6,326	1,463	23,096
- Available-for-sale financial assets	22,308	-	7,678	42,776	136,627	314,230	151,439	675,058
- Held-to-maturity investments	2,004	-	24,140	22,928	156,543	911,631	626,323	1,743,569
- Debt securities classified as receivables	368	-	-	750	17,944	57,259	223,706	300,027
- Investments in associates and jointly controlled entities	2,069	-	-	-	-	-	-	2,069
Other assets	138,347	31,518	14,631	25,221	28,087	4,689	4,682	247,175
Total assets	2,204,113	551,290	619,252	657,281	2,093,061	2,976,734	3,180,103	12,281,834
Liabilities								
Borrowings from central banks	-	2,220	-	-	-	-	-	2,220
Deposits and placements from banks and non-bank financial institutions	-	445,029	320,833	156,922	57,350	64,820	-	1,044,954
Financial liabilities at fair value through profit or loss	-	12,682	8,460	3,182	9,304	-	28	33,656
Financial assets sold under repurchase agreements	-	-	2,469	7,074	918	-	-	10,461
Deposits from customers	-	5,396,360	844,136	896,678	2,145,634	694,911	9,731	9,987,450
Debt securities issued								
- Certificates of deposit issued	-	-	7,258	10,842	20,518	9,138	695	48,451
- Subordinated bonds issued	-	-	-	-	-	21,985	97,876	119,861
Other liabilities	358	134,242	11,632	14,833	40,171	12,495	4,389	218,120
Total liabilities	358	5,990,533	1,194,788	1,089,531	2,273,895	803,349	112,719	11,465,173
Long/(short) position	2,203,755	(5,439,243)	(575,536)	(432,250)	(180,834)	2,173,385	3,067,384	816,661
Notional amount of derivatives								
- Interest rate contracts	-	-	2,471	8,976	69,553	74,121	28,539	183,660
- Exchange rate contracts	-	-	165,801	181,875	334,292	48,370	10,399	740,737
- Other contracts	-	-	399	59	3,969	584	-	5,011
Total	-	-	168,671	190,910	407,814	123,075	38,938	929,408

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

	2012							Total
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Bank								
Assets								
Cash and deposits with central banks	2,152,409	290,867	-	-	-	-	-	2,443,276
Deposits and placements with banks and non-bank financial institutions	-	33,752	314,081	209,233	152,526	12,613	348	722,553
Financial assets held under resale agreements	-	-	218,184	57,071	41,369	-	-	316,624
Loans and advances to customers	29,880	194,200	236,804	515,289	1,958,134	1,754,212	2,453,798	7,142,317
Investments								
- Financial assets at fair value through profit or loss	-	-	141	519	7,788	6,381	1,377	16,206
- Available-for-sale financial assets	16,184	-	10,455	26,855	130,369	306,414	191,139	681,416
- Held-to-maturity investments	1,628	-	13,201	31,989	381,728	778,544	708,721	1,915,811
- Debt securities classified as receivables	368	-	-	894	-	69,214	147,265	217,741
- Investments in subsidiaries	16,676	-	-	-	-	-	-	16,676
Other assets	179,489	35,642	16,356	33,454	42,389	4,219	2,581	314,130
Total assets	2,396,634	554,461	809,222	875,304	2,714,303	2,931,597	3,505,229	13,786,750
Liabilities								
Borrowings from central banks	-	-	1,689	2,418	2,062	-	-	6,169
Deposits and placements from banks and non-bank financial institutions	-	433,634	472,789	44,628	97,855	9,231	-	1,058,137
Financial liabilities at fair value through profit or loss	-	17,282	9,401	6,263	1,587	-	-	34,533
Financial assets sold under repurchase agreements	-	-	338	382	171	-	-	891
Deposits from customers	-	5,866,430	1,013,451	1,009,759	2,315,504	1,034,554	10,302	11,250,000
Debt securities issued								
- Certificates of deposit issued	-	-	10,342	27,619	41,387	4,245	602	84,195
- Bonds issued	-	-	-	-	-	995	-	995
- Subordinated bonds issued	-	-	-	-	-	21,992	137,842	159,834
Other liabilities	-	157,119	14,483	17,423	47,257	17,915	2,278	256,475
Total liabilities	-	6,474,465	1,522,493	1,108,492	2,505,823	1,088,932	151,024	12,851,229
Long/(short) position	2,396,634	(5,920,004)	(713,271)	(233,188)	208,480	1,842,665	3,354,205	935,521
Notional amount of derivatives								
- Interest rate contracts	-	-	6,224	55,988	245,228	38,664	14,061	360,165
- Exchange rate contracts	-	-	192,202	193,244	466,497	45,222	7,901	905,066
- Other contracts	-	-	6,080	1,507	3,080	-	-	10,667
Total	-	-	204,506	250,739	714,805	83,886	21,962	1,275,898

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(a) Maturity analysis (continued)

Bank (continued)

	2011							Total
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Assets								
Cash and deposits with central banks	1,995,697	377,796	-	-	-	-	-	2,373,493
Deposits and placements with banks and non-bank financial institutions	-	30,093	148,930	98,343	105,958	7,024	46	390,394
Financial assets held under resale agreements	-	-	185,613	13,353	1,079	-	-	200,045
Loans and advances to customers	32,274	103,938	230,801	443,386	1,613,532	1,628,225	2,137,207	6,189,363
Investments								
- Financial assets at fair value through profit or loss	-	-	2	201	4,332	2,748	1,432	8,715
- Available-for-sale financial assets	20,284	-	6,791	40,350	132,784	312,415	150,959	663,583
- Held-to-maturity investments	2,004	-	24,141	22,888	156,503	911,447	625,359	1,742,342
- Debt securities classified as receivables	368	-	-	750	17,944	57,047	223,656	299,765
- Investments in subsidiaries	11,950	-	-	-	-	-	-	11,950
Other assets	154,043	30,666	14,212	24,889	27,432	3,316	4,682	259,240
Total assets	2,216,620	542,493	610,490	644,160	2,059,564	2,922,222	3,143,341	12,138,890
Liabilities								
Borrowings from central banks	-	2,210	-	-	-	-	-	2,210
Deposits and placements from banks and non-bank financial institutions	-	447,667	322,533	146,309	35,808	63,370	-	1,015,687
Financial liabilities at fair value through profit or loss	-	12,682	8,460	3,182	6,614	-	28	30,966
Financial assets sold under repurchase agreements	-	-	3,161	7,515	918	-	-	11,594
Deposits from customers	-	5,378,414	819,917	869,435	2,135,490	693,169	9,668	9,906,093
Debt securities issued								
- Certificates of deposit issued	-	-	5,719	9,185	15,573	7,017	695	38,189
- Subordinated bonds issued	-	-	-	-	-	21,985	97,876	119,861
Other liabilities	23	133,015	10,765	13,154	34,286	12,082	4,388	207,713
Total liabilities	23	5,973,988	1,170,555	1,048,780	2,228,689	797,623	112,655	11,332,313
Long/(short) position	2,216,597	(5,431,495)	(560,065)	(404,620)	(169,125)	2,124,599	3,030,686	806,577
Notional amount of derivatives								
- Interest rate contracts	-	-	1,798	6,532	68,583	67,200	28,539	172,652
- Exchange rate contracts	-	-	132,742	149,261	291,538	47,107	10,399	631,047
- Other contracts	-	-	298	-	2,839	-	-	3,137
Total	-	-	134,838	155,793	362,960	114,307	38,938	806,836

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(3) Liquidity risk (continued)

(b) Contractual undiscounted cash flow

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities and off-balance sheet credit commitments of the Group and the Bank as at the end of the reporting period. The Group's and the Bank's expected cash flows on these instruments may vary significantly from this analysis.

