EXPO 2010 SHANGHAI CHINA

交通銀行
BANK OF COMMUNICATIONS

Global Partner of Expo 2010 Shanghai China

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

2009 INTERIM REPORT

Stock Code: 3328

Contents

This Interim Report is prepared in both Chinese and English and the English version is for reference only. The Chinese text of this Interim Report shall prevail over the English text in case of any inconsistency.

Financial Highlights

1 MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

The major interim financial data and indicators of the Group for the six months ended 30 June 2009 (the "**Reporting Period**") prepared under International Financial Reporting Standards ("**IFRS**") are as follows:

			(in millions of RMB unless otherwise stated)
	As at 30 June 2009	As at 31 December 2008	Increase/ (decrease) (%)
Total assets	**3,298,860**	2,682,947	22.96
Includes: loans and advances to customers	**1,729,218**	1,328,590	30.15
Total liabilities	**3,138,488**	2,532,852	23.91
Includes: due to customers	**2,365,334**	1,865,815	26.77
Shareholders' equity (excluding minority interest)	**159,850**	149,662	6.81
Net asset per share (excluding minority interest, in RMB)	**3.26**	3.05	6.89
	January to June 2009	January to June 2008	Increase/ (decrease) (%)
Net interest income	**29,785**	33,012	(9.78)
Operating profit before tax	**19,869**	20,301	(2.13)
Net profit (excluding minority interest)	**15,555**	15,508	0.30
Diluted earnings per share (in RMB)	**0.32**	0.32	—
Net cash flow from operating activities	**89,092**	40,868	118.00
	As at 30 June 2009 (%)	As at 31 December 2008 (%)	Change (percentage points)
Return on average total assets[1]	**1.04**	1.19	(0.15)
Return on average shareholders' equity[2]	**20.10**	20.10	—
Net interest spread[3]	**2.11**	2.88	(0.77)
Net interest margin[4]	**2.21**	3.02	(0.81)
Cost to income ratio[5]	**34.27**	39.94	(5.67)
Impaired loans ratio[6]	**1.51**	1.92	(0.41)
Provision coverage of impaired loans (including statutory general reserves)[7]	**193.92**	166.10	27.82
Provision coverage of impaired loans[8]	**123.00**	116.83	6.17
Core capital adequacy ratio[9]	**8.81**	9.54	(0.73)
Capital adequacy ratio[9]	**12.57**	13.47	(0.90)

Notes:

1. Calculated by dividing annualized net profit of the Reporting Period by the average of total assets at the beginning and end of the Reporting Period.
2. Calculated by dividing annualized net profit (excluding minority interest) of the Reporting Period by the average of shareholders' equity (excluding minority interest) at the beginning and end of the Reporting Period.
3. Refers to the difference between the average returns (annualized) on the average balance of total interest-earning assets and the average cost (annualized) of the average balance of total interest-bearing liabilities.
4. Refers to the ratio of net interest income (annualized) to average balance of total interest-earning assets.
5. Calculated by dividing other operating expenses by net operating income (which includes net interest income, net fee and commission income, dividend income, gains less losses from trading activities, gains less losses arising from de-recognition of investment securities and other operating income).
6. Calculated by dividing the outstanding balance of impaired loans by the outstanding balance of loans before impairment allowances at the end of the Reporting Period.
7. Calculated by dividing the outstanding balance of impairment allowances including statutory general reserves by the outstanding balance of impaired loans at the end of the Reporting Period.
8. Calculated by dividing the outstanding balance of impairment allowances by the outstanding balance of impaired loans at the end of the Reporting Period.
9. Calculated in accordance with the relevant regulatory practice in China's banking industry.

2 RECONCILIATION OF FINANCIAL INFORMATION BETWEEN IFRS AND CAS

The reconciliation of the Group's net assets as at 30 June 2009 and net profit for the period ended 30 June 2009 from Chinese Accounting Standards ("**CAS**") to IFRS is listed as follows:

(in millions of RMB)

	Net assets		Net profit	
	As at 30 June 2009	As at 31 December 2008	**Six months ended 30 June 2009**	Six months ended 30 June 2008
Financial information under CAS	**155,946**	145,642	**15,635**	15,593
Reconciling items:				
1. Revaluation surplus/(deficit) from fixed assets	**6,021**	6,149	**(128)**	(134)
2. Differences arising from the transfer of non-performing loans to China Cinda Asset Management Corporation	**—**	(104)	**104**	101
3. Deferred taxes	**(1,638)**	(1,647)	**10**	(2)
4. Others	**43**	55	**(10)**	9
Financial information under IFRS	**160,372**	150,095	**15,611**	15,567

Analysis of reconciling items:

1. REVALUATION SURPLUS/(DEFICIT) FROM FIXED ASSETS

The Group performed a valuation exercise on its land and buildings in accordance with IFRS. As this was not a statutory valuation, the revaluation gain/(loss) was only recognized in the financial statements prepared in accordance with IFRS but not in the financial statements prepared in accordance with CAS. Hence, there is an accounting difference between IFRS and CAS which will be depreciated in subsequent years.

2. DIFFERENCES ARISING FROM THE TRANSFER OF NON-PERFORMING LOANS TO CHINA CINDA ASSET MANAGEMENT CORPORATION

The Group disposed of its non-performing loans to China Cinda Asset Management Company on 27 June 2004 and received a Bill issued by the People's Bank of China in exchange. Under IFRS, the carrying value of the non-performing loans transferred in excess of the fair value of the Bill received from the People's Bank of China (net of tax), would be offset against capital surplus. However under CAS, the Bill received would be carried at face value and the excess of the carrying value of the non-performing loans transferred would be amortized over the life of the Bill in the income statement and recorded as interest income.

3. DEFERRED TAXES

Under both CAS and IFRS, the Group will compute its deferred income tax on the temporary differences between the tax bases of its assets and liabilities on its financial statements using the liability method. Hence, all adjustments on differences in accounting standards will give rise to differences in deferred tax.

4. OTHERS

All other differences are reconciling items that are individually immaterial.

Corporate Information

LEGAL NAME
交通銀行股份有限公司
Bank of Communications Co., Ltd.

LEGAL REPRESENTATIVE
HU Huaibang

COMPANY SECRETARY
ZHANG Jixiang[Note]

AUTHORIZED REPRESENTATIVES
PENG Chun
ZHANG Jixiang[Note]

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PLACE OF BUSINESS IN HONG KONG
20 Pedder Street, Central, Hong Kong

SELECTED NEWSPAPERS AND WEBSITES FOR INFORMATION DISCLOSURE
A shares: China Securities Journal,
Shanghai Securities News,
Securities Times,
website of the Shanghai Stock Exchange (www.sse.com.cn)
H shares: HKExnews website of the Hong Kong Stock Exchange (www.hkexnews.hk)

PLACES WHERE THE INTERIM REPORT CAN BE OBTAINED
Head Office of the Bank and principal business locations

AUDITORS
Deloitte Touche Tohmatsu CPA Ltd.
PricewaterhouseCoopers LLP

HONG KONG LEGAL ADVISER
Linklaters

PRC LEGAL ADVISER
King & Wood PRC Lawyers

A SHARES SPONSORS
China Galaxy Securities Company Limited
CITIC Securities Company Limited
Haitong Securities Company Limited

SHARE REGISTRARS:
A shares: China Securities Depository and Clearing Corporation Limited Shanghai Branch
3/F, China Insurance Building,
No.166 Lujiazui Dong Road,
Pudong New District, Shanghai,
People's Republic of China

H shares: Computershare Hong Kong Investor Services Limited
Rooms 1712–16, 17th Floor,
Hopewell Center, 183 Queen's Road East,
Hong Kong

LISTING INFORMATION
A Shares
Place of Listing: Shanghai Stock Exchange
Stock Name: Bank of Communications
Stock Code: 601328

H Shares
Place of Listing: The Stock Exchange of Hong Kong Limited
Stock Name: BANKCOMM
Stock Code: 3328

Note: Due to work commitment, Mr. Zhang Jixiang has tendered his resignation from his positions as Secretary of the Board of Directors, Company Secretary and Authorized Representative of the Bank with effect from 19 August 2009. At the Sixteenth Meeting of the Fifth Session of the Board of Directors, Mr. Du Jianglong has been appointed as Secretary of the Board of Directors, Company Secretary and Authorized Representative.

Management Discussion and Analysis

Since the beginning of the year, China has adopted active fiscal policies and moderately loose monetary policies to stimulate domestic demand and promote stable and rapid economic development in order to cope with the global financial crisis. The economy performed positively during the first half of the year as total GDP reached RMB14 trillion, an increase of 7.1% as compared to the corresponding period in prior year. This acceleration was also 1.0 percentage point faster compared to the first quarter. The Group was able to maintain stable development for all its business lines and consequently achieved favourable operating results through accelerated restructuring and innovation. This was also the result of the Group's continued close monitoring of the macro-economic and financial situation and its implementation of the government's strategic policies.

1 OPERATION OVERVIEW

The Group's total assets increased by 22.96% from the beginning of the year to RMB3,298.860 billion as at the end of the Reporting Period. Net profit increased by 0.30% as compared to the corresponding period in prior year to RMB15.555 billion for the six months ended 30 June 2009. Return on average total assets (annualized) and return on average shareholders' equity (annualized) were 1.04% and 20.10%, respectively.

2 BUSINESS REVIEW

Sustained improvement in value and rapid growth across business lines

In view of the severe challenges brought about by the global financial crisis and economic downturn, the Group proactively reinforced its operational management to respond effectively to the complicated international and domestic operating environment and to achieve rapid growth for its various business lines. The Group's total assets increased by 22.96% from the beginning of the year to RMB3,298.860 billion as at the end of the Reporting Period. Customer loans (before provision, similarly hereinafter unless otherwise stated) increased by 30.15% from the beginning of the year to RMB1,729.218 billion. Customer deposits increased by 26.77% from the beginning of the year to RMB2,365.334 billion.

Concurrent with the rapid development of its business, the Group's wealth management business became increasingly prominent with continuous increase in number of quality customers. This was characterized by the significant increases in "Win to Fortune" customers as well as the size of cash deposits as compared to the beginning of the year. The industries covered by the "Win to Fortune Supply Chain" also expanded to include mechanical engineering, port logistics, pharmaceutical, and chemical fertilisers. The rapid growth of medium to high net worth customers and size of assets under management was also maintained for wealth management products such as "BOCOM Fortune" and "OTO Fortune". Moreover, the Group witnessed in-depth developments and reach in its private banking services, which coverage has been extended to 10 provincial cities. It also introduced new and innovative private equity products, wealth management products with leased assets as underlying assets, and asset management products domestically. As at the end of the Reporting Period, the number of private banking customers and size of assets under management have increased by 26.12% and 28.33%, respectively, as compared to the beginning of the year.

The Group's corporate image and brand name was continually enhanced as it benefited from its excellent operating results and growth of customer base. It made its debut into Fortune Global 500 and a No. 143 overall ranking with No. 31 in the banking industry in Forbes Global 2000. In addition, it was awarded the "2009 Rising Star Cash Management Bank" in China by The Asset Magazine.

Active implementation of macro-control policies and adjustment of credit strategy

The Group strengthened its operational management and control and moderately increased its loans disbursements while keeping risks within acceptable levels in support of the country's investment promotion policy. It also amended its industry orientation credit guidelines in accordance with the national restructuring and revitalization plan. In addition, the Bank established project loan authorization and increased its credit support for the nation's critical investment projects and key industries' enhancement and upgrading projects. Various loans increased by 30.15% or RMB400.628 billion since the beginning of the year to RMB1,729.218 billion. Of this, loans to basic infrastructure construction-related industries such as transportation, electricity, public utilities, construction and energy increased by RMB132.721 billion in aggregate and accounted for 54.93% of total increment in corporate loans.

The Group strongly supported the development of small-and-medium enterprises and a Small Enterprises Credit Department was established at the Head Office. Pilot Small Enterprises Loan Service Centres were also established at six provincial branches (including Jiangsu Province and Zhejiang Province). Specialized small enterprises service organizations has effectively cover the small enterprise credit business of domestic branches. At the same time, the Bank also optimized the functions for its "BOCOM PROMOTION" product and improved its business evaluation and approval process to enhance its small enterprise financial services brand. During the Reporting Period, new small enterprise loans increased by 82.63% from the beginning of the year to RMB12.675 billion.

Initial success from structural adjustments resulting in increased interest income from the last quarter

The Group continued to place emphasis on the readjustment of business structure to grow interest income during the Reporting Period. With regard to assets, loan disbursements continued to lean towards high return assets whilst discounted bills continued to reduce gradually. At the end of the Reporting Period, the proportion of discounted bills decreased by 1.01 percentage points as compared to the first quarter and the proportion of medium- and long-term domestic RMB loans to general loans increased by 6.64 percentage points as compared to the beginning of the year and increased by 4.1 percentage points since the end of the first quarter. In terms of liabilities, growth in fixed deposits slowed down and the increase for the quarter is significantly less than that of the first quarter. In terms of treasury business, the Bank further expanded its funds operation and the Bank continued to be at the forefront in terms of volume and market position in inter-bank transactions. Return on investment in RMB-denominated bonds dropped by only 8 basis points as compared to the corresponding period in prior year to 4.01% in spite of significant decline in market interest rates.

The Group was able to maintain the stability of its interest spreads comparing to the last quarter as it benefited from the enhancement in its business structure. As at the end of the Reporting Period, net interest spread and net interest margin decreased by only 4 and 5 basis points to 2.11% and 2.21%, respectively, as compared to the first quarter. In particular, the Group's net interest income for the second quarter began to increase as compared to the last quarter and net interest income for the second quarter increased by 4.23% as compared to the first quarter to RMB15.201 billion. This represented the first quarter of increase in net interest income after consecutive declines in the two preceding quarters since the fourth quarter of 2008 and signalled an upturn in the Bank's net interest income.

Rapid development of fee-based businesses to strengthen market position

The Group was able to adjust its operating strategy on a timely manner and increase its expansion in fee-based businesses despite increasingly severe competition. Cumulative realized net fee and commission income for the first half of the year increased by 17.69% as compared to the corresponding period in prior year to RMB5.476 billion. This accounted for 14.76% of net operating income, an increase of 2.45 percentage points as compared to the corresponding period in prior year, representing a further increase in contribution to operating income.

The Group accelerated the diversification of its fee-based business during the Reporting Period. There were strong growth trends for all key business lines to further enhance its market competitiveness. The Group's realized revenue from investment banking business almost doubled as compared to the corresponding period in prior year to RMB1.064 billion. The Group continued to remain at the forefront of the bond underwriting market as it was the principal underwriter for 27 bonds with underwriting amount totalling RMB128.4 billion. These include bonds issued by State Grid Corporation of China, Zhongjing Gold Corporation Limited and Shanghai Electric Group. Income from agency insurance business increased by 145.74% as compared to the corresponding period in 2008 to RMB0.317 billion. The proportion of regular premium-type and protection-type insurance businesses increased significantly when compared to the corresponding period in prior year. Market ranking for sales of "De Li Bao" wealth management product came first in terms of the number of types of products offered and third in terms of absolute amount. Realized income from bank card business increased by 52.61% as compared to the corresponding period in prior year to RMB1.845 billion. The total number of new bank cards issued was 5.35 million and customers' card spending for the first half of the year increased by 65.73% as compared to the corresponding period in prior year to RMB147.5 billion.

Continuous strengthening of synergies to show the Group's operating advantages

The Group's operating advantage becomes more significant as it continues to push ahead with its strategy of international expansion and comprehensive operation. During the Reporting Period, the application for establishment of representative office in Sydney was successfully approved and the Bank is also actively pursuing applications to establish branches in Ho Chi Minh City and San Francisco. Individual subsidiaries also reinforced their business linkages with the Group in various areas to achieve further synergy within the Group, thereby resulting in relatively rapid development of the business of the Group's subsidiaries. The joint initiatives between the subsidiaries cover areas such as joint marketing, project referrals, separately managed accounts and investment advisory services. Bank of Communications Schroder Fund Management Co., Ltd also made its debut into the top ten domestic fund management companies while the industry ranking and market position of Bank of Communications Financial Leasing Co., Ltd continued to improve as its total assets and leased assets' outstanding balance both exceeded RMB10 billion.

Net profit contributed to the Group by overseas branches and subsidiaries during the Reporting Period were RMB0.757 billion and RMB0.221 billion, respectively, the proportion of which to the total profit attributable to shareholders of the Bank increased by 1.92 and 0.29 percentage points, respectively, as compared to the corresponding period in prior year. Contributions to the Group further increased.

Continued improvement of operating efficiency to achieve operating effectiveness

The Group's operating efficiency and operational effectiveness were enhanced as it actively promoted cost-cutting and efficiency improvement measures in order to deal with the decline in revenue growth due to the financial crisis. During the Reporting Period, the Group managed to control its costs effectively, thereby resulting in a decrease in the cost-to-income ratio by 1.51 percentage points as compared to the corresponding period in prior year to 34.27%. Net profit increased slightly as compared to the corresponding period in prior year to RMB15.555 billion. Return on average assets (annualized) and return on average shareholders' equity (annualized) remained high at 1.04% and 20.10%, respectively.

Sustained improvement of risk management to reinforce capital strength

During the Reporting Period, the Group adhered to its prudent risk management approach, strengthened risk prevention over key areas and embarked on the improvement of its credit administration standards. The Group reinforced credit limit monitoring within branches and reduced exposures to key risk areas. To further enhance its risk management, the Group also actively promoted the application of internal evaluation results in operational management, including credit approval, post-lending supervision, risk reporting, loan pricing, design of risk bias indicators and customer value management. As at 30 June 2009, the quality of the Group's assets was maintained while its ability to resist risks was further strengthened. Its impaired loans ratio decreased by 0.41 percentage point from the beginning of the year to 1.51% and provision coverage of impaired loans increased by 6.17 percentage points from the beginning of the year to 123.00%. The provision coverage of impaired loans (including statutory general reserves after tax) was 193.92%, representing an increase of 27.82 percentage points from the beginning of the year.

The Group actively optimized its capital management mechanism. It formulated a medium to long term capital planning framework during the Reporting Period to define its medium to long term capital adequacy targets, capital supplement plan and capital utilization plan. Due to the rapid growth of the Group's business, its capital adequacy ratio and core capital adequacy ratio declined slightly at the end of the Reporting Period from the beginning of the year although they were still maintained at relatively high levels of 12.57% and 8.81%, respectively. At the same time, the Group took advantage of the favorable opportunity offered by low market interest rates to carry out capital replenishment measure by successfully issuing RMB25 billion worth of subordinated debt in early July 2009. These bonds qualified as inclusion for supplementary capital, thereby further enhancing the Group's capital adequacy level.

Active adherence to national strategy and enhance service capabilities

The Group capitalized on the valuable opportunity offered by the Shanghai "financial and shipping center" development to accelerate its product and service innovation. It was amongst the first to receive approval to provide commercial cross-border RMB settlement services. It was also the first to process a commercial cross-border RMB settlement transaction globally as well as the first to offer this service at all pilot locations. In addition, the Group put forward ten major development initiatives to support the Shanghai "financial and shipping center" project. It also established a shipping finance department at its Head Office to strengthen the development and scope of its shipping services.

As the Shanghai World Expo's global partner, the Group provided customized financial services plans for the World Expo's organizers, partners, sponsors and overseas participants whilst it actively participated in the sale of World Expo admission tickets and licensed products. Furthermore, the Shanghai World Expo provided an opportunity for the Group to improve its service capabilities due to the enhancement of infrastructure projects in information technology and channel construction. The Group completed the upgrading of the entire Bank's main server system during the Reporting Period with business processing capabilities improving by 25%. It also successfully completed disaster recovery exercises at pilot branches for further integration of the Head Office and branches' disaster recovery systems. The drive towards continued innovation in e-banking products and service models enabled e-banking business diversion to increase by 7.68 percentage points from the beginning of the year to 47.68%. There were also improvements in distribution capabilities via e-channels which helped to improve service efficiency while reducing costs.

3 FINANCIAL REVIEW

1. Income Statement Analysis

(1) Operating profit before tax

During the Reporting Period, the Group achieved operating profit before tax of RMB19.869 billion, a decrease of RMB0.432 billion as compared to the corresponding period in prior year. This was mainly due to the tightening of interest spreads which resulted in the decline in net interest income from the corresponding period in prior year.

The table below shows certain items of the Group's operating profit before tax for the periods indicated:

		(in millions of RMB)
	For the six months ended 30 June	
	2009	2008
Net interest income	**29,785**	33,012
Net fee and commission income	**5,476**	4,653
Other non-interest income	**1,834**	142
Impairment allowances	**(4,515)**	(3,977)
Operating profit before tax	**19,869**	20,301

(2) Net interest income

During the Reporting Period, the Group earned net interest income of RMB29.785 billion, a decrease of RMB3.227 billion or 9.78% as compared to the corresponding period in prior year. Net interest income continued to be the major component of the Group's operating income, accounting for 80.29% of net operating income.

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

(in millions of RMB unless otherwise stated)

	For the six months ended 30 June 2009			For the six months ended 30 June 2008		
	Average balance [1]	Interest income/ (expenses)	Average yield/(cost) ratio	Average balance [1]	Interest income/ (expenses)	Average yield/(cost) ratio
ASSETS						
Cash and balances with central banks	330,282	2,636	1.60%	274,558	2,306	1.68%
Due from other banks and financial institutions	322,312	3,023	1.88%	170,155	3,705	4.35%
Loans and advances to customers	1,474,411	38,713	5.25%	1,104,797	39,541	7.16%
Of which:						
Corporate loans	1,096,135	30,742	5.61%	911,884	32,635	7.16%
Individual loans	200,198	6,010	6.00%	167,638	6,103	7.28%
Discounted bills	178,078	1,961	2.20%	25,275	803	6.35%
Investment securities	626,303	11,292	3.61%	537,975	10,556	3.92%
Total interest-earning assets	2,701,453 [4]	55,237 [4]	4.09%	2,057,744 [4]	55,067 [4]	5.35%
Total non-interest earning assets	137,844			141,777		
TOTAL ASSETS	2,839,297 [4]			2,199,521 [4]		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Due to customers	2,011,286	17,838	1.77%	1,598,747	17,351	2.17%
Of which:						
Corporate deposits	1,315,447	10,948	1.66%	1,080,330	11,138	2.06%
Individual deposits	695,839	6,890	1.98%	518,417	6,213	2.40%
Due to other banks and financial institutions	566,787	7,060	2.49%	329,262	4,882	2.97%
Debts issued and others	44,132	981	4.45%	42,327	863	4.08%
Total interest-bearing liabilities	2,570,350 [4]	25,452 [4]	1.98%	1,940,595 [4]	22,055 [4]	2.27%
Shareholders' equity and non-interest bearing liabilities	268,947			258,926		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,839,297 [4]			2,199,521 [4]		
Net interest income		29,785			33,012	
Net interest spread[2]			2.11% [4]			3.08% [4]
Net interest margin[3]			2.21% [4]			3.21% [4]
Net interest spread[2]			2.18% [5]			3.17% [5]
Net interest margin[3]			2.28% [5]			3.30% [5]

Notes:

1. Average daily balance calculated under CAS and adjusted in accordance with IFRS.
2. This ratio represents the difference between the average yield on the average balance of total interest-earning assets and the average cost of average balance of total interest-bearing liabilities.
3. This ratio represents the ratio of net interest income to average balance of total interest-earning assets.
4. This eliminates the impact of wealth management products.
5. This eliminates the impact of wealth management products and taking into account the tax exemption on the interest income from investments in Government bonds.

