交通銀行
BANK OF COMMUNICATIONS

交 通 銀 行 股 份 有 限 公 司
Bank of Communications Co., Ltd.

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

(Stock code: 03328)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

The Board of Directors of Bank of Communications Co., Ltd. (the "**Bank**") is pleased to announce the audited consolidated results (the "**Annual Results**") of the Bank and its subsidiaries (the "**Group**") for the year ended 31 December 2010 (the "**Reporting Period**"), which have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board. The Board of Directors of the Bank and its audit committee have reviewed and adopted the Annual Results.

1. CORPORATE INFORMATION

1.1 Stock Exchanges on which shares of the Bank are Listed

A share: Shanghai Stock Exchange
H share: The Stock Exchange of Hong Kong Limited

1.2 Stock Name and Stock Code

A share: Bank of Communications, 601328
H share: BANKCOMM, 03328

1.3 Company Secretary: Du Jianglong

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2. MAJOR FINANCIAL DATA AND INDICATORS

The major financial data and indicators of the Group as at 31 December 2010 in accordance with International Financial Reporting Standards ("**IFRS**") are as follows:

Description	2010	2009	2008	2007	2006
Annual Results					*(in millions of RMB)*
Net interest income	**84,995**	66,668	65,862	53,943	39,497
Profit before tax	**49,954**	38,301	35,953	31,242	17,774
Net profit (attributable to shareholders of the Bank)	**39,042**	30,118	28,524	20,323	12,549
As at the end of the year					*(in millions of RMB)*
Total assets	**3,951,593**	3,309,137	2,678,249	2,105,524	1,716,159
Includes: loans and advances to customers	**2,236,927**	1,839,314	1,328,590	1,104,490	924,825
Total liabilities	**3,727,936**	3,144,712	2,532,649	1,976,872	1,628,697
Includes: due to customers	**2,867,847**	2,372,055	1,865,815	1,555,599	1,344,177
Shareholder's equity (attributable to shareholders of the Bank)	**222,773**	163,848	145,167	128,234	87,403
Per share					*(in RMB)*
Earnings per share (diluted)[1]	**0.73**	0.59	0.56	0.40	0.24
Net assets per share (attributable to shareholders of the Bank)	**3.96**	3.34	2.96	2.62	1.91
Major financial ratios					%
Returns on average assets[2]	**1.08**	1.01	1.20	1.07	0.80
Returns on average shareholders' equity[3]	**20.20**	19.49	20.87	18.85	14.96
Cost to income ratio[4]	**32.11**	32.63	31.74	34.38	37.75
Impaired loans ratio[5]	**1.12**	1.36	1.92	2.05	2.53
Provision coverage of impaired loans[6]	**185.84**	151.05	116.83	95.63	72.31
Capital adequacy indicators					%
Core capital adequacy ratio	**9.37**	8.15	9.54	10.27	8.52
Capital adequacy ratio	**12.36**	12.00	13.47	14.44	10.83

Notes:

1. In accordance with IFRS, earnings per share for the corresponding period in previous years was recalculated due to the rights issue during the Reporting Period;

2. Calculated by dividing net profit for the year by the average of total assets at the beginning and the end of the Reporting Period;

3. Calculated by dividing net profit (attributable to shareholders of the Bank) for the year by the average of shareholders' equity (attributable to shareholders of the Bank) at the beginning and the end of the Reporting Period;

4. Refers to the ratio of business and management fee expenses and the sum of the various types of net income;

5. Calculated by dividing the balance of impaired loans by the balance of loans before impairment allowances as at the end of the year;

6. Calculated by dividing the balance of impairment allowances by the balance of impaired loans as at the end of the year.

3. CHANGES IN SHARE CAPITAL AND SUBSTANTIAL SHAREHOLDERS

3.1 Details of changes in share capital

As at 31 December 2010, the Bank had a total of 474,665 shareholders with 430,170 shareholders holding A shares and 44,495 shareholders holding H shares

	1 January 2010		Increase/(decrease) during the Reporting Period					31 December 2010	
	Number of shares	Percentage (%)	Issue of new shares	Bonus shares	Shares transferred from the surplus reserve	Others	Sub-total	Number of shares	Percentage (%)
1. Shares subject to sales restriction	9,974,982,648	20.36	—	—	—	-9,974,982,648	-9,974,982,648	—	—
1. State-owned shares	9,974,982,648	20.36	—	—	—	-9,974,982,648	-9,974,982,648	—	—
2. Shares held by state-owned entities	—	—	—	—	—	—	—	—	—
3. Shares held by other domestic investors	—	—	—	—	—	—	—	—	—
Comprising:									
Shares held by domestic legal persons	—	—	—	—	—	—	—	—	—
Shares held by domestic natural persons	—	—	—	—	—	—	—	—	—
4. Shares held by foreign investors									
Comprising:									
Shares held by foreign legal persons	—	—	—	—	—	—	—	—	—
Shares held by foreign natural persons	—	—	—	—	—	—	—	—	—
2. Shares not subject to sales restriction	39,019,401,055	79.64	+7,265,257,695	—	—	+9,974,982,648	+17,240,240,343	56,259,641,398	100.00
1. RMB-denominated ordinary shares	15,954,932,919	32.56	+3,805,587,475	—	—	+9,974,982,648	+13,780,570,123	29,735,503,042	52.85
2. Domestically listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas listed foreign shares	23,064,468,136	47.08	+3,459,670,220	—	—	—	+3,459,670,220	26,524,138,356	47.15
4. Others	—	—	—	—	—	—	—	—	—
3. Total	48,994,383,703	100.00	+7,265,257,695	—	—	—	+7,265,257,695	56,259,641,398	100.00

Notes:

1. Based on the 36-month sales restriction period guaranteed by the largest shareholder, the Ministry of Finance of the People's Republic of China, during the listing of the Bank's A shares, the 9,974,982,648 shares held by it became available for trading on 17 May 2010. For more details, please refer to the announcements published in China Securities Journal, Shanghai Securities News, Securities Times and the Shanghai Stock Exchange website (www.sse.com.cn).

2. Pursuant to the approval at the General Meeting and China Securities Regulatory Commission Zheng Jian Xu Ke (2010) No. 778 and (2010) No. 779, the Bank undertook a rights issue of its A shares and H shares during the Reporting Period. The A shares rights issue was completed in June 2010 with 3,805,587,475 A shares issued and which were listed and traded on 30 June 2010. For more details, please refer to the announcements published in China Securities Journal, Shanghai Securities News, Securities Times and the Shanghai Stock Exchange website (www.sse.com.cn) on 29 June 2010. The H shares rights issue was completed in July 2010 with 3,459,670,220 H shares issued and which were listed and traded on 19 July 2010. For more details, please refer to the announcements published in China Securities Journal, Shanghai Securities News, Securities Times, the Shanghai Stock Exchange website (www.sse.com.cn) and The Stock Exchange of Hong Kong Limited ("**Hong Kong Stock Exchange**") website (www.hkexnews.hk) on 16 July 2010.

3.2 Particulars of shareholding of the top 10 shareholders subject to sales restrictions and details of restriction

As at 31 December 2010, there was no shareholder of the Bank holding shares, which were subject to sales restriction.

3.3 Particulars of shareholdings of the top 10 shareholders and the top 10 shareholders not subject to sales restriction (according to the Bank's register of shareholders maintained at its share registrar)

3.3.1 Shareholdings of top 10 shareholders

Name of shareholder	Nature of shareholder	Number of shares held	Shareholding percentage (%)	Number of pledged or frozen shares[1]
Ministry of Finance of the People's Republic of China	State	14,921,230,045	26.52	Nil
HKSCC Nominees Limited[2]	Foreign-owned	12,335,266,807	21.93	—
The Hongkong and Shanghai Banking Corporation Limited[3]	Foreign-owned	10,482,252,967	18.63	Nil
Capital Airports Holding (Group) Company	State-owned	1,133,264,625	2.01	—
State Grid Asset Management Company Limited	State-owned	519,161,972	0.92	—
Yunan Hongta Group Co. Ltd.	State-owned	398,806,176	0.71	—
Sinopec Finance Company Limited	State-owned	348,400,000	0.62	—
Shanghai Haiyan Investment Management Co., Ltd	State-owned	335,077,253	0.60	—
Aviation Industry Corporation of China	State-owned	282,434,940	0.50	—
Daqing Petroleum Administration Bureau	State-owned	268,123,786	0.48	—

Notes:

1. Unless otherwise stated, the Bank is not aware of any circumstances where shares held by the above shareholders have been frozen or pledged, nor of the existence of any connected relationship between the above shareholders.

2. The aggregate number of shares held by HKSCC Nominees Limited, being the nominees, represents the total number of H shares held by all institutional and individual investors who maintain an account with it as at 31 December 2010. (same applies hereinafter)

3. According to the Bank's register of shareholders kept by Computershare Hong Kong Investor Services Limited, The Hongkong and Shanghai Banking Corporation Limited ("**HSBC**") held 10,482,252,967 H shares of the Bank as at 31 December 2010, or 18.63% of the Bank's total issued share capital. In addition, according to the disclosure of interests forms filed with the Hong Kong Stock Exchange by HSBC Holding plc, HSBC beneficially held 10,716,204,617 H shares of the Bank as at 31 December 2010, or 19.05% of the Bank's total issued share capital. Please refer to "3.4 Substantial shareholders and holders of interest or short positions required to be disclosed under Division 2 and 3 of Part XV of the Hong Kong Securities and Futures Ordinance" ("**SFO**") for details. (same applies hereinafter)

3.3.2 Shareholding of the top 10 shareholders not subject to sales restriction

Name of shareholders	Nature of Shareholders	Number of shares held	Shareholding percentage (%)	Category of shares
Ministry of Finance of the People's Republic of China	State	14,921,230,045	26.52	A and H Shares
HKSCC Nominees Limited	Foreign-owned	12,335,266,807	21.93	H Shares
The Hongkong and Shanghai Banking Corporation Limited	Foreign-owned	10,482,252,967	18.63	H Shares
Capital Airports Holding (Group) Company	State-owned	1,133,264,625	2.01	A Shares
State Grid Asset Management Company Limited	State-owned	519,161,972	0.92	A Shares
Yunnan Hongta Group Co. Ltd.	State-owned	398,806,176	0.71	A Shares
Sinopect Finance Company Limited	State-owned	348,400,000	0.62	A Shares
Shanghai Haiyan Investment Management Co., Ltd	State-owned	335,077,253	0.60	A Shares
Aviation Industry Corporation of China	State-owned	282,434,940	0.50	A Shares
Daqing Petroleum Administration Bureau	State-owned	268,123,786	0.48	A Shares

3.4 Substantial shareholders and holders of interests or short positions required to be disclosed under Division 2 and 3 of Part XV of the SFO

As at 31 December 2010, to the knowledge of the Bank's directors, supervisors and chief executive, the substantial shareholders and other persons (other than directors, supervisors and chief executive of the Bank) who had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the SFO were as follows:

Name of substantial shareholder	Capacity	Number of A shares	Nature of interest[1]	Approximate percentage of issued A shares (%)	Approximate percentage of total issued shares (%)
Ministry of Finance of the People's Republic of China	Beneficial owner	11,471,230,045	Long position	38.58	20.39

Name of substantial shareholder	Capacity	Number of H shares	Nature of interest[1]	Approximate percentage of issued H shares (%)	Approximate percentage of total issued shares (%)
National Council for Social Security Fund	Beneficial owner	6,388,888,889[2]	Long position	24.09	11.36
Ministry of Finance of the People's Republic of China	Beneficial owner	3,450,000,000	Long position	13.01	6.13
The Hongkong and Shanghai Banking Corporation Limited	Beneficial owner	10,716,204,617	Long position	40.40	19.05
	Interest of controlled corporation[3]	41,377,660	Long position	0.16	0.07
	Total:	10,757,582,277		40.56	19.12
HSBC Finance (Netherlands)	Interest of controlled corporation[4]	10,757,582,277	Long position	40.56	19.12
HSBC Bank plc	Interest of controlled corporation[5]	50,000	Long position	0.0002	0.0001
HSBC Holdings plc	Interest of controlled corporation[6]	10,757,632,277	Long position	40.56	19.12

Notes:

1. Long position not held through equity derivatives.

2. According to the information provided by SSF, SSF held 6,388,888,889 H shares of the Bank as at 31 December 2010, representing 11.36% of the total issued share capital of the Bank and all these shares were held through HKSCC Nominees Limited.

3. HSBC holds 62.14% interest in Hang Seng Bank Limited. Pursuant to the SFO, HSBC is deemed to be interested in the Bank's H shares which are held by Hang Seng Bank Limited.

   Hang Seng Bank Limited is deemed to be interested in the 41,377,660 H shared held by its wholly-owned subsidiaries. Such 41,377,660 H shares represent the aggregate of 41,216,098 H shares directly held by Hang Seng Bank Trustee International Limited and 161,562 H shares directly held by Hang Seng Bank (Trustee) Limited.

4. HSBC is wholly-owned by HSBC Asia Holdings BV. HSBC Asia Holdings BV is, in turn, wholly-owned by HSBC Asia Holdings (UK) Limited. HSBC Asia Holdings (UK) Limited is, in turn, wholly-owned by HSBC Holdings BV. HSBC Holdings BV is, in turn, wholly-owned by HSBC Finance (Netherlands). Pursuant to the SFO, HSBC Asia Holdings BV, HSBC Asia Holdings (UK) Limited, HSBC Holdings BV and HSBC Finance (Netherlands) are each deemed to be interested in the 10,757,582,277 H shares which HSBC has an interest.

5. HSBC Trustee (C.I.) Limited held 50,000 H shares and is wholly-owned by HSBC Private Bank (C.I.) Limited. HSBC Private Bank (C.I.) Limited is, in turn, wholly-owned by HSBC Private Banking Holdings (Suisse) SA. HSBC Private Banking Holdings (Suisse) SA is, in turn, wholly-owned by HSBC Europe (Netherlands) BV, which is in turn 94.90% owned by HSBC Bank plc. Pursuant to the SFO, HSBC Private Bank (C.I.) Limited, HSBC Private Banking Holdings (Suisse) SA, HSBC Europe (Netherlands) BV and HSBC Bank plc are each deemed to be interested in the 50,000 H shares which HSBC Trustee (C.I.) Limited has an interest.

6. HSBC Finance (Netherlands) and HSBC Bank plc are wholly-owned by HSBC Holdings plc. Pursuant to Notes 3, 4, 5 and the SFO, HSBC Holdings plc is deemed to be interested in the 10,757,582,277 H shares in which HSBC has an interest and the 50,000 H shares in which HSBC Bank plc has an interest.

Except as disclosed above, to the knowledge of the Bank's directors, supervisors and chief executive, no person or corporation was recorded in the register required to be kept under Section 336 of the SFO as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO as at 31 December 2010.

4. MANAGEMENT DISCUSSION AND ANALYSIS

4.1 Group operation overview

The Group achieved excellent operating results by thoroughly analysing and assessing the changes in macroeconomic and financial market trends and actively supporting the nation's macroeconomic policy adjustments while also steadily promoting its strategy to become "A first class listed universal banking group focusing on international expansion and specialising in wealth management". As at the end of the Reporting Period, the Group's total assets increased by 19.41% from the beginning of the year to RMB3,951.593 billion and net profits increased by 29.63% as compared to the corresponding period in prior year to RMB39.042 billion. Returns on average asset and returns on average shareholders' equity were 1.08% and 20.20% respectively. Net interest spread and net interest margin increased by 17 and 16 basis points respectively as compared to the prior year to 2.39% and 2.46% respectively. The impaired loans ratio decreased by 0.24 percentage point from the beginning of the year to 1.12% while provisions coverage of impaired loans increased by 34.79 percentage points from the beginning of the year to 185.84%.