Group

	2012							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	6,281	6,300	-	1,691	2,433	2,176	-	-
Deposits and placements from banks and non-bank financial institutions	1,097,743	1,109,936	431,462	484,962	63,808	118,462	11,242	-
Financial liabilities at fair value through profit or loss	37,251	37,346	20,000	9,424	6,300	1,622	-	-
Financial assets sold under repurchase agreements	2,360	2,368	-	1,783	413	172	-	-
Deposits from customers	11,343,079	11,642,843	5,892,287	1,048,580	1,061,124	2,422,581	1,204,970	13,301
Debt securities issued								
– Certificates of deposit issued	101,223	102,272	-	12,126	30,300	52,706	6,490	650
– Bonds issued	1,934	2,093	-	-	-	62	2,031	-
– Subordinated bonds issued	159,834	219,300	-	-	1,504	5,972	49,756	162,068
Other financial liabilities	64,411	64,411	63,006	185	147	567	-	506
Total	12,814,116	13,186,869	6,406,755	1,558,751	1,166,029	2,604,320	1,274,489	176,525
Off-balance sheet loan commitments and credit card commitments (Note)		784,964	595,291	64,216	24,747	66,119	30,846	3,745
Guarantees, acceptances and other credit commitments (Note)		1,231,335	-	272,506	238,663	422,979	234,378	62,809
	2011							
	Carrying amount	Gross cash outflow	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Borrowings from central banks	2,220	2,220	2,220	-	-	-	-	-
Deposits and placements from banks and non-bank financial institutions	1,044,954	1,068,048	445,050	322,102	159,237	59,685	81,974	-
Financial liabilities at fair value through profit or loss	33,656	33,684	12,682	8,476	3,192	9,305	-	29
Financial assets sold under repurchase agreements	10,461	10,615	-	2,480	7,175	960	-	-
Deposits from customers	9,987,450	10,201,224	5,400,418	851,975	915,887	2,217,601	802,755	12,588
Debt securities issued								
– Certificates of deposit issued	48,451	49,133	-	7,261	10,859	20,655	9,432	926
– Subordinated bonds issued	119,861	164,820	-	-	1,504	3,976	42,488	116,852
Other financial liabilities	52,449	52,449	48,745	140	160	2,896	-	508
Total	11,299,502	11,582,193	5,909,115	1,192,434	1,098,014	2,315,078	936,649	130,903
Off-balance sheet loan commitments and credit card commitments (Note)		745,224	557,208	53,318	25,953	76,123	30,629	1,993
Guarantees, acceptances and other credit commitments (Note)		1,236,725	-	251,994	258,931	403,962	226,551	95,287

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(4) Operational risk

Operational risk represents the risk of loss due to deficient and flawed internal processes, personnel and information system, or other external events.

The Group has continued to further strengthen the operational risk management processes to ensure operational stability and business as usual, by enhancing the self-assessment of operational risk, establishing key risk controls and examination, utilising usage of operational risk tools and systems, streamlining the Group's banking systems parameters, performing emergency drills to ensure continuous business operations in adverse scenarios and promoting business continuity management:

- continuous self-assessment of operational risk – The Group continuously improves and expands the scope of self-assessment, placing particular focus on off-balance sheet related items to enhance respective regulations, processes and services;
- establishment of examination of key risk controls – The Group carries out examination over key risk controls, and continues to refine, expand and re-examine the scope and contents of the monitoring checks, placing particular focus on key business areas and preventive checks on major operational risk areas;
- strengthening the centralised operational risk management evaluation system – The Group refines the operational risk indicators with respect to corporate and personal credit businesses, which assists and drives branches' evaluation of the operational risks;
- improvement in segregation of duties – The Group continues to improve and review the roles and responsibilities of its key staff positions to ensure adequate segregation of duties (responsibilities), further strengthening the system of checks and balances;
- steady progress in business continuity management – The Group conducts emergency operational drills in pilot branches, which improves the strategies and mechanisms of the Tier 2 institutions and networks in response to natural disasters;
- strengthening major risks and unforeseen events reporting process – The Group formalises the supervision and monitoring over major risks and unforeseen events by prescribing the information recording and reporting processes. Clear information channels have also been established to increase the ability of the Group to address these risks and events;
- streamline and review of important system parameters – The Group continues to evaluate management system parameters and timely remediates deficiency to ensure secured and smooth system operations; and
- the Group has implemented laws, rules and regulations concerning anti-money laundering (AML). The Group continued to improve its internal control system relating to AML. The Group follows “know-your-customer” principle in identifying and recording customers' identities and transactions diligently, and proactively identifies and reports significant, suspicious and suspected terrorist-related transactions. Training and publicity for AML has also been enhanced. All these measures are put in place to effectively fulfill the statutory AML obligations.

(5) Fair value

(a) *Financial assets*

The Group's financial assets mainly include cash and deposits with central banks, deposits and placements with banks and non-bank financial institutions, financial assets at fair value through profit or loss, financial assets held under resale agreements, loans and advances to customers, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements

Deposits with central banks, deposits and placements with banks and non-bank financial institutions and financial assets held under resale agreements are mainly priced at market interest rates and mature within one year. Accordingly, the carrying values approximate the fair values.

Loans and advances to customers

Majority of the loans and advances to customers are repriced at least annually to the market rate. Accordingly, their carrying values approximate the fair values.

Investments

Available-for-sale financial assets and financial assets at fair value through profit or loss are stated at fair value in the financial statements. The following table shows the carrying values and the fair values of the debt securities classified as receivables and held-to-maturity investments which are not presented in the statement of financial position at their fair values.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(5) Fair value (continued)

(a) Financial assets (continued)

Group

	Carrying value		Fair value	
	2012	2011	2012	2011
Debt securities classified as receivables	219,713	300,027	209,123	291,829
Held-to-maturity investments	1,918,322	1,743,569	1,915,573	1,753,842
Total	2,138,035	2,043,596	2,124,696	2,045,671

Bank

	Carrying value		Fair value	
	2012	2011	2012	2011
Debt securities classified as receivables	217,741	299,765	207,166	291,569
Held-to-maturity investments	1,915,811	1,742,342	1,913,050	1,752,585
Total	2,133,552	2,042,107	2,120,216	2,044,154

(b) Financial liabilities

The Group's financial liabilities mainly include borrowings from central banks, deposits and placements from banks and non-bank financial institutions, financial liabilities at fair value through profit or loss, financial assets sold under repurchase agreements, deposits from customers, and debt securities issued. The carrying values of financial liabilities approximated their fair values as at the end of the reporting period, except that the fair value of subordinated bonds issued as at 31 December 2012 was RMB156,262 million (2011: RMB117,969 million), which was lower than their carrying value of RMB159,834 million (2011: RMB119,861 million).