During the Reporting Period, the Group's net interest spread and net interest margin were 2.11% and 2.21%, respectively, a decrease of 97 and 100 basis points, respectively, as compared to the corresponding period in prior year and a decrease of 4 and 5 basis points, respectively, as compared to the first quarter. The main reasons for the decrease in net interest spread and net interest margin were as follows:

(1) The 191 basis points decrease in average return on loans as compared to the corresponding period in prior year was due to the significant period-on-period decrease in benchmark interest rates.

(2) As a result of the trend towards term deposits, deposit interest rates declined in a relatively slow rate. Average interest on deposits was 1.77%, a decrease of 40 basis points as compared to the corresponding period in prior year. This represents a smaller decline as compared to the decline in return on loans.

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

			(in millions of RMB)
	Comparison between January to June 2009 and January to June 2008		
	Increase/(decrease) due to		
	Volume	**Interest rate**	**Net increase/ (decrease)**
Interest-earning Assets			
Cash and balances with central banks	468	(138)	330
Due from other banks and financial institutions	3,309	(3,991)	(682)
Loans and advances to customers	13,232	(14,060)	(828)
Investment securities	1,731	(995)	736
Changes in interest rates	18,740	(19,184)	(444)
Interest-bearing Liabilities			
Due to customers	4,476	(3,989)	487
Due to other banks and financial institutions	3,527	(1,349)	2,178
Debt issued and others	37	81	118
Changes in interest expenses	8,040	(5,257)	2,783
Changes in net interest income	10,700	(13,927)	(3,227)

During the Reporting Period, the Group's net interest income decreased by RMB3.227 billion as compared to the corresponding period in prior year. Of this, changes in the average daily balance of assets and liabilities caused net interest income to increase by RMB10.700 billion while changes in average returns and average costs caused net interest income to decrease by RMB13.927 billion.

i. Interest income

During the Reporting Period, the Group's interest income decreased by RMB0.444 billion or 0.79% as compared to the corresponding period in prior year to RMB55.664 billion.

a. Interest income from customer loans

Interest income from customer loans forms the largest component of the Group's interest income. During the Reporting Period, interest income from customer loans decreased by RMB0.828 billion or 2.09% as compared to the corresponding period in prior year to RMB38.713 billion. As a result of the interest rate reduction in 2008, returns on customer loans decreased significantly, thus offsetting the increase in interest income brought by the growth in loan balances. Average returns on corporate loans, individual loans and discounted bills decreased by 155, 128 and 415 basis points, respectively, as compared to the corresponding period in prior year.

b. Interest income from investment securities

During the Reporting Period, interest income from investment securities increased by RMB0.736 billion or 6.97% as compared to the corresponding period in prior year to RMB11.292 billion. The Group's return on investment securities was maintained at a healthy level of 3.61%, representing a decrease of 31 basis points as compared to the corresponding period in the previous year. Overall, the Group managed to take advantage of investment opportunities to increase the scope of its investment operations and optimize its investment structure.

c. Interest income from cash and balances with central banks

Cash and balances with central banks include the statutory reserve deposits and deposits in excess of the statutory reserve. During the Reporting Period, interest income from cash and balances held with central banks increased by RMB0.330 billion as compared to the corresponding period in prior year to RMB2.636 billion. This was mainly due to increase in statutory reserve deposits resulting from the growth in customer deposits which caused average balances held with central banks to increase by RMB55.724 billion or 20.30% as compared to the corresponding period in prior year.

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

Interest income from due from other banks and financial institutions decreased by RMB0.682 billion as compared to the corresponding period in prior year to RMB3.023 billion. This was mainly due to the effects of the decline in interest rates of currency market which caused average return on balances with banks and other financial institutions to decline by 247 basis points to 1.88% as compared to the corresponding period in prior year.

ii. Interest expense

During the Reporting Period, the Group's interest expense increased by RMB2.783 billion or 12.05% to RMB25.879 billion as compared to the corresponding period in prior year. This was mainly due to the increase in the average balances of customer deposits and amounts due to other banks and financial institutions.

a. Interest expense on customer deposits

Deposits are the Group's main source of funding. During the Reporting Period, interest expense on deposits increased by RMB0.487 billion or 2.81% as compared to the corresponding period in prior year to RMB17.838 billion, accounting for 68.93% of total interest expenses. The increase in interest expense on deposits was mainly due to the increase in average balances. In addition, the residual effect of the reduction in interest rates has also caused average costs to decrease from 2.17% in the corresponding period in prior year to 1.77%.

b. Interest expense on balances from other banks and financial institutions

During the Reporting Period, interest expense on balances from other banks and financial institutions increased by RMB2.178 billion or 44.61% as compared to the corresponding period in prior year to RMB7.060 billion. This was mainly due to the 72.14% increase in average balances as compared to the corresponding period in prior year. In addition, the effects of the decline in interest rates of domestic currency market also caused average costs of balances from other banks and financial institutions to decrease by 48 basis points as compared to the corresponding period in prior year.

c. Interest expense on debts issued and others

During the Reporting Period, interest expense on debts issued and others increased by RMB0.118 billion to RMB0.981 billion and average cost increased from 4.08% to 4.45% as compared to the corresponding period in prior year. This was mainly due to the re-pricing of the coupon rate (at interest re-pricing date) for subordinated debt issued by the Group in June to July 2004. The coupon rate is linked to the one-year lump-sum deposit and withdrawal time deposit rate and such rate has increased during the Reporting Period as compared to the corresponding period in prior year.

(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's net fee and commission income was RMB5.476 billion, representing an increase of RMB0.823 billion or 17.69% as compared to the corresponding period in prior year. This accounted for 14.76% of net operating income, representing an increase of 2.45 percentage points as compared to the corresponding period in prior year.

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

		(in millions of RMB)
	For the six months ended 30 June	
	2009	2008
Settlement and agent service commission income	**1,372**	1,033
Bank card annual fee and commission income	**1,845**	1,209
Guarantee and commitment commission income	**610**	599
Custodian commission income	**333**	359
Fund sales commission income	**373**	671
Fund management commission income	**306**	335
Financial consultancy commission income	**843**	374
Other commission income	**555**	620
Total fee and commission income	**6,237**	5,200
Less: Fee and commission expenses	**(761)**	(547)
Net fee and commission income	**5,476**	4,653

Settlement and agent service fee commission increased by RMB0.339 billion or 32.82% as compared to the corresponding period in prior year to RMB1.372 billion. Of this, insurance agency commission income increased by 145.74% to RMB0.317 billion.

Bank card annual fee and commission income increased by RMB0.636 billion or 52.61% as compared to the corresponding period in prior year to RMB1.845 billion. This was mainly due to the significant increase in the number of cards issued as well as increase in customer spending and amount of transactions via automated facilities.

Guarantee and commitment commission income increased by RMB0.011 billion or 1.84% as compared to the corresponding period in prior year to RMB0.610 billion. This was mainly due to the business growth in non-financing guarantees and loan commitments.

Custodian commission income decreased by RMB0.026 billion as compared to the corresponding period in prior year to RMB0.333 billion. This was mainly due to reduction in the amount of assets placed under custody.

Fund sales and management commission income decreased by RMB0.327 billion as compared to the corresponding period in prior year to RMB0.679 billion. This was mainly due to a decrease in the volume of fund sales as compared to the corresponding period in prior year.

Financial consultancy commission income increased by RMB0.469 billion or 125.40% as compared to the corresponding period in prior year to RMB0.843 billion. This was mainly due to the revenue growth in businesses including investment and financing advisory services.

(4) Other operating expenses

The Group continued to strengthen its costs control. During the Reporting Period, other operating expenses of the Group amounted to RMB12.711 billion, representing a decrease of RMB0.818 billion or 6.05% as compared to the corresponding period in prior year. Cost-to-income ratio also decreased by 1.51 percentage points as compared to the corresponding period in prior year and 5.67 percentage points as compared to the whole of the prior year to 34.27%. Costs control was satisfactorily managed.

(5) Impairment losses on loans and advances

During the Reporting Period, the Group's impairment losses on loans and advances increased from RMB3.977 billion for the corresponding period in 2008 to RMB4.515 billion, representing an increase of 13.53%. The credit cost ratio (annualized) also decreased by 0.12 percentage point as compared to the corresponding period in prior year to 0.52%.

(6) Income tax

During the Reporting Period, the Group's income tax expense was RMB4.258 billion, representing a decrease of RMB0.476 billion or 10.05% from the corresponding period in prior year. The effective tax rate was 21.43%, which was lower than the statutory tax rate of 25%, mainly due to the fact that the Group's interest income from Chinese Government bonds is exempted from income tax 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)
	For the six months ended 30 June	
	2009	2008
Current Tax	**4,034**	3,749
Deferred Tax	**224**	985

2. Analysis on Major Balance Sheet Items

(1) Assets

As at 30 June 2009, the Group's total assets was RMB3,298.860 billion, representing an increase of RMB615.913 billion or 22.96% from the beginning of the year. The Group's assets consist of four principal components, namely loans and advances to customers, investment securities, cash and balances with central banks and due from other banks and financial institutions, accounting for 51.45%, 23.59%, 12.41% and 10.24% of the Group's total assets, respectively. All ratios are computed using the net figures of the respective asset class.

The table below shows the outstanding balances of the principal components of the Group's total assets as at the dates indicated:

		(in millions of RMB)
	30 June 2009	31 December 2008
Loans and advances to customers		
Corporate loans[Note]	**1,295,428**	1,053,799
Individual loans[Note]	**246,212**	205,058
Discounted bills[Note]	**187,578**	69,733
Total loans and advances to customers before impairment allowances	**1,729,218**	1,328,590
Impairment losses on loans and advances	**(32,013)**	(29,814)
Loans and advances to customers	**1,697,205**	1,298,776
Investment securities	**778,229**	623,071
Cash and balances with central banks	**409,312**	362,180
Due from other banks and financial institutions	**337,816**	331,511

Note: Corporate loans, individual loans and discounted bills represent amounts before impairment allowances.

i. Customer Loans

During the first half of 2009, the Group managed to cope with the unfavorable conditions arising from the economic downturn and continued to support the nation's investment-promotion policy by increasing its loan disbursements while keeping its risks within acceptable levels. As at 30 June 2009, the Group's total outstanding loans and advances to customers was RMB1,729.218 billion, representing an increase of RMB400.628 billion or 30.15% from the beginning of the year.

Loan concentration by industries

The Group conscientiously implemented the national macro-economic policy and expanded its credit support to areas such as major infrastructural projects, rural infrastructure and livelihood projects, industrial restructuring, small-and-medium enterprises, agricultural, disaster reconstruction and energy conservation and emission reduction as part of its overall efforts to optimize credit structure.

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

(in millions of RMB unless otherwise stated)

	30 June 2009		31 December 2008	
	Outstanding balance	**Proportion (%)**	Outstanding balance	Proportion (%)
Manufacturing				
— Petroleum and chemical	**64,511**	**3.73**	60,331	4.54
— Electronics	**23,687**	**1.37**	23,680	1.78
— Steel making and processing	**35,471**	**2.05**	33,766	2.54
— Machinery	**74,734**	**4.32**	67,141	5.05
— Textile	**22,994**	**1.33**	22,102	1.66
— Others	**127,241**	**7.36**	114,481	8.63
Transportation	**202,065**	**11.69**	148,935	11.21
Electricity	**114,239**	**6.61**	105,541	7.94
Wholesale and retail	**126,909**	**7.33**	108,559	8.17
Commercial services	**67,510**	**3.90**	49,990	3.76
Real estate	**117,917**	**6.82**	88,568	6.67
Utilities	**146,211**	**8.46**	92,207	6.94
Construction	**62,567**	**3.62**	52,261	3.93
Energy and mining	**26,862**	**1.55**	20,279	1.53
Recreation and entertainment	**21,447**	**1.24**	20,560	1.55
Accommodation and catering	**13,014**	**0.75**	13,977	1.05
IT and communications service	**7,711**	**0.45**	8,200	0.62
Financial institutions	**19,896**	**1.15**	10,164	0.77
Others	**20,442**	**1.18**	13,057	0.98
Total corporate loans	**1,295,428**	**74.91**	1,053,799	79.32
Mortgage loans	**147,990**	**8.56**	124,555	9.37
Medium-term and long-term working capital loans	**26,319**	**1.52**	23,873	1.80
Short-term working capital loans	**21,227**	**1.23**	16,883	1.27
Car loans	**4,539**	**0.26**	4,271	0.32
Credit card advances	**24,527**	**1.42**	20,453	1.54
Others	**21,610**	**1.25**	15,023	1.13
Total individual loans	**246,212**	**14.24**	205,058	15.43
Discounted bills	**187,578**	**10.85**	69,733	5.25
Gross amount of loans and advances to customers before impairment allowances	**1,729,218**	**100.00**	1,328,590	100.00

As at 30 June 2009, the Group's loans to corporate entities amounted to RMB1,295.428 billion, representing an increase of RMB241.629 billion or 22.93% from the beginning of the year. New loans were mainly concentrated in key areas in compliance with the nation's policies and in line with the Bank's plan for the development of key industries such as transportation, electricity and public utilities. In terms of the distribution of the loan outstanding balances, loans were mainly concentrated in the manufacturing, transportation, public utilities and wholesale and retail industries, which accounted for 63.59% of total corporate loans.

As at 30 June 2009, loans to individuals amounted to RMB246.212 billion, representing an increase of RMB41.154 billion or 20.07% from the beginning of the year. The proportion of loans to individuals decreased by 1.19 percentage points from the beginning of the year due to the significant increase in the outstanding balance of customer loans. Notwithstanding the decrease in the proportion, the market share of individual housing loans and individual consumer loans increased as compared to the beginning of the year.

Borrowers concentration

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

		(in millions of RMB unless otherwise stated) As at 30 June 2009	
	Type of industry	**Outstanding loan balance**	**Percentage of total loans and advance (%)**
Customer A	Wholesale and Retail	6,400	0.37
Customer B	Transportation	5,100	0.29
Customer C	Wholesale and Retail	4,986	0.29
Customer D	Commercial services	4,500	0.26
Customer E	Transportation	4,499	0.26
Customer F	Transportation	4,398	0.26
Customer G	Transportation	4,020	0.23
Customer H	Transportation	4,000	0.23
Customer I	Construction	3,568	0.21
Customer J	Construction	3,500	0.20
Total of Top 10 customers		44,971	2.60

Loan concentration by geographical locations

The Group's loans and advances to customers are mainly concentrated in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta. As at 30 June 2009, new loans and advances to customers in these three regions were RMB249.068 billion, accounting for 62.17% of the increment in total loans and advances to customers. The balance of loans and advances for these three regions increased by 34.06%, 21.39% and 28.16%, respectively, as compared to the beginning of the year.

Customer structure

The Group further optimized its customer structure. Corporate customers of the Group's domestic branches are classified using a 10-class credit rating system. As at the end of the Reporting Period and as compared to the beginning of the year, loans outstanding to class 1 to class 5 high quality customers accounted for 84.71% of the total outstanding loan balance, representing an increase of 4.21 percentage points while loans outstanding to class 6 to class 7 customers accounted for 5.44% of the total outstanding loan balance, representing a decrease of 8.18 percentage points, and loans outstanding to class 8 to class 10 high risk customers accounted for 1.56%, representing a decrease of 0.56 percentage point.

Loan quality

During the first half of 2009, the Group intensified its efforts in credit restructuring by integration of high risk areas arising from economic operations, sustained risk investigations and monitoring, clearly defining management's areas of focus and strengthening its early risk warning system. It also further increased its efforts over the management and collection of non-performing loans through measures such as cash collection, bad debt write-offs and collateralization. As at 30 June 2009, the Group improved the quality of its loans and the impaired loans ratio was 1.51%, representing a decrease of 0.41 percentage point from the beginning of the year.

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

	(in millions of RMB unless otherwise stated)	
	30 June 2009	31 December 2008
Individually identified impaired loans	**26,026**	25,520
Loans overdue by more than 90 days	**21,097**	20,979
Percentage of impaired loans to gross amount of loans and advances to customers	**1.51%**	1.92%

As at 30 June 2009, impairment losses on loans and advances were RMB32.013 billion, representing an increase of RMB2.199 billion from the beginning of the year. The Group continued to enhance its ability to combat risks as reflected by the provision coverage of impaired loans of 123.00%, an increase of 6.17 percentage points from the beginning of the year. The provision coverage of impaired loans (including statutory general reserves after tax) was 193.92%, representing an increase of 27.82 percentage points from the beginning of the year.

ii. Investment securities

As at 30 June 2009, the Group's outstanding balance of investment securities (after impairment allowances) amounted to RMB778.229 billion, representing an increase of RMB155.158 billion or 24.90% from the beginning of the year.

— By holding purposes

The table below shows the distribution of the Group's investment in securities by holding purposes as of the dates indicated:

(in millions of RMB unless otherwise stated)

	30 June 2009		31 December 2008	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Investments at fair value through profit or loss	**39,335**	**5.05**	22,280	3.58
Loans and receivables	**82,318**	**10.58**	90,903	14.59
Available-for-sale investments	**166,392**	**21.38**	142,010	22.79
Held-to-maturity investments	**490,184**	**62.99**	367,878	59.04
Total	**778,229**	**100.00**	623,071	100.00

Held-to-maturity investments increased by RMB122.306 billion or 33.25% from the beginning of the year and accounted for 78.83% of the increment in total investment securities. Available-for-sale investments increased by RMB24.382 billion or 17.17%.

— *By type of issuers*

The table below shows the distribution of the Group's investment in securities by type of issuers as of the dates indicated:

				(in millions of RMB unless otherwise stated)
	30 June 2009		31 December 2008	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Central government and central banks	**336,417**	**43.23**	294,356	47.24
Public sector entities	**12,964**	**1.67**	8,764	1.41
Banks and other financial institutions	**263,931**	**33.91**	225,966	36.27
Corporate entities	**164,917**	**21.19**	93,985	15.08
Total	**778,229**	**100.00**	623,071	100.00

(2) Liabilities

As at 30 June 2009, the Group's total liabilities reached RMB3,138.488 billion, an increase of RMB605.636 billion or 23.91% from the beginning of the year. Of this, customer deposits increased by RMB499.519 billion and accounted for 75.37% of total liabilities, an increase of 1.71 percentage points from the beginning of the year. Due to other banks and financial institutions increased by RMB89.898 billion as compared to the beginning of the year and accounted for 21.01% of total liabilities, a decrease of 1.47 percentage points from the beginning of the year.

Customer deposits

Customer deposits are the main source of funds for the Group. As at 30 June 2009, the Group's customer deposits balances amounted to RMB2,365.334 billion, an increase of RMB499.519 billion or 26.77% from the beginning of the year. The Group has a sound and diverse deposit structure. In terms of customer portfolio, corporate deposits accounted for 65.94% of total deposits, an increase of 2.69 percentage points from the beginning of the year. Individual deposits accounted for 33.81% of total deposits, a decrease of 2.40 percentage points from the beginning of the year. With regard to the maturity of deposits, current deposits accounted for 46.28% of total deposits, a decrease of 2.09 percentage points from the beginning of the year while time deposits accounted for 53.47% of total deposits, an increase of 2.38 percentage points from the beginning of the year.

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

		(in millions of RMB)
	30 June 2009	31 December 2008
Corporate deposits	**1,559,783**	1,180,207
Of which: Corporate current deposits	**804,626**	655,101
Corporate time deposits	**755,157**	525,106
Individual deposits	**799,690**	675,564
Of which: Individual current deposits	**290,146**	247,428
Individual time deposits	**509,544**	428,136

3. Segment Analysis

(1) Operating results by geographical segments

The table below shows the net profit and total revenue from each of the Group's geographical segment for the periods indicated:

				(in millions of RMB)
	For the six months ended 30 June			
	2009		2008	
	Net profit	**Total revenue[1]**	Net profit	Total revenue[1]
Northern China[2]	**2,469**	**12,661**	2,371	11,158
North Eastern China[3]	**324**	**3,386**	672	3,717
Eastern China[4]	**4,905**	**23,189**	5,923	23,792
Central and Southern China[5]	**1,688**	**11,153**	2,891	11,814
Western China[6]	**1,106**	**4,477**	684	4,707
Overseas[7]	**829**	**2,378**	499	3,222
Head Office	**4,290**	**16,296**	2,527	13,627
Eliminations	**—**	**(9,805)**	—	(10,587)
Total[8]	**15,611**	**63,735**	15,567	61,450

Notes:

1. Includes interest income, fee and commission income, dividend income, gains less losses from trading activities, gains less losses arising from the de-recognition of investment securities and other operating income.
2. Includes Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province and the Inner Mongolia Autonomous Region. (similarly hereinafter)
3. Includes Liaoning Province, Jilin Province and Heilongjiang Province. (similarly hereinafter)
4. Includes Shanghai Municipality (excluding Head Office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province. (similarly hereinafter)
5. Includes Henan Province, Hunan Province, Hubei Province, Guangdong Province, Guangxi Autonomous Region and Hainan Province. (similarly hereinafter)
6. Includes Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region. (similarly hereinafter)
7. Includes overseas subsidiaries and branches in Hong Kong, New York, Singapore, Tokyo, Seoul, Macau and Frankfurt. (similarly hereinafter)
8. Includes minority interests.