4.2 Business review

Steady growth in business scale guided by the nation's macroeconomic adjustments and controls

In 2010, China continued to strengthen and improve its macroeconomic adjustments and controls by implementing pro-active fiscal policies and prudent currency policies as it focused on accelerating economic restructuring and the transformation of its economic development model. Using the national macroeconomic policy adjustments and controls as its guide, the Group continued to adhere to its pro-active and prudent management policy so as to support and complement the development of the real economy and the enhancement of the industry structure. This has enabled the Group to achieve steady growth in the scale of its business while maintaining reasonable and balanced growth in its credit portfolio and the optimisation of its credit structure. As at the end of the Reporting Period, the Group's total assets increased by 19.41% from the beginning of the year to RMB3,951.593 billion as customer deposits increased by 20.90% from the beginning of the year to RMB2,867.847 billion and loans and advances to customers (before impairment allowances, same applies hereinafter unless otherwise stated) increased by 21.62% from the beginning of the year to RMB2,236.927 billion. The Bank's share of the RMB deposits and loans markets increased by 0.18 and 0.07 percentage point respectively from the beginning of the year to 5.93% and 6.62% respectively.

The Group was able to actively optimise and adjust its credit structure due to the size of its credit portfolio and its growth momentum. In terms of industry structure, the Group focused mainly on industries such as transportation and logistics, public infrastructure management, modernised services and strategic emerging industries that are in line with the national credit policy and the characteristics of the nation's economy. At the same time, the Group actively cultivated new growth areas and capitalised on credit growth opportunities in areas such as consumer, people's livelihood, advanced manufacturing and low-carbon emission industries. In terms of customer structure, the Group continued to focus on the development of its personal loans and small enterprises financing business such that the proportion of personal loans increased by 1.79 percentage points from the beginning of the year to 18.68% such that personal loans increased to RMB417.925 billion. By offering tailored small enterprise financing services to specific customer segments through the introduction of innovative products such as "One-stop Venture Capital Financing", "E-loan Online", "Small Enterprise E-loan Card" and "Account Receivable Financing", the Group was able to comprehensively satisfy financial services needs of small enterprises such that the scale of its small enterprises loans doubled from the beginning of the year.

In order to further strengthen its capital base for future business development, the Bank was the first among major domestic commercial banks to successfully complete an equity financing exercise through a rights issue for its A shares and H shares during the Reporting Period. The net funding of RMB32.356 billion raised from the rights issue for its A shares and H shares has helped to effectively improve the Bank's core capital. As at the end of the Reporting Period, the Group's capital adequacy ratio and core capital adequacy ratio increased by 0.36 and 1.22 percentage points respectively from the beginning of the year to 12.36% and 9.37%.

Sustained increase in profitability through extensive strategic transformation

Faced with significant changes in the market environment and guided by its strategic transformation direction, the Group continuously explored various avenues of development for its structural transformation and actively encouraged the transformation of its growth and profitability models.

Faced with the increasing challenges arising from financial disintermediation, the Group intensified the restructuring of its growth model as it transformed from a capital intensive bank to a capital efficient bank and accelerated the development of its retail banking and treasury operations. Against the backdrop of rapid expansion of the securities market and pressures arising from deposit outflows, the Group still managed to achieve relatively rapid growth in its savings and personal financial asset management business. As at the end of the Reporting Period, the Group's domestic RMB deposits increased by 15.49% from the beginning of the year to RMB832.7 billion and its market share increased by 0.04 percentage point from the beginning of the year to 4.18%. Assets under management (AUM) for individuals increased by 15.79% from the beginning of the year to RMB1,317.543 billion. At the same time, the Group took advantage of new trends in capital flows to actively explore funding from various financing channels within financial markets to strengthen its treasury operations. During the Reporting Period, the Group was ranked third in the inter-bank RMB spot trading market as its transaction volume amounted to RMB7,286.670 billion and it was ranked first among the market makers in the inter-bank foreign exchange market as its total transaction volume in the market amounted to USD619.178 billion.

With the market trend towards market driven interest rates, the Group proceeded vigorously with the transformation of its profit model towards a diversification of its revenue streams. During the Reporting Period, the proportion of non-interest income increased by 0.57 percentage point as compared to the corresponding period in prior year to 18.85%. Of this, net fee and commission income increased by 27.02% or RMB3.080 billion as compared to the corresponding period in prior year to RMB14.479 billion as the quality of the Group's fee-based business was further enhanced. As a result of the opportunities arising from the expansion in domestic demand and increase in domestic consumption, the Group devoted significant efforts in the development of its bank issued card business such that annual fee and commission income from bank issued cards increased by 29.76% as compared to the corresponding period in prior year to RMB5.180 billion. Of this, credit cards in circulation exceeded 16.6 million and the accumulated transaction amount for the year was RMB230.150 billion. In view of the strong demand for corporate finance services, the Group continued to actively develop its investment banking business. Income from investment banking activities increased by 37.87% as compared to the corresponding period in prior year to RMB3.244 billion. The Group continued to remain as the front-runner in terms of total amount of underwriting issues as it was the lead underwriter for 55 bond issuances. In view of the favourable conditions arising from the upturn in the economy and recovery in foreign trade, the Group actively developed its trade settlement business such that commission income from settlement and agency services increased by 39.26% as compared to the corresponding period in prior year to RMB3.32 billion.

The Group's strategic transformation has continued to contribute to improvements in its profitability and development. During the Reporting Period, the Group's net profit increased by 29.63% as compared to the corresponding period in prior year to RMB39.042 billion. Returns on average asset and returns on average shareholder equity increased by 0.07 and 0.71 percentage point, respectively, as compared to prior year to 1.08% and 20.20% respectively. During the Reporting Period, the Group was once again ranked among the Fortune Global 500 as its ranking by operating income improved by 54 positions from prior year to No. 440. In addition, the Group continued to maintain its No 49 ranking in terms of Tier 1 capital in the global top 1,000 banks rankings published by the British magazine, The Banker. The Bank's long-term credit rating was also upgraded from Baa1 to A3 by Moody's.

Steady increase in interest rate spreads through optimising its asset-liability structure

As the dual increase in benchmark interest rates in 2010 only occurred in the fourth quarter, the impact of the increase in interest rates was not fully felt during the year. The main factors contributing to the widening of the Group's interest rate spreads were the optimisation of its asset-liability structure and improvements in the level of its deposits and loans pricing management.

The Group continuously intensified the adjustment of its asset-liability structure and focused on improving its pricing management capabilities and returns from its non-credit assets. This optimisation of its asset-liability structure has helped promote stable increases in its net interest spreads and net interest margins. With regards to the Group's management of its assets, there have been further increases in the proportion of high yield assets. The proportion of loans and advances to customers (after impairment allowances) to total assets increased by 0.99 percentage point from the beginning of the year to 55.43%. With regards to the Group's management of its funding, the proportion of current deposits as at the end of the Reporting Period increased by 0.86 percentage point from the beginning of the year to 50.56%. The optimisation of the Group's asset-liability structure and the further improvements in deposits and loans pricing management have enabled average returns on interest-earning assets to increase by 8 basis points as compared to the corresponding period in prior year to 4.08% and average costs of interest-bearing liabilities to decrease by 9 basis points as compared to the corresponding period in prior year to 1.69% as at the end of the Reporting Period. In addition, the active expansion of domestic and foreign currency treasury operations and optimisation of the investment portfolio, helped the Bank achieve satisfactory yield from investment in securities of 3.16%.

As the level of interest spreads continued to increase during the Reporting Period, net interest income increased significantly. Net interest spreads and net interest margins increased by 17 and 16 basis points respectively as compared to the corresponding period in prior year to 2.39% and 2.46% respectively and increased by 4 and 5 basis points respectively as compared to the third quarter such that net interest income increased by 27.49% as compared to the corresponding period in prior year to RMB84.995 billion.

Continued improvements in asset quality arising from the comprehensive risk management system

The intertwining of favourable and unfavourable factors and the co-existence of development opportunities and credit risks meant macroeconomic trends in 2010 were relatively complex. The Group continued to strengthen its comprehensive risk management through risk prevention and the development of their business lines concurrently while strengthening risk control in key areas. At the same time, the Group consolidated and formalised its management practices while optimising its risk governance mechanism. It established and developed a comprehensive risk management committee discussion and decision making system which includes a comprehensive risk management committee, three specialised risk management committees (Credit Risk Management Committee, Market and Liquidity Risk Management Committee and Operational Risk Management and Anti-money Laundering Committee) and two business review committees (Loan Review Committee and High-risk Asset Review Committee). With regards to credit risk management, corporate loans approver qualification examinations and accreditation standards were established. The Group also increased the coverage of credit guidance and enhanced its dynamic management capabilities. The Group introduced and applied a new credit asset risk classification system to effectively implement the requirements of the "Three Rules and One Guidance" set out by the regulatory authorities. There were effective results from the implementation of quota management for loans to excess-capacity industries, inspection of trends in loans to high-risk areas, the withdrawal of loans to high-risk areas and requirements for additional collateral on specific loans to high-risk areas. With regards to market risk management, the Group launched a market risk management system to enhance its independent daily monitoring of market risk. With regards to operational risk management, the Group continued to develop its "Internal Controls and Incident Prevention Year" activities and anti-fraud project while promoting the application of its operational risk management system and formalising its operational risk management process and tools. In addition, the Group also strengthened its cross-market and cross-border risk management capabilities by expanding its risk monitoring and control over its subsidiaries and overseas branches. The Group also further enhanced its internal rating system as part of its preparations for the implementation of the new Basel Capital Accords.

The quality of the Group's assets continued to improve as a result of the further strengthening of its comprehensive risk management measures. As at the end of the Reporting Period, the impaired loans balance decreased by 0.08% or RMB21 million from the beginning of the year to RMB24.988 billion while the impaired loans ratio declined by 0.24 percentage point from the beginning of the year to 1.12%. The provision coverage of impaired loans increased by 34.79 percentage points from the beginning of the year to 185.84%.

Significant acceleration of innovation process to achieve its objective of becoming a world class wealth management bank

The financial needs and wealth management objectives of customers are becoming increasingly diversified and personalised with the rapid growth of social wealth, upgrading of investment demands and changes in consumption culture. In line with the "Bank of Communications, your wealth management bank" branding, the Group accelerated product and service innovation and continuously strengthened its diverse and cross-market competitiveness. The Group introduced a "Cross-Border Integrated Wealth Management" private banking product to provide customers with globalised allocation and wealth management services. The success of the OTO Fortune exhibition has also made the Group the pioneer domestic commercial bank to independently organise a financial product and service exhibition. The Group also accelerated the pace of its cross-border RMB business innovation and obtained approval for pilot of overseas RMB financing projects thus achieving its aim of expansion into overseas financing services through its trade settlement services. It also became one of the two domestic banks managing the largest number of types of foreign currency transactions when it became the first bank to be granted approval to provide RMB/TWD exchange services in the Shanghai region. The Group was the first to introduce the "Lease Financing" shipping finance product and processed the first innovative "3-in-1" financing product integrating cross-border RMB financing, export financing and overseas ship financing. The Group continuously strengthened its cash management services and successfully introduced and optimised various functions such as level two sub-accounts, joint accounts and bills pool. It has also received the "Best Cash Management Bank in China" accolade from "Euromoney" and "Asiamoney" for a few years consecutively.

To meet customer demands for cross-border and cross-market wealth management services, the Group further accelerated the development of its global service network and continued with its integration process. The Bank became one of the first mainland bank to set up office in Taiwan when it established its representative office in Taiwan. In addition, the Bank received approval for the establishment of its Ho Chi Minh City branch which was officially opened in 2011. The Bank continued to prepare for the establishment of its San Francisco branch and is awaiting approval to establish a subsidiary bank in England. BoCommLife Insurance Company Limited was officially granted its license and the Zhejiang Anji Bocom Rural Bank Co., Ltd operated smoothly during the year. Overseas branches and subsidiaries remained committed in continuously improving their innovation and service capabilities. This has resulted in rapid developments of their business and the Group's unique wealth management characteristics became increasingly evident. The Hong Kong Branch maintained its market leader position in the local IPO integrated business market and became one of first batch of banks designated for inclusion in the Hong Kong Interbank Clearing Limited's RMB Clearing System in Hong Kong. The Tokyo branch was the first among its peers in Japan to offer cross-border RMB settlement services. The Macau Branch actively developed its wealth management business and there was rapid growth in the number of OTO customers as compared to the corresponding period in prior year. BOCOM International Holdings Company Limited's investment banking business moved to a new level as it continually played important roles in several IPO projects and launched several direct investment funds and retail funds. As part of its drive towards the development of the "agriculture, farmers and countryside" related business, the Group increased its penetration of the rural market through Dayi Bocom Xingmin Rural Bank Co., Ltd and Zhejiang Anji Bocom Rural Bank Co., Ltd.

The Group continued to strive to meet the financial needs of customers by continuing to create values through its cross-border and cross-market integrated wealth management platform. This in turn has become the foundation from which the Group can expand its customer base. During the Reporting Period, the Group continued to enhance its tiered-based customer service system such that its number of high net worth customers grew rapidly and the Group's customer structure continuously optimised. The number of its private banking, "Win to Fortune" and "BOCOM Fortune" customers increased by 109.81%, 40.6% and 38.31% respectively while the number of new corporate customers increased by 124,000. The number of "Leadway Fortune" customers for its international business continued to grow and the number of offshore customers doubled.

Continuous improvements in service capabilities arising from the integrated banking model

With the rapid development of information technology, the demand for convenient financial services from individual customers has continuously increased. The Group continued to comprehensively expand its customers' service channels and diligently build a new comprehensive customer service network that integrates outlets, e-banking and accounts managers. With regards to outlets, the Bank accelerated its construction of high quality and highly efficient outlets through adjustments in the locations of its outlets to enhance its organisational layout. 14 provincial sub-branches were successfully opened during the year in areas such as Liuan, Jiaozuo, Quzhou and Ganzhou. The Qinghai Province branch was officially established such that the service coverage of municipal-level cities and top 100 counties increased significantly. With regards to e-banking, the Bank expanded the coverage of its automated banking and automated point of sale machines as 186 new off-site automated banking and 622 new off-site automated machines were established. As part of the Bank's innovative electronic banking processing model, customers were able to carry out safe and convenient 'one-stop' transactions on the Bank's online portal. In addition, the Bank also rolled out products with integrated family wealth management account and 'Super Internet Banking' features. The Bank became the pioneer among its peers when it was the first to introduce a new card-less financial services concept by being the first to roll out card-less cash withdrawals and consumption. As at the end of the Reporting Period, new mobile banking customers exceeded one million. The amount of electronic commercial transactions increased by 78.3% percentage points as compared to the corresponding period in prior year to RMB24.87 billion. The usage of electronic banking increased by 7.47 percentage points from the beginning of the year to 57.17%. With regards to accounts manager, the staff structure was further optimised to improve their level of professionalism. The Bank's AFP, CFP and EFP qualified personnel increased by 1,467 from the beginning of the year to 6,701 as at the end of the Reporting Period.

Building on the foundation of its "outlets, e-banking and accounts managers" integrated banking model, the Group continuously strengthen its customer service capabilities and improved its operational efficiency and service quality. As a result, the Bank was awarded the outstanding contribution award by the China Banking Association in its "2010 Service Excellence Organisation Competition". As the global commercial banking partner to the Shanghai World Expo 2010, the Group comprehensively achieved its "zero business errors, zero service complains and zero accidents" target for its provision of financial services during the Shanghai World Expo. The Bank was also awarded the Shanghai World Expo outstanding contribution award by the China Banking Association for its outstanding display of the high service quality of the Chinese banking industry to the world.

Effective strengthening of management foundation through the opportunities arising from its management enhancement activities

The Group expanded the scope of its 'Management Enhancement Year' programmes to further fine-grained the level of its management and realise efficiencies and returns through management effectiveness. The Group actively forged ahead with its management enhancement projects and further consolidated its management foundation. During the Reporting Period, the Group optimised its Head Office organisational structure and its Beijing Management Department also commenced operations. The corporate and organisational business promotion committee and the retail and private banking business promotion committee were formally established such that the two major front-office business lines servicing corporate and individual customers were established. The "total capital budget management model" was comprehensively implemented such that the operating efficiency for the Group's centralised capital management was strengthened considerably and a more scientific operating efficiency evaluation system was established. A product innovation and promotion committee was established to consolidate the work innovation process as well as promote product innovation, process innovation and management innovation. An Operations Management Department was established to specifically manage bank-wide operations management as well as operating system construction. The Nanning Financial Service Center has commenced operations and the development of the Group's Documentary Credit Center is proceeding smoothly. All these have contributed to the building blocks of a multi-location back-up framework and a mutually supportive back-office organisational layout. The Group moved towards the extensive transformation of the operations management model for the provincial sub-branches and actively promoted the pilot transformation to a matrix-style management model for the provincial sub-branches such that all newly opened provincial sub-branches will implement centralised back-office processing which has in turn lead to significant reductions in operating costs. The "531 Project" aimed at building a new generation of business systems for the Bank has been comprehensively initiated. This will help the Group develop an IT structure which is customer-focused, integrated domestically and overseas with an independent accounting function that provides comprehensive risk management, centralised back-office operations and centralized management information.