(6) Valuation of financial instruments

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(6) Valuation of financial instruments (continued)

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

Group

	2012			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
<i>Financial assets held for trading purpose</i>				
– Debt securities	195	16,209	–	16,404
– Equity instruments and funds	821	–	–	821
<i>Financial assets designated as at fair value through profit or loss</i>				
– Debt securities	996	51	3,141	4,188
– Equity instruments	885	514	4,760	6,159
Positive fair value of derivatives	–	10,840	1,831	12,671
Available-for-sale financial assets				
– Debt securities	6,378	678,103	4,333	688,814
– Equity instruments and funds	8,657	1,587	472	10,716
Total	17,932	707,304	14,537	739,773
Liabilities				
Financial liabilities at fair value through profit or loss				
<i>Financial liabilities designated as at fair value through profit or loss</i>	–	34,533	2,718	37,251
Negative fair value of derivatives	–	9,710	1,831	11,541
Total	–	44,243	4,549	48,792
	2011			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
<i>Financial assets held for trading purpose</i>				
– Debt securities	–	8,715	–	8,715
– Equity instruments and funds	549	–	–	549
<i>Financial assets designated as at fair value through profit or loss</i>				
– Debt securities	1,177	–	4,483	5,660
– Equity instruments	794	1,059	6,319	8,172
Positive fair value of derivatives	–	11,709	2,418	14,127
Available-for-sale financial assets				
– Debt securities	17,776	638,695	4,565	661,036
– Equity instruments and funds	10,499	1,118	552	12,169
Total	30,795	661,296	18,337	710,428
Liabilities				
Financial liabilities at fair value through profit or loss				
<i>Financial liabilities designated as at fair value through profit or loss</i>	–	30,937	2,719	33,656
Negative fair value of derivatives	–	10,860	2,450	13,310
Total	–	41,797	5,169	46,966

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(6) Valuation of financial instruments (continued)

Bank

	2012			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
<i>Financial assets held for trading purpose</i>				
– Debt securities	–	16,206	–	16,206
Positive fair value of derivatives	–	9,836	1,831	11,667
Available-for-sale financial assets				
– Debt securities	5,743	664,722	1,608	672,073
– Equity instruments and funds	7,780	–	67	7,847
Total	13,523	690,764	3,506	707,793
Liabilities				
Financial liabilities at fair value through profit or loss				
<i>Financial liabilities designated as at fair value through profit or loss</i>	–	34,533	–	34,533
Negative fair value of derivatives	–	8,214	1,831	10,045
Total	–	42,747	1,831	44,578

	2011			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
<i>Financial assets held for trading purpose</i>				
– Debt securities	–	8,715	–	8,715
Positive fair value of derivatives	–	10,707	2,366	13,073
Available-for-sale financial assets				
– Debt securities	8,715	641,165	1,705	651,585
– Equity instruments and funds	10,064	34	62	10,160
Total	18,779	660,621	4,133	683,533
Liabilities				
Financial liabilities at fair value through profit or loss				
<i>Financial liabilities designated as at fair value through profit or loss</i>	–	30,937	29	30,966
Negative fair value of derivatives	–	9,992	2,362	12,354
Total	–	40,929	2,391	43,320

For the year ended 31 December 2012 and 2011, there were no significant transfers between level 1 and level 2 of the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(6) Valuation of financial instruments (continued)

The following table shows a reconciliation from the opening balances to the ending balances for fair value measurement in level 3 of the fair value hierarchy:

Group

	2012								
	Financial assets designated as at fair value through profit or loss			Available-for-sale financial assets		Total assets	Financial liabilities designated as at fair value through profit or loss	Negative fair value of derivatives	Total liabilities
	Debt securities	Equity instruments and funds	Positive fair value of derivatives	Debt securities	Equity instruments and funds				
As at 1 January 2012	4,483	6,319	2,418	4,565	552	18,337	(2,719)	(2,450)	(5,169)
Total gains or losses:									
In profit or loss	120	(714)	(423)	(24)	-	(1,041)	(28)	371	343
In other comprehensive income	-	-	-	194	20	214	-	-	-
Purchases	485	581	-	2,545	721	4,332	-	-	-
Sales and settlements	(1,947)	(1,171)	(164)	(2,947)	(810)	(7,039)	29	248	277
Transfer out	-	(255)	-	-	(11)	(266)	-	-	-
As at 31 December 2012	3,141	4,760	1,831	4,333	472	14,537	(2,718)	(1,831)	(4,549)
Total gains or losses for the period included in profit or loss for assets and liabilities held at the end of the reporting period	75	(227)	(214)	(24)	-	(390)	(28)	161	133

	2011								
	Financial assets designated as at fair value through profit or loss			Available-for-sale financial assets		Total assets	Financial liabilities designated as at fair value through profit or loss	Negative fair value of derivatives	Total liabilities
	Debt securities	Equity instruments and funds	Positive fair value of derivatives	Debt securities	Equity instruments and funds				
As at 1 January 2011	2,999	3,571	2,461	4,140	374	13,545	(2,371)	(2,146)	(4,517)
Total gains or losses:									
In profit or loss	(330)	129	93	370	-	262	(48)	(436)	(484)
In other comprehensive income	-	-	-	(266)	(28)	(294)	-	-	-
Purchases	3,091	3,244	35	2,085	207	8,662	(655)	(88)	(743)
Sales and settlements	(1,277)	(625)	(193)	(1,860)	(1)	(3,956)	355	191	546
Transfer in/out	-	-	22	96	-	118	-	29	29
As at 31 December 2011	4,483	6,319	2,418	4,565	552	18,337	(2,719)	(2,450)	(5,169)
Total gains or losses for the period included in profit or loss for assets and liabilities held at the end of the reporting period	(334)	129	631	370	-	796	(48)	(1,027)	(1,075)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(6) Valuation of financial instruments (continued)

Bank

	2012						
	Available-for-sale financial assets			Total assets	Financial liabilities designated as at fair value through profit or loss	Negative fair value of derivatives	Total liabilities
	Positive fair value of derivatives	Debt securities	Equity instruments and funds				
As at 1 January 2012	2,366	1,705	62	4,133	(29)	(2,362)	(2,391)
Total gains or losses:							
In profit or loss	(371)	7	-	(364)	-	371	371
In other comprehensive income	-	202	1	203	-	-	-
Purchases	-	-	4	4	-	-	-
Sales and settlements	(164)	(306)	-	(470)	29	160	189
As at 31 December 2012	1,831	1,608	67	3,506	-	(1,831)	(1,831)
Total gains or losses for the period included in profit or loss for assets and liabilities held at the end of the reporting period	(182)	7	-	(175)	-	182	182
	2011						
	Available-for-sale financial assets			Total assets	Financial liabilities designated as at fair value through profit or loss	Negative fair value of derivatives	Total liabilities
	Positive fair value of derivatives	Debt securities	Equity instruments and funds				
As at 1 January 2011	2,120	1,994	-	4,114	(24)	(2,117)	(2,141)
Total gains or losses:							
In profit or loss	437	370	-	807	(5)	(436)	(441)
In other comprehensive income	-	(262)	8	(254)	-	-	-
Purchases	2	-	54	56	-	-	-
Sales and settlements	(193)	(493)	-	(686)	-	191	191
Transfer in	-	96	-	96	-	-	-
As at 31 December 2011	2,366	1,705	62	4,133	(29)	(2,362)	(2,391)
Total gains or losses for the period included in profit or loss for assets and liabilities held at the end of the reporting period	601	370	-	971	(5)	(598)	(603)