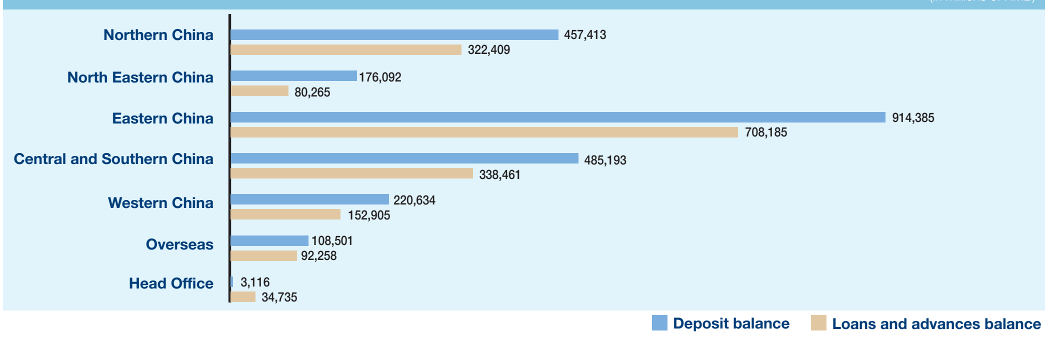
(2) ***Deposits and loans and advances by geographical segments***

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

(in millions of RMB)

	30 June 2009		31 December 2008	
	Deposit balance	**Loans and advances balance**	Deposit balance	Loans and advances balance
Northern China	**457,413**	**322,409**	353,576	257,720
North Eastern China	**176,092**	**80,265**	152,496	73,961
Eastern China	**914,385**	**708,185**	712,409	530,674
Central and Southern China	**485,193**	**338,461**	384,419	252,763
Western China	**220,634**	**152,905**	174,069	111,579
Overseas	**108,501**	**92,258**	86,930	73,844
Head Office	**3,116**	**34,735**	1,916	28,049
Total	**2,365,334**	**1,729,218**	1,865,815	1,328,590

Deposits and loans and advances balance as at 30 June 2009



(3) ***Operating results by business segments***

The Group's business is mainly divided into four business segments: corporate banking, retail banking, treasury operation and other businesses. The corporate banking segment is the primary source of profit for the Group. Net interest income from corporate banking accounted for 75.34% of the Group's total net interest income.

The table below shows the amount of the net interest income from each of the Group's business segments for the period indicated:

(in millions of RMB)

	For the six months ended 30 June 2009				
	Corporate banking	Retail banking	Treasury operation	Other businesses	Total
External net interest income/(expense)	19,434	(411)	10,740	22	29,785
Internal net interest income/(expense)	3,007	7,452	(10,459)	—	—
Net interest income	22,441	7,041	281	22	29,785

4 RISK MANAGEMENT

During the first half of 2009, in response to the changes in the external economic and financial situations and the progress on the implementation of the internal comprehensive risk management, the Group revised its three-year comprehensive risk management plan in order to optimize and refine its targets, specific requirements and operational mechanism. During the Reporting Period, in accordance with the requirements of the revised plan, the Group steadily continued to promote the development of its comprehensive risk management framework, optimize its loan structure and strengthen its credit administration management. At the same time, the Group also optimized its market risk management mechanism and strengthened its operational risk management in order to achieve improvement in the quality of the Group's overall risk management.

1. Risk management framework

The Bank's Board of Directors is the Group's highest risk management decision-making body and bear ultimate responsibility for the Group's risk management. It is responsible for approving the overall risk bias and risk strategy, determining the risk tolerance level and safeguarding the resources required for risk management. The Board has set up a Risk Management Committee under the Board to monitor the Group's risk profile.

The Bank's senior management formulates and executes the appropriate risk management policy, management procedures and control framework in accordance with the risk management strategy approved by the Board of Directors. A risk management committee together with the credit, market and operational risk management sub-committees have been established under the senior management, which are responsible for periodic risk assessments and validation of management effectiveness.

The Bank's Chief Risk Officer is responsible for representing senior management in the implementation of comprehensive risk management. He is responsible for implementing the risk management strategy, formulating and developing the risk management mechanism as well as providing overall management and coordination for the Group's four major risk areas. He is also charged with organizing the implementation of various risk management tools and processes.

The Group established a comprehensive risk management framework with the Head Office Risk Management Department acting as the "major fulcrum" to assume the overall risk management function whereas the specialized risk management departments or positions within the Head Office's various business departments and risk management departments within all domestic and overseas branches and subsidiaries will assume the actual risk management functions of all types of risk for different lines of business of the Group as well as regional and subordinate institutions. A risk management base has been formed through clearly defined divisions of labor, development of a dual reporting line mechanism and the 4-tier defense line formed by business operations, line management, risk management and internal audit departments.

2. Credit risk management

The Group's credit risk arises mainly from corporate loans, retail loans, treasury operations, transactions with other financial institutions and international operations.

The Group's credit risk management comprises several functional departments including corporate banking, credit administration, credit approval, risk management, asset custody, retail finance management and credit card departments. These departments collectively provide standardized management of the corporate loan business flow and the retail loan business and credit card business, including credit checks and reporting, credit investigation and approvals, disbursements and post-lending monitoring as well as non-performing loan management.

(1) Classification of risks and methods

The Group has adopted a multi-prong approach towards the classification of loans to corporate customers to facilitate the identification of specific impairment losses on each loan on an individual basis. This includes using the Group's asset risk management system on a daily basis, adopting the tri-level risk management filtering method and the cash flow discounting method. Specific action plans are individually developed for impaired loans and specialists are assigned to handle their recovery. The impairment loss will then be computed based on the estimated loss amount. The Group adopts a comprehensive assessment of the credit quality, financial status and repayment ability of non-impaired loans to corporate customers and further classifies them into classes 1–10 for management purposes. Different strategies are adopted across the various classes: classes 1–5 customers of good credit standing, classes 6–7 customers with average credit standing and classes 8–10 customers with poor credit standing.

The Group classified its loans to retail customers based on age and type of guarantee for further management. Periodic visits are used to strengthen the management of retail customers who have been prompt in their repayments while customers with relatively higher potential of delinquency are added to a watch list for specific monitoring. Different recovery methods are utilized for delinquent retail customers depending on how long repayments are in default. Defaults beyond a stipulated period are classified as impaired and an appropriate impairment provision will be made.

(2) ***Risk management and control policies***

During the Reporting Period, the Group comprehensively revamped and optimized its credit risk management foundation while responding positively to the challenges posed by the domestic and foreign macro-economic environment.

i. Corporate loan credit risk management

During the Reporting Period, the Group closely incorporated the national macro-economic policies into its operations to further broaden its control by centralizing credit approval process. It provided additional guidance on policy changes in relation to credit business and differentiated regional credit policies. The Group also continued with the effective implementation of the "Green Credit" project and actively supported national key focus projects and the funding needs of small-and-medium enterprises and agricultural-related enterprises. Support to industries such as transportation, petrochemical, power generation and machinery were also further enhanced. The Group accelerated the scaling down of its loans to high energy consumption, high pollution, high resource consumption and excess capacity industries. This helped to optimize its customer and loan structure in order to achieve a stable balance in its loan asset distribution.

During the Reporting Period, the Group steadily promoted the application of its internal grading model in the credit evaluation and post-lending credit management process. This helped to fully utilize the model's effectiveness in areas such as risk measurement and customer evaluation.

The Group activated its credit administration management targets evaluation program during the Reporting Period. This helped to promote the formalization, standardization and refinement of its post-lending credit administration work, thereby strengthening its post-lending credit management. The refinement of the classification of credit administration, strict control over non-performing loans, and development of risk analysis and exclusion for high risk areas such as conglomerates, Taiwanese-funded enterprises, export enterprises, guaranty companies, rural financing and highly leveraged investments. This analysis has helped the Group to understand and control potential credit risks. Familiarity with the use of monitoring and control tools such as risk filtering, watch-lists, migration analysis and early risk warning system has helped to further enhance the real-time risk monitoring and control mechanism.

The Group has utilized a variety of measures in its management of its non-performing loans. These include debt collection, loan restructuring, sale of pledged assets, recourse to guarantors, legal proceedings and arbitration as well as write-off as permitted under the regulatory guidelines. During the Reporting Period, the Group continued to expand the scope of the direct and consolidated management of non-performing loans by the Head Office, with significant progress in its recovery and management of major accounts. In particular, it intensified its efforts to safeguard the credit assets involved in the non-compliance case in ex-Guangzhou Branch, so that the credit risk can be effectively controlled and sufficient allowance is made accordingly.

ii. Retail loan credit risk management

The Group has implemented branch-level centralized management of retail loans based on their characteristics. This includes centralizing risk assessment, credit assessment and application and intermediary processing. During the Reporting Period, the Group adhered closely to the national macro-economic policy and market developments to reasonably control the extension of retail loans. It also strictly controlled the types of businesses, customers and products over which its retail loans were granted.

During the Reporting Period, the Group completed the promotion of the internal grading system for the retail business for the entire Bank. It achieved favorable results via on-the-spot guidance and support to individual branches in accordance with its "centralized training, on-the-spot guidance, communications of problems and prompt feedback" implementation model.

During the Reporting Period, the Group strengthened its advanced risk identification and early warning ability by the use of early risk warning and stress testing tools. The development of an emergency crisis management mechanism also enabled it to timely resolve unexpected credit risks. The implementation of credit management system for small enterprises and the optimization of retail credit management system have strengthened the systematic management of retail credit risk, thereby maintaining the quality of its retail credit assets. In addition, this has centralized the collection process of the Bank through the use of electronic reminders for overdue loans to retail customers.

The Group's independent credit card centre is responsible for the operational management of its credit card business. The Group has utilized a variety of measures and tools to evaluate and control the credit risk arising from its credit card business. These measures include formulating an independent risk policy, business process and credit approval process for its credit card business, utilizing the customer credit risk cycle analysis and product-mix management strategy and adopting credit and wealth management tools such as customer grading, ageing analysis and time series analysis.

iii. Treasury business credit risk management

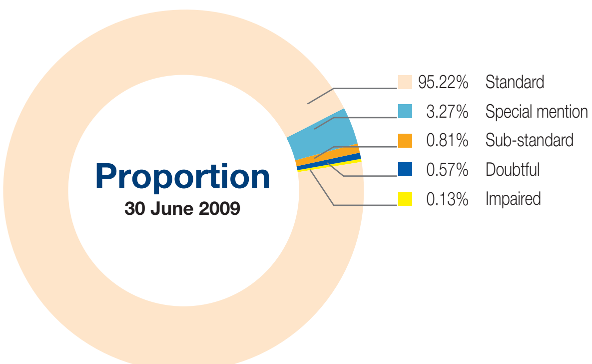
The Group's loans to other financial institutions under its treasury operation are centrally assessed and approved by the Head Office, which also manages the relevant counter-party limits. Credit risk arising from the treasury operation are managed by a variety of measures such as stringent selection of counterparties, timely monitoring of risks, integrated review of internal and external credit evaluation information. Other measures include credit approval by categories and regular reviews of the credit limit management system to revise counter-party limits. The successful simultaneous launch of the financial institution credit management system effectively helps to promote the Group's monitoring and control over external investment risk and loans to other financial institutions.

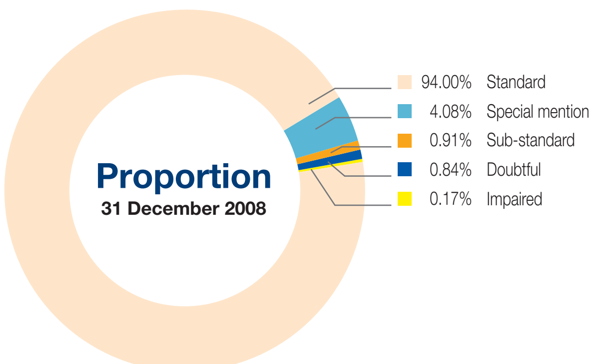
(3) Asset quality and movement

As at 30 June 2009, the distribution of the Group's outstanding loans based on the five categories loan classification principles are as follows:

(in millions of RMB unless otherwise stated)

	30 June 2009		31 December 2008		
Categories	**Outstanding Balance**	**Proportion (%)**	Outstanding Balance	Proportion (%)	Increase or decrease (%)
Standard	**1,646,545**	**95.22**	1,248,988	94.00	1.22
Special mention	**56,647**	**3.27**	54,142	4.08	-0.81
Total standard loan balance	**1,703,192**	**98.49**	1,303,130	98.08	0.41
Sub-standard	**13,927**	**0.81**	12,087	0.91	-0.10
Doubtful	**9,933**	**0.57**	11,086	0.84	-0.27
Impaired	**2,166**	**0.13**	2,287	0.17	-0.04
Total non-performing loan balance	**26,026**	**1.51**	25,460	1.92	-0.41
Total	**1,729,218**	**100.00**	1,328,590	100.00	0.00





Note: Calculated in accordance with the relevant regulatory practice prevailing in China's banking industry.

The percentage movement of the Bank's loans for the six months ended 30 June 2009 is as follows:

Loan movement percentage (%)	First half of 2009	2008	2007
Percentage movement of standard loans	**1.48**	2.32	1.72
Percentage movement of special-mention loans	**13.26**	21.72	13.67
Percentage movement of sub-standard loans	**13.88**	43.86	23.71
Percentage movement of doubtful loans	**4.10**	9.04	5.44

Note: Calculated in accordance with the "Notice in relation to Off-site Monitoring Indicators and Computation Formula" issued by the China Banking Regulatory Commission.

3. Liquidity risk management

During the Reporting Period, the Group was able to maintain a favorable liquidity position due to the country's favorable macro-economic conditions, stable statutory reserve ratio and moderately loose monetary policy as these factors have helped to guarantee the relative abundance and liquidity of funding in the market.

During the Reporting Period, based on forecasted liquidity needs, the Group formulated a corresponding liquidity management plan which periodically analyses macro-economic trends, central bank foreign exchange policy and money market movements. The entire Bank's liquidity is actively managed through the following measures: (1) maintaining stability of assets and liability while increasing the proportion of core deposits to liabilities; (2) establishing fixed participation quotas and limits while monitoring and managing the entire Bank's liquidity position; (3) centralized management and utilization of the entire Bank's liquid assets by the Head Office; (4) maintaining a suitable proportion of central bank reserves, overnight deposits and highly liquid debt investments while actively participating in open market, foreign exchange market and debt securities market operations to guarantee excellent market financing capabilities; and (5) reasonable matching of the maturity profiles of assets and mitigating liquidity risk through multiple maturity profiles.

During the Reporting Period, the Group paid close attention to volatility in market liquidity and the IPO market and prepared contingency plans in advance to respond to liquidity fluctuations. It also continued to pay close attention to the developments in the international market as well as the government's foreign exchange policy while maintaining excellent business relationships with other financial institutions to ensure liquidity in foreign currencies. Additionally, the Group also paid great attention to the effect of the growth in its restructured debt securities portfolio on the overall liquidity reserve structure while taking into consideration the bank-wide non-loan capital deployment strategy to maintain its overall liquidity.

As at 30 June 2009, the relevant indicators reflecting the Group's liquidity are as follows:

Major monitoring indicators (%)		30 June 2009	31 December 2008
Liquidity ratio	RMB and foreign currencies	**35.71**	39.72
Loans to deposits ratio	RMB	**66.87**	64.85
	Foreign currencies	**71.49**	70.44

Note: Calculated in accordance with the relevant regulatory practice prevailing in China's banking industry.

Please refer to Note 41 to the Unaudited Condensed Consolidated Interim Financial Information — Liquidity Risk for maturity profile and term matching of the Group's assets and liabilities as at 30 June 2009.

4. Market risk management

The Group's market risk includes interest rate risk, foreign exchange risk and other price risk.

The Group manages its market risk centrally and the major functional departments for managing market risk are the Asset Liability Management Department, the Financial Markets Department and the Risk Management Department.

During the Reporting Period, the Group devoted its efforts in enhancing the mechanism and basic framework of its market risk management system in order to improve the quality of market risk management. It also developed a hierarchical market risk management structure which coordinates the division of work between the various desks so as to further define its market risk classification, assessment, monitoring, control and reporting process. The Group also standardized and formalized its management of market risk limits, financial instruments classification and risk arising from wealth management products. In carrying out periodic measurement of its capital involving market risk, the Group ensured that sufficient provisions have been made for the market risks undertaken.

(1) Interest rate risk management

The Group implements limit management on interest rate risk of its trading books by setting trading limits, stop-loss limits, exposure limits and sensitivity limits, and systematically monitors such limits. In practice, the Group manages interest rate risks on the trading books through the introduction of parameters such as duration, convexity and basis point value, combined with an analysis of the market environment and position distribution of the Group. Moreover, the Group progressively strengthened the portfolio operation of its trading book, as well as appropriately use financial derivative instruments to control and hedge the interest rate risk of the trading book.

The Group has preliminarily developed a comprehensive banking book interest rate risk monitoring system to monitor interest rate risks of the banking books. By regularly monitoring the gap in the repricing periods of interest rate sensitive assets and liabilities through measures such as gap analysis and taking the initiative to adjust the proportion of floating rate and fixed rate assets, the banking book's exposure to interest rate risk was effectively managed.

(2) Foreign exchange risk management

Based on its risk bias and quality of its operations, the Group has continued to enhance its trading system and information management system to manage and control the Bank's exchange rate risk through measures such as restricting and minimizing the exposure to exchange rate risk by establishing and controlling the relevant limits as permissible under the Bank's policies, strengthening the matching of the currency structure of assets and liabilities by actively adjusting the structure of foreign currency denominated assets, and diverting and hedging against exchange rate risk by suitably utilizing financial derivative instruments.

(3) Other price risk management

Other price risk arises mainly from the equity investments and other commodity price-linked derivative instruments held by the Group. Equity investments held by the Group arise mainly due to historical reasons and from the process of exercising claims on mortgaged assets. The Group does not consider price risk to be significant.

(4) Risk sensitivity analysis

During the Reporting Period, the Group actively promoted the use of Value-at-Risk Model (VaR) to monitor and measure its market risk arising from a portion of its transaction accounts. Currently, sensitivity analysis remains as the Group's primary tool for evaluating and measuring market risk arising from its trading and banking books.

i. Interest rate risk and sensitivity analysis

The Group's asset liability re-pricing date or maturity date (whichever is earlier) as at 30 June 2009 is as follows:

(in millions of RMB)

	Non-interest bearing	Within one month	One to three months	Three months to one year	One to five years	More than five years	Total
Total assets	76,442	1,236,335	422,126	1,035,009	351,791	177,157	3,298,860
Total liabilities	(76,229)	(1,797,178)	(365,813)	(629,569)	(251,823)	(17,876)	(3,138,488)
Net exposure	213	(560,843)	56,313	405,440	99,968	159,281	160,372

The table below shows the impact of a 100 basis point movement in interest rate levels on the Group's net interest income arising from interest-earning assets and interest-bearing liabilities held as at the end of the periods indicated in the next financial year and their effect on the Group's equity as reported:

				(in millions of RMB)
	Net interest income		**Equity**	
	For the 12 months ending 30 June 2010	**For the year ending 31 December 2009**	**As at 30 June 2009**	As at 31 December 2008
Increase of interest rates by 100 basis points	**5,431**	**5,175**	**(2,688)**	(1,971)
Decrease of interest rates by 100 basis points	**(5,431)**	**(5,175)**	**2,841**	2,088

ii. Foreign exchange risk and sensitivity analysis

The Group's foreign exchange exposure as at 30 June 2009 is as follows:

					(in millions of RMB)
	RMB	**USD converted to RMB**	**HKD converted to RMB**	**Others currencies converted to RMB**	**Total**
Total assets	3,013,824	175,709	77,500	31,827	3,298,860
Total liabilities	(2,879,252)	(152,839)	(79,218)	(27,179)	(3,138,488)
Net exposure	134,572	22,870	(1,718)	4,648	160,372

The table below shows the impact of a 5% movement in RMB against the USD, HKD and other foreign currencies on the Group's net profit and equity:

				(in millions of RMB)
	Net profit/(loss)		**Equity**	
	For the six months ended 30 June 2009	For the year ended 31 December 2008	**As at 30 June 2009**	As at 31 December 2008
RMB appreciate by 5%	**(707)**	(903)	**(394)**	(196)
RMB depreciate by 5%	**707**	903	**394**	196

5. Operational risk management

During the Reporting Period, the Group strengthened the centralized management of its operational risk and unveiled its operational risk management plan. It has formulated and commenced an operational risk management system project implementation plan which involved process streamlining and pilot testing with key focus on the implementation of management over operational risk arising from areas such as accounting and settlement, information technology and anti-fraud. The Group achieved stable and secured operations for various lines of its business during the Reporting Period and did not experience any significant operational risk issues or incidents during the Reporting Period.

By closely adhering to its core goal of “Secured operations, efficient operations and quality service”, the Group strengthened management over its treasury, cash, cash box and automated facilities while enhancing its fund remittance process during the Reporting Period. It also strengthened its system development and innovation of risk management tools in addition to optimising and re-designing its accounting risk monitoring system in order to facilitate a detailed and refined management of accounting risk.

During the Reporting Period, the Group was able to continue to enhance its information system risk management capabilities by clearly defining its management requirements and key control areas while simultaneously optimizing its institutional framework and technical standards. It has initiated the bank-wide streamlining of its information system and information assets so as to lay a solid foundation consistent with its plan to safeguard the World Expo.

The Group actively promoted anti-fraud management during the Reporting Period by devoting substantial resources to the prevention of fraud. It established an anti-fraud leadership team and working group as well as a 2-tier (Head Office and branches) anti-fraud process. In addition, it completed the pilot tests for the first phase of the anti-fraud management system. It is actively promoting the development of the second phase as well as establishing a formal whistle-blowing channel.

6. Anti-money laundering management

The Group has undertaken initial steps to develop an anti-money laundering operational framework across the entire Bank. This framework uses institutional establishment as its foundation, internal control system as its core and system platforms as its security. This has helped the in-depth development of the Group’s anti-money laundering efforts.

During the Reporting Period, the Group actively forged ahead with system establishment and training on performing checks to further strengthen the monitoring and control over cross border transactions and formalized the operational management of the anti-money laundering blacklist, thereby effectively guarding against money laundering risk. Furthermore, there had also been breakthroughs in the Group’s system development. The customer risk classification system and off-site anti-money laundering monitoring system enhancement project has become operational throughout the Bank and there has been continued devotion to the optimization of the functionalities of the large and suspicious transactions reporting system.

5 INTERNAL CONTROL

During the Reporting Period, the Group continued to develop its internal control infrastructure development project according to the requirements of the “Basic Internal Control Specifications for Enterprises”. It formulated and implemented various control measures targeted specifically at the effects of changes in international and domestic economic trends to ensure that such measures are realized on a sustainable basis.