As management foundation moves to a new level, the Group continued to strictly enforce cost controls and efficiency enhancements measures to successfully control costs. While the Group's business costs increased by 24.43% as compared to prior year to RMB32.889 billion, this was comparatively lower than the increase in net operating income which increased by 3.97 percentage points during the Reporting Period. The cost to income ratio decreased by 0.52 percentage point as compared to the prior year to 32.11%.

4.3 Financial Statement Analysis

4.3.1 Income Statement Analysis

4.3.1.1 Profit before tax

During the Reporting Period, the Group's profit before tax increased by RMB11.653 billion or 30.42% as compared to prior year to RMB49.954 billion. Profit before tax was derived mainly from net interest income and net fees and commission income.

The table below shows the significant items which make up the Group's profit before tax for the year indicated:

(in millions of RMB)

	2010	2009
Net interest income	**84,995**	66,668
Net fee and commission income	**14,479**	11,399
Impairment allowances	**(12,246)**	(11,255)
Profit before tax	**49,954**	38,301

4.3.1.2 Net interest income

During the Reporting Period, the Group's net interest income increased by 27.49% as compared to prior year to RMB84.995 billion. This accounted for 81.15% of the Group's net operating income and was the most significant component of net operating income.

The table below shows the average daily balances, associated interest income and expenses, and average yield or average cost of the Group's interest-earning assets and interest-bearing liabilities during the periods indicated:

(in millions of RMB unless otherwise stated)

	For the twelve months ended 31 December 2010			For the twelve months ended 31 December 2009		
	Average Balance	**Interest income/ (expense)**	**Average yield/(cost) ratio (%)**	Average Balance	Interest income/ (expense)	Average yield/(cost) ratio (%)
Assets						
Balances with central banks	**451,052**	**6,855**	**1.52**	354,396	5,501	1.55
Due from other banks and financial institutions	**211,004**	**4,424**	**2.10**	283,054	4,895	1.73
Loans and advances to customers and receivables	**2,067,067**	**106,056**	**5.13**	1,619,593	83,027	5.13
Of which: Corporate loans and receivables	**1,595,373**	**82,984**	**5.20**	1,222,267	66,267	5.42
Individual loans	**338,765**	**18,701**	**5.52**	230,236	13,142	5.71
Discounted bills	**132,929**	**4,371**	**3.29**	167,090	3,618	2.17
Investment securities	**777,937**	**24,570**	**3.16**	692,916	23,320	3.37
Total interest-earning assets	**3,456,166**[3]	**140,901**[3]	**4.08**	2,901,381[3]	115,977[3]	4.00
Total non-interest earning assets	**157,646**			133,677		
TOTAL ASSETS	**3,613,812**[3]			3,035,058[3]		
Liabilities and shareholders' equity						
Due to customers	**2,572,046**	**36,628**	**1.42**	2,161,675	34,007	1.57
Of which: Corporate deposits	**1,709,519**	**24,710**	**1.45**	1,437,109	21,431	1.49
Individual deposits	**862,527**	**11,918**	**1.38**	724,566	12,576	1.74
Due to other banks and financial institutions	**723,292**	**18,220**	**2.52**	598,415	13,994	2.34
Debts issued and others	**59,540**	**2,062**	**3.46**	52,122	2,074	3.98
Total interest-bearing liabilities	**3,303,984**[3]	**55,906**[3]	**1.69**	2,763,634[3]	49,309[3]	1.78
Shareholders' equity and non-interest bearing liabilities	**309,828**			271,424		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**3,613,812**[3]			3,035,058[3]		
Net interest income		**84,995**			66,668	
Net interest spread[1]			**2.39**[3]			2.22[3]
Net interest margin[2]			**2.46**[3]			2.30[3]
Net interest spread[1]			**2.46**[4]			2.29[4]
Net interest margin[2]			**2.53**[4]			2.37[4]

Notes:

1. This ratio represents the difference between the average yield on total average interest-earning assets and the average cost of total average interest-bearing liabilities.

2. This ratio represents the net interest income to total average interest-earning assets.

3. This eliminates the impact of wealth management products.

4. This eliminates the impact of wealth management products and takes into account the tax exemption on the interest income from investments in Government bonds.

During the Reporting Period, the Group achieved a steady increase in its net interest margin and net interest income increased significantly. The Group's net interest spread and net interest margin increased by 17 and 16 basis points respectively as compared to prior year to 2.39% and 2.46% respectively. Net interest income increased by 27.49% as compared to the corresponding period in prior year to RMB84.995 billion. Of which, average yield of interest earning assets increased by 8 basis points and average cost of interest-bearing liabilities decreased by 9 basis points.

In the fourth quarter of 2010, the Central Bank raised the benchmark deposit and lending interest rates twice. As the impact of the increase in interest rates had not been fully felt during the Reporting Period, the optimisation of the asset-liability structure and the improvement in the level of pricing management remain the main driving forces for the increase in net interest spread and net interest margin:

- Increase in the proportion of current deposits. As at the end of the Reporting Period, current deposits increased by 0.86 percentage point as compared to prior year to 50.56%.

- Increase in the proportion of loans and advances to customers to total assets. As at the end of the Reporting Period, the proportion of loans and advances to customers (after impairment allowances) to total assets increased by 0.99 percentage point as compared to prior year to 55.43%.

- Further enhancement in the level of pricing. During the Reporting Period, the proportion of new RMB loans at benchmark interest rates and above benchmark interest rates increased by 4.38 percentage points as compared to the prior year to 60.89%.

The table below shows the impact of changes in volume and interest rates on the Group's interest income and interest expense. Changes indicated are based on the changes in average daily balance and interest rates on interest-earning assets and interest-bearing liabilities during the periods indicated.

(in millions of RMB)

	Comparison between 2010 and 2009		
	Increase/(decrease) due to		
	Balance	**Interest rate**	**Net increase/ (decrease)**
Interest-earning assets			
Balances with central banks	1,498	(144)	1,354
Due from other banks and financial institutions	(1,246)	775	(471)
Loans and advances to customers and receivables	23,029	—	23,029
Investment securities	2,865	(1,615)	1,250
Changes in interest income	26,146	(984)	25,162
Interest-bearing liabilities			
Customer deposits	6,443	(3,822)	2,621
Due to other banks and financial institutions	2,922	1,304	4,226
Debts issued and others	295	(307)	(12)
Changes in interest expense	9,660	(2,825)	6,835
Changes in net interest income	16,486	1,841	18,327

During the Reporting Period, the Group's net interest income increased by RMB18.327 billion as compared to prior year. Of this, changes in the volume of average balances of interest-earning assets and interest-bearing liabilities caused net interest income to increase by RMB16.486 billion, while changes in interest rate caused net interest income to increase by RMB1.841 billion.

4.3.1.2.1 Interest income

During the Reporting Period, the Group's gross interest income increased by RMB25.162 billion or 21.55% as compared to prior year to RMB141.905 billion.

A. Interest income from loans and advances to customers and receivables

Interest income from loans and advances to customers and receivables contributed the most to the Group's interest income. During the Reporting Period, interest income from loans and advances to customers and receivables increased by RMB23.029 billion or 27.74% as compared to prior year, to RMB106.056 billion, largely due to the increase in loans and advances to customers and receivables.

B. Interest income from investment securities

During the Reporting Period, interest income from investment securities increased by RMB1.25 billion or 5.36% as compared to prior year to RMB24.57 billion. The Group managed to seize favourable opportunities for investments, strengthened its investment operations and optimised its investment asset structure. This, in turn, has helped to maintain the return on investment securities at a satisfactory level of 3.16%.

C. Interest income from cash and balances with central banks

Cash and balances with central banks mainly include cash and balances in deposit reserves and in excess reserves. During the Reporting Period, interest income from cash and balances with central banks increased by RMB1.354 billion as compared to prior year to RMB6.855 billion. This was due to the increase in cash and balances in deposit reserves as a result of the increase in customer deposits and the six upward revisions to the deposit reserve ratio during the year, which together contributed to the growth of the statutory reserve. Average cash and balances with central banks also increased by RMB96.656 billion or 27.27% as compared to the previous year.

D. Interest income from due from other banks and financial institutions

Total interest income from due from other banks and financial institutions decreased by RMB471 million as compared to prior year to RMB4.424 billion. This was mainly driven by the structural optimisation of the structure of current interest-earning assets. This in turn has caused the average balances of amounts due from other banks and financial institutions to decrease by RMB72.05 billion or 25.45% as compared to prior year.

4.3.1.2.2 Interest expense

During the Reporting Period, the Group's interest expense increased by RMB6.835 billion or 13.65% as compared to prior year to RMB56.910 billion.

A. Interest expense due to customers

Customer deposits are the Group's main source of funding. During the Reporting Period, interest expense on customers deposits increased by RMB2.621 billion or 7.71% as compared to prior year to RMB36.628 billion. This accounted for 64.36% of total interest expense. The increase in interest expense on customer deposits is mainly due to the increase in the size of customer deposits.

B. Interest expense due to other banks and financial institutions

During the Reporting Period, interest expense on amounts due to other banks and financial institutions increased by RMB4.226 billion or 30.20% as compared to prior year to RMB18.220 billion. This was mainly due to the 20.87% increase in average balance of amounts due to other banks and financial institutions as compared to prior year. At the same time, the average cost of funding had increased by 18 basis points due to the increase in interest rates in the domestic money market.

C. Interest expense from debts issued and others

During the Reporting Period, interest expense from debts issued and other interest bearing liabilities decreased by RMB12 million as compared to prior year to RMB2.062 billion. The average cost of funding had decreased from 3.98% in prior year to 3.46%.

4.3.1.3 Net fee and commission income

Net fee and commission income is a major component of the Group's net operating income. During the Reporting Period, the Group continuously accelerated its product and service innovation and moved towards a business model with diversified revenue streams from one based on interest spreads. This resulted in sustained rapid growth of its fee-based business. During the Reporting Period, the Group's net fee and commission income increased by RMB3.080 billion or 27.02% as compared to prior year to RMB14.479 billion. Overall, this accounted for 13.82% of net operating income. Investment banking, credit card, settlement and agent services have been the main growth areas for the Group's fee-based business.

The table below shows the major components of the Group's net fee and commission income for the periods indicated:

		(in millions of RMB)
	2010	2009
Commission income on settlement and agent services	**3,320**	2,384
Bank card related fee income	**5,180**	3,992
Guarantee and commitment commission income	**1,238**	1,133
Commission income on custodian service	**707**	655
Commission income on sales of investment funds	**741**	984
Funds management income	**736**	761
Investment banking income	**3,244**	2,353
Other commission income	**1,910**	1,152
Total fee and commission income	**17,076**	13,414
Less: Fee and commission expense	**(2,597)**	(2,015)
Net fee and commission income	**14,479**	11,399

Commission income on settlement and agent services increased by RMB936 million or 39.26% as compared to the corresponding period in prior year to RMB3.320 billion. Of these amounts, agency services commission income increased by 36.69% to RMB734 million.

Bank card related fee income increased by RMB1.188 billion or 29.76% from the corresponding period in prior year to RMB5.180 billion. The increase is mainly due to an increase in card issuance, an increase in consumption and higher transaction volume at self-service machines.

Guarantee and commitment commission income increased by RMB105 million or 9.27% from the previous year, to RMB1.238 billion. The increase is mainly due to increased non-financing related guarantee and loan commitment businesses.

Commission income on custodian service increased by RMB52 million as compared to the previous year to RMB707 million. This is due to an increase in the size of the asset in custody.

Commission income on sales of investment funds decreased by RMB243 million from the previous year to RMB741 million. The decrease is mainly due to a decrease in fund sales.

Income from investment banking increased by RMB891 million or 37.87% as compared to the corresponding period in prior year to RMB3.244 billion. The increase is mainly due to relatively rapid growth in the various types of investment banking services.

4.3.1.4 *Operating costs*

The Group achieved significant results from its cost-reduction measures during the Reporting Period as the Group's operating costs increased by RMB6.458 billion or 24.43% as compared to prior year to RMB32.889 billion such that the increase in operating costs was 3.97 percentage points lower than the increase in net operating income. The cost-to-income ratio decreased by 0.52 percentage point as compared to prior year to 32.11%.

4.3.1.5 *Impairment allowances*

During the Reporting Period, the Group's impairment allowances on loans increased by RMB991 million from the previous year to RMB12.246 billion, and comprised of (1) a decrease in collectively assessed allowances by RMB218 million to RMB9.1 billion; partially offsetted by (2) an increase in individually assessed allowances by RMB1.206 billion from prior year to RMB3.146 billion. During the Reporting Period, credit to cost ratio also decreased by 0.06 percentage point from the prior year to 0.55%.

4.3.1.6 *Income tax*

During the Reporting Period, the Group's income tax expense increased by RMB2.735 billion or 33.99% as compared to prior year to RMB10.782 billion. The effective tax rate of 21.58%, lower than the statutory tax rate of 25%, was due to the exemption of the interest income from government bonds held by the Group from tax of pursuant to the relevant tax provisions.

The table below shows the Group's current tax and deferred tax for the periods indicated:

(in millions of RMB)

	2010	2009
Current tax	**11,752**	9,149
Deferred tax	**(970)**	(1,102)

4.3.2 Analysis on major balance sheet items

4.3.2.1 Assets

As at the end of the Reporting Period, the Group's total assets increased by RMB642.456 billion or 19.41% from the beginning of the year to RMB3,951.593 billion.

The table below shows the balance (after impairment allowances) of the principal components of the Group's total assets and their proportion to the total assets as at the dates indicated:

(in millions of RMB unless otherwise stated)

	31 December 2010		31 December 2009	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Loans and advances to customers	**2,190,490**	**55.43**	1,801,538	54.44
Investment securities	**809,820**	**20.49**	775,761	23.44
Cash and balances with central banks	**586,554**	**14.84**	434,996	13.15
Due from other banks and financial institutions	**262,976**	**6.65**	222,671	6.73
Total assets	**3,951,593**		3,309,137	

4.3.2.1.1 Loans and advances to customers

During the Reporting Period, the Group capitalised on opportunities that arose from government stimulus policies. Additionally, the Group achieved further growth from increased credit disbursements to creditworthy customers and conglomerates. As at the end of the Reporting Period, the Group's total loans and advances to customers increased by RMB397.613 billion or 21.62% from the beginning of the year to RMB2,236.927 billion.

Loans concentration by industry

During the Reporting Period, the Group adjusted its credit strategy in accordance with the national macroeconomic policy by balancing the volume, direction and momentum of credit disbursements, thus enhancing its credit structure. Corporate loans were mainly made out to industries such as the transportation and logistics, public infrastructure management, modernised services and strategic emerging industries that are in line with the national credit policy and the characteristics of the nation's economy.