In Level 3 of the fair value hierarchy, total gains or losses included in profit or loss for the year in the above table are presented in net trading gain, net gain arising from investment securities and impairment losses of the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(7) Capital management

The Group has implemented a comprehensive capital management policy, covering the management of regulatory capital, economic capital and accounting capital, including but not limited to management of capital adequacy ratio, capital planning, capital raising and economic capital.

Capital adequacy ratio is a reflection of the Group's ability to run stable operations and resist adverse risks. The CBRC requires commercial banks to maintain the capital adequacy ratio at or above minimum of 8% and the core capital adequacy ratio at or above minimum of 4%. Supplementary capital of a commercial bank cannot exceed 100% of its core capital. Any amount in excess of the balance of the trading book over 10% of total on and off-balance sheet assets or RMB8,500 million will be subject to provision for market risk in the computation of capital adequacy ratio. The Group timely monitors, analyses and reports capital adequacy ratio level to exercise effective management of capital adequacy ratio. The Group adopts various measures such as controlling asset growth, adjusting the structure of risk assets, accumulating capital internally and raising capital through external channels, to ensure that the capital adequacy ratio and core capital adequacy ratio of the Group and the Bank are in full compliance with regulatory requirements and meet internal management needs. This helps insulate against potential risks as well as support the healthy business development. The Group now fully complies with all regulatory requirements in this respect.

The Group's capital planning has taken the regulatory requirements, the Group's development strategy and risk appetite into consideration, and based on those factors the Group projects the capital usage and need. The Group regularly compares its position with its capital adequacy ratio target to ensure capital will be adequate for future or otherwise to plan for supplementation of capital.

The capital raising management of the Group involves reasonable utilisation of various capital instruments to ensure that both external regulatory and internal capital management objectives are met, taking in account capital planning and operating environment. This helps to optimise the Group's total capital and structure, as well as improve the competitiveness of the Group's cost of capital.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

63 RISK MANAGEMENT (CONTINUED)

(7) Capital management (continued)

The Group's consolidated regulatory capital positions calculated in accordance with the guidance issued by the CBRC as at the end of the reporting period are as follows:

	Note	2012	2011
Core capital adequacy ratio	(a)	11.32%	10.97%
Capital adequacy ratio	(b)	14.32%	13.68%
Components of capital base			
Core capital:			
– Share capital		250,011	250,011
– Capital reserve, investment revaluation reserve and exchange reserve	(c)	130,535	130,562
– Surplus reserve and general reserve		167,196	134,918
– Retained earnings	(c),(d)	323,735	229,649
– Non-controlling interests		4,275	5,520
		875,752	750,660
Supplementary capital:			
– General allowance for doubtful debts		76,605	66,180
– Positive changes in fair value of financial instruments at fair value through profit or loss		1,563	3,675
– Subordinated bonds issued		160,000	120,000
		238,168	189,855
Total capital base before deductions		1,113,920	940,515
Deductions:			
– Goodwill		(1,456)	(1,662)
– Unconsolidated equity investments		(17,882)	(12,402)
– Others	(e)	(1,153)	(1,945)
Net capital		1,093,429	924,506
Risk-weighted assets	(f)	7,637,705	6,760,117

Notes:

- (a) Core capital adequacy ratio is calculated by dividing the net amount of core capital, which is after deductions of 100% of goodwill and 50% of unconsolidated equity investments, and other items, by risk-weighted assets.
- (b) Capital adequacy ratio is calculated by dividing the net capital by risk-weighted assets.
- (c) The investment revaluation reserve arising from the accumulated net positive changes in the fair value of available-for-sale financial assets is excluded from the core capital and 50% of the balance is included in the supplementary capital. In addition, the unrealised accumulated net positive changes in fair value of financial instruments at fair value through profit or loss, net of income tax, are excluded from the core capital and included in the supplementary capital.
- (d) The dividend proposed after the reporting period has been deducted from retained earnings.
- (e) Others mainly represent investments in those asset backed securities specified by CBRC which required reduction.
- (f) The balances of risk-weighted assets include an amount equal to 12.5 times the Group's market risk capital.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in millions of RMB, unless otherwise stated)

64 EVENTS AFTER THE REPORTING PERIOD

There are no significant events after the reporting period.

65 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform with changes in disclosures in current year.

66 ULTIMATE PARENT

As stated in Note 1, the immediate and ultimate parent of the Group is Huijin and CIC respectively.

67 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Up to the date of issue of the financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2012 and which have not been adopted in the financial statements.

Standards	Effective for annual period beginning on or after
Amendments to IFRS 7, "Financial instruments: Disclosures" on asset and liability offsetting	1 January 2013
Amendments to IFRS 7 and 9, "Mandatory effective date and transition disclosures"	1 January 2015
Amendments to IFRS 10, 11 and 12, "Transition guidance"	1 January 2013
Amendments to IAS 1, "Financial statement presentation" regarding other comprehensive income	1 July 2012
Amendments to IAS 19, "Employee benefits"	1 January 2013
Amendments to IAS 32, "Financial instruments: Presentation" on asset and liability offsetting	1 January 2014
IFRS 9, "Financial instruments"	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
IFRS 13, "Fair value measurement"	1 January 2013
IAS 27 (revised 2011), "Separate financial statements"	1 January 2013
IAS 28 (revised 2011), "Investments in associates and joint ventures"	1 January 2013

The Group is in the process of making an assessment on the impact of these new and revised IFRSs upon initial application.

14 UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in millions of RMB, unless otherwise stated)

The following information of the Group does not form part of the audited financial statements, and is included herein for information purposes only.

1 DIFFERENCE BETWEEN THE FINANCIAL STATEMENTS PREPARED UNDER IFRS AND THOSE PREPARED IN ACCORDANCE WITH PRC GAAP

China Construction Bank Corporation (the "Bank") prepares consolidated financial statements, which include the financial statements of the Bank and its subsidiaries (collectively the "Group"), in accordance with International Financial Reporting Standards ("IFRS") and its interpretations promulgated by the International Accounting Standards Board and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

As a financial institution incorporated in the People's Republic of China (the "PRC") and listed in the Shanghai Stock Exchange, the Group also prepares its consolidated financial statements for the year ended 31 December 2012 in accordance with the Accounting Standards for Business Enterprises and other relevant regulations issued by the regulatory bodies of the PRC (collectively "PRC GAAP and regulations").