1. **Continued enhancement of the comprehensive risk management framework and implementation of New Basel Capital Accord.** The promulgation of the "Bank of Communications 2009–2011 Comprehensive Risk Management Plan" clearly defined the short-term overall risk management strategy and identified the major types of risks covered. The Plan also includes a relatively complete risk bias indicator system for the entire Bank. Three additional credit, market and operational risk management sub-committees, which evaluate specific credit, market and operational risks on a quarterly basis, are also established under the senior management's risk management committee. These sub-committees perform a complete evaluation of the risks arising from foreign branches and subsidiaries. The Plan clarified the division of responsibilities for market risk management and revamped the market risk management system. Furthermore, the Group standardized the wealth management business management framework for the entire Bank while analyzing and evaluating the risk arising from its wealth management products quarterly. Various initiatives under New Basel Capital Accord were implemented in an orderly fashion and some of these initiatives have already achieved certain milestones. These include the corporate internal rating system reaching optimization and in-depth application phase, the retail business internal rating system successfully going online in batches at individual branches and the asset liability management system development project becoming operational. At the same time, the second phase of the asset liability management system development project has commenced and the collateral management system has also gone online.

2. **Strengthening internal control over the assets business.** With regard to the corporate credit business, the Group continued to reduce its exposure to high risk corporate customers through close monitoring of macro-economic trends and policy changes and adjustments to its loan policy. Other controls include the identification and timely response to potential and unexpected credit risks arising from its customers and projects, the management of its loans business through adherence to authorized limits imposed on branches and sub-branches and reliance on regional credit approval centres. The Group also designed a credit management "tool box" consisting of three major ideas — "Industry and customer support, product service and risk management" and 12 "tool kits". The Group also clearly delineated its risk characteristics and made suggestions as to the corresponding mitigation methods and measures to its branches and sub-branches. Activities to meet credit administration management targets were actively initiated and promoted throughout the Bank which encompasses on-site investigations and random examinations of credit administration management quality for grass-root organizations. In relation to retail credit business, specialized centres for small enterprises were established in economically advanced regions to improve the level of professionalism of the small enterprise credit business to improve the level of professionalism of the small enterprise credit business. A 2-tier parameter management system for the Head Office and branches was established to formulate parameters for loan management and production system in order to achieve customized management for retail business of different branches. In terms of credit card business, the Group conducted periodic investigations and implemented measures to crack down on encashment transactions. It also re-evaluated the credit risk for cardholders with longer credit period, adopted more stringent limits policy for high-risk customers and sent early payment reminders.

3. **Strengthen management at all organizational levels.** The Group restructured the internal planning departments of domestic branches and sub-branches by formulating a management plan for them which clearly defined their strategy and management procedures. This strengthened management over the provincial branches. In conjunction with the renaming of provincial branches, the Bank also formulated similar management guidelines for the provincial branches which clearly defined provincial level management strategies and requirements. A risk management plan was tailored for the overseas branches with customized guidelines to evaluate the sufficiency of existing risk management procedures. In addition, the Group formulated business authorization management guidelines and subsidiary classification guidance for its subsidiaries to clearly define the management framework and plan applicable to the different subsidiaries to streamline the reporting structure of its subsidiaries and management responsibilities of the Group's various lines of business over the subsidiaries.

4. **Enhancing business processes integration.** The Group further integrated both its business operations as well as accounting procedures. Furthermore, the successful full-scale implementation of the pilot centralized processing model for commercial paper and letter of credit businesses resulted in an integrated front office operating platform. The Group also improved front office efficiency via integration of its front office processing systems with the "Integrated counter system" which simplified data entry and facilitated teller operations. The Group also conducted pilot tests of the third-party accounting model and proposed amendments to operating procedures for its provincial branches. Other improvements include the enhancement of its accounting process and promotion of the "cash box swapping" management model which simplifies the teller cash box handover procedure and reduces the time required for teller reconciliations. It also conducted pilot implementation of the centralized cash clearance method at selected locations to standardize such procedures. Additionally, the Group continuously enhanced and optimized the electronic signature anti-counterfeit system and electronic reconciliation systems to improve e-service quality.

5. **Comprehensive investigation and exclusion of underlying risks.** The Group continued to conduct credit risk investigations of its watch-list corporate customers and new loans issued to their related entities. It also continued to monitor loans to real estate, steel, construction materials, motor vehicles and ship-building industries as well as Taiwanese-funded enterprises, export enterprises, private enterprises and guaranteed loans. In addition, it conducted risk investigation and analysis for areas such as selected risk indicators, mortgaged assets and entrusted loans. These risk indicators include rural financing, highly leveraged investments, misconduct of senior management, unreasonable foreign investments, the revoking of toll rights for secondary roads. Such analysis helped to clearly define significant management control areas. Bank-wide risk analysis have been conducted twice during the Reporting Period to deal specifically with underlying risks arising from the economic downturn. Furthermore, business areas prone to external and internal fraud have been streamlined and control areas relating to key risks have been strengthened. Management also undertook effective measures to supervise and monitor unusual behaviour by internal and external parties with increased focus on areas prone to fraud to safeguard against operational and ethical risks.

6. **Promoting the "Internal Control Specifications for Enterprises" Standards.** The Group has initiated efforts to conform to standards set out in the "Internal Control Specifications for Enterprises" since the third quarter of last year in accordance with the requirements of the aforementioned standards. It has designed

a "full participation, implementation by level, bi-latitude, four steps" working plan and developed a full set of standards assessment tools. As at the end of the Reporting Period, self assessments have begun for more than 30 business lines and the Bank will enter into a deficiency rectification and standards assessment phase during the second half of the year.

6 STRATEGIC PARTNERSHIP WITH HSBC

The Bank continued to forge ahead with its strategic partnership with HSBC steadily. Consequently both parties achieved remarkable levels of cooperation in various key strategic areas. Fostering this relationship has resulted in several mutually beneficial win-win situations for both parties. Areas of cooperation include technical exchange, credit cards, international business and corporate business.

— Exchange of expertise. HSBC has sent a total of 21 experts to the Bank, as at the end of June 2009, who are stationed in 12 departments including, the Credit Management Department, Audit Department, Risk Management Department, Budget and Finance Department and the Enterprise Culture Department to provide operational guidance. Experts from HSBC also actively participated in a majority of the Bank's 15 key strategic development projects. These include the development of "process-based bank", internal evaluation, comprehensive risk management and data concentration.

— Staff training. In accordance with the senior management capabilities training plan, the HSBC Group's training centre in London, England, has conducted five senior management leadership capability development training sessions since 2006. These sessions have been attended by 62 members of the Group's senior management, including department chiefs of Head Office, presidents of branches and person-in-charge of subsidiaries; such training has helped to raise the strategic thinking and leadership capabilities of the Group's key personnel. HSBC also organized 30 lesson-based sessions lasting 56.5 days for 2,077 staff members of the Bank's core business.

— Employee exchanges. As at the end of June 2009, the Bank's Budget and Finance Department, Corporate Banking Department, Asset Custody Department, Operations Department, Training Centre and other Departments have sent 79 staff members of the Bank's core business to HSBC Hong Kong on internship programs to experience, first hand, the advanced management experience and operating model, which HSBC possesses as a leading first class international commercial bank.

— In accordance with the principles of bilateral exchanges, the Bank also assisted HSBC in organizing 32 specialized training sessions for 386 staff members from HSBC's domestic branches. It also sent 2 experts to provide technical advice and support as well as to share the Group's experience in the Chinese market.

— In terms of credit card business, the jointly managed credit card centre achieved favorable progress in business development. Accumulated card spending from January to June 2009 was RMB69.03 billion, an increase of RMB30.53 billion or 79.3% as compared to the corresponding period in prior year. The Group ranked among the best in terms of the indicators such as credit card expenditure and accounts receivable (on per card basis) as compared to its peers within the industry. The Group maintained relatively favorable levels for all quality indicators and income indicators as compared to its peers in the industry.

— Both parties have fully utilized their complementary advantage in the RMB treasury business. During the Reporting Period, the Group provided HSBC with RMB placements totalling 10 billion and purchased treasury bonds amounting to RMB0.47 billion in aggregate from HSBC.

— In the international business domain, cooperation between the various business lines has operated seamlessly. The areas of cooperation are mainly in foreign exchange transactions, fast remittances, letters of credit notification, trade finance, foreign exchange settlement, Hong Kong regional businesses and overseas branches money market businesses. During the Reporting Period, there have been more than 600 foreign exchange transactions exceeding USD10 billion and more than 11,000 fast remittances totalling more than USD1 billion between the two banks. Through its collaboration with HSBC, the Group was able to move a step ahead of its competitors in the cross border RMB settlement domain by relying on its wide domestic network and leveraging on HSBC's expertise in the international banking and trade finance businesses to complete the first cross-border RMB trade settlement deal in China.

— In the corporate business domain, both parties have actively explored the feasibility of cooperation in the rural financing business in addition to the joint provision of financing services to well-known multi-national corporations and the "Green Credit" project. Owning to the steady progress in the phase two integration of the main servers of both banks and the successful implementation of its third party account holder inquiry capabilities, the inquiry service has been made available to customers on a trial basis.

In view of its confidence in the future development of the Bank and the development of the bilateral cooperation between the parties, HSBC has expressed its intention to retain shareholdings in the Bank for long term. The long term strategic partnership and cross-holding relationship between both Banks remain strong. Looking ahead, both parties will continue to proceed with their mutually beneficial strategic collaboration through more in-depth technical cooperation and exchanges and by exploring new areas of business cooperation.

7 PROSPECTS FOR THE SECOND HALF OF 2009

Second half of 2009 should see the domestic economy experience a period of stability before a full recovery is achieved. However, there remain many uncertain factors which may impede the recovery. The Group will actively adapt to macro-economic changes while remaining steadfast in its commitment to achieve comprehensive and coordinated developments in scale, quality and returns. Firstly, leveraging on the strategic opportunities offered by the Shanghai World Expo and the development of Shanghai as China's "financial and shipping center", the Group will promote the accelerated development of key areas and businesses in order to further optimize its business structure. Secondly, the Group will intensify its efforts in realignment of its asset-liability structure by actively expanding sources of low-cost funds, improving efficiency of capital deployment, reducing borrowing costs, increasing return on assets and enlarging the interest spreads. Thirdly, it will continue to devote significant efforts to develop its fee-based business and enhance its revenue structure to raise the contribution of fee-based business income. Fourthly, it will continue to strengthen risk management and internal controls to ensure operational security. Fifthly, it plans to reinforce its institutional, products and service innovation to promote the establishment of "process-based bank" and accelerate innovation for key areas and products. Lastly, there would be continued cost-cutting efforts to strengthen cost control, thereby raising operating efficiency.

Details of Changes in Share Capital and Shareholdings of Shareholders

1 DETAILS OF CHANGES IN SHARE CAPITAL

As at 30 June 2009, the Bank had a total of 392,126 shareholders with 344,700 shareholders holding A shares and 47,426 shareholders holding H shares.

	1 January 2009		Increase/decrease during the Reporting Period					30 June 2009	
	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 restriction on sales									
(1) State-owned shares	9,974,982,648	20.36	–	–	–	–	–	9,974,982,648	20.36
(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 restriction on sales									
(1) RMB-denominated ordinary shares	15,954,932,919	32.57	–	–	–	–	–	15,954,932,919	32.57
(2) Domestically listed foreign shares									
(3) Overseas listed foreign shares	23,064,468,136	47.07	–	–	–	–	–	23,064,468,136	47.07
(4) Others									
3. Total	48,994,383,703	100.00	–	–	–	–	–	48,994,383,703	100.00

2 PARTICULARS OF SHAREHOLDINGS OF THE TOP 10 SHAREHOLDERS SUBJECT TO RESTRICTION ON SALES AS AT 30 JUNE 2009 (ACCORDING TO THE BANK'S REGISTER OF SHAREHOLDERS MAINTAINED AT ITS SHARE REGISTRAR)

Name of shareholder	Number of shares subject to restriction on sales	Date on which shares become tradable	Number of tradable shares	Restrictions
Ministry of Finance of the People's Republic of China	9,974,982,648	16 May 2010	9,974,982,648	Commitment

3 PARTICULARS OF SHAREHOLDINGS OF THE TOP 10 SHAREHOLDERS AND TOP 10 SHAREHOLDERS NOT SUBJECT TO RESTRICTION ON SALES (ACCORDING TO THE BANK'S REGISTER OF SHAREHOLDERS MAINTAINED AT ITS SHARE REGISTRAR)

1. Shareholdings of the Top 10 shareholders

No.	Name of shareholder	Nature of shareholder	Shareholding percentage (%)	Number of shares held	Number of shares subject to restrictions on sales	Number of pledged or frozen shares[1]
1	Ministry of Finance of the People's Republic of China	State	26.48	12,974,982,648	9,974,982,648	Nil
2	HKSCC Nominees Limited[2]	Foreign-owned	21.91	10,735,626,222	–	–
3	The Hongkong and Shanghai Banking Corporation Limited[3]	Foreign-owned	18.60	9,115,002,580	–	Nil
4	Capital Airports Holding (Group) Company	State-owned	2.01	985,447,500	–	–
5	State Grid Asset Management Company Limited	State-owned	0.92	451,445,193	–	–
6	Shanghai Tobacco (Group) Corp.	State-owned	0.77	378,328,046	–	–
7	Yunnan Hongta Group Co. Ltd.	State-owned	0.71	346,787,979	–	–
8	Sinopec Finance Company Limited	Domestic legal person	0.62	304,320,800	–	–
9	Huaneng Capital Services Corporation Ltd.	State-owned	0.55	268,501,276	–	–
10	Daqing Petroleum Administration Bureau	State-owned	0.48	233,151,118	–	–

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, or of the existence of any connected relationship between the above shareholders.
2. This represents the aggregate number of H shares held by HKSCC Nominees Limited as the nominees for all institutional and individual investors that maintain an account with it as at 30 June 2009. According to the information provided by the National Council for Social Security Fund, National Council for Social Security Fund held 5,555,555,556 H shares of the Bank as at 30 June 2009, representing 11.34% of the total issued share capital of the Bank and all these shares are held through HKSCC Nominees Limited (similarly 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 9,115,002,580 H shares of the Bank as at 30 June 2009. In addition, according to the disclosure of interests forms filed with The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") by HSBC Holdings plc, HSBC beneficially held 9,312,013,580 H shares of the Bank, and, through its subsidiaries, indirectly held 69,470,681 H shares as at 30 June 2009. In aggregate, HSBC held 9,381,484,261 H shares of the Bank, representing 19.15% of the total issued share capital of the Bank (similarly hereinafter).

2. Top 10 shareholders not subject to restriction on sales

No.	Name of shareholder	Number of shares held	Shareholding percentage (%)	Type of share
1	HKSCC Nominees Limited	10,735,626,222	21.91	H share
2	The Hongkong and Shanghai Banking Corporation Limited	9,115,002,580	18.60	H share
3	Ministry of Finance of the People's Republic of China	3,000,000,000	6.12	H share
4	Capital Airports Holding (Group) Company	985,447,500	2.01	A share
5	State Grid Asset Management Company Limited	451,445,193	0.92	A share
6	Shanghai Tobacco (Group) Corp.	378,328,046	0.77	A share
7	Yunnan Hongta Group Co. Ltd.	346,787,979	0.71	A share
8	Sinopec Finance Company Limited	304,320,800	0.62	A share
9	Huaneng Capital Services Corporation Ltd.	268,501,276	0.55	A share
10	Daqing Petroleum Administration Bureau	233,151,118	0.48	A share
Connected relations or concerted actions among the above shareholders:		The Bank is not aware of any connected relations among the above shareholders or whether they are parties acting in concert.		

4 SUBSTANTIAL SHAREHOLDERS AND HOLDERS OF INTERESTS OR SHORT POSITIONS REQUIRED TO BE DISCLOSED UNDER DIVISIONS 2 AND 3 OF PART XV OF THE HONG KONG SECURITIES AND FUTURES ORDINANCE

As at 30 June 2009, the substantial shareholders and other persons (other than the 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 Hong Kong Securities and Futures Ordinance (the "**SFO**") are 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	9,974,982,648	Long position	38.47	20.36

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	5,555,555,556	Long position	24.09	11.34
Ministry of Finance of the People's Republic of China	Beneficial owner	3,000,000,000	Long position	13.01	6.12
The Hongkong and Shanghai Banking Corporation Limited	Beneficial owner	9,312,013,580	Long position	40.37	19.01
	Interest of controlled corporations[2]	69,470,681	Long position	0.30	0.14
	Total:	9,381,484,261		40.67	19.15
HSBC Finance (Netherlands)	Interest of controlled corporations[3]	9,381,484,261	Long position	40.67	19.15
HSBC Bank plc	Interest of controlled corporations[4]	309,481	Long position	0.0013	0.0006
HSBC Holdings plc	Interest of controlled corporations[5]	9,381,793,742	Long position	40.67	19.15

Notes:

1. Long positions held other than through equity derivatives.
2. HSBC holds 62.14% interest in Hang Seng Bank Limited. Pursuant to the SFO, HSBC is deemed to be interested in the H shares which are held by Hang Seng Bank Limited.
   Hang Seng Bank Limited is deemed to be interested in the 69,470,681 H shares held by its wholly-owned subsidiaries. Such 69,470,681 H shares represent the aggregate of 7,139,564 H shares indirectly held by Hang Seng Bank (Bahamas) Limited, 61,532,838 H shares directly held by Hang Seng Bank Trustee International Limited and 798,279 H shares directly held by Hang Seng Bank (Trustee) Limited.
   Hang Seng Bank (Bahamas) Limited is deemed to be interested in the 7,139,564 H shares held by its wholly-owned subsidiary, Hang Seng Bank Trustee (Bahamas) Limited.
3. HSBC is wholly-owned by HSBC Asia Holdings BV. HSBC Asia Holdings BV is in turn wholly-owned by HSBC Asia Holdings (UK). HSBC Asia Holdings (UK) 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, each of HSBC Asia Holdings BV, HSBC Asia Holdings (UK), HSBC Holdings BV and HSBC Finance (Netherlands) is deemed to be interested in the 9,381,484,261 H shares in which HSBC has an interest.
4. HSBC Financial Products (France) holds 309,481 H shares. HSBC France owns an equity interest of 58.25% in HSBC Financial Products (France), while the remaining 41.75% equity interest is held by HSBC Securities (France) SA, a wholly-owned subsidiary of HSBC France. HSBC France is in turn wholly-owned by HSBC Bank plc. Pursuant to the SFO, each of HSBC Securities (France) SA, HSBC France and HSBC Bank plc is deemed to be interested in the 309,481 H shares held by HSBC Financial Products (France).
5. HSBC Finance (Netherlands) and HSBC Bank plc are wholly-owned by HSBC Holdings plc. Pursuant to Notes 2, 3, and 4 and the SFO, HSBC Holdings plc is deemed to be interested in the 9,381,484,261 H shares in which HSBC has an interest and the 309,481 H shares in which HSBC Bank plc has an interest.

Except as disclosed above, 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 30 June 2009.

Directors, Supervisors, Senior Management and Staff

1 MEMBERS OF THE BOARD OF DIRECTORS

Name	Position	Name	Position
Hu Huaibang	Chairman of the Board of Directors, Executive Director	Ji Guoqiang	Non-executive Director
Li Jun	Vice Chairman of the Board of Directors, Executive Director, President	Lei Jun	Non-executive Director
Peng Chun	Executive Director, Vice President	Yang Fenglin	Non-executive Director
Qian Wenhui	Executive Director, Vice President	Xie Qingjian	Independent Non-executive Director
Zhang Jixiang	Non-executive Director, Secretary of the Board of Directors	Ian Ramsay Wilson	Independent Non-executive Director
Hu Huating	Non-executive Director	Thomas Joseph Manning	Independent Non-executive Director
Qian Hongyi	Non-executive Director	Chen Qingtai	Independent Non-executive Director
Peter Wong Tung Shun	Non-executive Director	Li Ka-cheung, Eric	Independent Non-executive Director
Laura M. Cha	Non-executive Director	Gu Mingchao	Independent Non-executive Director

2 MEMBERS OF THE BOARD OF SUPERVISORS

Name	Position	Name	Position
Hua Qingshan	Chairman of the Board of Supervisors	Zheng Li	External Supervisor
Guan Zhenyi	Supervisor	Jiang Zuqi	External Supervisor
Yang Fajia	Supervisor	Liu Sha	Employee Representative Supervisor
Wang Lisheng	Supervisor	Chen Qing	Employee Representative Supervisor
Li Jin	Supervisor	Shuai Shi	Employee Representative Supervisor
Yan Hong	Supervisor		

3 MEMBERS OF SENIOR MANAGEMENT

Name	Position	Name	Position
Li Jun	President	Shou Meisheng	Secretary of Discipline Committee
Peng Chun	Vice President	Dicky Peter Yip	Vice President
Qian Wenhui	Vice President	Hou Weidong	Chief Information Officer
Wang Bin	Vice President	Yang Dongping	Chief Risk Management Officer
Yu Yali	Vice President and Chief Financial Officer		

4 CHANGES IN SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Number of shares held at the beginning of the year	Type of share	Change in shareholding during the Reporting Period	Number of shares held at the end of the Reporting Period	Reasons for changes in shareholding
Yang Dongping	Chief Risk Management Officer	75,000	A share	0	75,000	—

There have been no changes in the shareholdings of directors, supervisors and senior management of the Bank during the Reporting Period. Save as disclosed in section headed "Changes in Shareholdings of Directors, Supervisors and Senior Management" above, as at 30 June 2009, none of the Bank's directors, supervisors and chief executive had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO), or which were required to be entered in the register pursuant to section 352 of the SFO, or which were required, pursuant to Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Listing Rules**"), to be notified to the Bank and the Hong Kong Stock Exchange.

5 CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There have been no changes in directors, supervisors and senior management of the Bank during the Reporting Period.

6 UPDATE ON DIRECTORS' AND SUPERVISORS' BIOGRAPHICAL DETAILS

Other than the positions held in other companies already disclosed in the Bank's 2008 Annual Report, Mr. Peter Wong Tung Shun is also currently the Chairman and Non-executive Director of Beijing Miyun HSBC Rural Bank Company Limited and Guangdong Enping HSBC Rural Bank Company Limited, Independent Non-executive Director of Cathay Pacific Airways Limited, and Director of Hang Seng School of Commerce.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Hong Kong Listing Rules.