The table below shows the distribution of the Group's loans and advances by industry as of the dates indicated:

(in millions of RMB, unless otherwise stated)

	31 December 2010		31 December 2009	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Mining	**40,223**	**1.80**	31,230	1.70
Manufacturing				
— Petroleum and chemical	**93,525**	**4.18**	82,319	4.48
— Electronics	**44,993**	**2.01**	38,132	2.07
— Steel, smelting and processing	**45,568**	**2.04**	40,109	2.18
— Machinery	**68,911**	**3.08**	56,766	3.09
— Textile and clothing	**29,560**	**1.32**	27,918	1.52
— Other manufacturing	**155,663**	**6.96**	133,450	7.25
Electricity, gas and water production and supply	**138,707**	**6.20**	141,628	7.70
Construction	**68,337**	**3.05**	55,387	3.01
Transportation, storage and postal service	**307,422**	**13.74**	226,757	12.33
IT services and telecommunications	**9,618**	**0.43**	8,213	0.45
Wholesale and retail	**214,588**	**9.59**	145,278	7.90
Accommodation and catering	**15,746**	**0.70**	13,163	0.72
Financial institutions	**37,108**	**1.66**	22,853	1.24
Real estate	**142,868**	**6.39**	106,089	5.77
Services	**131,496**	**5.88**	95,151	5.17
Water conservancy, environmental and other public services	**163,992**	**7.33**	147,976	8.05
Education	**30,192**	**1.35**	27,822	1.51
Others	**23,411**	**1.06**	26,563	1.43
Discounted bills	**57,074**	**2.55**	101,872	5.54
Total corporate loans	**1,819,002**	**81.32**	1,528,676	83.11
Mortgage loans	**268,240**	**11.99**	198,695	10.80
Medium-term and long-term working capital loans	**31,616**	**1.41**	27,573	1.50
Short-term working capital Loans	**28,740**	**1.28**	21,482	1.17
Car loans	**6,607**	**0.30**	4,894	0.27
Credit card advances	**43,561**	**1.95**	30,693	1.67
Others	**39,161**	**1.75**	27,301	1.48
Total personal loans	**417,925**	**18.68**	310,638	16.89
Gross amount of loans and advances to customers before impairment allowances	**2,236,927**	**100.00**	1,839,314	100.00

As at the end of the Reporting Period, the Group's corporate loans increased by RMB290.326 billion or 18.99% from the beginning of the year to RMB1,819.002 billion. Corporate loans were mainly concentrated in the four industries of manufacturing, transportation, storage and postal service, wholesale and retail and water conservancy, environmental and other public services businesses, which collectively accounted for 61.80% of total corporate loans.

As at the end of the Reporting Period, personal loans increased by RMB107.287 billion or 34.54% from the beginning of the year to RMB417.925 billion. The proportion of personal loans as a percentage of loans and advances to customers increased by 1.79 percentage points from the beginning of the year to 18.68%.

Loan concentration by borrowers

Under the prevailing PRC banking regulations, the total credit exposure to a single group customer must not exceed 15% of the net capital base of the bank and the total loans to a single borrower shall not exceed 10% of the net capital base of the bank. The Group currently complies with these regulatory requirements.

The table below shows the loan balances to the top 10 single borrower of the Group as at the date indicated:

(in millions of RMB unless otherwise stated)

	As at 31 December 2010		
	Type of industry	**Loan balance**	**Percentage of total loans and advance (%)**
Customer A	Financial institutions	13,245	0.59
Customer B	Real Estate	10,000	0.45
Customer C	Transportation, storage and postal service	7,519	0.34
Customer D	Transportation, storage and postal service	7,244	0.32
Customer E	Transportation, storage and postal service	6,908	0.31
Customer F	Transportation, storage and postal service	6,378	0.29
Customer G	Transportation, storage and postal service	5,560	0.25
Customer H	Services	5,530	0.25
Customer I	Transportation, storage and postal service	5,020	0.22
Customer J	Electricity, gas and water production and supply	5,000	0.22
Total		72,404	3.24

Loan concentration by geographical locations

The Group's credit customers are mainly concentrated in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta. As at the end of the Reporting Period, loans and advances to customers in these three regions accounted for 31.70%, 23.48% and 8.20% of the Group's total loans respectively.

Loan quality

The Group continuously improved the quality of its loans. As at the end of the Reporting Period, the impaired loans ratio decreased by 0.24 percentage point from the beginning of the year to 1.12%. The provision coverage of impaired loans increased by 34.79 percentage points from the beginning of the year to 185.84%.

The table below shows certain information on the Group's impaired loans and loans overdue by more than 90 days as at the dates indicated:

(in millions of RMB unless otherwise stated)

	31 December 2010	31 December 2009
Impaired loans	**24,988**	25,009
Loans overdue by more than 90 days	**16,297**	21,190
Percentage of impaired loans to gross amount of loans and advances to customers (%)	**1.12**	1.36

Loan customer structure

In line with the Bank's implementation of the New Basel Capital Accord Plan, the use of internal customer ratings with effect from the fourth quarter of 2010, as the only form of customer evaluation has bore fruit. As at the end of 2010, based on the Bank's internal rating system for corporate customers, loans to customers from class 1 to class 8, which comprises high quality customers, amounted to 92.10% of the total loans and advances to customers, loans to customers from class 9 to class 12, amounted to 5.06% of total loans and advances to customers and loans to customers from class 13 to class 15 amounted to 1.36% of total loans and advances to customers.

4.3.2.1.2 Investment securities

The Group continued to strengthen the centralisation of its treasury operations and the optimisation of its investment structure. As at the end of the Reporting Period, the Group's investment securities increased by RMB34.059 billion or 4.39% from prior year to RMB809.820 billion. Returns on investment in securities was a satisfactory level of 3.16%.

Distribution of the Group's investment securities

The table below shows the distribution of the Group's investment securities by financial asset classification and by type of issuers as of the dates indicated:

— By financial asset classification

(in millions of RMB unless otherwise stated)

	31 December 2010		31 December 2009	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Financial assets at fair value through profit or loss (excluding derivatives financial instruments)	**41,312**	**5.10**	26,884	3.47
Investment securities — loans and receivables	**42,617**	**5.26**	107,604	13.87
Investment securities — available-for-sale	**162,170**	**20.03**	132,094	17.03
Investment securities — held-to-maturity	**563,721**	**69.61**	509,179	65.63
Total	**809,820**	**100.00**	775,761	100.00

— By type of issuers

(in millions of RMB unless otherwise stated)

	31 December 2010		31 December 2009	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Central governments and central banks	**309,198**	**38.18**	301,136	38.82
Public sector entities	**17,131**	**2.11**	11,643	1.50
Banks and other financial institutions	**266,805**	**32.95**	250,860	32.34
Corporate entities	**216,686**	**26.76**	212,122	27.34
Total	**809,820**	**100.00**	775,761	100.00

4.3.2.2 Liabilities

As at the end of the Reporting Period, the Group's total liabilities increased by RMB583.224 billion or 18.55% from the beginning of the year to RMB3,727.936 billion. Customer deposits increased by RMB495,792 billion from the beginning of the year. This accounted for 76.93% of total liabilities, representing an increase of 1.50 percentage points from the beginning of the year. Amounts due to other banks and financial institutions, which accounted for 19.23% of total liabilities, decreased by 1.54 percentage points from the beginning of the year to RMB63.860 billion.

Customer deposits

Customer deposits are the main source of funding for the Group. As at the end of the Reporting Period, the Group's customer deposits balance increased by RMB495.792 billion or 20.90% from the beginning of the year to RMB2,867.847 billion. The Group has a sound deposit structure based on its customer structure. The proportion of corporate deposits increased by 2.45 percentage points from the beginning of the year to 68.17% of total deposits. The proportion of personal deposits decreased by 2.39 percentage points from the beginning of the year to 31.60% of total deposits. With regards to the terms of deposits, the proportion of current deposits increased by 0.86 percentage points from the beginning of the year to 50.56% of total deposits, while the proportion of time deposits decreased by 0.79 percentage points from the beginning of the year to 49.21% of total deposits.

The table below shows the Group's corporate and personal deposits as of the dates indicated:

(in millions of RMB)

	31 December 2010	31 December 2009
Corporate deposits	**1,954,936**	1,558,842
Of which: Corporate current deposits	**1,064,528**	865,097
Corporate time deposits	**890,408**	693,745
Personal deposits	**906,301**	806,190
Of which: Personal current deposits	**385,449**	313,835
Personal time deposits	**520,852**	492,355

4.3.3 Segment Analysis

4.3.3.1 Operating results by geographical segments

The table below shows the net profit and net operating income from each of the Group's geographical segments for the periods indicated:

(in millions of RMB)

	2010		2009	
	Net profit	**Net operating income[1]**	Net profit	Net operating income[1]
Northern China[2]	**4,215**	**13,000**	4,372	12,252
North-eastern China[3]	**989**	**4,460**	501	3,238
Eastern China[4]	**13,632**	**38,637**	11,002	29,745
Central and Southern China[5]	**5,666**	**19,098**	4,035	14,465
Western China[6]	**3,359**	**8,771**	1,789	6,071
Overseas[7]	**1,592**	**3,727**	1,572	3,549
Head Office	**9,719**	**17,050**	6,983	12,258
Total[8]	**39,172**	**104,743**	30,254	81,578

Note:

1. Includes net interest income, net fee and commission income, dividend income, gains less losses from trading activities, gains less losses arising from the de-recognition of investment securities, premium income from insurance and other operating income;

2. Includes Beijing, Tianjin, Hebei Province, Shanxi Province, Inner Mongolia Autonomous Region; (same applies hereinafter)

3. Includes Liaoning Province, Jilin Province, Heilongjiang Province; (same applies hereinafter)

4. Includes Shanghai (excluding head office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province; (same applies hereinafter)

5. Includes Henan Province, Hunan Province, Hubei Province, Guangdong Province, Guangxi Province, Hainan Province; (same applies hereinafter)

6. Includes Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Shannxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region; (same applies hereinafter)

7. Includes overseas subsidiaries and the following branches: Hong Kong, New York, Singapore, Tokyo, Seoul, Macau and Frankfurt; (same applies hereinafter)

8. Includes non-controlling interests.

4.3.3.2 Deposits and loans and advances by geographical segments

The table below shows the Group's deposits and loans and advances balances of the customers by geographical segments as at the dates indicated:

(in millions of RMB)

	31 December 2010		31 December 2009	
	Deposit balance	**Loans and advances balance**	Deposit balance	Loans and advances balance
Northern China	**549,157**	**422,830**	446,405	332,812
North-eastern China	**199,400**	**110,034**	175,077	90,882
Eastern China[Note]	**1,108,096**	**880,314**	920,550	750,489
Central and Southern China	**587,970**	**424,785**	482,137	360,322
Western China	**267,576**	**206,079**	222,223	172,251
Overseas	**125,187**	**147,128**	93,918	100,761
Head Office	**30,461**	**45,757**	31,745	31,797
Total	**2,867,847**	**2,236,927**	2,372,055	1,839,314

Note: Excluding Head Office.

4.3.3.3 Operating results by business segments

The Group's four main business segments are: corporate banking, retail banking, treasury and others, the corporate banking segment is the primary source of profits for the Group. The corporate banking segment accounted for 66.46% of the Group's total profit before tax.

The table below shows the amounts of operating results of each of the Group's business segments for the periods indicated:

(in millions of RMB)

	Revenue from external customers		**Profit before tax**
	2010	2009	**2010**
Corporate banking	**93,420**	74,975	**33,199**
Retail banking	**29,131**	20,302	**6,503**
Treasury	**38,527**	35,754	**9,815**
Others	**3,172**	2,637	**437**
Total	**164,250**	133,668	**49,954**

4.4 Other financial information

The relevant information disclosed below are set out in accordance with the requirements of the China Securities Regulatory Commission.

4.4.1 Fair value measurement related items

The Group established a market risk management system under the responsibility and leadership of the Board of Directors. It also established an internal control framework based on fair value in order to satisfy the relevant internal control and information disclosure requirements. It also gradually and in an orderly manner, improved the systematic management of its market risk by connecting all the relevant front office, middle office and back office departments and emcompassing fair value valuation, measurement, monitoring and verification. The Group will continue to learn from the experience of its peers and international best practices to further optimise its internal control system in connection with fair value measurement. The Group primarily uses quoted market prices as the fair value of financial instruments traded in active markets. It uses valuation models and observable market parameters or comparison to third party quotes which are reviewed by the relevant risk management departments, to determine the fair value of financial instruments that are not traded in active market.

The table below shows the fair value measurement related items of the Group in 2010:

(in millions of RMB)

Item	Opening balance	Gains/ (losses) on change in fair value	Cumulative fair value gains/ (losses) recognised in equity	Impairment losses (accrued)/ reversed	Closing balance
Financial assets includes:					
1. Financial assets at fair value through profit and loss (excluding derivative financial instruments)	26,884	(158)	—	—	41,312
2. Derivative financial instruments	2,370	2,341	—	—	4,731
3. Investment securities — available-for-sale	132,094	—	(731)	(150)	162,170
Total financial assets	161,348	2,183	(731)	(150)	208,213
Investment property	124	21	—	—	141
Total	161,472	2,204	(731)	(150)	208,354
Total financial liabilities[Note]	(9,375)	(2,275)	—	—	(14,379)

Note: Only applicable to financial liabilities at fair value through profit or loss

4.4.2 Holdings in foreign currency denominated financial assets and financial liabilities

The table below shows the foreign currency denominated financial assets and financial liabilities held by the Group in 2010:

(in millions of RMB)

Item	Opening balance	Gains/ (losses) on change in fair value	Cumulative fair value gains/ (losses) recognised in equity	Impairment losses (accrued)/ reversed	Closing balance
Financial assets include:					
1. Financial assets at fair value through profit and loss (excluding derivative financial instrument)	10,042	58	—	—	8,391
2. Derivative financial instrument	1,158	319	—	—	1,497
3. Loans and receivables[1]	232,079	—	—	165	278,112
4. Investment securities — available-for-sale	35,587	—	631	(150)	34,011
5. Investment securities — held-to-maturity	2,730	—	—	—	2,460
Total of financial assets	281,596	377	631	15	324,471
Financial liabilities[2]	(249,263)	(2,466)	—	—	(281,787)

Notes:

1. Includes cash and balances with central banks, due from other banks and financial institutions, loans and advances to customers and investment securities — loans and receivables and other financial assets.

2. Includes due to other banks and financial institutions, financial liabilities at fair value through profit or loss, customer deposits and other financial liabilities.

4.5 Risk management

In 2010, the Bank continued to be guided by its three-year comprehensive risk management plan. It maintained its "positive, stable and balanced" risk preference and adhered to the principles of "striking a balance between pro-activeness and stability; complementing models with experience; combination of unified management and variance reconciliation and striking a balance between synergy and efficiency from specialisation" to implement its comprehensive risk management. To further optimise the bank-wide risk management system, the Bank complied a bank-wide Risk Management Manual, continuously improved its risk management and control coordination mechanism, accelerated the enhancement of its comprehensive risk management capabilities and further strengthened the foundations for the stable functioning of the Group's operations management.

4.5.1 Risk management framework

The Bank's Board of Directors have ultimate responsibility and decision-making authority for the Group's risk management. The Board monitors and controls the bank-wide risk management matters through its underlying Risk Management Committee. The Bank has established a "1+3+2" Risk Management Committee system whereby: One Comprehensive Risk Management Committee established by senior management will be charged with leading the bank-wide risk management effort in accordance with the risk management strategies established by the Board. It will also conduct regular risk assessments and review the effectiveness of risk management. Three committees have been established under the Comprehensive Risk Management Committee. They are the Credit Risk Management Committee, Market and Liquidity Risk Management Committee, Operational Risk Management and Anti-money Laundering Committee. Two business review committees: the Loan Credit Review Committee and the High-risk Assets Review Committee have also been established. These committees will come under the supervision of the Comprehensive Risk Management Committee and will be responsible for the execution and implementation of the supervision and guidance of the bank-wide risk management work. In addition, these committees are required to periodically report to the Comprehensive Risk Management Committee. The responsibility of promoting the work for the various aspects of comprehensive risk management will be divided between the Bank's President, Vice President and Chief Risk Officer.

The Bank has established a comprehensive risk management execution system and reporting line. The establishment of a risk management unit to organise and coordinate the entire Bank's risk management work and provide consolidated reporting has helped to consolidate the Bank's risk management capabilities. The various component departments of the Risk Management Committee have utilised business line management at all organisational levels to lead and comprehensively implement its risk management requirements. By formalising its "large, small and medium platforms" and dual reporting mechanisms, the Bank has established a four-tier linear risk management framework organised by business lines.

During the Reporting Period, the Bank made steady progress in its preparations for compliance with the New Basel Capital Accords and continued to improve its internal rating system. The Bank's market risk management, operational risk management and capital adequacy assessment systems have also started to materialise.

4.5.2 Credit risk management

Departments such as the Bank's Corporate Business Department, Retail Finance Management Department, Credit Administration Department, Credit Approval Centre, Risk Management Department, Asset Custody Department and Credit Card Centre, collectively form the main functional departments responsible for the Group's credit risk management. They are responsible for formalising the management of the Bank's corporate and retail loans business over areas such as providing guidance over credit policy, credit assessment, credit approval, credit disbursements, credit monitoring and non-performing loans management.