There is no difference in the net profit for the year ended 31 December 2012 or total equity as at 31 December 2012 between the Group's consolidated financial statements prepared under IFRS and those prepared under PRC GAAP and regulations respectively.

2 LIQUIDITY RATIOS

	As at 31 December 2012	Average for the year ended 31 December 2012	As at 31 December 2011	Average for the year ended 31 December 2011
RMB current assets to RMB current liabilities	56.73%	56.65%	53.70%	52.33%
Foreign currency current assets to foreign currency current liabilities	58.81%	58.53%	53.54%	51.40%

The above liquidity ratios are calculated in accordance with the formula promulgated by the CBRC.

The Hong Kong Banking (Disclosure) Rules (the "Rules") took effect on 1 January, 2007. It requires the disclosure of average liquidity ratio, which is the arithmetic mean of each calendar month's liquidity ratio. The Group prepared the liquidity ratios on a semi-annual basis and the disclosed average liquidity ratio is the arithmetic mean of two consecutive liquidity ratios as at 30 June and 31 December.

3 CURRENCY CONCENTRATIONS

	2012			Total
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
Spot assets	524,730	153,916	125,957	804,603
Spot liabilities	(432,029)	(161,150)	(178,574)	(771,753)
Forward purchases	409,707	9,581	232,258	651,546
Forward sales	(499,732)	(5,363)	(179,561)	(684,656)
Net options position	28	-	(1)	27
Net long/(short) position	2,704	(3,016)	79	(233)
Net structural position	12	4,520	7	4,539

14 UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in millions of RMB, unless otherwise stated)

3 CURRENCY CONCENTRATIONS (CONTINUED)

	2011			Total
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	
Spot assets	358,091	181,021	119,685	658,797
Spot liabilities	(276,244)	(179,624)	(139,599)	(595,467)
Forward purchases	303,678	11,648	107,787	423,113
Forward sales	(383,693)	(3,648)	(79,593)	(466,934)
Net long position	1,832	9,397	8,280	19,509
Net structural position	15	(74)	64	5

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority (the "HKMA"). The net structural position of the Group includes the structural positions of the Bank's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

- investments in property and equipment, net of accumulated depreciation;
- capital and statutory reserves of overseas branches; and
- investments in overseas subsidiaries and related companies.

4 CROSS-BORDER CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on overseas third parties as cross-border claims.

For the purpose of this unaudited supplementary financial information, Mainland China excludes Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

Cross-border claims include loans and advances to customers, deposits and placements with banks and non-bank financial institutions, holdings of trade bills and certificates of deposit 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 transfers are only made if claims are guaranteed by a party in a country which is different from that of the counterparty or if claims are on an overseas branch of a bank whose head office is located in another country.

	2012			Total
	Banks and non-bank financial institutions	Public sector entities	Others	
Asia Pacific excluding Mainland China	24,628	1,832	190,776	217,236
– of which attributed to Hong Kong	16,581	-	161,805	178,386
Europe	1,762	94	18,593	20,449
North and South America	25,504	83	80,309	105,896
Total	51,894	2,009	289,678	343,581

14 UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in millions of RMB, unless otherwise stated)

4 CROSS-BORDER CLAIMS (CONTINUED)

	2011			Total
	Banks and non-bank financial institutions	Public sector entities	Others	
Asia Pacific excluding Mainland China	19,327	675	171,002	191,004
– of which attributed to Hong Kong	12,190	–	142,388	154,578
Europe	3,390	112	66,528	70,030
North and South America	24,361	84	57,448	81,893
Total	47,078	871	294,978	342,927

The above cross-border claims are disclosed in accordance with the requirements of the rules. According to these requirements, “others” includes the transactions with sovereign counterparties.

5 OVERDUE LOANS AND ADVANCES TO CUSTOMERS BY GEOGRAPHICAL SECTOR

	2012	2011
Yangtze River Delta	24,635	8,361
Central	6,433	6,331
Bohai Rim	5,677	6,596
Pearl River Delta	5,115	5,056
Western	4,569	3,789
Northeastern	3,663	3,116
Head office	1,964	1,736
Overseas	305	192
Total	52,361	35,177

The above analysis represents the gross amount of loans and advances overdue for more than 90 days as required by the rules.

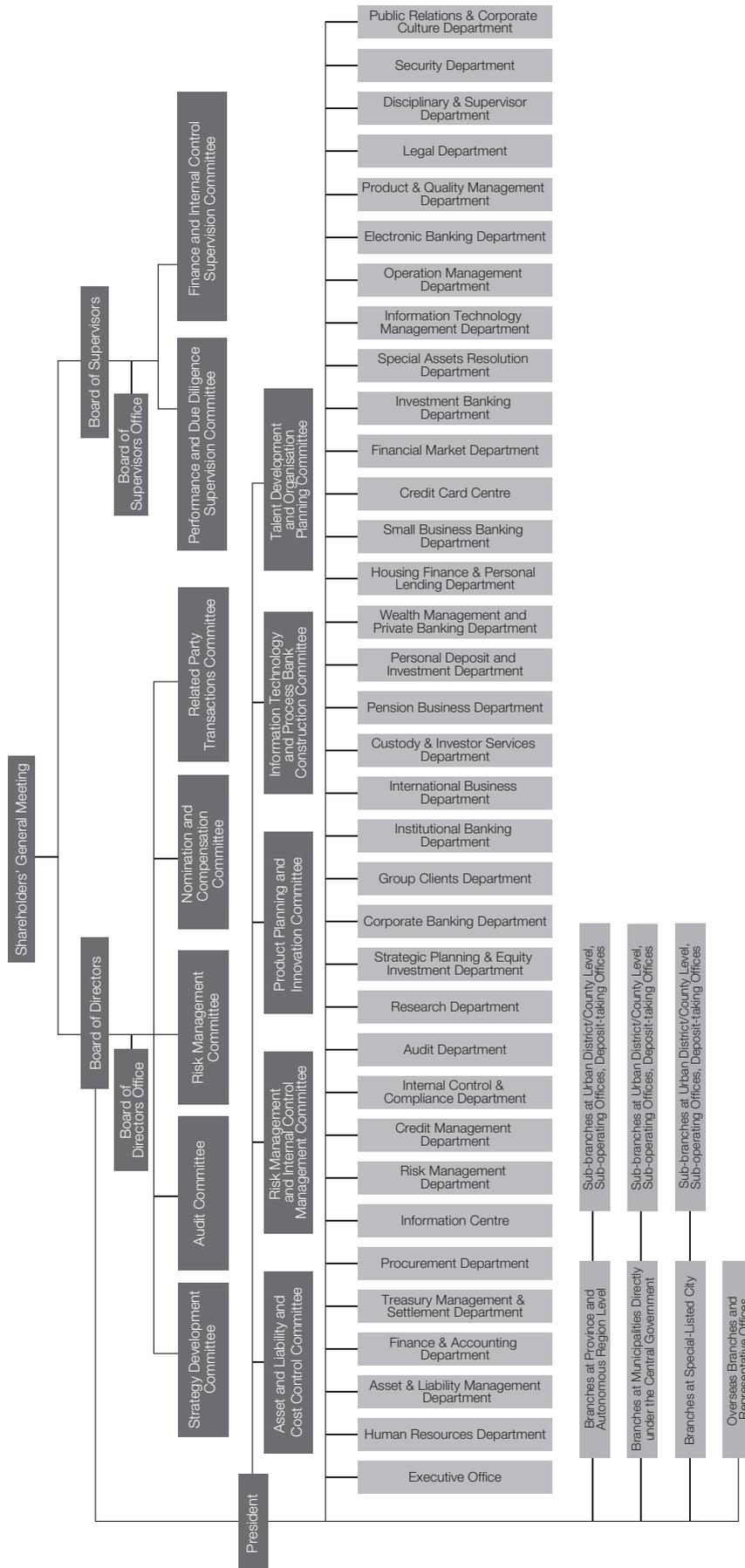
Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they are also considered as overdue.