7 STAFF

1. Number of staff

As at 30 June 2009, the Bank employed a total of 76,289 employees, representing a decrease of 1.85% from the beginning of the year. Among whom, 614 employees possess advanced professional and technical qualifications, accounting for approximately 0.80% of the total number of employees; 16,658 employees possess intermediate professional and technical qualifications, accounting for approximately 21.84% of the total number of employees; 3,098 employees possess postgraduate degrees or higher educational qualifications, accounting for approximately 4.06% of the total number of employees; 37,523 employees have undergraduate degrees, accounting for approximately 49.19% of the total number of employees; and 31,278 employees have received college and professional training education, accounting for approximately 41.00% of the total number of employees.

2. Human resource management

In view of the Bank's strategies objectives, the Bank has continually enhanced its organizational and job designation structure. Focusing on the development trends of the market and the industry, the Bank dynamically adjusts its organization structure by strengthening the linkage between the organization structure, job designations and strategic objectives. The Bank maintains its existing "pyramid management structure" in order to improve management efficiency. By establishing a job designation model which promotes bilateral management and professional development, the Bank broadens the available development opportunities for its employees. The human resource allocation process strongly emphasizes on productivity. This coupled with the full support of operating restructuring, establishment and renovation of business sublets, standardization of the Bank's business processes and the promotion of a comprehensive risk management framework, thereby allowing the Bank to leverage on its strong human resources to promote the rapid development of its business.

The Bank continues to implement its unique remuneration and management system of "taking the position as the basis, with the labor market price as target and unifying the job and performance value". The Bank continues to design and implement the staff welfare policy with corporate annuity as major component and characterized with the principle of "unified approach and standardized operation and management throughout the entire Bank".

Corporate Governance

The Bank endeavors to maintain a high standard of corporate governance. The Bank strictly complies with the PRC Company Law, the PRC Commercial Banking Law and other relevant legislations, regulations and guidelines, continuously enhances its corporate governance practices and adequately safeguard the interest of its domestic and foreign shareholders as well as other stakeholders. The Directors of the Bank confirm that, during the six months ended 30 June 2009, the Bank has fully complied with the regulatory rules in relation to corporate governance promulgated by regulatory authorities including the China Securities Regulatory Commission and China Banking Regulatory Commission as well as the principles and code provisions stipulated in Appendix 14 to the Hong Kong Listing Rules "Code of Corporate Governance Practices" and essentially complied with most of the recommended best practices set out in the Code of Corporate Governance Practices.

1 SHAREHOLDERS' GENERAL MEETING

During the Reporting Period, the Bank held an Annual General Meeting to consider and approve the following 12 resolutions:

i) the work report of the Bank's Board of Directors for the year 2008;

ii) the report of the Bank's Board of Supervisors for the year 2008;

iii) the audited consolidated financial statements of the Bank for the year 2008;

iv) the fixed assets investment budget of the Bank for the year 2009;

v) the profit distribution plan of the Bank for the year 2008;

vi) the appointment of auditors for the year 2009;

vii) the remuneration plan for the Directors and Supervisors of the Bank for the year 2008;

viii) the amendments to the Work Procedures for Independent Directors of Bank of Communications Co., Ltd.;

ix) the re-election of Mr. Hu Huaibang, Mr. Qian Hongyi, Mr. Ji Guoqiang and Mr. Lei Jun as Directors of the Bank;

x) the re-election of Mr. Yan Hong as a Supervisor of the Bank;

xi) the amendments to the Articles of Association of Bank of Communications Co., Ltd.; and

xii) the issue of subordinated bonds from 2009 to 2011.

2 BOARD OF DIRECTORS

The Board of Directors held four meetings during the Reporting Period to consider and approve 25 resolutions, including the following:

i) periodic reports;

ii) Report on Corporate Social Responsibilities for the year 2008;

iii) Report on Internal Control for the year 2008;

iv) Overall Implementation Plan of New Basel Capital Accord;

v) compliance policies;

vi) Capital Management Plans for 2009–2013; and

vii) 2009–2011 Comprehensive Risk Management Work Plan.

In addition, the various committees of the Board of Directors also held eleven meetings during the Reporting Period. All directors conscientiously attended the board and board committee meetings and carried out their duties diligently, thereby effectively exercising the Board of Directors' functions of strategy setting and decision making, and the various committees' functions of providing consulting advice.

3 BOARD OF SUPERVISORS

The Board of Supervisors held two meetings during the Reporting Period at which the Board of Supervisors approved, amongst others, periodic reports, the audited financial statements, the profit distribution plan, the report of the Board of Supervisors for the year 2008, the 2009 work plans for the Board of Supervisors and its various committees. The Board of the Supervisors continued to refine its due diligence evaluation and its work scope includes:

(i) communicating the "Suggestions of the Board of Supervisors on the performance of duties by the Board of Directors and Senior Management" to the Board of Directors and senior management;

(ii) preparing and sending to the Supervisors the "Board of Supervisors' Performance of Duties Evaluation Questionnaire for 2008";

(iii) approving and submitting to relevant regulatory authorities the "Board of Supervisors' Performance of Duties Evaluation Questionnaire Consolidated Report";

(iv) reviewing the periodic reports by senior management with regard to market risk and wealth management business risk management;

(v) conducting inspection visits at five regional credit assessment and approval centers and six regional audit departments to gain in-depth understanding of credit management and internal controls; and

(vi) proposing suggestions to the Board of Directors and senior management.

During the Reporting Period, the Board of Supervisors also increased the scope of its inspection to cover branches where internal controls are relatively weaker and placed greater emphasis on the financial analysis of the Bank as a whole, and actively conducted specialized training for the supervisors.

All supervisors conscientiously attended the meetings of the Board of Supervisors and presented at the meetings of the Board of Directors and its committees. They have diligently carried out their duties, effectively protected the interests of the shareholders and enhanced the quality of the Bank's management.

4 SENIOR MANAGEMENT

The Bank's senior management team comprises nine members, including the President, Vice-President, Secretary of Discipline Committee, Chief Financial Officer, Chief Information Officer and Chief Risk Management Officer. The Bank's senior management team diligently manages the Bank's operating activities and implements resolutions of the Board of Directors in accordance with the applicable laws and regulations, the Bank's Articles of Association and the authorization of the Board of Directors.

5 INVESTOR RELATIONS

During the Reporting Period, the Bank continued its active and transparent approach in its communications with investors. As part of its active and transparent approach, the Bank published regular results announcements, organized overseas road shows, arranged for reception for investors and analysts, and participated in investment strategy seminars organized by investment banks and securities companies. The senior management evaluated advices and suggestions from the investors and analysts on a timely basis. Investor relationship management forms an important communication channel between the Bank and the capital markets.

Corporate Social Responsibilities

In the light of the global financial crisis and rapid changes in the domestic macro-economic environment during the Reporting Period, the Bank continued to actively fulfill its corporate responsibilities towards the economy, environment and the society.

1 ECONOMIC RESPONSIBILITIES

The Bank adopts a policy of "ensuring a continuous, stable and relatively rapid development of national economy" as the basic requirement for its corporate social responsibilities. The Bank focuses on striking a balance between corporate benefits and social responsibilities, thereby allowing the Bank to exercise its function as a state-owned Bank in order to support the implementation of the national macro-control policy.

1. The Bank capitalized on the favourable conditions offered by the implementation of the government's active fiscal policy and loose monetary policy to increase its loan disbursements. At the same time it introduced structural realignment and accelerated the strategic reform. The Bank also supported the development of small-and-medium enterprises as part of its key measure to overcome the impact of the global financial crisis on the domestic economy. As at 30 June 2009, the Bank has provided financing for 10,201 small-and-medium enterprises under its "BOCOM PROMOTION" SME service brand, representing an increase of 3,820 enterprises or 59.87% since the beginning of the year. Total financing has increased by RMB19.44 billion or 88.69% to RMB41.36 billion since the beginning of the year, while total loans increased by RMB12.675 billion or 82.63% to RMB28.015 billion since the beginning of the year. The loan business to small-and-medium enterprises has been an important factor leading to the business growth of the Bank and received wide attention from both investors and domestic as well as foreign media. The Bank has also won awards such as the "Leading Corporation in Providing Financing for Small Enterprises" from China Banking Regulatory Commission and "Best Local Bank in China for Small and Medium Enterprises" from Global Finance. Commendations from local governments or financial regulatory authorities were also received for 15 branches.

2. The Bank set up trial units which operate for small enterprises within six of its provincial branches. This allows units catering for small enterprises to be at the same branch as the main business. This business model was put into practice in June, and specialized small enterprises service organizations has effectively cover the small enterprise credit business for domestic branches. The China Banking Regulatory Commission used this as a model for large banks to set up business units for small enterprises. At the same time, the Bank collaborated with Fudan University to publish a growth index for small-and-medium enterprises within the Yangtze River Delta region to contribute its professional expertise in view of the society's attention on the development of small-and-medium enterprises.

3. The Bank is the world-wide commercial bank partner for the 2010 Shanghai World Expo, and provides financial support for the construction and operation of the Shanghai World Expo. As at 30 June 2009, the Bank provided construction and operation funding exceeding RMB6 billion, an increase of 165% since the beginning of the year. The Bank also sold 470,000 tickets for the Shanghai World Expo, and souvenirs worth approximately RMB63 million. These effectively accelerated recovery of the Shanghai World Expo's operating overlays.

2 ENVIRONMENTAL RESPONSIBILITIES

The Bank has actively adhered to the national macro-economic policies and strategic direction of sustainable development to facilitate energy conservation, emission reducing and environment preservation through financial means.

1. The Bank adopted the "Green Credit" project as its long term strategic development tool and was the first to implement formal management of its "Green Credit" project among its peers. In 2008, the Bank completed the Green Credit categorization for its existing credit clients and leveraged on this to continue to increase the proportion of its Green Credit customers as well as loans to these customers. As at 30 June 2009, Green Credit customers comprised 97.68% of the Bank's total credit customer base, and 99.03% of its total loan portfolio, representing increases of 0.97 and 0.59 percentage point, respectively, since the beginning of the year.

2. The Bank pro-actively increased its support to enterprises and projects that focuses on energy saving, emission reduction, and sustainable development. Its support is reflected in its efforts in prioritizing those "Green Credit" projects involving integrated use of resources, new resources development projects, and projects on enhancing the living and natural environment. At the beginning of 2009, during the 21st Century Asia Finance Annual Conference "the Green Financial Forum", the two projects supported by the Bank, namely "Shanghai Grass-Sand Water Source Improvement project" and "Changzhou Ge Lake Water Environment Improvement project" were commended as "2008 Best 10 Green Credit Project in China".

3 SOCIAL RESPONSIBILITIES

The Bank closely adheres to the guideline of "focus on harmony and honesty, continuous self-refinement, in order to grow together with the society". The Bank continues to make contributions to charity, and support the construction and development of a harmonious society.

1. The Bank formalized its policy on external charity donations by implementing "Guidelines on Donation Application and Management", which formalized management over the application, execution and tracking of charity donations at the branch level.

2. The "Towards Tomorrow — BOCOM Disabled Youths Scholarship Program" continued to achieve progress. The Bank has committed to donations of RMB100 million to the program. At the beginning of the year, it was confirmed that the funding for the first phase of the program had been received by the needy students and schools, comprising more than 4,100 students and 24 schools in 22 provinces, cities and autonomous regions.

3. The Bank continued to implement its charity program in Tibetan Tianzhu Autonomous County, Gansu Provision. Total funding injected into the program exceeded RMB14 million so far, and the program has significantly improved the living standards of the local residents. In the first half of the year, Dalong Road Bridge in Tianzhu, which costs more than RMB3.05 million, was completed. This project funded by the Bank helped to solve transportation problems for 3 schools (including Tianzhu Minzu School), and brought convenience to people from 38 villages in 3 towns. The Bank also donated RMB1.96 million for the re-construction of the Tianzhu County 2nd People's Hospital, where the outpatient and medical service building has been completed.

4. During the Reporting Period, the Bank donated RMB2.7 million to the "Health Express — Bank of Communications Ophthalmology and Microsurgery Training Centre" project. The project is designed to provide professional training for doctors, which seek to help eye disease patients in poverty-stricken areas.

Significant Events

1 PROFIT DISTRIBUTION

1. 2008 Final Dividend

The Bank's "2008 Final Profit Distribution Plan" was approved at the 2008 Annual General Meeting held on 8 May 2009. Based on 48.994 billion shares of the Bank in issue as at 31 December 2008, a final cash dividend of RMB0.10 per share (pre-tax) was distributed, totaling RMB4.899 billion.

2. 2009 Interim Dividend

At the Sixteenth Meeting of the Fifth Session of the Board of Directors on 19 August 2009, the 2009 Interim Profit Distribution Plan was considered and approved in accordance with the Bank's Articles of Association. Under the plan, based on 48.994 billion shares of the Bank in issue as at 30 June 2009, a cash dividend of RMB0.10 per share (2008 Interim: RMB0.10 per share) (pre-tax) was declared, totaling RMB4.899 billion (2008 Interim: RMB4.899 billion).

2 INVESTMENT IN OTHER COMPANIES

1. Holding of shares and securities issued by other listed companies

(in RMB unless otherwise stated)

No.	Stock code	Simplified stock name	Number of shares held at the end of the Reporting Period (share)	Initial investment cost	Book value at the end of the Reporting Period	Book value at the beginning of the Reporting Period	Percentage of total investment in securities as at the end of the Reporting Period (%)	Gain/(loss) during the Reporting Period	Accounting items
1	600068	Gezhouba	34,153,000	140,315,551.00	415,300,480.00	301,912,520.00	0.05	–	Available-for-sale securities
2	03377	Sino-Ocean Land	20,245,500	138,863,720.57	158,288,974.40	62,489,355.39	0.02	–	Available-for-sale securities
3	00388	HKEX	775,000	2,283,555.01	82,453,199.20	48,427,810.29	0.01	1,632,597.66	Available-for-sale securities
4	000979	ST Keyuan	10,960,000	12,494,400.00	81,432,800.00	52,060,000.00	0.01	–	Available-for-sale securities
5	600642	Shennenggufen	5,000,000	9,333,333.33	49,300,000.00	29,950,000.00	0.01	500,000.00	Available-for-sale securities
6	600643	Aijiangufen	3,710,148	7,000,000.00	48,120,619.56	20,851,031.76	0.01	–	Available-for-sale securities
7	600774	Hanshangjituan	7,023,877	8,400,000.00	41,721,829.38	21,212,108.54	0.01	–	Available-for-sale securities
8	601727	Shanghaidianqi	3,879,600	1,615,980.00	40,425,432.00	22,424,088.00	0.01	217,257.60	Available-for-sale securities
9	000001	Shenfazhan	1,772,700	3,239,841.66	38,680,314.00	16,769,742.00	–	45,710.16	Available-for-sale securities
10	00658	Zhongguogaosuchuandong	2,800,000	34,759,889.09	38,106,921.54	N/A	–	–	Available-for-sale securities
		Others		274,376,297.77	272,746,479.58	112,927,339.32	0.03	414,598,478.57	Financial assets held for trading/ Available-for-sale securities
		Total		**632,682,568.43**	**1,266,577,049.66**	**689,023,995.30**	**0.16**	**416,994,043.99**	

Notes:

1. The table above sets out equity investments in other listed companies recorded as available-for-sale securities and financial assets held for trading in the Group's consolidated financial statements, listed in descending order of book value at the end of the Reporting Period.
2. Percentage of total investment in securities as at the end of the Reporting Period represents the proportion of the book value of the stated investment in securities as at the end of the Reporting Period to the Group's total investment in various securities.
3. Gain/(loss) during the Reporting Period refers to dividend income, gains or losses arising from disposal and changes in fair value.

2. Holding of shares issued by unlisted financial institutions

(in RMB unless otherwise stated)

No.	Name of institution	Initial investment cost	Number of shares held (share)	Shareholding percentage (%)	Book value at the end of the Reporting Period	Gain/(loss) during the Reporting Period	Change in owners' equity during the Reporting Period	Accounting items	Source of shares
1	Jiangsu Changshu Rural Commercial Bank Co., Ltd.	380,000,000.00	57,560,225	10.00	380,000,000.00	13,670,553.44	–	Available-for-sale securities	Acquisition
2	China Union Pay Co., Ltd.	146,250,000.00	112,500,000	3.90	146,250,000.00	3,825,000.00	–	Available-for-sale securities	Acquisition
	Total	**526,250,000.00**	**170,060,225**		**526,250,000.00**	**17,495,553.44**	**–**		

Notes:

1. The table is based on the consolidated financial statements.
2. Gain/(loss) during the Reporting Period refers to dividend income from the stated securities investment.
3. Change in owners' equity during the Reporting Period refers to changes in fair value recognized directly in owners' equity.

3 MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, there was no material litigation and arbitration that might have a significant impact on the operation of the Bank.

4 SIGNIFICANT RELATED PARTY TRANSACTIONS

During the Reporting Period, the Bank did not enter into any significant related party transactions under the Listing Rules of the Shanghai Stock Exchange.

5 AUDIT COMMITTEE

The Bank has established an Audit Committee in accordance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Hong Kong Listing Rules. The main responsibilities of the Audit Committee is to review the Bank's internal and external audits, examine and approve financial reports and oversee the implementation of the Bank's internal control policies and the efficiency and compliance of the Bank's internal control. The Audit Committee comprised Dr. Li Ka-cheung, Eric (Independent Non-Executive Director), Mr. Qian Hongyi (Non-Executive Director), Mr. Yang Fenglin (Non-Executive Director), Mr. Gu Mingchao (Independent Non-Executive Director) and Mr. Chen Qingtai (Independent Non-Executive Director). Dr. Li Ka-cheung, Eric serves as Chairman of the Audit Committee. The Audit Committee reviewed the Bank's accounting policies and practices together with senior management and discusses issues relating to internal control and financial reporting, including the review of the interim results.

6 PURCHASE, SALE OR REDEMPTION OF THE BANK'S SHARES

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

7 COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Bank adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Hong Kong Listing Rules. The Bank made specific enquiries of all its directors and supervisors and each of them confirmed that they had complied with the required standards of the Model Code during the Reporting Period.

8 COMPLIANCE WITH THE HONG KONG STOCK EXCHANGE'S CORPORATE GOVERNANCE PRACTICES

The Bank was in compliance with the code provisions in the Code on Corporate Governance Practices set out in Appendix 14 to the Hong Kong Listing Rules during the Reporting Period. Please refer to the section headed "Corporate Governance" in page 46 of this report.

List of Branches

1 DOMESTIC BRANCHES

No	Branch name	Address	Number of outlets	Number of employees
1	Beijing Branch	33 Jin Rong Jie, Xi Cheng District, Beijing	102	3,928
2	Tianjin Branch	35 Nanjing Lu, He Xi District, Tianjin	69	1,519
3	Hebei Branch	22 Zi Qiang Lu, Qiao Xi District, Shijiazhuang, Hebei Province	29	851
4	Tangshan Branch	103 Xin Hua Dong Dao, Lu Bei District, Tangshan, Hebei Province	21	546
5	Qinhuangdao Branch	174 Wen Hua Lu, Hai Gang District, Qinhuangdao, Hebei Province	23	474
6	Handan Branch	340 Ren Min Dong Lu, Handan, Hebei Province	1	46
7	Shanxi Branch	35 Jie Fang Lu, Ying Ze District, Taiyuan, Shanxi Province	26	703
8	Jincheng Branch	878 Huang Hua Jie, Urban District, Jincheng, Shanxi Province	6	139
9	Inner Mongolia Branch	110 West Da Xue Lu, Sai Han District, Huhhot, Inner Mongolia Autonomous Region	3	236
10	Baotou Branch	24 Gang Tie Da Jie, Qing Shan District, Baotou, Inner Mongolia Autonomous Region	9	235
11	Liaoning Branch	100 Shi Yi Wei Lu, Shen He District, Shenyang, Liaoning Province	45	1,164
12	Anshan Branch	38 Er Yi Jiu Lu, Tie Dong District, Anshan, Liaoning Province	29	540
13	Fushun Branch	2-1 Xi Yi Lu, Xin Fu District, Fushun, Liaoning Province	21	515
14	Dandong Branch	68 Jin Shan Da Jie, Zheng Xing District, Dandong, Liaoning Province	21	358
15	Jinzhou Branch	42 Yun Fei Jie Er Duan, Ling He District, Jinzhou, Liaoning Province	21	375
16	Yingkou Branch	21 Bo Hai Da Jie Xi, Xi Shi District, Yingkou, Liaoning Province	28	592
17	Liaoyang Sub-branch	114 Xin Yun Da Jie, Liaoyang, Liaoning Province	6	133
18	Jilin Provincial Branch	3515 Ren Min Da Jie, Chao Yang District, Changchun, Jilin Province	34	1,031
19	Jilin Branch	4 Song Jiang Dong Lu, Chang Yi District, Jilin, Jilin Province	25	525
20	Yanbian Branch	172 Guang Ming Jie, Yanji, Jilin Province	11	300
21	Heilongjiang Branch	428 You Yi Lu, Dao Li District, Harbin, Heilongjiang Province	44	1,078
22	Qiqihar Branch	199 Bu Kui Da Jie, Jian Hua District, Qiqihar, Heilongjiang Province	20	424
23	Daqing Branch	2 Re Yuan Jie, Dong Feng Lu, Sang Er Tu District, Daqing, Heilongjiang Province	23	661
24	Shanghai Branch	99 Zhong Shan Nan Lu, Shanghai	115	4,091
25	Jiangsu Branch	124 Zhong Shan Bei Lu, Gu Lou District, Nanjing, Jiangsu Province	73	1,734
26	Xuzhou Branch	56 Zhong Shan Nan Lu, Quanshan District, Xuzhou, Jiangsu Province	23	456
27	Lianyungang Branch	141 Hai Lian Zhong Lu, Xin Pu District, Lianyungang, Jiangsu Province	21	371
28	Yangzhou Branch	2 Wen He Bei Lu, Guang Ling District, Yangzhou, Jiangsu Province	21	454
29	Taizhou Branch	151 Qing Nian Bei Lu, Hai Ling District, Taizhou, Jiangsu Province	15	288
30	Nantong Branch	27 Ren Min Zhong Lu, Chong Chuan District, Nantong, Jiangsu Province	20	435
31	Zhenjiang Branch	229 Jie Fang Lu, Jing Kou District, Zhenjiang, Jiangsu Province	25	507
32	Changzhou Branch	171 Yan Ling Xi Lu, Zhong Lou District, Changzhou, Jiangsu Province	36	711
33	Yancheng Branch	68 Jian Jun Dong Lu, Yancheng, Jiangsu Province	2	83
34	Zhejiang Branch	173 Qing Chun Lu, Shang Cheng district, Hangzhou, Zhejiang Province	40	1,076
35	Wenzhou Branch	Jiao Hang Plaza, Che Zhan Da Dao, Lu Cheng District, Wenzhou, Zhejiang Province	20	625
36	Jiaxing Branch	1086 Zhong Shan Dong Lu, Jiaxing, Zhejiang Province	12	391
37	Huzhou Branch	299 Ren Min Lu, Huzhou, Zhejiang Province	10	314
38	Shaoxing Branch	283 Ren Min Zhong Lu, Yue Cheng District, Shaoxing, Zhejiang Province	36	827
39	Taizhou Branch	298 Dong Huan Da Dao, Jiao Jiang District, Taizhou, Zhejiang Province	4	162
40	Jinhua Branch	191 Shuang Xi Xi Lu, Jinhua, Zhejiang Province	2	151