4.5.2.1 Risk classification procedures and methodology

The Bank has implemented a five category system that classifies loans according to their inherent risk as pass, special-mention, substandard, doubtful and loss with the last three categories regarded as non-performing loans in accordance with the regulatory requirements of the "Guidelines on Risk-Based Loan Classification" issued by the China Banking Regulatory Commission. This system in substance, assesses the principal and interest of credit assets and the probability of their timely repayment in full. For corporate credit assets, the Bank has relied on the core regulatory definition as a basis to assess the results of its internal ratings and its individually assessed allowances. This has enabled the Bank to define in greater detail more stringent risk characteristics and the quantification, assessment and standardisation aspects of its five category system classification. This has also helped to ensure that sufficient consideration is given to the various factors affecting credit asset quality and at the same time ensure prudence in risk classification. For retail credit assets (including credit cards), the Bank has uniformly adopted a five category system based on the aging of overdue credit assets and type of guarantee provided.

To further enhance fine-grained management of its credit asset management, the Bank has adopted the Basel II Advanced Internal Ratings Based approach and established a standard of classification based on the probability of default (PD). This has enabled the Bank to develop a more detailed internal credit risk assessment process to implement the management by category of corporate loans, small enterprises loans, personal loans, credit card customers and businesses for domestic branches.

In 2010, the Bank continued to optimise its internal credit risk rating model and enhanced its internal assessment management system by creating an automated internal risk operations and customer credit risk diagnostic and evaluation system while actively promoting the application of internal ratings in the entire credit management process. This has helped to improve the Bank's ability to categorise customers by credit risk and its credit risk management capability.

4.5.2.2 *Risk management and control policies*

4.5.2.2.1 Corporate loans credit risk management

In 2010, in accordance with the guidance from the nation's macroeconomic adjustments and controls and government policies, the Bank enhanced its industry credit policy to encompass more than 85% of the Bank's credit business. It also implemented watch-list management for selected industries and this has helped to improve the fine-grained management and functionality of its credit policy. The Bank also established a dynamic credit policy trend feedback and adjustment mechanism to increase the applicability and flexibility of its credit policy.

In 2010, the Bank further optimised its credit approval authorisation structure and streamlined the credit approval renewal process for small and medium enterprises and deposit customers. Green credit tracking management mechanisms and tools were established to increase fine-grained management of its green credit project. Corporate loan approver qualification examinations and accreditation standards were established to strengthen the professionalism of credit officers and develop a team of loan approval experts. With the comprehensive implementation of the new "3 Rules and 1 Guidance" loan regulations, the management of areas such as loan repayment and disbursements have been strengthened.

In 2010, the Bank continued to strengthen its management and control of potential and existing risks. Tools such as quota and limits were utilised to implement credit quota and limits management for major industries such as excess capacity and local government financing platforms. In strict accordance with the requirements of the regulatory authorities, the Bank initiated a review of its loans to local government financing platforms to comprehensively manage its risk and promoted the implementation of control measures. The Bank also strengthened its management and control over the proportion of loan balances to the real estate industry and developed a list of approved borrowers. The Bank also reinforced its emphasis of work over the investigation of potential risks, exit from high-risk areas and collection of additional collaterals. The management of special mention and watch-list loans as well as new loans to repay existing loans also became more stringent and detailed. The continued strengthening of the level of the Bank's systematic monitoring and control over the usage of disbursed funds led to increasingly evident results from its corporate business post-loans management activities and improvements in the level of risk management.

4.5.2.2.2 Personal loans credit risk management

In 2010, the Bank was able to formulate and implement a personal loan credit policy in accordance with regulatory requirements in a timely manner and this has enabled the Bank to provide differentiated and dynamic personal loans management at the branch level. The Bank continued to actively adjust its product structure and optimised its customer structure. It also continued to strengthened its selection of targeted customers, promoted cross-selling strategy and strongly explored quality partnership opportunities with other organisations.

In 2010, the Bank strengthened its personal loans risk management comprehensively. The Bank focused on economic and market trends to initiate the early warning and investigation of risks in a timely manner while also strengthening its risk monitoring and reporting. It enhanced and strengthened its collateral registration management, collateral valuation monitoring and its monitoring of asset quality trends and credit risk analysis. The Bank also implemented measures to resolve potential risks in advance.

4.5.2.2.3 Credit card business credit risk management

The Bank has an independent credit card centre responsible for the operational management of its credit card business. In 2010, under the theme of risk mitigation and control, the Bank's credit card centre focused on the profitability of its assets to achieve a balance between risk and returns. By optimising its credit policy and expanding its credit channels, the Bank was able to continuously improve its operational efficiency and enhance its customer structure. By strengthening its data analysis and detailed analysis of risk characteristics, the Bank was able to develop regionalised and differentiated credit policies and anti-fraud strategies. This has helped the Bank to effectively improve its front-end sales risk control capabilities. By implementing risk-based pricing, optimising its credit collection strategy through adopting differentiated pricing and collection measures, the Bank was able to achieve risk adjusted profit maximization. Through continuous improvement and optimisation of various forecasting models, the introduction of advanced risk management systems and the strengthening of risk management methods, the Bank was able to improve the technical level of its credit card business risk management processes.

4.5.2.2.4 Treasury operations credit risk management

The Group implemented centralised Head Office approval and quota management procedures over treasury operations involving other financial institutions. In 2010, the Bank further formalised its financial institutions credit process and quota management. Clear bank-wide guidance was provided for transactions with institutions belonging to the financial and insurance industries. The Bank also further formalised the division of responsibilities for the annual credit review of other financial institutions. Reporting processes and requirements were revised as part of the Bank's comprehensive assessment of its limits with financial institutions and the Bank also enhanced the capabilities of its financial institutions credit management system.

4.5.2.2.5 Management of non-performing loans

Through measures such as collection, restructuring, disposal of collaterals, recourse to guarantors, litigation or arbitration, the Bank manages its non-performing loan in accordance with the requirements of the regulatory authorities. In 2010, the Bank further strengthened the scope of direct manual involvement by Head Office and provincial branches to provide guidance and supervision on the collection of key non-performing assets. A Head Office centralised collection platform has been established and the disposal of non-performing credit card advances has been accelerated. In addition, comprehensive income has increased significantly due to higher recoveries and optimisation of loan quality.

4.5.2.3 Asset quality and migration

As at the end of 2010, the breakdown of the Group's five loans categories as stipulated by the China Banking Regulatory Commission were as follows:

(in millions of RMB unless otherwise stated)

	As at 31 December 2010		As at 31 December 2009		As at 31 December 2008	
Categories	**Balance**	**Proportion (%)**	Balance	Proportion (%)	Balance	Proportion (%)
Pass	**2,149,629**	**96.10**	1,764,060	95.91	1,248,988	94.00
Special mention	**62,310**	**2.78**	50,245	2.73	54,142	4.08
Total performing loan balance	**2,211,939**	**98.88**	1,814,305	98.64	1,303,130	98.08
Sub-standard	**10,592**	**0.47**	10,756	0.59	12,087	0.91
Doubtful	**9,930**	**0.45**	11,490	0.62	11,086	0.84
Loss	**4,466**	**0.20**	2,763	0.15	2,287	0.17
Total non-performing loan balance	**24,988**	**1.12**	25,009	1.36	25,460	1.92
Total	**2,236,927**	**100.00**	1,839,314	100.00	1,328,590	100.00

As at the end of 2010, the Group's loan migration rates in accordance with guidance stipulated by the China Banking Regulatory Commission were as follows:

Loan migration rate (%)	**2010**	2009	2008
Pass	**1.60**	1.96	2.32
Special mention	**35.69**	24.22	21.72
Sub-standard	**45.93**	36.46	43.86
Doubtful	**30.11**	5.46	9.04

4.5.3 Market risk management

In 2010, the Bank continued to develop its market risk management system in accordance with the relevant regulatory guidelines and requirements. The Bank established an internal market risk model and formalised the management of its risk measurement validation, stress testing and Value-at-Risk back-testing. The Bank has developed and launched its market risk management information system which has helped to provide the Bank with many new functions such as product valuation, sensitivities analysis, Value-at-Risk (VaR) measurement and stress testing. In addition, the Bank also established an independent daily market risk monitoring system.

4.5.3.1 Trading book market risk management

The Bank has implemented limits management for its trading portfolio in accordance with its risk appetite and scale of business operation. In 2010, the Bank further improved its market risk limits management and implemented independent monitoring and control over the execution of market risk limits. In times of market environment changes that causes risk indicators to approach risk limits, the Bank was able to effectively manage and control its trading book risk through measures such as timely adjustments of interest rates and currency gaps and hedging through the use of financial derivatives.

The Bank conducts daily routine monitoring and uses the historical simulation method to measure its interest rate risk and currency risk for its trading book.

4.5.3.2 Banking books market risk management

The Bank had completed the preliminary development of a relatively comprehensive banking book interest rate risk monitoring system. The Bank was able to effectively manage its banking book interest rate risk through the use of measures such as gap analysis to implement periodic monitoring and control over the gap between re-pricing dates for interest rate sensitive assets and liabilities and active adjustments to the proportion of fixed and floating rate assets. The Bank continued to strengthen its operations and limits monitoring during 2010 by closing monitoring interest rate trends for both domestic and foreign currencies and increasing fine-grained management of its risk limits. The Bank also maximised its returns from risk control by reasonably adjusting its loan pricing strategy and strengthening the fine-grained management of loan pricing.

4.5.3.3 Market risk analysis

The Group utilises sensitivity analysis to assess and quantify the market risks for its trading and banking books.

4.5.3.3.1 Interest rate risk and sensitivity analysis

The Group's asset/liability re-pricing date or maturity date (whichever is earlier) as at 31 December 2010 is as follows:

(in millions of RMB)

	Due in 1 month	Due between 1 month and 3 months	Due between 3 months to 12 months	Due between 1 year to 5 years	More than 5 years	Non-interest bearing	Total
Total assets	1,763,357	394,769	1,125,194	386,921	181,346	100,006	3,951,593
Total liabilities	(2,309,304)	(343,557)	(654,688)	(297,416)	(32,143)	(90,828)	(3,727,936)
Net exposure	(545,947)	51,212	470,506	89,505	149,203	9,178	223,657

The table below shows the impact of a 100 basis points movement in interest rate levels on the Group's net interest income Group's other comprehensive income based on the asset/liability structure as at the dates shown:

(in millions of RMB)

	As at 31 December 2010		As at 31 December 2009	
	Expected change in net interest income	**Change in other comprehensive income**	Expected change in net interest income	Change in other comprehensive income
Increase of all interest rates by 100 basis points	**8,258**	**(2,400)**	5,387	(1,951)
Decrease of all interest rates by 100 basis points	**(8,258)**	**2,553**	(5,387)	2,055

4.5.3.3.2 Exchange rate risk and sensitivity analysis

As at 31 December 2010, the Group's foreign exchange risk exposure is as follows:

(in millions of RMB)

	RMB	**US$ converted to RMB**	**HKD converted to RMB**	**Other currencies converted to RMB**	**Total**
Total assets	3,625,990	234,469	61,931	29,203	3,951,593
Total liabilities	(3,445,505)	(161,530)	(86,793)	(34,108)	(3,727,936)
Net exposure	180,485	72,939	(24,862)	(4,905)	223,657

The table below shows the impact of a 5% movement in RMB against the USD and HKD on the Group's net profit and other comprehensive income based on the asset/liability structure as at the dates shown:

(in millions of RMB)

	As at 31 December 2010		As at 31 December 2009	
	Expected change in net (loss)/profit	**Change in other comprehensive income**	Expected change in net (loss)/profit	Change in other comprehensive income
RMB appreciate 5%	**(896)**	**(560)**	(747)	(496)
RMB depreciate 5%	**1,329**	**560**	747	496

4.5.4 Liquidity risk management

The key measures undertaken by the Bank to manage its liquidity risk includes: (1) developing monitoring indicators and limits to maintain the Bank's foreign and domestic currency liquidity at reasonable levels by determining its liquidity risk tolerance and capital management requirements in accordance with in accordance with regulatory requirements; (2) increasing the proportion of core long-term deposits in liabilities and stability of liabilities by actively expanding its sources (3) maintaining appropriate proportions of central bank reserves and liquid secondary reserves by centralising capital management at the Head Office to standardise the management of liquid capital reserves; (4) reasonable matching of asset maturity structure and using multi-tiered liquidity combinations to reduce liquidity risk; (5) actively participating in money market and bond market transactions and maintaining an excellent market image to ensure it has sufficient market financing capabilities.

In 2010, China began to gradually tighten its loose monetary policy. As a result of the increasing expectations for the strengthening of the RMB, there have been numerous instances whereby the Shanghai Interbank Offer Rate ("SHIBOR") experienced negative spreads. The increasing interest spreads in the foreign and domestic foreign currency markets and increasingly severe liquidity crunch in the market has exerted a certain amount of pressure on the Bank's liquidity management. The Bank continued to closely monitor its macroeconomic environment and changes in the financial markets and national monetary policy to further strengthen its liquidity risk management. It has also adopted measures such as: actively expanding the sources of deposits, imposing strict controls on the growth of loans and maintaining appropriate loan-to-deposit ratios to ensure that the Bank is self-sufficient in terms of funding for its future business development. The Bank also strengthened its monitoring and analysis of macroeconomic policies in foreign and domestic financial markets and implemented liquidity risk stress testing. Based on a reasonable estimation of its liquidity requirements, it also adopted pre-emptive measures such as timely adjustments to its liquid reserves and asset-liability structure to prevent any worsening of its liquidity risk. The Bank also enhanced the development of its liquidity risk management information system and utilised quantitative measures such as statistical analysis to optimise its cash flow forecasting model. It also improved its liquidity risk identification and monitoring capabilities. In addition, the Bank also developed and enhanced its bank-wide fund management framework, strengthened Head Office's centralised capital management process so as to improve its liquidity risk prevention capabilities and capital utilisation efficiency.

As at the end of 2010, relevant indicators to reflect the Bank's liquidity are as follows:

Major regulatory indicators (%)	**As at 31 December 2010**	As at 31 December 2009	As at 31 December 2008
Liquidity ratio (Local and foreign currencies)	**32.23**	27.83	39.62
Deposit-to-loan ratio (Local and foreign currencies)	**72.10**	71.97	64.91

Note: Calculated in accordance with the regulatory requirements stipulated by the Chinese Banking Regulatory Commission.

4.5.5 *Operational risk management*

In 2010, the Bank accelerated the development of its operational risk system and mechanism. It introduced foundational bank-wide operational risk management policies, implementation plans and formalised its operational risk management process and tools. The Bank also completed the development and subsequent bank-wide roll out of its operational risk management system, launched its branch level risk and control self-evaluation and activated its bank-wide loss data collection process. It also initiated a re-organisation of operating processes and risk and conducted control self-evaluation for back office units to enhance the coverage of its operational risk management system.

Operational risk management over key areas such as Operations, IT and Private Banking was enhanced. In 2010, the Bank established its accounting risk verification, early warning and focused remediation mechanisms. It also strengthened system processes, employee quality, the culture of taking responsibility and encouraged peer exchanges. The Bank also enhanced its risk controls tools, processes and improved its level of automation. It encouraged process re-engineering and the active conceptualisation of a "safe, efficient and excellent" operating system. The Bank also enhanced its information security management system and strengthened its security training and risk assessment while also enhancing its operations management and emergency response safeguard mechanisms. It also implemented stringent controls over system changes, outsourcing services and end-user management. This has helped to further enhance the sustainability of its information technology risk management level and contributed to the success of the Bank's information security work during the Shanghai World Expo. The Bank adopted innovative private banking risk management controls and effectively controlled its private banking risk through a series of integrated management measures such as integration of risk management and sales cultures, quantification of sales risk control indicators and conceptualising a private banking risk management system. Other measures taken include quantitative assessments, five category classification, assessment linkages, dynamic management, regular inspections, sample checks and early-warning.