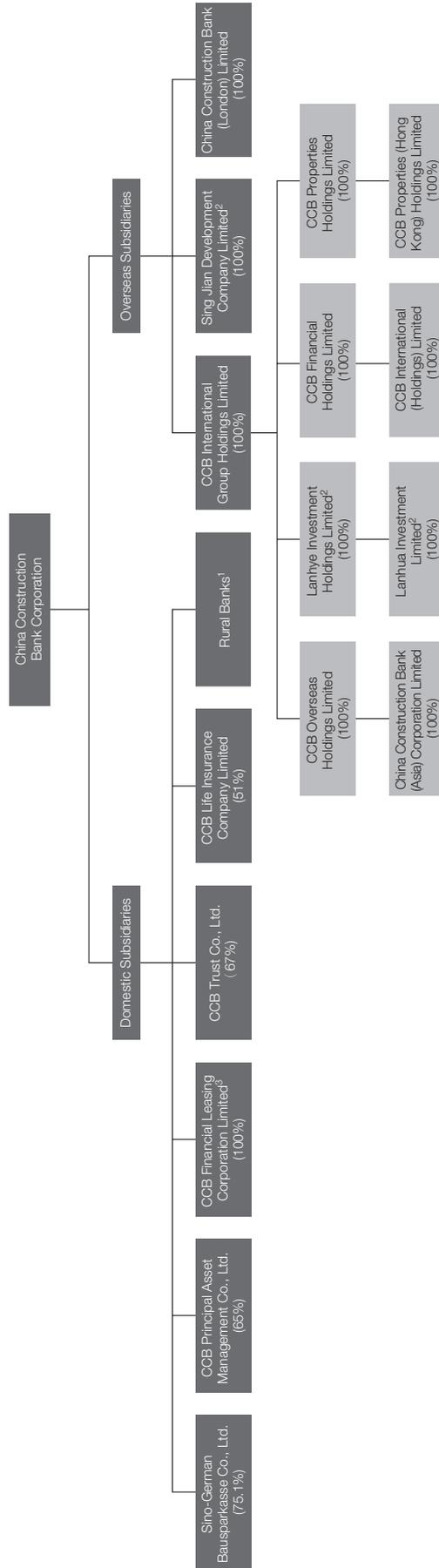
6 NON-BANK MAINLAND CHINA EXPOSURE

The Bank is a commercial bank incorporated in Mainland China with its banking business primarily conducted in Mainland China. As at 31 December 2012, substantial amounts of the Bank’s exposures arose from businesses with Mainland China entities or individuals. Analyses of various types of exposures by counterparty have been disclosed in the respective notes to the financial statements.

CCB'S MANAGEMENT STRUCTURE



CCB'S EQUITY INVESTMENT STRUCTURE



1. As at 31 December 2012, the Bank has set up a total of 26 rural banks. For more information, please refer to the rural banks listed in "Branches and Subsidiaries-Subsidiaries" of this annual report.
2. Sing Jian Development Company Limited, Lanhye Investment Holdings Limited and Lanhua Investment Limited are in the preliminary process of liquidation and termination, and will gradually complete all the related procedures.
3. The Bank acquired the remaining 24.9% shareholding of CCB Financing Leasing in November 2012, and the related procedures for change of industrial and commercial registration are still in process.

16 BRANCHES AND SUBSIDIARIES

TIER-ONE BRANCHES IN MAINLAND CHINA

Branches	Address	Telephone	Facsimile
Anhui Branch	No. 255, Huizhou Road, Hefei Postcode: 230001	(0551) 62874100	(0551) 62872014
Beijing Branch	No. 4, Building 28, Xuanwumen West Street, Beijing Postcode: 100053	(010) 63603682	(010) 63603656
Chongqing Branch	No. 123, Minzu Road, Yuzhong District, Chongqing Postcode: 400010	(023) 63771855	(023) 63771835
Dalian Branch	No. 1, Jiefang Street, Zhongshan District, Dalian Postcode: 116001	(0411) 88066666	(0411) 82804560
Fujian Branch	No. 142, Guping Road, Fuzhou Postcode: 350003	(0591) 87838467	(0591) 87856865
Gansu Branch	No. 77, Qin'an Road, Lanzhou Postcode: 730030	(0931) 4891555	(0931) 4891862
Guangdong Branch	No. 509, Dongfengzhong Road, Guangzhou Postcode: 510045	(020) 83018888	(020) 83013950
Guangxi Branch	No. 92, Minzu Road, Nanning Postcode: 530022	(0771) 5513110	(0771) 5513012
Guizhou Branch	No. 148, Zhonghua North Road, Guiyang Postcode: 550001	(0851) 6696000	(0851) 6696377
Hainan Branch	CCB Plaza, Guomao Avenue, Haikou Postcode: 570125	(0898) 68587268	(0898) 68587569
Hebei Branch	No. 40, Ziqiang Road, Shijiazhuang Postcode: 050000	(0311) 87888866	(0311) 88601001
Henan Branch	No. 80, Huayuan Road, Zhengzhou Postcode: 450003	(0371) 65556699	(0371) 65556688
Heilongjiang Branch	No. 67, Hongjun Street, Nan'gang District, Harbin Postcode: 150001	(0451) 53619788	(0451) 53625552
Hubei Branch	No. 709, Jianshe Street, Wuhan Postcode: 430015	(027) 65775888	(027) 65775881
Hunan Branch	No. 2, Baisha Road, Changsha Postcode: 410005	(0731) 84419378	(0731)84419141
Jilin Branch	No. 810, Xi'an Road, Changchun Postcode: 130061	(0431) 88573030	(0431) 88988748
Jiangsu Branch	No. 188, Hongwu Road, Nanjing Postcode: 210002	(025) 84200545	(025) 84209316
Jiangxi Branch	No. 366, Bayi Street, Nanchang Postcode: 330006	(0791) 86848200	(0791) 86848318
Liaoning Branch	No. 176, Zhongshan Road, Heping District, Shenyang Postcode: 110002	(024) 22787600	(024) 22856915