List of Branches (Continued)

No	Branch name	Address	Number of outlets	Number of employees
41	Anhui Branch	38 Hua Yuan Jie, Lu Yang District, Hefei, Anhui Province	29	734
42	Wuhu Branch	BOCOM Tower, Bei Jing Xi Lu, Jing Hu District, Wuhu, Anhui Province	19	362
43	Bengbu Branch	88 Nan Shan Lu, Beng Shan District, Bengbu, Anhui Province	19	333
44	Huainan Branch	95 Chao Yang Zhong Lu, Tian Jia An District, Huainan, Anhui Province	18	305
45	Anqing Branch	99 Long Shan Lu, Da Guan District, Anqing, Anhui Province	13	298
46	Maanshan Branch	156 Hu Dong Nan Lu, Maanshan, Anhui Province	3	106
47	Fujian Branch	116 Hu Dong Road, Gu Lou District, Fuzhou, Fujian Province	25	737
48	Quanzhou Branch	550 Feng Ze Jie, Feng Ze District, Quanzhou, Fujian Province	1	72
49	Jiangxi Province	199 Hui Zhan Lu, Hong Gu Tan Xin District, Nanchang, Jiangxi Province	28	627
50	Jingdezhen Branch	1 Chang Nan Da Dao, Chang Jiang District, Jingdezhen, Jiangxi Province	12	208
51	Xinyu Branch	98 Bei Hu Xi Lu, Yu Shui District, Xinyu, Jiangxi Province	11	190
52	Jiujiang Branch	139 Xun Yang Lu, Xun Yang District, Jiujiang, Jiangxi Province	11	185
53	Shandong Branch	98 Gong Qing Tuan Lu, Shi Zhong District, Jinan, Shandong Province	32	837
54	Zibo Branch	100 Jin Jing Road, Zhang Dian District, Zibo, Shandong Province	31	587
55	Weifang Branch	358 Dong Feng Dong Jie, Kui Wen District, Weifang, Shandong Province	22	489
56	Yantai Branch	222 Nan Da Jie, Zhi Fu District, Yantai, Shandong Province	26	453
57	Weihai Branch	34 Hai Bin Bei Lu, Huan Cui District, Weihai, Shandong Province	13	311
58	Jining Branch	36 Hong Xing Dong Lu, Jining, Shandong Province	16	336
59	Taian Branch	55 Dong Yue Da Jie, Taishan District, Taian, Shandong Province	12	265
60	Henan Branch	11 Zheng Hua Lu, Jin Shui District, Zhengzhou, Henan Province	69	1,415
61	Luoyang Branch	60 Kai Xuan Dong Lu, Xi Gong District, Luoyang, Henan Province	16	491
62	Nanyang Branch	25 Zhong Zhou Lu, Nanyang, Henan Province	1	55
63	Hubei Branch	847 Jian She Da Dao, Jiang Han District, Wuhan, Hubei Province	54	1,288
64	Huangshi Branch	380 Yi Yang Lu, Xi Sai Shan District, Huangshi, Hubei Province	13	242
65	Yichang Branch	22 Sheng Li Si Lu, Wu Jia District, Yichang, Hubei Province	10	220
66	Xiangfan Branch	8 Yan Jiang Da Dao Te, Fan Cheng Xiangfan, Hubei Province	1	44
67	Hunan Branch	37 Shao Shan Zhong Lu, Yu Hua District, Changsha, Hunan Province	31	850
68	Yueyang Branch	Yin Du Mansion, Nan Hu Da Dao, Yue Yang Lou District, Yueyang, Hunan Province	14	255
69	Guangdong Branch	123 Jie Fang Nan Lu, Guangzhou, Guangdong Province	81	1,965
70	Zhuhai Branch	No.1227 Jiu Zhou Da Dao Dong, Ji Da, Xiang Zhou District, Zhuhai, Guangdong Province	20	584
71	Shantou Branch	83 Jin Sha Lu, Jin Ping District, Shantou, Guangdong Province	30	639
72	Dongguan Branch	190 Qi Feng Lu, Guan Cheng District, Dongguan, Guangdong Province	8	211
73	Zhongshan Branch	30 Yue Lai Nan Lu, Shi Qi District, Zhongshan, Guangdong Province	19	516
74	Foshan Branch	1-1 Ti Yu Lu, Chan Cheng District, Foshan, Guangdong Province	26	558
75	Jieyang Sub-branch	6 Bei Huan Cheng Lu, Rong Cheng District, Jieyang, Guangdong Province	10	202
76	Huizhou Branch	BOCOM Tower, 8 Yun Shan Xi Lu, Jiang Bei, Huicheng District, Huizhou, Guangdong Province	4	133
77	Jiangmen Branch	18 Dong Hua Er Lu, Jiangmen, Guangdong Province	1	59
78	Guangxi Branch	228 Ren Min Dong Lu, Xing Ning District, Nanning, Guangxi Zhuang Autonomous Region	37	807
79	Liuzhou Branch	32 Yue Jin Lu, Liu Bei District, Liuzhou, Guangxi Zhuang Autonomous Region	27	494
80	Guilin Branch	8 Nan Huan Lu, Xiang Shan District, Guilin, Guangxi Zhuang Autonomous Region	17	390

No	Branch name	Address	Number of outlets	Number of employees
81	Wuzhou Branch	47 Da Zhong Lu, Wan Xiu District, Wuzhou, Guangxi Zhuang Autonomous Region	7	203
82	Beihai Branch	BOCOM Tower, 25 Yun Nan Lu, Hai Cheng District, Beihai, Guangxi Zhuang Autonomous Region	4	140
83	Hainan Branch	45 Guo Mao Road, Finance and Trade Zone, Haikou, Hainan Province	16	452
84	Chongqing Branch	158 Zhong Shan San Lu, Yu Zhong District, Chongqing	76	1,394
85	Sichuan Branch	BOCOM Tower, 211 Xi Yu Long Jie, Qing Yang District, Chengdu, Sichuan Province	78	1,558
86	Zigong Branch	108 Wu Xing Jie, Zi Liu Jing District, Zigong, Sichuan Province	9	181
87	Panzhihua Branch	129 Bing Cao Gang Da Jie, East District, Panzhihua, Sichuan Province	11	174
88	Guizhou Branch	4 Sheng Fu Lu, Yun Yan District, Guiyang, Guizhou Province	28	503
89	Zunyi Branch	108 Zhong Hua Lu, Hong Hua Gang District, Zunyi, Guizhou Province	17	313
90	Yunnan Branch	67 Hu Guo Lu, Wu Hua District, Kunming, Yunnan Province	29	843
91	Qujing Branch	At the intersection of Qi Lin Nan Lu and Wen Chang Street, Qi Lin District, Qujing, Yunnan Province	6	114
92	Yuxi Branch	61 Yu Xing Lu, Hong Ta District, Yuxi, Yunnan Province	5	101
93	Chuxiong Branch	102 Bei Pu Lu, Chuxiong, Chuxiong Prefecture, Yunnan Province	5	100
94	Shaanxi Branch	88 Xi Xin Jie, Xin Cheng District, Xian, Shaanxi Province	50	1,014
95	Xianyang Branch	2 Wei Yang Zhong Lu Fu, Xianyang, Shaanxi Province	1	43
96	Yulin Branch	132 Fu Shi Lu, Yu Yang District, Yulin, Shaanxi Province	1	30
97	Gansu Branch	129 Qing Yang Lu, Cheng Guan District, Lanzhou, Gansu Province	27	595
98	Ningxia Branch	296 Min Zu Bei Jie, Yinchuan, Ningxia Hui Autonomous Region	2	116
99	Xinjiang Branch	16 Dong Feng Lu, Tian Shan District, Urumuqi, Xinjiang Uygur Autonomous Region	26	641
100	Dalian Branch	6 Zhong Shan Square, Zhong Shan District, Dalian, Liaoning Province	54	1,347
101	Ningbo Branch	55 Zhong Shan Dong Lu, Hai Shu District, Ningbo, Zhejiang Province	40	1,003
102	Xiamen Branch	9 Hu Bin Zhong Lu, Si Ming District, Xiamen, Fujian Province	19	472
103	Qingdao Branch	6 Zhong Shan Lu, Qingdao, Shandong Province	58	1,212
104	Shenzhen Branch	Hua Neng Building, 2066A Shen Nan Zhong Lu, Fu Tian District, Shenzhen, Guangdong Province	46	1,555
105	Wuxi Branch	198 Ren Min Zhong Lu, Chong An District, Wuxi, Jiangsu Province	51	1,189
106	Suzhou Branch	77 Nan Yuan Bei Lu, Suzhou, Jiangsu Province	60	1,201
107	Head Office	188 Yin Cheng Zhong Lu, Shanghai	1	1,991

2 OVERSEAS OFFICES

No.	Branch Name	Address	Number of outlets	Number of employees
1	Hong Kong Branch	20 Pedder Street, Central, Hong Kong	43	1,389
2	New York Branch	One Exchange Plaza, 55 Broadway 31st & 32nd Floor, New York, USA	1	43
3	Tokyo Branch	Toranomon, No.37 MORI BLDG. 9F 3-5-1, Toranomon minalo-ku, Tokyo, Japan	1	34
4	Singapore Branch	50 Raffles Place, #26-04 Singapore Land Tower, Singapore	1	31
5	Seoul Branch	6th Floor, Samsung Fire & Marine Bldg. #87 Euljiro 1-Ga, Jung-Gu, Seoul, Korea	1	27
6	Frankfurt Branch	Neue Mainzer Strasse 75, FFM, Germany	1	19
7	Macau Branch	16/F AIA Tower, No.251A-301, Avenida Commercial De Macau	1	34
8	London Representative Office	3rd Floor, 145 Leadenhall Street, London EC3V 4QT, UK	1	1

Independent Auditors' Report

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF BANK OF COMMUNICATIONS CO., LTD.
(incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 59 to 112, which comprises the condensed consolidated statement of financial position of Bank of Communications Co., Ltd. (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2009 and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in shareholders' equity and condensed consolidated statement of cash flows for the six-month period then ended. The Rules Governing the Listing of Securities on the Main Board of the Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board and the relevant provisions thereof. The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 19 August 2009

Unaudited Condensed Consolidated Statement of Comprehensive Income

(All amounts expressed in millions of RMB unless otherwise stated.)

		Three months ended 30 June		Six months ended 30 June	
	Note	2009	2008	2009	2008
Interest income		27,922	28,888	55,664	56,108
Interest expense		(12,721)	(12,340)	(25,879)	(23,096)
Net interest income	3	15,201	16,548	29,785	33,012
Fee and commission income	4	3,500	2,858	6,237	5,200
Fee and commission expense	5	(438)	(262)	(761)	(547)
Net fee and commission income		3,062	2,596	5,476	4,653
Dividend income	6	23	20	40	21
Gains less losses arising from trading activities	7	416	353	905	(416)
Gains less losses arising from de-recognition of investment securities	20	207	34	531	391
Other operating income	8	198	114	358	146
Impairment losses	9	(2,562)	(2,204)	(4,515)	(3,977)
Other operating expenses	10	(6,792)	(7,415)	(12,711)	(13,529)
Operating profit before tax		9,753	10,046	19,869	20,301
Income tax	13	(2,099)	(2,393)	(4,258)	(4,734)
Net profit for the period		7,654	7,653	15,611	15,567
Other comprehensive income					
Available-for-sale (“AFS”) securities					
Changes in fair value taken to equity		450	(523)	8	(1,032)
Changes in fair value transferred to net profit		(125)	17	(510)	(231)
Translation difference on foreign operations		116	(230)	67	(482)
Other comprehensive income/(losses) for the period	36	441	(736)	(435)	(1,745)
Total comprehensive income for the period (after tax)		8,095	6,917	15,176	13,822
Net profit attributable to:					
Shareholders of the Bank		7,620	7,615	15,555	15,508
Minority interest		34	38	56	59
Total comprehensive income attribute to:					
Shareholders of the Bank		8,039	6,894	15,087	13,797
Minority Interest		56	23	89	25
Basic and diluted earnings per share					
For profit attributable to the shareholders of the Bank (in RMB)	14	0.16	0.16	0.32	0.32

The accompanying notes presented on pages 64 to 112 form a part of this unaudited condensed consolidated interim financial information.

Unaudited Condensed Consolidated Statement of Financial Position

(All amounts expressed in millions of RMB unless otherwise stated.)

	Note	30 June 2009	31 December 2008
ASSETS			
Cash and balances with central banks	15	409,312	362,180
Due from other banks and financial institutions	16	337,816	331,511
Financial assets held for trading	17	42,109	26,936
Loans and advances to customers	19	1,697,205	1,298,776
Investment securities — loans and receivables	20	82,318	90,903
Investment securities — available-for-sale (“AFS”)	20	166,392	142,010
Investment securities — held-to-maturity (“HTM”)	20	490,184	367,878
Property and equipment	21	35,258	35,279
Deferred tax assets	27	2,691	2,693
Other assets	22	35,575	24,781
Total assets		3,298,860	2,682,947
LIABILITIES			
Due to other banks and financial institutions	23	659,351	569,453
Financial liabilities held for trading	24	8,649	10,013
Due to customers	25	2,365,334	1,865,815
Other liabilities	26	60,631	43,199
Current taxes		4,245	4,165
Deferred tax liabilities	27	278	207
Subordinated term debt	29	40,000	40,000
Total liabilities		3,138,488	2,532,852
EQUITY			
Capital and reserves attributable to the Bank’s shareholders			
Share capital	30	48,994	48,994
Capital surplus	30	43,100	43,100
Other reserves		48,582	33,443
Retained earnings		19,174	24,125
		159,850	149,662
Minority Interest		522	433
Total equity		160,372	150,095
Total equity and liabilities		3,298,860	2,682,947

This unaudited consolidated interim financial information was approved for issue by the Board of Directors on 19 August 2009 and signed on its behalf by:

Chairman of Board: Hu Huaibang *Vice Governor and Chief Financial Officer: Yu Yali*

The accompanying notes presented on pages 64 to 112 form a part of this unaudited condensed consolidated interim financial information.

Unaudited Condensed Consolidated Statement of Changes in Shareholders' Equity

(All amounts expressed in millions of RMB unless otherwise stated.)

	Share capital Note 30	Capital surplus Note 30	Other reserves: Statutory reserve Note 31	Other reserves: Discretionary reserve Note 31	Other reserves: Statutory general reserve Note 31	Other reserves: Revaluation reserve for AFS	Other reserves: Revaluation reserve for properties	Other reserves: Translation reserve on foreign operations	Retained earnings Note 31, 32	Minority interest	Total
Balance at 1 January 2008	48,994	43,100	2,170	576	10,636	1,551	6,105	(616)	20,387	418	133,321
Dividends	–	–	–	–	–	–	–	–	(7,349)	–	(7,349)
Transfer to reserve	–	–	1,993	8,511	1,938	–	–	–	(12,442)	–	–
Comprehensive income for the period	–	–	–	–	–	(1,229)	–	(482)	15,508	25	13,822
Realization of revaluation reserve upon disposals	–	–	–	–	–	–	(18)	–	18	–	–
Balance at 30 June 2008	48,994	43,100	4,163	9,087	12,574	322	6,087	(1,098)	16,122	443	139,794
Balance at 1 January 2009	48,994	43,100	4,163	9,087	12,574	2,741	6,090	(1,212)	24,125	433	150,095
Dividends	–	–	–	–	–	–	–	–	(4,899)	–	(4,899)
Transfer to reserve	–	–	2,830	6,900	5,882	–	–	–	(15,612)	–	–
Comprehensive income for the period	–	–	–	–	–	(535)	–	67	15,555	89	15,176
Realization of revaluation reserve upon disposals	–	–	–	–	–	–	(5)	–	5	–	–
Balance at 30 June 2009	48,994	43,100	6,993	15,987	18,456	2,206	6,085	(1,145)	19,174	522	160,372

The accompanying notes presented on pages 64 to 112 form a part of this unaudited condensed consolidated interim financial information.

Unaudited Condensed Consolidated Statement of Cash Flows

(All amounts expressed in millions of RMB unless otherwise stated.)

	Six months ended 30 June	
	2009	2008
Cash flows from operating activities:		
Net profit before taxation:	19,869	20,301
Adjustments for:		
Impairment of loans and advances to customers	4,217	3,707
Reversal of impairment of due from banks and financial institutions	(3)	(16)
Charge/(reversal of) impairment of other receivables	6	(71)
(Reversal of)/charge Impairment of investment securities	(118)	178
Depreciation of property and equipment	1,587	1,436
Amortization of staff housing deferred expense	11	9
Amortization of land use rights	16	2
Amortization of intangible assets	115	113
Interest income from investment securities	(11,292)	(10,556)
Gains less losses arising from de-recognition of investment securities	(531)	(391)
Gains on disposal of property and equipment	(4)	(18)
Decrease/(increase) in the fair value of investment property	1	—
Accrued interest expense on term debt	941	778
	14,815	15,472
Net increase in mandatory reserve deposits	(61,180)	(61,662)
Net increase in due from other banks and financial institutions	(36,726)	(67,969)
Net increase in financial assets held for trading	(15,173)	(12,884)
Net increase in loans and advances to customers	(402,646)	(138,797)
Net increase in other assets	(10,391)	(5,465)
Net increase in due to other banks and financial institutions	89,898	54,599
Net (decrease)/increase in financial liabilities held for trading	(1,364)	942
Net increase in due to customers	499,519	255,514
Net increase in other liabilities	16,331	5,121
Net (decrease)/increase in business tax payable	(37)	69
Income tax paid	(3,954)	(4,072)
Net cash from operating activities	89,092	40,868

Unaudited Condensed Consolidated Statement of Cash Flows *(Continued)*

(All amounts expressed in millions of RMB unless otherwise stated.)

	Six months ended 30 June	
	2009	2008
Cash flows from investing activities:		
Purchase of investment securities	(403,778)	(164,487)
Disposal or redemption of investment securities	265,675	124,782
Interest received from investment securities	10,806	9,008
Acquisition of intangible assets	(74)	(24)
Purchase of land use rights	—	(130)
Disposal of land use rights	4	—
Purchase of property and equipment	(1,658)	(1,879)
Disposal of property and equipment	100	359
Net cash used in investing activities	(128,925)	(32,371)
Cash flows from financing activities:		
Interest paid on debt	(1,045)	(1,577)
Dividends paid	(3,657)	(8,454)
Net cash used in financing activities	(4,702)	(10,031)
Effect of exchange rate changes on cash and cash equivalents	63	(529)
Net decrease in cash and cash equivalents	(44,472)	(2,063)
Cash and cash equivalents at the beginning of the period	225,732	96,064
Cash and cash equivalents at the end of the period (Note 37)	181,260	94,001
Major non-cash transactions	—	—
Supplementary Information		
Interest received	54,498	55,417
Interest paid	(23,022)	(17,567)

The accompanying notes presented on pages 64 to 112 form a part of this unaudited condensed consolidated interim financial information.

1 GENERAL

Bank of Communications Co., Ltd. (the "Bank") is a commercial and retail bank providing banking services mainly in the People's Republic of China ("PRC"). The Bank was reorganised as a joint stock national commercial bank on 1 April 1987, in accordance with the approval notice (Guo Fa (1986) No. 81) issued by the State Council of the PRC and the approval notice (Yin Fa (1987) No. 40) issued by the People's Bank of China ("PBOC"). Headquartered in Shanghai, the Bank operates 106 city level branches in the PRC. In addition, the Bank has branches in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt and Macao. The Bank's A shares are listed on Shanghai Stock Exchange and H shares are listed on Hong Kong Stock Exchange.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

A Basis of preparation and accounting policies

This unaudited condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board.

This unaudited condensed consolidated interim financial information of the Bank and its subsidiaries (collectively "the Group") should be read in conjunction with the 2008 annual financial statements.

On 1 January 2009, the Group adopted the following amendments and interpretations:

- IAS 1 (Revised) — Presentation of Financial Statements
- IAS 19 (Amendment) — Employee Benefits
- IAS 23 (Revised) — Borrowing Costs
- IAS 28 (Amendment) — Investments in Associates
- IAS 32 (Amendment) — Financial Instruments: Presentation and IAS 1 (Amendment) — Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation
- IAS 36 (Amendment) — Impairment of Assets
- IAS 38 (Amendment) — Intangible Assets
- IFRS 2 (Amendment) — Share-based Payment
- IFRS 7 (Amendment) — Financial Instruments: Disclosure
- IFRS 8, Operating Segments
- IFRIC 13 — Customer Loyalty Programmes Statement
- IFRIC 16 — Hedges of a net investment in a foreign operation

The amendments and interpretations were not expected to have a material effect on the Group's operating results or financial position. Except for the above amendments and interpretations, the accounting policies and methods of computation used in the preparation of this unaudited condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2008.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

B Subsidiary undertakings and goodwill

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

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the loss cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the stand alone financial statements of the Bank, the subsidiaries are measured at cost less provision for impairment. The amount of impairment loss is included in the net profit or loss for the period. The results of subsidiaries are accounted for by the Bank on the basis of dividend received and receivable. The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group.

For the six months ended 30 June 2009, the Group did not set up or acquire any new subsidiary.

C Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise its judgments in the process of applying accounting policies of the Group.

1) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment on a quarterly basis, unless known circumstances indicate that impairment may have occurred as of an interim date. In determining whether an impairment loss should be recorded in the condensed consolidated statement of comprehensive income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2) Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Valuation techniques used include discounted cash flows analysis and models. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty's), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

C Critical accounting estimates and judgments in applying accounting policies *(Continued)*

3) *Income taxes*

The Group is subject to income taxes in various jurisdictions; principally, however in Mainland China and Hong Kong. Significant estimates are required in determining the provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. In particular, the deductibility of certain items in Mainland China is subject to government approval. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax and current tax liabilities and deferred tax assets and liabilities in the period during which such a determination is made. (Note 27)

4) *Held-to-maturity financial assets*

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to hold these investments to maturity other than for specific circumstances defined in IAS 39 such as, selling an insignificant amount close to maturity, it will be required to reclassify the entire portfolio of assets as available-for-sale. The investments would therefore be measured at fair value, not at amortised cost.

(All amounts expressed in millions of RMB unless otherwise stated.)

3 NET INTEREST INCOME

	Three months ended 30 June		Six months ended 30 June	
	2009	2008	2009	2008
Interest income				
Balances with central banks	1,325	1,216	2,636	2,306
Due from other banks and financial institutions	1,256	1,978	3,023	3,705
Loans and advances to customers	19,735	20,153	38,713	39,541
Investment securities	5,606	5,541	11,292	10,556
	27,922	28,888	55,664	56,108
Interest expense				
Due to other banks and financial institutions	(3,705)	(2,994)	(8,001)	(5,660)
Due to customers	(9,016)	(9,346)	(17,878)	(17,436)
	(12,721)	(12,340)	(25,879)	(23,096)
Net interest income	15,201	16,548	29,785	33,012

	Six months ended 30 June	
	2009	2008
Interest income on listed investments	2,499	2,394
Interest income on unlisted investments	8,793	8,162
Interest income accrued on loans and advances to customers individually identified with impairment	312	295

4 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2009	2008
Settlement and agent service commission income	1,372	1,033
Bank card annual fee and commission income	1,845	1,209
Guarantee and commitment commission income	610	599
Custodian commission income	333	359
Fund sales commission income	373	671
Fund management commission income	306	335
Financial consultancy income	843	374
Others	555	620
	6,237	5,200

(All amounts expressed in millions of RMB unless otherwise stated.)

4 FEE AND COMMISSION INCOME *(Continued)*

	Six months ended 30 June	
	2009	2008
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	66	42
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	333	359

5 FEE AND COMMISSION EXPENSE

	Six months ended 30 June	
	2009	2008
Settlement and agent services commission expense	124	102
Syndicated loans commission expense	35	43
Bank card commission expense	485	213
Others	117	189
	761	547

	Six months ended 30 June	
	2009	2008
Fee expense, 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	35	43

6 DIVIDEND INCOME

	Six months ended 30 June	
	2009	2008
Available-for-sale investments-unlisted	40	21

(All amounts expressed in millions of RMB unless otherwise stated.)

7 GAINS LESS LOSSES ARISING FROM TRADING ACTIVITIES

	Six months ended 30 June	
	2009	2008
Foreign exchange	585	(1,087)
Interest rate instruments	320	671
	905	(416)

Net income on foreign exchange includes gains and losses from spot and forward contracts, currency swaps, currency options, currency futures and from the translation of foreign currency monetary assets and liabilities into Renminbi.

Net income and expense on interest rate instruments includes the results of marking securities held for trading, interest rate swaps, cross currency interest rate swaps, interest rate options and other interest rate derivatives to market.

8 OTHER OPERATING INCOME

	Six months ended 30 June	
	2009	2008
Profit on sales of land use rights and buildings	4	18
Sales of foreclosed and other assets	14	2
Income from sales of souvenir coins	194	—
Other miscellaneous income	146	126
	358	146

Other miscellaneous income includes income arising from miscellaneous banking services provided to the Group's customers.

9 IMPAIRMENT LOSSES

	Three months ended 30 June		Six months ended 30 June	
	2009	2008	2009	2008
Due from other banks and financial institutions and securities purchased under resale agreements (Note 16(b))	(1)	(14)	(3)	(16)
Loans and advances to customers (Note 19(b))				
— Collectively assessed provision	1,848	1,108	2,888	1,956
— Individually assessed provision	722	1,111	1,641	2,046
	2,570	2,219	4,529	4,002
Less: recovery of loans previously written off	(7)	(1)	(11)	(9)
	2,562	2,204	4,515	3,977

(All amounts expressed in millions of RMB unless otherwise stated.)

10 OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2009	2008
Staff costs (Note 11)	4,231	5,528
General and administrative expenses	2,715	2,454
Depreciation (Note 21)	1,587	1,436
Business tax and surcharges	2,373	2,384
Operating lease rentals	662	533
(Reversal of)/provision for investment securities impairment ((a), Note 20)	(118)	178
Provision for/(reversal of) other receivables impairment	6	(71)
Supervision fee to Regulator	172	151
(Reversal of)/provision for outstanding litigation	(12)	4
Amortization of intangible assets	115	113
Professional fees	14	27
Amortization of land use rights	16	2
Impairment of financial lease receivable (Note 22(3))	41	—
Others	909	790
	12,711	13,529

(a) Impairment of investment securities

	Six months ended 30 June	
	2009	2008
Held-to-maturity (Note 20)	(5)	—
Available-for-sale (Note 20)	(113)	178
Net charge of impairment losses	(118)	178

11 STAFF COSTS

	Six months ended 30 June	
	2009	2008
Salary and bonus	2,908	3,701
Pension costs (Note 28)	417	579
Housing benefits and subsidies	136	329
Other social security and benefit costs	770	919
	4,231	5,528

12 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Details of the directors', the supervisors' and the senior management's emoluments are as follows:

	Six months ended 30 June	
	2009	2008
Fees	7	16

The Bank resolved to grant performance bonus of 2008 to directors and senior management amounting to RMB4.62 million during the first six months of 2009.

The numbers of directors, supervisors and senior management whose annual emoluments fell within the following band are set out below:

	Six months ended 30 June	
	2009	2008
Nil–RMB1,000,000	35	23
RMB1,000,000–RMB2,000,000	—	11
	35	34

No directors waived or agreed to waive any emolument during the period.

In the first six months of 2009, RMB750,000 was accrued for the independent non-executive directors' emolument (In the first six months of 2008: RMB750,000).

During the first six months of 2009, no cash settled share appreciation rights ("SARs") were granted or exercised. Benefits arising from the granting of these SARs to senior management were recognized in the consolidated statement of comprehensive income but not included in the directors' emoluments disclosed above.

Movements in the number of SARs outstanding are as follows:

	Period ended at 30 June 2009 Number of shares (In millions)	Year ended at 31 December 2008 Number of shares (In millions)
Outstanding at beginning of the period/year	11	11
Granted	—	—
Outstanding at end of the period/year	11	11

The fair value of SARs using Binomial Option Pricing model at 30 June 2009 is RMB15.18 million (31 December 2008: RMB14.36 million).

(All amounts expressed in millions of RMB unless otherwise stated.)

13 INCOME TAX EXPENSE

	Three months ended 30 June		Six months ended 30 June	
	2009	2008	2009	2008
Current tax				
— Mainland China income tax	2,742	2,235	3,887	3,610
— Hong Kong profits tax	83	32	139	135
— Overseas taxation	7	2	8	4
	2,832	2,269	4,034	3,749
Deferred tax (Note 27)	(733)	124	224	985
	2,099	2,393	4,258	4,734

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% (2008: 16.5%), on the estimated assessable profit for the six months ended 30 June 2009. Taxation on 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 six months ended 30 June 2009.

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%.The reconciliation is as follows:

	Three months ended 30 June		Six months ended 30 June	
	2009	2008	2009	2008
Profit before tax	9,753	10,046	19,869	20,301
Tax calculated at a tax rate of 25%	2,438	2,511	4,967	5,075
Effect of different tax rates in other countries	(19)	48	35	71
Tax credit arising from income not subject to tax(1)	(347)	(390)	(816)	(681)
Tax effect of expenses that are not deductible for tax purposes(2)	27	224	72	270
Impact of change of tax rate	—	—	—	(1)
Income tax expense	2,099	2,393	4,258	4,734

note 1:
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 regulations.
note 2:
The expenses that are not tax deductible mainly represent a portion of expenses, such as entertainment expenses etc, which are over the tax deduction limits as determined by PRC tax regulations.

(All amounts expressed in millions of RMB unless otherwise stated.)

14 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 period.

	Six months ended 30 June	
	2009	2008
Profit attributable to shareholders of the Bank	15,555	15,508
Weighted average number of ordinary shares in issue	48,994	48,994
Basic and diluted earnings per share (expressed in RMB per share)	0.32	0.32

15 CASH AND BALANCES WITH CENTRAL BANKS

	30 June 2009	31 December 2008
Cash	9,378	11,509
Balances with central banks other than mandatory reserve deposits	86,567	98,484
Included in cash and cash equivalents (Note 37(b))	95,945	109,993
Mandatory reserve deposits	313,367	252,187
	409,312	362,180

The Group is required to place mandatory deposits with central banks. The deposits are calculated based on the amount of deposits placed with the Group by its customers.

	30 June 2009	31 December 2008
Mandatory reserve rate for deposits denominated in RMB	15.5%	15.5%
PBOC reserve rate for deposits denominated in foreign currencies	5%	5%

Mandatory reserve deposits with central banks are not available for use by the Group in its day to day operations.

(All amounts expressed in millions of RMB unless otherwise stated.)

16 DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

(a) Due from other banks and financial institutions

	30 June 2009	31 December 2008
Placement with other banks and included in cash equivalents (Note 37(b))	85,315	115,739
Securities purchased under resale agreement	64,394	96,816
Loans purchased under resale agreement	103,708	29,417
Loans and advances to other banks	75,232	80,193
Loans to other financial institutions	9,377	9,559
	84,609	89,752
Less: Individual impairment allowance on amounts due from other banks and financial institutions	(210)	(213)
	84,399	89,539
	337,816	331,511

(b) Movements in allowance for impairment losses on amounts due from other banks and financial institutions and securities purchased under resale agreements

	Six months ended 30 June	
	2009	2008
Balance at beginning of the period	213	314
Reversal of impairment (Note 9)	(3)	(16)
Write off	—	(9)
Balance at end of the period	210	289

(c) Impaired amount of due from other banks and financial institutions

	30 June 2009	31 December 2008
Impaired amount of due from other banks and financial institutions	210	213
Impaired amount of due from other banks and financial institutions to total balance of due from other banks and financial institutions (percentage)	0.06%	0.06%

(All amounts expressed in millions of RMB unless otherwise stated.)

17 FINANCIAL ASSETS HELD FOR TRADING

	30 June 2009	31 December 2008
Derivative financial instruments (Note 18)	2,774	4,656
Government bonds		
— Listed in Hong Kong	140	—
— Listed outside Hong Kong	1,929	442
— Unlisted	3,203	3,882
Other debt securities		
— Listed in Hong Kong	1,864	788
— Listed outside Hong Kong	552	805
— Unlisted — corporate entities	20,183	11,130
— Unlisted — public sector	2,203	282
— Unlisted — banking sector	9,261	4,951
	42,109	26,936

	30 June 2009	31 December 2008
Securities — financial assets held for trading		
— Central governments and central banks	5,272	4,324
— Public sector	2,159	284
— Banks and other financial institutions	10,763	6,190
— Corporate entities	21,141	11,482
	39,335	22,280

Majority of the Group's unlisted bonds are traded in the inter-bank market in Mainland China.

Trading securities at fair value of RMB18.79 million (2008: RMB18.72 million) were pledged to third parties under repurchase agreements.

18 DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivatives the Group held is listed as below:

	Contract/notional	Fair values	
	Amount	Assets	Liabilities
As at 30 June 2009			
Foreign exchange contracts	201,402	949	(1,417)
Interest rate contracts	111,562	1,825	(1,973)
Total derivatives	312,964	2,774	(3,390)

(All amounts expressed in millions of RMB unless otherwise stated.)

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

	Contract/notional	Fair values	
	Amount	Assets	Liabilities
As at 31 December 2008			
Foreign exchange contracts	167,252	1,995	(2,780)
Interest rate contracts	119,649	2,661	(2,895)
Total derivatives	286,901	4,656	(5,675)

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 period 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.

The Group undertakes its transactions in foreign exchange and interest rate contracts with other financial institutions and customers. Management has established limits of these contracts by counterparties, industry sectors and countries. Actual credit exposures and limits are regularly monitored and controlled by management.

Credit risk weighted amounts

	30 June 2009	31 December 2008
Derivatives		
— Foreign exchange contracts	805	938
— Interest rate contracts	572	625
	1,377	1,563

The credit risk weighted amounts are the amounts calculated with reference to the guidelines issued by the China Banking Regulatory Commission ("CBRC") and are dependent on, amongst other factors, the creditworthiness of the counterparty and the maturity characteristics of each type of contract.

Replacement costs

	30 June 2009	31 December 2008
Derivatives		
— Foreign exchange contracts	949	1,995
— Interest rate contracts	1,825	2,661
	2,774	4,656

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.

(All amounts expressed in millions of RMB unless otherwise stated.)

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Notional amounts of derivative financial instruments by original currency

	30 June 2009	31 December 2008
RMB	166,266	158,670
US Dollars	116,613	97,090
HK Dollars	14,146	16,039
Others	15,939	15,102
Total	312,964	286,901

19 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

	30 June 2009	31 December 2008
Loans and advances to customers	1,729,218	1,328,590
Less: Collective impairment allowances	(16,336)	(13,431)
Individual impairment allowances	(15,677)	(16,383)
	1,697,205	1,298,776

(b) Movements in allowance for losses on loans and advances:

	Six months ended 30 June			
	2009		2008	
	Collectively accessed	Individually impaired	Collectively accessed	Individually impaired
Balance at beginning of the period	13,431	16,383	7,690	14,012
Impairment allowances	2,888	4,042	1,956	5,147
Reversal of impairment allowances	—	(2,401)	—	(3,101)
Net impairment allowances charged to statement of comprehensive income	2,888	1,641	1,956	2,046
Unwind of discount on allowances	—	(312)	—	(295)
Write off	—	(2,036)	—	(842)
Exchange differences	17	1	(107)	(41)
Balance at end of the period	16,336	15,677	9,539	14,880

(All amounts expressed in millions of RMB unless otherwise stated.)

19 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(c) Individually identified loans with impairment:

	30 June 2009		31 December 2008	
	Impaired loans	Specific Provision	Impaired loans	Specific Provision
Corporate	23,012	(13,906)	22,602	(14,823)
Individual	3,014	(1,771)	2,918	(1,560)
	26,026	(15,677)	25,520	(16,383)

	30 June 2009	31 December 2008
Individually identified loans with impairment to loans and advances to customers (percentage)	1.51%	1.92%

(d) Geographic sector risk concentration for loans and advances to customers (gross)

	30 June 2009		31 December 2008	
		%		%
Domestic regions				
— Jiangsu	229,957	13	161,873	12
— Beijing	199,494	12	173,332	13
— Shanghai	192,932	11	146,712	11
— Guangdong	149,037	9	116,286	9
— Zhejiang	143,602	8	113,840	9
— Shandong	79,338	5	64,410	5
— Hubei	63,758	4	45,103	3
— Henan	60,279	3	46,670	4
— Sichuan	59,664	3	44,069	3
— Others	458,899	27	342,451	26
Total	1,636,960	95	1,254,746	95
Hong Kong and overseas countries	92,258	5	73,844	5
Gross amount of loans and advances before allowance for impairment	1,729,218	100	1,328,590	100

A geographical region is reported where it contributes 3% or more of the relevant disclosure item.

(All amounts expressed in millions of RMB unless otherwise stated.)

19 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(e) Industry analysis

The economic sector risk concentration analysis for loans and advances to customers (gross):

	30 June 2009		31 December 2008	
		%		%
Corporate loans				
Manufacturing				
— Petroleum and chemical	64,511	4	60,331	5
— Electronics	23,687	1	23,680	2
— Steel smelting and processing	35,471	2	33,766	2
— Machinery	74,734	4	67,141	5
— Textile	22,994	1	22,102	2
— Other manufacturing	127,241	7	114,481	9
Transportation	202,065	12	148,935	10
Electricity	114,239	7	105,541	8
Wholesale and retail	126,909	7	108,559	8
Services	67,510	4	49,990	4
Real estate	117,917	7	88,568	6
Utilities	146,211	9	92,207	7
Construction	62,567	4	52,261	4
Energy and Mining	26,862	2	20,279	2
Recreation and entertainment	21,447	1	20,560	2
Accommodation and catering	13,014	1	13,977	1
IT and telecommunication service	7,711	—	8,200	1
Financial institutions	19,896	1	10,164	1
Others	20,442	1	13,057	1
Corporate loans total	1,295,428	75	1,053,799	80
Mortgage loans	147,990	9	124,555	9
Medium-term and long-term working capital loans	26,319	2	23,873	2
Short-term working capital loans	21,227	1	16,883	1
Car loans	4,539	—	4,271	—
Credit card advances	24,527	1	20,453	2
Others	21,610	1	15,023	1
Individual loans total	246,212	14	205,058	15
Discounted bills	187,578	11	69,733	5
Gross amount of loans and advances before allowance for impairment	1,729,218	100	1,328,590	100

The economic sector risk concentration analysis for loans and advances to customers is based on the Group's internal classification system.

(All amounts expressed in millions of RMB unless otherwise stated.)

19 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(f) Loans and advances to customers analyzed by customer type (gross):

	30 June 2009	31 December 2008
Domestic		
Corporate		
State owned entities	447,380	338,387
Collective owned entities	7,843	7,459
Private unlimited companies	67,145	56,782
Private limited companies	415,331	337,754
Joint stock companies	124,021	117,741
Foreign invested enterprises	137,261	124,496
Other domestic entities	20,547	13,498
	1,219,528	996,117
Individual	230,386	190,904
	1,449,914	1,187,021
Hong Kong and Overseas		
Corporate	75,900	57,682
Individual	15,826	14,154
	91,726	71,836
Discounted bills	187,578	69,733
Gross amount of loans and advances before allowance for impairment	1,729,218	1,328,590

(All amounts expressed in millions of RMB unless otherwise stated.)

20 INVESTMENT SECURITIES

	30 June 2009	31 December 2008
Securities — loans and receivables		
Debt securities — at amortized cost		
— Unlisted	82,372	90,974
Allowance for loans and receivables	(54)	(71)
Securities — Loans & receivables, net	82,318	90,903
Securities — available-for-sale		
Debt securities — at fair value		
— Listed in Hong Kong	236	393
— Listed outside Hong Kong	15,151	20,434
— Unlisted	148,742	119,339
Debt securities, net	164,129	140,166
Equity securities — at fair value		
— Listed in Hong Kong	330	222
— Listed outside Hong Kong	860	820
— Unlisted	1,073	802
Equity securities, net	2,263	1,844
Securities — available-for-sale, net	166,392	142,010
Include: Market value of listed securities — available-for-sale	16,577	21,307

Listed debt securities at fair value of RMB5,373 million (2008: RMB8,463 million) were pledged to third parties under repurchase agreements.

	30 June 2009	31 December 2008
Securities — held-to-maturity		
Debt securities — at amortized cost		
— Listed outside Hong Kong	147,854	133,318
— Unlisted	342,330	234,565
Allowance for debt securities	—	(5)
Held-to-maturity securities, net	490,184	367,878
Include: Market value of listed held-to-maturity securities	160,718	140,982

(All amounts expressed in millions of RMB unless otherwise stated.)

20 INVESTMENT SECURITIES *(Continued)*

The Group holds bonds issued by the PBOC as at 30 June 2009 amounting to RMB104.97 billion (2008: RMB119.01 billion). The related interest rate range on such bonds for the period ended 30 June 2009 was 2.97%–4.56% (2008: 1.89%–4.56%).

Gains less losses arising from investment securities comprise:

	Six months ended 30 June 2009	2008
Gains less losses arising from de-recognition of investment securities	531	391

The movement in investment securities may be summarized as follows:

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Before allowance				
Balance at 1 January 2009	90,974	143,678	367,883	602,535
Additions	47,228	204,892	151,000	403,120
Disposals (sale or redemption)	(55,830)	(181,221)	(28,740)	(265,791)
Losses from changes in fair value	—	(6)	—	(6)
Exchange differences	—	530	41	571
At 30 June 2009	82,372	167,873	490,184	740,429
Allowance for impairment loss				
Balance at 1 January 2009	(71)	(1,668)	(5)	(1,744)
Allowance for impairment	—	(38)	—	(38)
Reversal of impairment allowance	—	151	5	156
Write off	17	70	—	87
Exchange differences	—	4	—	4
At 30 June 2009	(54)	(1,481)	—	(1,535)
Net book value				
At 30 June 2009	82,318	166,392	490,184	738,894

(All amounts expressed in millions of RMB unless otherwise stated.)

20 INVESTMENT SECURITIES *(Continued)*

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Before allowance				
Balance at 1 January 2008	66,768	147,433	326,953	541,154
Additions	27,068	216,264	119,800	363,132
Disposals (sale or redemption)	(2,836)	(217,529)	(78,536)	(298,901)
Gains from changes in fair value	—	891	—	891
Exchange differences	(26)	(3,381)	(334)	(3,741)
At 31 December 2008	90,974	143,678	367,883	602,535
Allowance for impairment loss				
Balance at 1 January 2008	(75)	(979)	—	(1,054)
Allowance for impairment	—	(1,118)	(5)	(1,123)
Reversal of impairment allowance	—	33	—	33
Write off	4	377	—	381
Exchange differences	—	19	—	19
At 31 December 2008	(71)	(1,668)	(5)	(1,744)
Net book value				
At 31 December 2008	90,903	142,010	367,878	600,791

(All amounts expressed in millions of RMB unless otherwise stated.)

20 INVESTMENT SECURITIES *(Continued)*

The investment securities are analysed by issuer as follows:

	30 June 2009	31 December 2008
Securities — loans and receivables		
— Central governments and central banks	41,822	63,988
— Public sector entities	—	—
— Banks and other financial institutions	1,210	962
— Corporate entities	39,286	25,953
	82,318	90,903
Securities — available-for-sale		
— Central governments and central banks	55,378	44,662
— Public sector entities	2,304	1,025
— Banks and other financial institutions	71,370	59,675
— Corporate entities	37,340	36,648
	166,392	142,010
Securities — held-to-maturity		
— Central governments and central banks	233,945	181,382
— Public sector entities	8,501	7,455
— Banks and other financial institutions	180,588	159,139
— Corporate entities	67,150	19,902
	490,184	367,878

The certificates of deposit held and included in investment securities are analysed as follows:

	30 June 2009	31 December 2008
Available-for-sale, at fair value		
— Unlisted	342	—

The maturity profile of certificates of deposit held analyzed by the remaining period as at period/year end to the contractual maturity dates is as follows:

	30 June 2009	31 December 2008
3 to 12 months	207	—
1 to 5 years	135	—
	342	—

(All amounts expressed in millions of RMB unless otherwise stated.)