4.5.6 *Anti-money laundering ("AML")*

The Bank was able to continue developing its AML work by gradually establishing a bank-wide AML operating system grounded by organisational developments, internal controls at its core and secured by its system platforms.

In 2010, the Bank directed and supervised the bank-wide strengthening of its AML work by further strengthening the development of its AML procedures by introducing work guidance and formalising the management of its AML work evaluation. The Bank continued to upgrade and improve its AML information system by introducing a bank-wide guidance for AML checks and the enhancement of quality in AML work. It also place significant emphasis on large and suspicious transactions reporting and investigation and the Bank received much commendations from many local government departments and agencies for its AML efforts and initiatives.

4.5.7 Related party transactions management

In accordance with the relevant provisions of the "Provisional Guidance on Consolidated Supervision of Banks" issued by the China Banking Regulatory Commission the Bank continued to strengthen its related party transaction management. The Group gradually enhanced its related party transaction risk reporting, monitoring, control and processing mechanism by clearly defining the required content and frequency of related party transactions reporting for its subsidiaries based on their industrial characteristics in its subsidiary risk management plan issued for its subsidiaries in industries such as securities and funds, leasing and trust as well as insurance.

No related party transactions for the purposes of regulatory arbitrage and risk transference; that were not made on terms equivalent to those that prevail in arm's length transactions; and which will adversely impact the healthy operations of the Bank have been identified during the Bank's monthly reporting and quarterly review of related party transaction data in 2010. The Bank is currently developing a related party transactions management system that would bring the management of its related party transactions to a new level.

4.6. Outlook

Looking ahead, the management for commercial banks can expect to face numerous new pressures and challenges in 2011. The stabilisation of the nation's monetary policy from its previous volatility and the increasing number of regulatory requirements from the central government are all expected to result in strong policy constraints on the development of loans business for commercial banks. The slow-down in the growth of M2 and the increase in the rate of the migration of funds from fixed deposits into equity markets due to inflationary expectations are also expected to exert pressures on funding operations. With the on-set of a new interest rate hike cycle and increasing exchange rate volatility, commercial banks can expect new challenges in their sensitivity to the market and their ability to analyse and interpret the nation's policies. The Group will diligently take advantage of new developments and characteristics in economic and financial trends to continue to forge ahead with its development strategy. To achieve its goals of stable development, accelerated transformation, innovative management, team development and improvements in efficiency, the Group plans to devote significant effort to: (1) pro-actively adapt to the new requirements for foreign exchange and credit adjustments and control while maintaining reasonable and balanced growth in its credit portfolio; (2) accelerate the transformation of its development model and promote the comprehensive transformation of its business to further enhance the development of its fee-based business and treasury operations; (3) implement prudent supervision requirements by the regulatory authorities and strengthen its pre-emptive risk management capabilities so as to enhance its risk mitigation capabilities; (4) continue to strengthen management innovation and further enhance fine-grained management to strengthen the sustainability of its development capabilities; (5) actively raise service quality and improve market competitiveness and brand image and (6) to strengthen its talent development and improve staff quality to build a solid foundation for future developments.

5. OTHER SIGNIFICANT EVENTS

5.1 Holdings of Shares Issued By Other Companies

5.1.1. Holdings of Shares Issued By Other Listed Companies

(in RMB unless otherwise stated)

Stock Code	Simplified stock name	Initial investment cost	Percentage shareholding (%)	Book value at end of the Reporting Period	Gains/losses in the Reporting Period	Equity movement in the Reporting Period	Accounting items	Source of shares
600068	Gezhouba	135,080,299.07	1.42	572,460,000.00	—	187,201,000.00	AFS securities	Foreclosed assets
000979	Zhong Hong Real Estate	12,494,400.00	1.95	193,444,000.00	—	20,495,200.00	AFS securities	Foreclosed assets
01798	Datang renewable	133,222,431.13	2.66	120,571,666.91	—	(12,650,764.22)	AFS securities	Equity investment
00388	HKEX	2,203,412.56	0.07	116,264,693.23	29,284.47	21,218,553.70	AFS securities	Equity investment
02198	China Sanjiang	70,731,203.07	4.31	99,443,934.45	—	28,712,731.38	AFS securities	Equity investment
03377	Sino-Ocean Land	136,051,534.61	0.36	88,266,054.15	(42,526,235.07)	5,815,993.45	Financial assets at fair value through profit or loss/AFS securities	Equity investment
01193	China Gas	65,838,893.27	0.38	66,112,155.42	765,490.20	(492,228.06)	Financial assets at fair value through profit or loss/AFS securities	Equity investment
01428	Bright Smart	9,703,884.04	7.36	51,906,730.00	—	42,202,845.96	AFS securities	Equity investment
00658	Transmission	40,056,556.71	0.22	30,837,703.20	—	(21,092,286.33)	AFS securities	Equity investment
600728	ST Suntek Technology	6,152,015.00	0.76	29,308,199.46	—	23,156,184.46	AFS Securities	Foreclosed asset
	Others	313,354,861.70		258,414,559.86	48,447,187.93	(77,078,651.17)		
	Total	**924,889,491.16**		**1,627,029,696.68**	**6,715,727.53**	**217,488,579.17**		

Notes:

1. The table sets out the Group's holdings of shares in other listed companies that are classified as investment securities — available-for-sale and financial assets at fair value through profit or loss in the Group's Consolidated Financial Statements.

2. Gains or losses in the Reporting Period refer to the impact of such investments on the Group's consolidated net profit for the Reporting Period.

5.1.2. Holdings of Shares Issued By Unlisted Financial Institutions

(in RMB unless otherwise stated)

Name of institution	Initial investment cost	Number of shares held	Percentage shareholding (%)	Book value at end of the Reporting Period	Gains/(losses) in the Reporting Period	Equity movement in the Reporting Period	Accounting item	Source of shares
Jiangsu Changshu Rural Commercial Bank Co., Ltd.	489,500,000.00	101,340,337	10.00	489,500,000.00	17,268,067.50	—	AFS securities	Equity investment
China Union Pay Co., Ltd.	146,250,000.00	112,500,000	3.90	146,250,000.00	3,037,500.00	—	AFS securities	Equity investment
Total	**635,750,000.00**	**213,840,337**		**635,750,000.00**	**20,305,567.50**	**—**		

5.1.3. Purchases and Sales of Other Listed Equity Shares

(in RMB unless otherwise stated)

	Number of shares held at beginning of the Reporting Period	Number of shares purchased/ sold during the Reporting Period	Number of shares held at end of the Reporting Period	Purchase cost	Gains in the Reporting Period
Purchase	39,102,000	206,185,696	245,287,696	456,785,691.34	—
Sales	74,365,590	67,891,090	6,474,500	—	115,479,842.94

Notes: All changes shown in the table above are the result of sales and purchases of other listed equity shares by subsidiaries controlled by the Bank, except for the disposal of shares obtained as security for loans in the course of business.

5.2 Human Resource Management

5.2.1 Basic information of all employees

5.2.1.1 Basic Information of Employee

As at 31 December 2010, the Bank had a total of 85,290 employees, of which 83,762 employees are based domestically, representing an increase of 5.86% compared to the beginning of the year. There are a total of 3,844 retired employees under the Bank's pension scheme.

Among the employees based domestically, 627 employees hold an senior professional and technical position, accounting for 0.75% of the work force; 16,508 employees hold an mid-level professional and technical positions, accounting for 19.71% of the work force and 20,343 employees hold a entry-level professional and technical positions, accounting for 24.29% of the work force.

The average age of the Bank's domestic employees is 33.5, with 40,884 employees under the age of 30 (accounting for 48.81% of total employees); 25,408 employees between the age of 30 and 40 (accounting for 30.33%); 13,096 employees between the age of 40 and 50 (accounting for 15.63%); and 4,374 employees above the age of 50 (accounting for 5.22%).

Among the employees stationed domestically, 4,495 or 5.37% of the work force possess postgraduate or higher academic qualifications; 45,985 or 54.90% possess undergraduate qualifications; 26,166 or 31.24% possess college qualifications and 7,116 or 8.50% have junior college or lower qualifications.

5.2.1.2 Remuneration Policy

The Bank's remuneration framework consists of basic salaries and performance-linked compensation and continues to "ensure that remuneration is determined with reference to job positions, responsibilities and capabilities of employees, and is reflective of market value in the labour market". The employees' basic salaries and performance-linked compensation adequately reflect the value of their positions and responsibilities, which aligns remuneration with performance. In order to continue growth and maintain competitiveness, the Bank continuously assess and improve the remuneration system by adjusting its market positioning, optimising its remuneration system, reinforcing the balance between job stability and effective motivation and the continuous improvement of competitiveness. The Bank implemented stable remuneration and management system and ensured to strengthen stability and self-constraint based on the current remuneration system in order to optimise the extent that remuneration influenced management and risk control. The purpose was to enhance stable operation and continuous development and meet the requirements of being a public listed bank.

5.2.1.3 Performance Management

The Bank continuously sought to optimise its performance management framework and is focused on improving performance evaluation processes at each level, including Head Office, provincial branches and overseas organisations. The Bank was in the testing stage of differentiating remuneration based on job responsibilities. The aim is to strengthen strategic communication, scientific measurement and assessment of performance for employees at each level and to optimise the effect of performance management.

5.3 Purchase, Sale and Redemption of Shares of the Bank

During the Reporting Period, neither the Bank nor any of its subsidiaries purchased, sold or redeemed any shares of the Bank.

5.4 In compliance with Code on Corporate Governance Practices

The Group is committed to high standards of corporate governance and believes that sound corporate governance is essential to for the Bank to achieve the maximization of shareholder value. To maintain a high level of corporate governance, the Bank has established specialised professional and responsible bodies such as the Board of Directors and the Supervisory Committee which are supported by a highly experienced senior management team. The Board of Directors and the Supervisory Committee, with the exception of Employee Supervisors, are elected by shareholders at the Annual General Meeting. The Bank has also established five specialised committees under the Board of Directors, namely the Strategy Committee, the Audit Committee, the Risk Management Committee, the Human Resource and Remuneration Committee and the Corporate Social Responsibility Committee. As at 31 December 2010, the directors of the Bank are not aware of any information that may indicate the Bank's failure to comply with the "Code on Corporate Governance Practices" as set out in Appendix 14 of the "Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited" ("**Listing Rules**").

5.5 In compliance with "Model Code for Securities Transactions by Directors of Listed Issuers"

The Bank adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" in Appendix 10 of the Listing Rules for its securities transactions. The Bank has made the stipulated enquiries of Directors and Supervisors, whom had confirmed their compliance with the "Model Code for Securities Transactions by Directors of Listed Issuers" during the Reporting Period.

5.6 Profit Distribution

The Board of Directors proposed to dispatch a cash dividend of RMB0.20 (tax inclusive) for every ten (10) shares held (2009: RMB0.10 per share (tax inclusive)); and one (1) bonus share for every ten (10) shares held (2009: nil) to the holders of A shares and the holders of H shares whose names appear on the registers of members of the Bank on the basis of the total share capital of 56.260 billion as at 31 December 2010. The proposal for the proposed profit distribution shall be subject to the approval by the shareholders of the Bank at the Annual General Meeting. Further announcement in relation to the above proposal for profit distribution will be made by the Bank in due course.

6. FINANCIAL STATEMENTS

6.1 Consolidated Statement of Comprehensive Income

(in millions of RMB unless otherwise stated)

Group	For the year ended 31 December **2010**	2009
Interest income	**141,905**	116,743
Interest expense	**(56,910)**	(50,075)
Net interest income	**84,995**	66,668
Fee and commission income	**17,076**	13,414
Fee and commission expense	**(2,597)**	(2,015)
Net fee and commission income	**14,479**	11,399
Dividend income	**60**	65
Gains less losses arising from trading activities	**677**	1,335
Gains less losses arising from de-recognition of investment securities	**568**	791
Insurance business income	**689**	—
Other operating income	**3,275**	1,320
Impairment losses	**(12,246)**	(11,255)
Insurance business expense	**(599)**	—
Other operating expenses	**(41,944)**	(32,022)
Profit before tax	**49,954**	38,301
Income tax	**(10,782)**	(8,047)
Net profit for the year	**39,172**	30,254
Net profit attributable to:		
Shareholders of the Bank	**39,042**	30,118
Non-controlling interest	**130**	136

(in millions of RMB)

Group	For the year ended 31 December **2010**	2009
Other comprehensive income		
Transfer out of investment property revaluation gain	**—**	(3)
Available-for-sale ('AFS') securities		
Changes in fair value taken to other comprehensive income	**(1,150)**	(795)
Changes in fair value transferred to net profit	**(452)**	(902)
Translation difference on foreign operations	**(329)**	105
Total	**(1,931)**	(1,595)
Total comprehensive income for the year	**37,241**	28,659
Total comprehensive income attribute to:		
Shareholders of the Bank	**37,123**	28,480
Non-controlling Interest	**118**	179
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)	**0.73**	0.59
Dividends		
Interim dividends declared during the year	**5,626**	4,899
Final dividends proposed after the reporting date	**6,751**	4,899

6.2 Consolidated Statement of Financial Position

(in millions of RMB)

Group	As at 31 December	
	2010	2009
ASSETS		
Cash and balances with central banks	**586,554**	434,996
Due from other banks and financial institutions	**262,976**	222,671
Financial assets at fair value through profit or loss	**46,043**	29,254
Loans and advances to customers	**2,190,490**	1,801,538
Investment securities — loans and receivables	**42,617**	107,604
Investment securities — available-for-sale ('AFS')	**162,170**	132,094
Investment securities — held-to-maturity ('HTM')	**563,721**	509,179
Property and equipment	**33,911**	29,878
Deferred income tax assets	**7,341**	5,821
Other assets	**55,770**	36,102
Total assets	**3,951,593**	3,309,137
LIABILITIES		
Due to other banks and financial institutions	**717,032**	653,172
Financial liabilities at fair value through profit or loss	**14,379**	9,375
Due to customers	**2,867,847**	2,372,055
Other liabilities	**71,997**	53,349
Current tax liabilities	**4,615**	3,726
Deferred income tax liabilities	**66**	35
Debts issued	**52,000**	53,000
Total liabilities	**3,727,936**	3,144,712
EQUITY		
Capital and reserves attributable to the Bank's shareholders		
Share capital	**56,260**	48,994
Capital surplus	**69,465**	44,404
Other reserves	**67,107**	44,404
Retained earnings	**29,941**	26,046
	222,773	163,848
Non-controlling Interest	**884**	577
Total equity	**223,657**	164,425
Total equity and liabilities	**3,951,593**	3,309,137

6.3 Consolidated Statement of Changes in Equity

(in millions of RMB)

			Other Reserves							
	Share capital	Capital surplus	Statutory Reserve	Discretionary reserve	Statutory general reserve	Revaluation reserve for AFS securities	Translation reserve on foreign operations	Retained earnings	Non-controlling interest	Total
Balance at 1 January 2009	48,994	44,407	4,163	9,087	12,574	2,741	(1,094)	24,295	433	145,600
Net profit	—	—	—	—	—	—	—	30,118	136	30,254
Changes in fair value taken to other comprehensive income	—	—	—	—	—	(838)	—	—	43	(795)
Changes in fair value transferred to net profit	—	—	—	—	—	(902)	—	—	—	(902)
Translation difference on foreign operations	—	—	—	—	—	—	105	—	—	105
Transfer out of investment property revaluation gain	—	(3)	—	—	—	—	—	—	—	(3)
Total comprehensive income	—	(3)	—	—	—	(1,740)	105	30,118	179	28,659
Dividends	—	—	—	—	—	—	—	(9,799)	(35)	(9,834)
Transfer to other reserves	—	—	5,786	6,900	5,882	—	—	(18,568)	—	—
Balance at 31 December 2009	48,994	44,404	9,949	15,987	18,456	1,001	(989)	26,046	577	164,425
Balance at 1 January 2010	**48,994**	**44,404**	**9,949**	**15,987**	**18,456**	**1,001**	**(989)**	**26,046**	**577**	**164,425**
Net profit	—	—	—	—	—	—	—	**39,042**	**130**	**39,172**
Changes in fair value taken to other comprehensive income	—	—	—	—	—	**(1,155)**	—	—	**5**	**(1,150)**
Changes in fair value transferred to net profit	—	—	—	—	—	**(435)**	—	—	**(17)**	**(452)**
Translation difference on foreign operations	—	—	—	—	—	—	**(329)**	—	—	**(329)**
Total comprehensive income	—	—	—	—	—	**(1,590)**	**(329)**	**39,042**	**118**	**37,241**
Establishment and acquisition of new subsidiaries	—	—	—	—	—	—	—	—	**145**	**145**
Acquisition of non-controlling interest in a subsidiary	—	**(29)**	—	—	—	—	—	—	**(16)**	**(45)**
Capital increase in a subsidiary	—	—	—	—	—	—	—	—	**113**	**113**
Dividends	—	—	—	—	—	—	—	**(10,525)**	**(53)**	**(10,578)**
Transfer to reserve	—	—	**3,831**	**15,285**	**5,506**	—	—	**(24,622)**	—	—
Rights issue (A+H shares)	**7,266**	**25,090**	—	—	—	—	—	—	—	**32,356**
Balance at 31 December 2010	**56,260**	**69,465**	**13,780**	**31,272**	**23,962**	**(589)**	**(1,318)**	**29,941**	**884**	**223,657**