16 BRANCHES AND SUBSIDIARIES

Branches	Address	Telephone	Facsimile
Inner Mongolia Branch	No. 9, Zhao Wuda Street, Huhhot Postcode: 010010	(0471) 6200256	(0471) 6200257
Ningbo Branch	No. 31, Guangji Street, Ningbo Postcode: 315010	(0574) 87313888	(0574) 87325019
Ningxia Branch	No. 98, Nanxun West Street, Yinchuan Postcode: 750001	(0951) 4126111	(0951) 4106165
Qingdao Branch	No. 222, Shenzhen Road, Laoshan District, Qingdao Postcode: 266061	(0532) 68671888	(0532) 82670157
Qinghai Branch	No. 59, West Street, Xining Postcode: 810000	(0971) 8261181	(0971) 8261225
Three Gorges Branch	No. 1, Xiling First Road, Yichang, Hubei Postcode: 443000	(0717) 6758809	(0717) 6738137
Shandong Branch	No. 178, Luoyuan Street, Jinan Postcode: 250012	(0531) 82088108	(0531) 86169108
Shaanxi Branch	No. 38, South Guangji Street, Xi'an Postcode: 710002	(029) 87617515	(029) 87617514
Shanxi Branch	No. 126, Yingze Street, Taiyuan Postcode: 030001	(0351) 4957800	(0351) 4957871
Shanghai Branch	No.900, Lujiazui Ring Road, Shanghai Postcode: 200120	(021) 58880000	(021) 58781818
Shenzhen Branch	A Section, Rongchao Business Centre, 6003 Yitian Road, Futian District, Shenzhen Postcode: 518026	(0755) 23828888	(0755) 23828111
Sichuan Branch	Sichuan CCB Building, No. 86, Tidu Street, Chengdu Postcode: 610016	(028) 86767161	(028) 86767187
Suzhou Branch	No. 18, Suzhou Road West, Suzhou Postcode: 215021	(0512) 62788786	(0512) 62788783
Tianjin Branch	Plus 1 No. 19, Nanjing Road, Hexi District, Tianjin Postcode: 300203	(022) 23401166	(022) 23401811
Xiamen Branch	No. 98, Lujiang Road, Xiamen Postcode: 361001	(0592) 2158668	(0592) 2158862
Tibet Branch	No. 21, Beijing West Road, Lhasa Postcode: 850008	(0891) 6838792	(0891) 6836818
Xinjiang Branch	No. 99, Minzhu Road, Urumqi Postcode: 830002	(0991) 2848666	(0991) 2819160
Yunnan Branch	CCB Plaza, Jinbi Road, Kunming Postcode: 650021	(0871) 63060997	(0871) 63060333
Zhejiang Branch	No. 33, Jiefang East Road, Hangzhou Postcode: 310016	(0571) 85313263	(0571) 85313001

16 BRANCHES AND SUBSIDIARIES

BRANCHES AND REPRESENTATIVE OFFICES OUTSIDE MAINLAND CHINA

Frankfurt Branch	Bockenheimer Landstrasse 51-53, 60325 Frankfurt am Main, Germany Telephone : (49) 69-9714950 Facsimile : (49) 69-97149588, 97149577 Website : de.ccb.com
Ho Chi Minh City Branch	1105-1106 Sailing Tower, 111A Pasteur Street, District 1, Ho Chi Minh City, Vietnam Telephone : (84) 8-38295533 Facsimile : (84) 8-38275533 Website : vn.ccb.com
Hong Kong Branch	12/F, AIA Central, 1 Connaught Road Central, Central, Hong Kong Telephone : (852) 28684438 Facsimile : (852) 25379553 Website : hk.ccb.com
Johannesburg Branch	95 Grayston Drive, Morningside, Sandton, South Africa 2196 Telephone : (27) 11-5209400 Facsimile : (27) 11-5209411 Website : www.ccbjhb.com
Melbourne Branch	410 Collins Street, Melbourne VIC 3000, Australia Telephone : (61) 3-94528500 Facsimile : (61) 3-96706608
Moscow Representative Office	Lubyanskiy proyezd, 11/1, building 1, 101000 Moscow Russia Telephone : (7) 495-6759888 Facsimile : (7) 495-6759555
New York Branch	33/F, 1095 Avenue of the Americas, New York, USA NY 10036 Telephone : (1) 646-7812400 Facsimile : (1) 212-2078288 Website : us.ccb.com
Seoul Branch	7/F, Seoul Finance Centre #84, Taepyungro 1-ga, Chung-gu, Seoul 100-768, Korea Telephone : (82) 2-67301718 Facsimile : (82) 2-67301701 Website : kr.ccb.com
Singapore Branch	9 Raffles Place, #33-01/02, Republic Plaza, Singapore 048619 Telephone : (65) 65358133 Facsimile : (65) 65356533 Website : sg.ccb.com
Sydney Branch	Level 33, Deutsche Bank Place, 126 Phillip Street, Sydney, NSW 2000, Australia Telephone : (61) 2-80316100 Facsimile : (61) 2-92239099 Website : au.ccb.com
Taipei Representative Office	2/F-A3, No.106, Sec.5, Xinyi Road, Xinyi Dist., Taipei 11047, Taiwan Telephone : (886) 2-87292008 Facsimile : (886) 2-27235399
Tokyo Branch	West Tower, Otemachi First Square, 1-5-1, Otemachi 1-chome Chiyoda-ku, Tokyo 100-0004 Japan Telephone : (81) 3-52935218 Facsimile : (81) 3-32145157 Website : jp.ccb.com

16 BRANCHES AND SUBSIDIARIES

SUBSIDIARIES

CCB Financial Leasing Corporation Limited	6/F, 1-4, Naoshikou Street, Xicheng District, Beijing, China Postcode : 100031 Telephone : (010) 67594013 Facsimile : (010) 66275808/9 Website : www.ccbleasing.com
CCB International (Holdings) Limited	35/F, Two Pacific Place, 88 Queensway, Admiralty, Hong Kong Telephone : (852) 25326100 Facsimile : (852) 25301496 Website : www.ccbintl.com.hk
CCB Life Insurance Company Limited	8/F, GC Tower, No.1088 Yuanshen Road, Pudong New District, Shanghai Postcode : 200122 Telephone : (021) 38991666 Facsimile : (021) 33922185 Website : www.ccb-life.com.cn
CCB Principal Asset Management Co., Ltd.	16/F, Winland International Finance Centre, No. 7, Financial Street, Xicheng District, Beijing Postcode : 100033 Telephone : (010) 66228888 Facsimile : (010) 66228889 Website : www.ccbfund.cn
CCB Trust Co., Ltd.	No. 45, Jiushiqiao Street, Hefei, Anhui Province Postcode : 230001 Telephone : (0551) 5295555 Facsimile : (0551) 2679542 Website : www.ccbtrust.com.cn
China Construction Bank (Asia) Corporation Limited	G/F., 6 Des Voeux Road Central, Central, Hong Kong Telephone : (852) 37182288 Facsimile : (852) 37182799 Website : www.asia.ccb.com
China Construction Bank (London) Limited	18/F, 40 Bank Street, Canary Wharf, London E145NR, UK Telephone : (44) 20-70386000 Facsimile : (44) 20-70386001 Website : uk.ccb.com
Sing Jian Development Company Limited	11/F, Devon House, 979 King's Road, Hong Kong Telephone : (852) 37182797 Facsimile : (852) 37182799
Sino-German Bausparkasse Co. Ltd.	No. 19, Guizhou Road, Heping District, Tianjin Postcode : 300051 Telephone : (022) 58086708 Facsimile : (022) 58086808 Website : www.sgb.cn
Anhui Fanchang Jianxin Rural Bank Company Limited	1/F, Oversea-Chinese International Hotel, Fanyang Town, Fanchang County, Anhui Province Postcode : 241200 Telephone : (0553) 7853939 Facsimile : (0553) 7853939

16 BRANCHES AND SUBSIDIARIES

Chongqing Wanzhou Jianxin Rural Bank Company Limited	Podium Building A, Return House, Binjiang Road, Sunjiashufang, Wanzhou District, Chongqing City Postcode : 404000 Telephone : (023) 58690690 Facsimile : (023) 58690692
Hebei Fengning Jianxin Rural Bank Company Limited	No. 5-7, Fengheyuan Community, Xinfeng Road, Dage Town, Fengning County, Hebei Province Postcode : 068350 Telephone : (0314) 5975005 Facsimile : (0314) 5975005
Henan Xinye Jianxin Rural Bank Company Limited	North Chaoyang Road, Xinye County, Henan Province Postcode : 473500 Telephone : (0377) 60917789 Facsimile : (0377) 60917111
Heilongjiang Zhaodong Jianxin Rural Bank Company Limited	Building E, Jiangshandijing, Zhengyang South Road 15, Zhaodong City, Heilongjiang Province Postcode : 151100 Telephone : (0455) 7917001 Facsimile : (0455) 7917001
Hunan Taojiang Jianxin Rural Bank Corporation Limited	Junction of Furong Road and Taohui Road, Taohuajiang Town, Taojiang County, Hunan Province Postcode : 413400 Telephone : (0737) 8213820 Facsimile : (0737) 8213820
Jiangsu Gaochun Wujiazui Jianxin Rural Bank Company Limited	No. 97, Danyanghu North Road, Chunxi Town, Gaochun County, Jiangsu Province Postcode : 211300 Telephone : (025) 57336988 Facsimile : (025) 57336981
Jiangsu Haimen Jianxin Rural Bank Company Limited	No. 248, Middle Jiefang Road, Haimen Town, Haimen City, Jiangsu Province Postcode : 226100 Telephone : (0513) 81262289 Facsimile : (0513) 81262292
Jiangsu Taixing Jianxin Rural Bank Company Limited	No. 177, Zhongxing Avenue, Taixing City, Jiangsu Province Postcode : 225400 Telephone : (0523) 80737889 Facsimile : (0523) 87091017
Jiangsu Wujin Jianxin Rural Bank Company Limited	No. 39, Hutang Changwu Middle Road, Wujin District, Changzhou City, Jiangsu Province Postcode : 213161 Telephone : (0519) 86711369 Facsimile : (0519) 86707719
Jiangsu Xishan Jianxin Rural Bank Company Limited	No. 10-20, 21, 22, Youyi South Road, Dongting Street, Xishan District, Wuxi City, Jiangsu Province Postcode : 214101 Telephone : (0510) 88824910 Facsimile : (0510) 88824910
Ningbo Cixi Jianxin Rural Bank Company Limited	No. 311, Sanbei Road and No. 2-10, Xianjing Road, Shigongshan Village, Longshan Town, Cixi County, Ningbo City, Zhejiang Province Postcode : 315311 Telephone : (0574) 63993505 Facsimile : (0574) 63993506

16 BRANCHES AND SUBSIDIARIES

Ningbo Ninghai Jianxin Rural Bank Company Limited	No. 115, Binhai Road, Xidian Town, Ninghai County, Ningbo City, Zhejiang Province Postcode : 315613 Telephone : (0574) 82535268 Facsimile : (0574) 82535268
Shaanxi Ansai Jianxin Rural Bank Company Limited	Chengbei District, Ansai County, Shaanxi Province Postcode : 717400 Telephone : (0911) 6211077 Facsimile : (0911) 6211077
Shandong Tengzhou Jianxin Rural Bank Company Limited	No. 42, North Shanguo Road, Tengzhou City, Shandong Province Postcode : 277500 Telephone : (0632) 3598159 Facsimile : (0632) 3598159
Shandong Wendeng Jianxin Rural Bank Company Limited	No. 29, Wenshan East Road, Wendeng City, Shandong Province Postcode : 264400 Telephone : (0631) 8360189 Facsimile : (0631) 8360189
Shandong Zhucheng Jianxin Rural Bank Company Limited	No. 39, Xinghua East Road, Zhucheng City, Shandong Province Postcode : 262200 Telephone : (0536) 2160601 Facsimile : (0536) 2160621
Shandong Zoucheng Jianxin Rural Bank Company Limited	No. 518, Taiping East Road, Zoucheng City, Jining City, Shandong Province Postcode : 273500 Telephone : (0537) 5219639 Facsimile : (0537) 5219876
Shanghai Pudong Jianxin Rural Bank Company Limited	No. 26, Beishi Street, Chuansha Town, Pudong New District, Shanghai Postcode : 201200 Telephone : (021) 58385876 Facsimile : (021) 58385938
Suzhou Changshu Jianxin Rural Bank Company Limited	No. 33, North Haiyu Road, Changshu City, Jiangsu Province Postcode : 215500 Telephone : (0512) 51910510 Facsimile : (0512) 51910526
Zhejiang Cangnan Jianxin Rural Bank Corporation Limited	No. 102-104, Building 2, Yihe City Homeland, Yucang Road, Lingxi Town, Cangnan County, Zhejiang Province Postcode : 325800 Telephone : (0577) 68857896 Facsimile : (0577) 68857893
Zhejiang Chunan Jianxin Rural Bank Company Limited	No. 15-51, Xinan South Road, Qiandaohu Town, Chunan County, Zhejiang Province Postcode : 311700 Telephone : (0571) 65090006 Facsimile : (0571) 65092226
Zhejiang Jiangshan Jianxin Rural Bank Company Limited	No. 56, the First Street, South Hushan Street, Jiangshan County, Zhejiang Province Postcode : 324100 Telephone : (0570) 4037890 Facsimile : (0570) 4037895

16 BRANCHES AND SUBSIDIARIES

Zhejiang Lishui Liandu Jianxin Rural Bank Company Limited

No. 519, Renmin Street, Liandu District, Lishui City, Zhejiang Province
Postcode : 323000
Telephone : (0578) 2227227
Facsimile : (0578) 2227228

**Zhejiang Qingtian Jianxin Oversea-Chinese Rural Bank
Company Limited**

No. 59-75, Shengzhi Street, Qingtian County, Zhejiang Province
Postcode : 323900
Telephone : (0578) 6812966
Facsimile : (0578) 6812910

Zhejiang Wuyi Jianxin Rural Bank Company Limited

1/F, No. 4 Area, Business Hall, Jiefang Middle Street, Wuyi County, Zhejiang Province
Postcode : 321200
Telephone : (0579) 87679091
Facsimile : (0579) 87679091