6.4 Consolidated Statement of Cash Flows

(in millions of RMB)

Group	For the year ended 31 December **2010**	2009
Cash flows from operating activities:		
Profit before taxation:	**49,954**	38,301
Adjustments for:		
Impairment of loans and advances to customers	**11,858**	10,735
Reversal of impairment of due from other banks and financial institutions	**—**	(3)
Impairment of financial leasing receivables	**175**	76
Impairment of other receivables	**4**	55
Insurance reserve	**599**	—
Impairment/(reversal of impairment) of investment securities	**150**	(157)
Depreciation of property and equipment	**3,307**	2,880
Amortization of deferred assets	**471**	430
Amortization of land use rights	**32**	31
Amortization of intangible assets	**258**	230
Interest income from investment securities	**(24,570)**	(23,320)
Gains less losses arising from de-recognition of investment securities	**(568)**	(791)
Gains on disposal of fixed assets	**(39)**	(86)
Increase in the fair value of investment property	**(21)**	(18)
Interest expense on debt issued	**1,990**	2,011
Dividend income	**(60)**	(65)
	43,540	30,309
Net increase in mandatory reserve deposits	**(131,623)**	(82,348)
Net (increase)/decrease in due from other banks and financial institutions	**(71,342)**	61,141
Net increase in financial assets at fair value through profit or loss	**(16,789)**	(2,318)
Net increase in loans and advances to customers	**(400,755)**	(513,497)
Net increase in other assets	**(17,950)**	(9,541)
Net increase in due to other banks and financial institutions	**63,860**	83,719
Net decrease/(increase) in financial liabilities at fair value through profit or loss	**5,004**	(638)
Net increase in due to customers	**495,792**	506,240
Net increase in other liabilities	**16,472**	10,109
Net increase in business tax payable	**487**	159
Income tax paid	**(10,863)**	(9,588)
Net cash (used in)/from operating activities	**(24,167)**	73,747

	(in millions of RMB)	
	For the year ended 31 December	
	2010	2009
Cash flows from investing activities:		
Acquisition of subsidiary, net of cash paid	**(173)**	—
Purchase of investment securities	**(357,866)**	(676,695)
Disposal or redemption of investment securities	**337,106**	527,244
Dividends received	**60**	65
Interest received from investment securities	**24,390**	21,988
Acquisition of intangible assets and deferred assets	**(915)**	(579)
Purchase of land use rights	**—**	(112)
Disposal of intangible assets and deferred assets	**42**	178
Purchase and construction of property and equipment	**(7,696)**	(4,679)
Disposal of property and equipment	**264**	403
Net cash used in investing activities	**(4,788)**	(132,187)
Cash flows from financing activities:		
Cash received from A+H share rights issue	**32,623**	—
Issuance cost paid	**(267)**	—
Subordinated debts issued	**2,000**	25,000
Fee on debt issue	**(6)**	(45)
Interest paid on debt	**(2,012)**	(1,960)
Dividends paid to shareholders of the Bank	**(10,528)**	(9,862)
Repayment of debt	**(3,000)**	(12,000)
Capital contribution by non-controlling interest	**186**	—
Acquisition of additional interest in a subsidiary	**(45)**	—
Dividends paid to non-controlling interest	**(53)**	(35)
Net cash from financing activities	**18,898**	1,098
Effect of exchange rate changes on cash and cash equivalents	**(1,542)**	108
Net decrease in cash and cash equivalents	**(11,599)**	(57,234)
Cash and cash equivalents at the beginning of the period	**168,498**	225,732
Cash and cash equivalents at the end of the period	**156,899**	168,498
Supplementary Information		
Interest received	**139,017**	114,846
Interest paid	**(49,351)**	(47,178)

6.5 Notes to the Consolidated Financial Statements

6.5.1 Basis of Preparation and Accounting Policies

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ('IFRS') and disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost method except the revaluation of investment securities classified as available-for-sale, financial assets and financial liabilities held at fair value through profit or loss, investment properties and all derivative contracts, which are carried at fair value.

The following standards and amendments, which became effective in 2010 are relevant to the Group:

IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures'

They are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual Reporting Period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The amendment was applied to the Bank's purchase of additional 11.5% share of BoCom Life Insurance Company Limited from its non-controlling interest in June 2010. The difference between the consideration paid and the relevant share acquired of the carrying value of net assets is recorded in capital surplus, amounting to RMB29 millions.

Amendments to IAS 17, 'Leases'

IAS 17 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of IAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. There is no material impact to the financial statements of the Group as a result of this amendment.

Amendments to IAS 39, 'Financial Instruments: Recognition and Measurement'

'Treating loan prepayment penalties as closely related derivatives'(Amendment to IAS 39) is effective for the annual periods beginning on or after 1 January 2010. This amendment clarifies that loan prepayment penalties are only treated as closely related embedded derivatives, if the penalties are payments that compensate the lender for loss of interest by reducing the economic loss from reinvestment risk. A specific formula is given to calculate the lost interest. There is no material impact to the financial statements of the Group as a result of this amendment.

Amendments to IFRS 2, 'Group cash-settled share-based payment transactions'

IFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective form 1 January 2010. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of Group arrangements that were not covered by that interpretation. There is no material impact to the financial statements of the Group as a result of this amendment.

6.5.2 Net Interest Income

(in millions of RMB)

Group	Year ended 31 December **2010**	2009
Interest income		
Balances with central banks	**6,855**	5,501
Due from other banks and financial institutions	**4,424**	4,895
Loans and advances to customers	**106,056**	83,027
Investment securities	**24,570**	23,320
	141,905	116,743
Interest expense		
Due to other banks and financial institutions	**(20,210)**	(16,005)
Due to customers	**(36,700)**	(34,070)
	(56,910)	(50,075)
Net interest income	**84,995**	66,668

	Year ended 31 December **2010**	2009
Interest income on listed investments	**6,514**	6,346
Interest income on unlisted investments	**18,056**	16,974
Interest income accrued on loans and advances to customers individually impaired	**626**	545

6.5.3 Fee and Commission Income

(in millions of RMB)

Group	Year ended 31 December **2010**	2009
Commission income on settlement and agent service	**3,320**	2,384
Bank card related fee income	**5,180**	3,992
Investment banking income	**3,244**	2,353
Guarantee and commitment commission income	**1,238**	1,133
Commission income on custodian service	**707**	655
Commission income on sale of investment funds	**741**	984
Funds management income	**736**	761
Other commission income	**1,910**	1,152
	17,076	13,414

	(in millions of RMB)	
	Year ended 31 December	
	2010	2009
Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value	**142**	119
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	**707**	655

6.5.4 Impairment Allowances

	(in millions of RMB)	
Group	**Year ended 31 December**	
	2010	2009
Due from other banks and financial institutions and securities purchased under resale agreements	**—**	(3)
Loans and advances to customers		
— Collectively assessed allowances	**9,100**	9,318
— Individually assessed allowances	**3,384**	1,962
	12,484	11,280
Less: recovery of loans previously written off	**(238)**	(22)
	12,246	11,255

6.5.5 Income Tax Expense

	(in millions of RMB)	
Group	**Year ended 31 December**	
	2010	2009
Current tax		
— Mainland China income tax	**11,333**	8,756
— Hong Kong profits tax	**289**	300
— Overseas taxation	**130**	93
	11,752	9,149
Deferred income tax	**(970)**	(1,102)
	10,782	8,047

The provision for income tax in Mainland China is calculated based on the statutory rate of 25% of the assessable income of the Bank and each of the subsidiaries established in Mainland China.

Profits earned by the Hong Kong branch or subsidiaries in Hong Kong are subject to Hong Kong profits tax at the rate of 16.5% (2009: 16.5%), on the estimated assessable profit for the year ended 31 December 2010. Taxation on other overseas profits has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries in which the Group operates during the year ended 31 December 2010.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Group at 25% (2009: 25%). The major reconciliation items are as follows:

		(in millions of RMB)
	Year ended 31 December	
	2010	2009
Profit before tax	**49,954**	38,301
Tax calculated at a tax rate of 25% (2009: 25%)	**12,489**	9,575
Effect of different tax rates in other countries (region)	**10**	5
Tax effect arising from income not subject to tax [(a)]	**(1,916)**	(1,725)
Tax effect of expenses that are not deductible for tax purposes [(b)]	**199**	192
Income tax expense	**10,782**	8,047

(a) The income not subject to tax mainly represents interest income arising from treasury bonds, which is income tax free in accordance with the PRC tax regulation.

(b) The expenses that are not tax deductible mainly represents a portion of expenditure, such as payroll, entertainment expenses etc, which exceeds the tax deduction limits in accordance with PRC tax regulation.

6.5.6 Basic and Diluted Earnings per Share

Basic and diluted earnings per share are calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

(in millions of RMB)

	Year ended 31 December	
	2010	2009
Profit attributable to shareholders of the Bank	**39,042**	30,118
Weighted average number of ordinary shares in issue	**53,571**	51,252
Basic and diluted earnings per share (expressed in RMB per share)	**0.73**	0.59[1]

Note 1: On 22 June 2010, a total of 3,806 million RMB ordinary shares ('A shares') were subscribed by various third parties at a price of RMB4.50 per share and on 16 July 2010, a total of 3,459 million HKD ordinary shares ('H shares') were subscribed by various third parties at a price of HKD5.14 per share. After this completion of rights issues in 2010, the total shares of the Bank are 56,260 million. As a result of this rights issue, the Bank adjusted the basic and diluted earnings per share of 2009 to RMB0.59 per share.

6.5.7 Derivative Financial Instruments

The following derivative instruments are utilized by the Group for trading purpose:

Currency forwards represent commitments to purchase/sell foreign currencies including unsettled spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer (over the counter market).

The notional amounts of certain types of financial instruments provide a reference of the amounts recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

(in millions of RMB)

Group	**Contract/ notional Amount**	**Fair values Assets**	**Fair values Liabilities**
As at 31 December 2010			
Foreign exchange contracts	**549,996**	**3,450**	**(3,397)**
Interest rate contracts	**235,596**	**1,281**	**(1,753)**
Total derivatives	**785,592**	**4,731**	**(5,150)**

(in millions of RMB)

Group	**Contract/ notional Amount**	**Fair values Assets**	**Fair values Liabilities**
As at 31 December 2009			
Foreign exchange contracts	357,328	1,031	(1,319)
Interest rate contracts	153,032	1,339	(1,588)
Total derivatives	510,360	2,370	(2,907)

The tables above provide a detailed breakdown of the contractual or notional amounts and the fair values of the Group's derivative financial instruments outstanding at year end. These instruments, comprising foreign exchange and interest rate derivatives allow the Group and its customers to transfer, modify or reduce their foreign exchange and interest rate risks.

Replacement costs

(in millions of RMB)

Group	As at 31 December **2010**	2009
Derivatives		
— Exchange rate contracts	**3,450**	1,031
— Interest rate contracts	**1,281**	1,339
	4,731	2,370

Replacement cost is the cost of replacing all contracts which have a positive value when marked to market (should the counterparty default on its obligations) and is obtained by marking contracts to market.

The replacement costs stated above have not taken the effects of netting arrangements into account.

Notional amounts of derivative financial instruments by original currency

(in millions of RMB)

Group	**31 December 2010**	31 December 2009
RMB	**386,299**	260,649
US Dollars	**326,146**	202,292
HK Dollars	**40,076**	19,811
Others	**33,071**	27,608
Total	**785,592**	510,360

6.5.8 Dividends

(in millions of RMB)

	Year ended 31 December **2010**	2009
Paid to shareholders of the Bank in the period	**10,528**	9,862

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

(i) Making up cumulative losses from prior years, if any;

(ii) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under PRC accounting regulations;

(iii) Allocations to statutory general reserve;

(iv) Allocations to the discretionary revenue reserve fund if approved by the Bank's General Meeting. These funds form part of the shareholders' equity.

In accordance with the relevant regulations, the distributable profit is deemed to be the lesser of (i) the distributable profit determined in accordance with PRC GAAP and (ii) the distributable profit determined based on net profit under IFRS.

The dividends are recognized in the statement of financial position upon approval by the shareholders at the Annual General Meeting.

On 30 March 2010, the directors proposed a cash dividend of RMB0.10 per share, amounting to RMB4,899 million, which was approved by shareholders on 20 April 2010. In addition, in accordance with the Articles of Association for the Bank, the Board of Directors was authorized to approve the profit appropriation plan within 40% of the distributable profit in the current half year. On 18 August 2010, the directors approved a cash dividend of RMB0.10 per share to 56,260 million shares (face value 1.00 RMB per share) after the completion of rights issue in 2010, amounting to RMB5,626 million.

At 31 December 2010, the aggregate amount of distributable profit was RMB32,682 million, being the distributable profit determined in accordance with PRC GAAP and IFRS. On 30 March 2011,the directors proposed to distribute a stock dividend of 1 share per every 10 shares, amounting to RMB5,626 million; a cash dividend RMB0.20 yuan (before tax)per every 10 shares, amounting to 1,125 million (2009: cash dividend RMB0.10 yuan per share), which has not been approved by shareholders.

6.5.9 *Financial Guarantees and Credit Related Commitments, Other Commitments and Contingent Liabilities*

Financial guarantees and credit related commitments

The following tables indicate the contractual amounts of the Group's financial guarantees and credit related commitments which the Group commits to extend to customers:

(in millions of RMB)

Group	**As at 31 December**	
	2010	2009
Guarantees	**198,573**	177,357
Letters of credit	**51,224**	37,452
Acceptances	**346,646**	233,871
Other commitments with an original maturity of		
— Under 1 year	**210,037**	137,773
— 1 year and over	**32,018**	26,931
	838,498	613,384

Capital expenditure commitments

(in millions of RMB)

Group	**As at 31 December**	
	2010	2009
Capital expenditure commitments for buildings	**2,846**	394

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases in respect of buildings are as follows:

(in millions of RMB)

Group	**As at 31 December**	
	2010	2009
Not later than 1 year	**1,291**	1,086
Later than 1 year and not later than 5 years	**3,010**	2,738
Later than 5 years	**981**	1,118
	5,282	4,942

Commitments on security underwriting and bond acceptance

		(in millions of RMB)
Group	**As at 31 December**	
	2010	2009
Outstanding balance on security underwriting	**56,810**	49,317
Outstanding balance on bond acceptance [(a)]	**27,094**	23,622

(a) The Bank is entrusted by the MOF to underwrite certain Certificates of Treasury Bonds. The investors of Certificates of Treasury Bond have a right to redeem the bonds at par any time prior to maturity and the Bank is committed to redeem those bonds. The redemption price is the principal value of the Certificates of Treasury Bond plus unpaid interest.

The original maturities of these bonds vary from 1 to 5 years.

The MOF will not provide funding for the early redemption of these Certificates of Treasury Bond on a back-to-back basis but will pay interest through maturity and repay the principal at maturity.

Legal proceedings

A number of legal proceedings are initiated by third parties against the Group as defendant. The total outstanding claims at end of the year are as follows:

		(in millions of RMB)
Group	**As at 31 December**	
	2010	2009
Outstanding claims	**1,384**	1,379
Provision for outstanding litigation	**477**	451

6.5.10 Segment Analysis

The Bank's senior management as represented by the governor reviewed the Bank's operation by the particular economic areas in which the Bank's branches and subsidiaries providing products or services. The Bank's operating segments are decided upon location of the assets, as the Bank's branches mainly serve local customers with only a few customers from other regions.

The reportable operating segments derive their revenue primarily from the commercial banking services provided to customers and the investing activities, including deposits/loans, bills, trade finance, money market placements and takings and securities investments.

There were no changes in the reportable segments during the year.

The revenue from external parties reported to the senior management is measured in a manner consistent with that in the consolidated statement of comprehensive income.

As the Group's major revenue is derived from interest and the senior management relies primarily on net interest revenue to assess the performance of the segment, the total interest income and expense for all reportable segments will be presented on a net basis.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the segments.

(in millions of RMB)

Group	Northern China	North-eastern China	Eastern China	Central & Southern China	Western China	Head Office	Overseas	Eliminations & Consolidated	Group Total
As at 31 December 2010									
Assets									
Cash and balances with central banks	11,359	4,253	26,619	12,528	9,534	514,532	7,729	—	586,554
Due from other banks and financial institutions	16,094	3,744	40,842	12,580	2,679	155,913	31,124	—	262,976
Financial assets at fair value through profit or loss	—	—	—	—	—	36,013	10,030	—	46,043
Loans and advances to customers	415,245	106,752	862,313	412,956	201,467	45,752	146,005		2,190,490
Investment securities									
— loans and receivables	437	296	702	728	266	40,188	—	—	42,617
— available-for-sale	10	—	1,831	712	33	135,936	23,648	—	162,170
— held-to-maturity	—	—	—	120	—	561,339	2,262	—	563,721
Other assets	349,701	108,793	493,816	253,899	103,876	83,573	22,096	(1,318,732)	97,022
Segment assets	792,846	223,838	1,426,123	693,523	317,855	1,573,246	242,894	(1,318,732)	3,951,593
Liabilities									
Due to other banks and financial institutions	(224,500)	(20,267)	(262,683)	(86,710)	(29,819)	(32,987)	(60,066)	—	(717,032)
Financial liabilities at fair value through profit or loss	—	—	—	—	—	(3,495)	(10,884)	—	(14,379)
Due to customers	(549,157)	(199,400)	(1,108,096)	(587,970)	(267,576)	(30,461)	(125,187)	—	(2,867,847)
Debts issued	—	—	(2,000)	—	—	(50,000)	—	—	(52,000)
Other liabilities	(16,866)	(6,428)	(35,705)	(15,928)	(18,849)	(1,260,875)	(40,759)	1,318,732	(76,678)
Segment liabilities	(790,523)	(226,095)	(1,408,484)	(690,608)	(316,244)	(1,377,818)	(236,896)	1,318,732	(3,727,936)
Net on statement position	2,323	(2,257)	17,639	2,915	1,611	195,428	5,998	—	223,657
Acquisition cost of property and equipment and intangible assets	(1,537)	(827)	(2,145)	(2,030)	(726)	(1,282)	(58)	—	(8,605)

(in millions of RMB)

Group	Northern China	North-eastern China	Eastern China	Central & Southern China	Western China	Head Office	Overseas	Eliminations & Consolidated	Group Total
For the year ended 31 December 2010									
Interest income[1]	25,980	7,397	53,047	26,267	11,902	36,391	3,760	(22,839)	141,905
Interest expense[2]	(15,345)	(3,597)	(21,510)	(10,192)	(4,089)	(23,549)	(1,467)	22,839	(56,910)
Net interest income[3]	10,635	3,800	31,537	16,075	7,813	12,842	2,293	—	84,995
Fee and commission income	2,390	412	5,209	2,327	729	4,878	1,131	—	17,076
Fee and commission expense	(659)	(57)	(904)	(395)	(112)	(208)	(262)	—	(2,597)
Net fee and commission income	1,731	355	4,305	1,932	617	4,670	869	—	14,479
Dividend income	—	—	22	—	—	23	15	—	60
Gains less losses arising from trading activities	423	81	511	233	52	(949)	326	—	677
Gains less losses arising from de-recognition investment securities	3	—	78	53	13	388	33	—	568
Insurance income	—	—	689	—	—	—	—	—	689
Other operating income	208	224	1,495	805	276	76	191	—	3,275
Total operating revenue	13,000	4,460	38,637	19,098	8,771	17,050	3,727	—	104,743
Reversal/(Impairment losses) on loans and advances	(1,746)	(547)	(4,945)	(3,935)	(952)	3	(124)	—	(12,246)
Insurance expenses	—	—	(599)	—	—	—	—	—	(599)
Other operating expenses	(5,646)	(2,593)	(14,665)	(7,562)	(3,344)	(6,528)	(1,606)	—	(41,944)
Profit before tax	5,608	1,320	18,428	7,601	4,475	10,525	1,997	—	49,954
Income tax	(1,393)	(331)	(4,796)	(1,935)	(1,116)	(806)	(405)	—	(10,782)
Net profit for the year	4,215	989	13,632	5,666	3,359	9,719	1,592	—	39,172
Depreciation and amortization of property and equipment and intangible assets	(524)	(306)	(1,255)	(687)	(373)	(799)	(124)	—	(4,068)
[1]Include									
External interest income	20,498	5,596	45,803	21,349	10,273	34,865	3,521	—	141,905
Inter-segment interest income	5,482	1,801	7,244	4,918	1,629	1,526	239	(22,839)	—
[2]Include									
External interest expense	(15,193)	(3,415)	(20,748)	(9,805)	(3,948)	(2,573)	(1,228)	—	(56,910)
Inter-segment interest expense	(152)	(182)	(762)	(387)	(141)	(20,976)	(239)	22,839	—
[3]Include									
External net interest income	5,305	2,181	25,055	11,544	6,325	32,292	2,293	—	84,995
Inter-segment net interest income	5,330	1,619	6,482	4,531	1,488	(19,450)	—	—	—

(in millions of RMB)

Group	Northern China	North-eastern China	Eastern China	Central & Southern China	Western China	Head Office	Overseas	Eliminations & Consolidated	Group Total
As at 31 December 2009									
Assets									
Cash and balances with central banks	6,470	3,228	19,829	10,732	6,521	361,505	26,711	—	434,996
Due from other banks and financial institutions	21,165	333	95,228	7,526	2,314	75,684	20,421	—	222,671
Financial assets at fair value through profit or loss	—	—	—	200	—	18,279	10,775	—	29,254
Loans and advances to customers	326,345	87,949	735,589	351,878	168,314	31,788	99,675	—	1,801,538
Investment securities									
— loans and receivables	708	553	1,449	966	609	103,319	—	—	107,604
— available-for-sale	25	—	621	516	29	110,852	20,051	—	132,094
— held-to-maturity	—	—	—	40	—	506,614	2,525	—	509,179
Other assets	305,385	98,613	371,541	188,107	78,030	76,948	22,605	(1,069,428)	71,801
Segment assets	660,098	190,676	1,224,257	559,965	255,817	1,284,989	202,763	(1,069,428)	3,309,137
Liabilities									
Due to other banks and financial institutions	(197,081)	(13,441)	(264,695)	(62,161)	(27,762)	(43,513)	(44,519)	—	(653,172)
Financial liabilities at fair value through profit or loss	—	—	—	—	—	(2,209)	(7,166)	—	(9,375)
Due to customers	(446,405)	(175,077)	(920,550)	(482,137)	(222,223)	(31,745)	(93,918)	—	(2,372,055)
Debts issued	—	—	—	—	—	(53,000)	—	—	(53,000)
Other liabilities	(13,825)	(5,666)	(28,425)	(13,637)	(6,122)	(1,007,273)	(51,590)	1,069,428	(57,110)
Segment liabilities	(657,311)	(194,184)	(1,213,670)	(557,935)	(256,107)	(1,137,740)	(197,193)	1,069,428	(3,144,712)
Net on statement position	2,787	(3,508)	10,587	2,030	(290)	147,249	5,570	—	164,425
Acquisition cost of property and equipment and intangible assets	(650)	(281)	(2,078)	(894)	(466)	(845)	(70)	—	(5,284)

(in millions of RMB)

Group	Northern China	North-eastern China	Eastern China	Central & Southern China	Western China	Head Office	Overseas	Eliminations & Consolidated	Group Total
For the year ended 31 December 2009									
Interest income[1]	24,095	6,469	43,918	21,585	9,248	29,722	3,106	(21,400)	116,743
Interest expense[2]	(13,534)	(3,658)	(18,931)	(9,215)	(3,742)	(21,312)	(1,083)	21,400	(50,075)
Net interest income[3]	10,561	2,811	24,987	12,370	5,506	8,410	2,023	—	66,668
Fee and commission income	1,770	362	4,165	1,717	523	4,007	870	—	13,414
Fee and commission expense	(490)	(48)	(875)	(272)	(65)	(147)	(118)	—	(2,015)
Net fee and commission income	1,280	314	3,290	1,445	458	3,860	752	—	11,399
Dividend income	—	—	20	—	—	21	24	—	65
Gains less losses arising from trading activities	332	21	580	209	51	(424)	566	—	1,335
Gains less losses arising from de-recognition investment securities	20	56	153	164	6	351	41	—	791
Other operating income	59	36	715	277	50	40	143	—	1,320
Total operating revenue	12,252	3,238	29,745	14,465	6,071	12,258	3,549	—	81,578
Reversal/(Impairment losses) on loans and advances	(1,814)	(504)	(4,291)	(3,535)	(1,082)	38	(67)	—	(11,255)
Other operating expenses	(4,616)	(2,107)	(10,857)	(5,566)	(2,630)	(4,661)	(1,585)	—	(32,022)
Profit before tax	5,822	627	14,597	5,364	2,359	7,635	1,897	—	38,301
Income tax	(1,450)	(126)	(3,595)	(1,329)	(570)	(652)	(325)	—	(8,047)
Net profit for the year	4,372	501	11,002	4,035	1,789	6,983	1,572	—	30,254
Depreciation and amortization of property and equipment and intangible assets	(403)	(277)	(1,014)	(571)	(314)	(713)	(213)	—	(3,505)
[1]Include									
External interest income	18,372	4,696	38,179	17,484	7,816	27,231	2,965	—	116,743
Inter-segment interest income	5,723	1,773	5,739	4,101	1,432	2,491	141	(21,400)	—
[2]Include									
External interest expense	(13,115)	(3,399)	(17,762)	(8,594)	(3,527)	(2,749)	(929)	—	(50,075)
Inter-segment interest expense	(419)	(259)	(1,169)	(621)	(215)	(18,563)	(154)	21,400	—
[3]Include									
External net interest income	5,257	1,297	20,417	8,890	4,289	24,482	2,036	—	66,668
Inter-segment net interest income	5,304	1,514	4,570	3,480	1,217	(16,072)	(13)	—	—

Geographical information

(in millions of RMB)

	2010		2009	
	Revenue	**Non-current assets[1]**	Revenue	Non-current assets[1]
PRC	**163,127**	**36,928**	132,732	33,053
Other countries	**1,123**	**84**	936	79
Total	**164,250**	**37,012**	133,668	33,132

Note 1. Non-current assets include property and equipment, land use rights, intangible assets, prepaid rental expenses, leasehold improvement, foreclosed assets, investment property and goodwill etc. It excludes financial assets, deferred tax assets and rights arising under insurance contracts.

Business Information

The Group is engaged predominantly in banking and related financial activities. It comprises corporate banking, retail banking, treasury and other classes of business. Corporate banking mainly comprises corporate loans, bills, trade finance, corporate deposits and remittance. Retail banking mainly comprises retail loans, retail deposits, credit card and remittance. Treasury mainly comprises money market placements and takings, investment in securities, and securities sold subject to linked repurchase agreements ('repos'). The 'Others' business segment mainly comprises items which cannot be categorized in the above business segments. The Group optimized its management model of operating segments in 2010. Comparative figures for 2009 have been reclassified. The Group's information of business lines is listed as follows.

Group

(in millions of RMB)

	Year ended 31 December 2010				
	Corporate	**Retail**	**Treasury**	**Others and unallocated**	**Total**
External net interest income/(expense)	44,765	7,538	32,458	234	84,995
Internal net interest income/(expense)	10,510	11,543	(22,053)	—	—
Net interest income	**55,275**	**19,081**	**10,405**	**234**	**84,995**
Net fee and commission income	**6,072**	**7,165**	**(20)**	**1,262**	**14,479**
Dividend income	—	—	15	45	60
Gains less losses arising from trading activities	330	10	337	—	677
Gains less losses arising from de-recognition of investment securities	—	—	513	55	568
Insurance business income	—	—	—	689	689
Other operating income	1,246	1,342	16	671	3,275
Impairment losses on loans and advances	(10,671)	(1,575)	—	—	(12,246)
Insurance business expenses	—	—	—	(599)	(599)
Other operating expenses					
— depreciation and amortisation	(1,308)	(1,974)	(24)	(762)	(4,068)
— others	(17,745)	(17,546)	(1,427)	(1,158)	(37,876)
Profit before tax	**33,199**	**6,503**	**9,815**	**437**	**49,954**
Capital expenditure	**2,771**	**4,219**	**42**	**1,573**	**8,605**
Segment assets	**1,841,104**	**433,832**	**1,660,526**	**16,131**	**3,951,593**
Segment liabilities	**(2,041,397)**	**(917,319)**	**(762,398)**	**(6,822)**	**(3,727,936)**

Group

(in millions of RMB)

Group	Year ended 31 December 2009 Corporate	Retail	Treasury	Others and unallocated	Total
External net interest income/(expense)	34,476	1,104	31,013	75	66,668
Internal net interest income/(expense)	6,975	14,394	(21,369)	—	—
Net interest income	41,451	15,498	9,644	75	66,668
Net fee and commission income	5,135	5,303	(7)	968	11,399
Dividend income	—	—	2	63	65
Gains less losses arising from trading activities	484	17	700	134	1,335
Gains less losses arising from de-recognition of investment securities	—	—	221	570	791
Other operating income	457	204	7	652	1,320
Impairment losses on loans and advances	(9,681)	(1,577)	3	—	(11,255)
Other operating expenses					
— *depreciation and amortisation*	(1,159)	(1,654)	(14)	(678)	(3,505)
— *others*	(13,720)	(12,647)	(698)	(1,452)	(28,517)
Operating profit	22,967	5,144	9,858	332	38,301
Capital expenditure	1,767	2,521	21	975	5,284
Segment assets	1,537,350	324,554	1,433,493	13,740	3,309,137
Segment liabilities	(1,619,759)	(815,473)	(704,940)	(4,540)	(3,144,712)

There were no large transactions with a single external customer that the Group mainly relying on.

7. PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT

This results announcement is extracted from the 2010 annual report prepared in accordance with IFRS. The full text of the annual report is available for shareholders on both the website of the Hong Kong Stock Exchange at www.hkexnews.hk and the website of the Bank at www.bankcomm.com. The full text of the 2010 annual results prepared in accordance with Chinese Accounting Standard is also available on the website of the Shanghai Stock Exchange at www.sse.com.cn and the website of the Bank at www.bankcomm.com. Investors who wish to understand the annual results in details should also read the full annual report. The Bank's annual report prepared in accordance with IFRS will be despatched to its H shareholders in April 2011.

By Order of the Board
Bank of Communications Co., Ltd.
Hu Huaibang
Chairman of the Board

Dongguan, the PRC, 30 March 2011

As at the date of this announcement, the directors of the Bank are Mr. Hu Huaibang, Mr. Niu Ximing, Mr. Qian Wenhui, Mr. Wang Bin, Mr. Zhang Jixiang, Mr. Hu Huating*, Mr. Qian Hongyi*, Mr. Wong Tung Shun, Peter*, Ms. Fung Yuen Mei, Anita*, Mr.Ji Guoqiang*, Mr. Lei Jun*, Mr. Chen Qingtai#, Dr. Li Ka-Cheung, Eric#, Mr. Gu Mingchao#, Mr. Wang Weiqiang#, Mr. Peter Hugh Nolan# and Mr. Chen Zhiwu#.*

* *Non-Executive Directors*
\# *Independent Non-Executive Directors*