21 PROPERTY AND EQUIPMENT

	Land and Buildings	Construction in Progress	Equipment	Motor Vehicles	Leasehold Improvement	Total
Cost or valuation						
At 1 January 2009	24,670	5,467	7,277	304	1,892	39,610
Additions	105	1,010	474	6	67	1,662
Disposals	(88)	—	(190)	(12)	(6)	(296)
Transfers	555	(555)	—	—	—	—
At 30 June 2009	25,242	5,922	7,561	298	1,953	40,976
Accumulated depreciation						
At 1 January 2009	—	—	(3,248)	(56)	(1,027)	(4,331)
Depreciation charge	(587)	—	(811)	(27)	(162)	(1,587)
Disposals	17	—	168	11	4	200
At 30 June 2009	(570)	—	(3,891)	(72)	(1,185)	(5,718)
Net book value						
At 30 June 2009	24,672	5,922	3,670	226	768	35,258
Carrying amount at 30 June 2009, if at cost	15,509	5,760	3,609	184	768	25,830
Cost or valuation						
At 1 January 2008	23,769	4,028	5,982	244	1,520	35,543
Additions	1,118	3,082	2,260	68	455	6,983
Disposals	(1,184)	(288)	(965)	(8)	(83)	(2,528)
Transfers	1,362	(1,362)	—	—	—	—
Revaluation	(395)	7	—	—	—	(388)
At 31 December 2008	24,670	5,467	7,277	304	1,892	39,610
Accumulated depreciation						
At 1 January 2008	—	—	(2,567)	(5)	(772)	(3,344)
Depreciation charge	(1,138)	—	(1,491)	(51)	(326)	(3,006)
Disposals	578	—	810	—	71	1,459
Revaluation	560	—	—	—	—	560
At 31 December 2008	—	—	(3,248)	(56)	(1,027)	(4,331)
Net book value						
At 31 December 2008	24,670	5,467	4,029	248	865	35,279
Carrying amount at 31 December 2008, if at cost	15,507	5,306	3,968	206	865	25,852

(All amounts expressed in millions of RMB unless otherwise stated.)

21 PROPERTY AND EQUIPMENT *(Continued)*

Pan-China Assets Appraisal Co., Ltd.（北京天健興業資產評估有限公司）was appointed as its external valuer for the Group's (excluding Hong Kong Branch) latest valuation exercise as at 31 December 2008 to revalue land and buildings, construction in progress, with reference to the open market value, while equipment and motor vehicles were not revalued due to their insignificance.

CB Richard Ellis Ltd. was appointed as the external valuer for the Hong Kong Branch's latest valuation exercise as at 31 December 2008 to revalue land and buildings, construction in progress, with reference to the open market value, while the equipment and motor vehicles were not revalued due to their insignificance.

The revaluation reserve relating to revaluation of property and equipment is not distributable to shareholders.

All land and buildings of the Group are located outside Hong Kong, except for those of Hong Kong branch.

	30 June 2009	31 December 2008
Net book value of land and buildings of Hong Kong Branch	1,054	1,065

According to relevant PRC laws and regulations, after conversion into a joint stock limited liability company, the Bank is required to re-register its property and equipment under the name of the Bank of Communications Co., Ltd. As at 30 June 2009, the process of re-registration has not been completed. However, this registration process does not affect the rights of the Bank of Communications Co., Ltd to these assets.

The carrying value of land and buildings is analyzed based on the remaining terms of the leases as follows:

	30 June 2009	31 December 2008
Held in Hong Kong		
on long-term lease (over 50 years)	856	864
on medium-term lease (10–50 years)	198	201
on short-term lease (less than 10 years)	—	—
	1,054	1,065
Held outside Hong Kong		
on long-term lease (over 50 years)	27	29
on medium-term lease (10–50 years)	23,585	23,570
on short-term lease (less than 10 years)	6	6
	23,618	23,605
	24,672	24,670

(All amounts expressed in millions of RMB unless otherwise stated.)

22 OTHER ASSETS

	30 June 2009	31 December 2008
Interest receivable	12,389	11,535
Settlement accounts	6,064	1,878
Other receivables	3,421	2,146
Less: impairment allowance	(831)	(1,155)
Foreclosed assets	477	381
Prepaid staff housing subsidies	55	66
Prepaid rental expenses	252	262
Land use rights (1)	823	843
Intangible assets	683	724
Including: Goodwill	200	200
Investment properties (2)	104	109
Finance lease receivable (3)	11,759	7,564
Less: impairment allowance	(117)	(76)
Others	496	504
	35,575	24,781

(1) Land use rights is analyzed based on the remaining terms of the leases as follows:

	30 June 2009	31 December 2008
Held outside Hong Kong		
on long-term lease (over 50 years)	—	—
on medium-term lease (10–50 years)	676	690
on short-term lease (less than 10 years)	147	153
	823	843

(2) The net book value of investment properties is analyzed based on the remaining terms of the leases as follows:

	30 June 2009	31 December 2008
Held in Hong Kong		
on long-term lease (over 50 years)	37	44
on medium-term lease (10–50 years)	67	65
	104	109

(All amounts expressed in millions of RMB unless otherwise stated.)

22 OTHER ASSETS *(Continued)*

(3) The finance lease receivable is as follows:

	30 June 2009	31 December 2008
Minimum finance lease receivable		
No later than 1 year	3,484	2,468
Later than 1 year and no later than 5 years	8,232	4,797
Later than 5 years	1,888	1,561
Total	13,604	8,826
Gross investment in finance leases	13,604	8,826
Unearned finance income	(1,845)	(1,262)
Net investment in finance leases	11,759	7,564
The net investment in finance leases is analyzed as follows:		
No later than 1 year	2,993	2,048
Later than 1 year and no later than 5 years	7,191	4,202
Later than 5 years	1,575	1,314
	11,759	7,564
The allowance for uncollectible finance lease receivable	(117)	(76)
Net finance lease receivable	11,642	7,488

23 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	30 June 2009	31 December 2008
Loans from central bank	60	—
Deposits from other banks	93,246	83,376
Deposits from other financial institutions	490,100	399,699
Loans from other banks	62,312	51,563
Securities sold under repurchase agreements	4,159	6,782
Credit assets sold under repurchase agreements	7,774	27,033
Finance lease receivable under repurchase agreements	1,700	1,000
	659,351	569,453

24 FINANCIAL LIABILITIES HELD FOR TRADING

	30 June 2009	31 December 2008
Derivative financial instruments (Note 18)	3,390	5,675
Short position of securities held for trading	10	11
Debt securities in issue	5,249	4,327
	8,649	10,013

(All amounts expressed in millions of RMB unless otherwise stated.)

24 FINANCIAL LIABILITIES HELD FOR TRADING *(Continued)*

Debt securities in issue are:

	30 June 2009		31 December 2008	
	Amount	Interest rate per annum (%)	Amount	Interest rate per annum (%)
HKD short term Certificate of deposit	31	4.75%	31	4.28%
HKD medium term Certificate of deposit	—	—	91	4.75%
USD medium term Certificate of deposit	—	—	91	4.87%
HKD fixed rate Certificate of deposit (maturing in Jan. 2009)	—	—	174	2.66%
HKD fixed rate Certificate of deposit (maturing in Sep. 2010)	—	—	263	3.46%
HKD floating rate Certificate of deposit (maturing in July 2009)	1,058	3-mth HIBOR+0.08%	1,059	3-mth HIBOR+0.08%
USD floating rate Certificate of deposit (maturing in July 2009)	342	3-mth HIBOR+0.55%	342	3-mth HIBOR+0.55%
HKD floating rate Certificate of deposit (maturing in July 2009)	101	3-mth HIBOR+0.44%	—	—
HKD floating rate Certificate of deposit (maturing in Aug. 2009)	838	3-mth HIBOR+0.42%	838	3-mth HIBOR+0.42%
USD floating rate Certificate of deposit (maturing in Aug. 2009)	342	3-mth HIBOR+0.60%	342	3-mth HIBOR+0.60%
HKD floating rate Certificate of deposit (maturing in Dec. 2009)	352	3-mth HIBOR+0.23%	352	3-mth HIBOR+0.23%
USD floating rate Certificate of deposit (maturing in Aug. 2010)	260	3-mth HIBOR+0.70%	260	3-mth HIBOR+0.70%
USD floating rate Certificate of deposit (maturing in Aug. 2010)	137	3-mth HIBOR+0.74%	—	—
HKD floating rate Certificate of deposit (maturing in Aug. 2010)	176	3-mth HIBOR+0.50%	176	3-mth HIBOR+0.50%
HKD floating rate Certificate of deposit (maturing in Sep. 2010)	71	3-mth HIBOR+0.50%	—	—
HKD callable Certificate of deposit	208	1.45%	—	—
USD floating rate Certificate of deposit (maturing in Apr. 2010)	1,158	3-mth LIBOR+0.30%	—	—
HKD floating rate Certificate of deposit (maturing in Apr. 2010)	175	3-mth HIBOR+0.32%	—	—
Others	—	—	308	—
Total	5,249		4,327	

(All amounts expressed in millions of RMB unless otherwise stated.)

25 DUE TO CUSTOMERS

	30 June 2009	31 December 2008
Corporate current deposits	804,626	655,101
Corporate time deposits	755,157	525,106
Individual current deposits	290,146	247,428
Individual time deposits	509,544	428,136
Other deposits	5,861	10,044
	2,365,334	1,865,815
Including:		
Pledged deposits held as collateral	291,602	191,642

26 OTHER LIABILITIES

	30 June 2009	31 December 2008
Interest payable	25,116	22,259
Settlement accounts	22,101	8,413
Dividends payable	1,372	130
Staff benefits payable	2,184	4,328
Business tax payable and others	1,611	1,648
Outstanding Compensation	245	370
Provision for outstanding litigation	324	336
Others	7,678	5,715
	60,631	43,199

(All amounts expressed in millions of RMB unless otherwise stated.)

27 DEFERRED INCOME TAXES

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 25% for the period ended 30 June 2009 (For period ended 30 June 2008: 25%) for transactions in Mainland China. Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 16.5% for the period ended 30 June 2009 (For period ended 30 June 2008: 16.5%) for transactions in Hong Kong.

The movement in the deferred income tax account is as follows:

	Six months ended 30 June	
	2009	2008
Balance at beginning of the period	2,486	2,020
Debit to statement of comprehensive income	(224)	(985)
Available-for-sale securities		
— fair value remeasurement	151	386
Exchange Differences	—	29
Balance at end of the period	2,413	1,450

Deferred income tax assets and liabilities are attributable to the following items:

	30 June 2009	31 December 2008
Deferred income tax liabilities		
Available-for-sale securities	(775)	(1,024)
Property revaluation reserve	(1,781)	(1,816)
Other temporary differences	(605)	(134)
	(3,161)	(2,974)
Deferred income tax assets		
Provision for assets impairment	5,119	4,843
Decelerated tax depreciation	75	78
Provision and others	358	419
Available-for-sale securities	22	120
	5,574	5,460
Net deferred income tax assets	2,413	2,486

(All amounts expressed in millions of RMB unless otherwise stated.)

27 DEFERRED INCOME TAXES *(Continued)*

The above net deferred income tax assets are disclosed separately on the statement of financial position based on different responsible taxation authorities:

	30 June 2009	31 December 2008
Deferred tax assets	2,691	2,693
Deferred tax liabilities	(278)	(207)

The deferred tax charge in the statement of comprehensive income comprises the following temporary differences:

	Six months ended 30 June	
	2009	2008
Provision for assets impairment:		
Additional provisions for assets impairment	643	487
Utilization	(367)	(770)
Sub-total	276	(283)
Provisions and others	(61)	(172)
Decelerated depreciation	(3)	(14)
Depreciation/disposal of property and equipment	35	31
Other temporary differences	(471)	(547)
	(224)	(985)

28 RETIREMENT BENEFIT OBLIGATIONS

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees' basic salary for the period. The Group currently has no additional significant cost for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. The Group's contributions to these pension plans are charged to the statement of comprehensive income in the period to which they relate.

The Group pays supplementary retirement benefits (SRPA) to employees in Mainland China, who retired before 31 December 2008. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits are discounted to determine their present values. The discount rate is the yield on government bonds at 30 June 2009, the maturity dates of which approximate to the terms of the Group's obligations. The amounts recognised in the statement of financial position represent the present value of unfunded obligations plus any unrecognised actuarial gains and losses minus any unrecognised past service cost.

(All amounts expressed in millions of RMB unless otherwise stated.)

28 RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

Management is undertaking a comprehensive design of a new employee Annuity Plan which is expected to be introduced in 2009.

This plan will not be applicable to any employee receiving benefits under SPRA or retired before 2009. As at 30 June 2009, such new plan has not been approved by the regulators, no obligation or entitlement exists or has been provided for.

Retirement benefit obligations of the Group in locations other than Mainland China, which are immaterial to the Group, are made in accordance with the relevant local policies and regulations. They are accounted for in the statement of comprehensive income in the period when the payment is made.

	Six months ended 30 June	
	2009	2008
Expenses incurred for retirement benefit plans	418	495
Expenses incurred for supplementary retirement benefits	(1)	84

	30 June 2009	31 December 2008
Statement of financial position obligations for:		
— Pension benefits	616	636

	Six months ended 30 June	
	2009	2008
Statement of comprehensive income charge for:		
— Pension benefits	(1)	84

The amounts recognised in the statement of financial position are determined as follows:

	30 June 2009	31 December 2008
Present value of unfunded obligations	616	636
Unrecognised actuarial losses	—	—
Unrecognised past service cost	—	—
Liability in the statement of financial position	616	636

(All amounts expressed in millions of RMB unless otherwise stated.)

28 RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

Movement in present value of unfunded obligations over the period is as follows:

	Six months ended 30 June 2009	2008
At the beginning of the period	636	546
Retirement benefit paid	(19)	(14)
Current service cost	—	1
Interest cost	11	14
Net actuarial (gains)/losses	(12)	11
Past service cost	—	58
At the end of the period	616	616

The amounts recognised in the statement of comprehensive income are as follows:

	Six months ended 30 June 2009	2008
Current service cost	—	1
Interest cost	11	14
Net actuarial (gains)/losses recognized during the period	(12)	11
Past service cost	—	58
Total, included in staff costs	(1)	84

The principal actuarial assumptions used are as follows:

	30 June 2009	31 December 2008
Discount rate	3.93%	3.56%
Pension plan inflation rate	4.00%	4.00%

Assumptions regarding future mortality experience are set based on published statistics by China Insurance Regulatory Commission.

The follow table translates into an average life expectancy in years of a pensioner retiring at age of 60 for male and 55 for female:

	30 June 2009	31 December 2008
Male	22.20	22.20
Female	29.52	29.52

(All amounts expressed in millions of RMB unless otherwise stated.)

29 SUBORDINATED TERM DEBT

	30 June 2009	31 December 2008
Floating rate subordinated debt — 2009 (1)	12,000	12,000
Fixed rate subordinated debt — 2022 (2)	16,000	16,000
Fixed rate subordinated debt — 2017 (2)	9,000	9,000
Fixed rate RMB debt (3)	3,000	3,000
	40,000	40,000

(1) The RMB12 Billion floating rate subordinated term debt bears interest at the rate of 1 year fixed deposit rate set by the PBOC plus 2.52% and will mature in July 2009.

(2) The Group issued following subordinated debt on 6 March 2007 in the inter-bank market of mainland China:

The first tranche of subordinated debt amounting to RMB16 Billion issued on 6 March 2007 has a fixed coupon rate of 4.13% for the first ten years, paid annually. The Group has the option to extend all of the bonds at face value for another five years through 8 March 2017 at a fixed rate of original coupon rate plus 3%.

The second tranche of subordinated debt amounting to RMB9 Billion issued on 6 March 2007 has a fixed coupon rate of 3.73% for the first five years, paid annually. The Group has the option to extend all of the bonds at face value for another five years through 8 March 2012 at a fixed rate of original coupon rate plus 3%.

(3) According to the resolution of the Annual General Meeting on 6 June 2008 and the approval from the PBOC, the Group issued RMB3 billion term debt, which has a maturity of two years and bears interest at the annual rate of 3.25%, in Hong Kong on 29 July 2008.

30 SHARE CAPITAL AND CAPITAL SURPLUS

	Number of shares (in millions)	Ordinary shares of RMB1 each (RMB million)	Capital surplus (RMB million)	Total (RMB million)
At 1 January 2009 and 30 June 2009	48,994	48,994	43,100	92,094

The shareholding structures of the Group and the Bank as at 30 June 2009 are as follow:

	Number of shares (in millions)	Approximated percentage of the Bank's issued share capital
Domestic Shares in issue	25,930	52.92%
H shares offered under the Global Offering and converted from Domestic Shares	23,064	47.08%
Total number of shares	48,994	100.00%

Generally, transactions of the following nature are recorded in the capital surplus:

(i) share premium arising from the issue of shares at prices in excess of their par value;
(ii) donations received from shareholders; and
(iii) any other items required by the PRC regulations to be so treated.

Capital surplus can be utilized to offset prior years' accumulated losses, for the issue of bonus shares or for increasing paid-up capital as approved by the Shareholders.

As at 30 June 2009, the Group's capital surplus is the share premium arising from the issue of shares at prices in excess of their par value.

(All amounts expressed in millions of RMB unless otherwise stated.)

31 RESERVES AND RETAINED EARNINGS

Pursuant to the PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the Directors and are subject to the passing of resolutions to be considered at the Bank's Annual General Meeting to be held subsequent to each year end.

In accordance with the PRC legislation, 10% of the net distributable profit of the Bank (Note 32), as determined under the PRC accounting regulations, is required to be transferred to a non-distributable statutory reserve until such time when this reserve represents 50% of the share capital of the Bank. Such profit distribution is recognized in the statement of financial position upon approval by the shareholders at the Annual General Meeting.

Pursuant to the PRC banking regulations, the Bank is required to transfer a certain amount of its net profit, as determined based on the degree of overall unidentified loss exposure, normally no lower than 1% of the ending balance of risk assets, to the statutory general reserve through its profit appropriation. The statutory general reserve is an integral part of equity interest but not subject to dividend distribution. Such statutory general reserve is recognized in the statement of financial position upon approval by the shareholders at the Annual General Meeting. Statutory reserve of Hongkong branch required by Hong Kong Monetary Authority ("HKMA") is also included in above statutory general reserve.

In accordance with the PRC legislation, after the statutory reserve has been transferred from the net distributable profit of the Bank, discretionary reserve may be provided upon approval by the shareholders at the Annual General Meeting. Such discretionary reserve is recognized in the statement of financial position upon approval by the shareholders at the Annual General Meeting.

On 18 March 2009, the Directors proposed the following profit appropriation, which was approved by the shareholders at the Annual General Meeting on 8 May 2009:

	2008
Statutory reserve	2,830
Statutory general reserve	5,882
Discretionary reserve	6,900
	15,612

(All amounts expressed in millions of RMB unless otherwise stated.)

32 DIVIDENDS

	Six months ended 30 June	
	2009	2008
Paid in the period	3,657	8,454

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 prior year's cumulative losses, 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 Annual 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 in accordance with IFRS.

The dividends are recognized in the statement of financial position upon approval by the shareholders at the Annual General Meeting. At 31 December 2008, the aggregate amount of distributable profit was RMB23,334 million (after interim profit distribution of RMB 0.10 per share), being the distributable profit determined in accordance with IFRS (2007: IFRS). On 18 March 2009, the directors proposed a cash dividend of RMB 0.10 per share (2007: RMB 0.15), amounting to RMB4,899 million (2007: RMB7,349 million), which was approved by shareholders at the Annual General Meeting on 8 May 2009.

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 half year. At 19 August 2009, the Board of Directors approved a cash dividend of RMB0.10 per share, amounting to RMB4,899 million.

(All amounts expressed in millions of RMB unless otherwise stated.)

33 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:

	30 June 2009	31 December 2008
Guarantees	163,193	154,918
Letters of credit	29,820	25,637
Acceptances	275,182	193,826
Other commitments with an original maturity of		
— Under 1 year	111,303	95,564
— 1 year and over	12,957	6,937
	592,455	476,882

Capital expenditure commitments

	30 June 2009	31 December 2008
Capital expenditure commitments for buildings	302	357

Operating lease commitments

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

	30 June 2009	31 December 2008
Not later than 1 year	995	1,014
Later than 1 year and not later than 5 years	2,356	2,454
Later than 5 years	956	972
	4,307	4,440

(All amounts expressed in millions of RMB unless otherwise stated.)

33 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

Commitments on security underwriting and bond acceptance

	30 June 2009	31 December 2008
Outstanding balance on security underwriting	30,150	6,700
Outstanding balance on bond acceptance (1)	22,244	20,345

(1) The Bank is entrusted by the Ministry of Finance ("MOF") to underwrite certain Certificates of Treasury Bond. 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 period/year are as follows:

	30 June 2009	31 December 2008
Outstanding claims	1,268	1,298
Provision for losses	324	336

(All amounts expressed in millions of RMB unless otherwise stated.)

34 ASSETS PLEDGED

Assets are pledged as collateral under repurchase agreements with other banks and financial institutions and for security deposits relating to local futures, options and stock exchange memberships.

	Pledged Assets		Related Liabilities	
	30 June 2009	31 December 2008	30 June 2009	31 December 2008
Trading securities	19	19	10	10
Investment securities	55,965	15,010	49,959	7,078
Loans	7,773	27,033	7,773	27,033
Finance lease receivable	2,378	1,091	1,700	1,000
	66,135	43,153	59,442	35,121

The Group and the Bank accept collateral that it is permitted to sell or repledge in connection with its reverse repurchase agreements.

As at 30 June 2009, the fair value of such collateral accepted by the Group and the Bank amounted to RMB1,806 million (2008: RMB4,825 million). These transactions are conducted under standard and normal business terms. As at 30 June 2009 and 31 December 2008, no collateral received was sold or re-pledged by the Group or the Bank.

35 CREDIT RISK WEIGHTED AMOUNT OF FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS

	30 June 2009	31 December 2008
Financial guarantees and credit related commitments	141,656	156,476

The credit risk weighted amount refers to the amount as computed in accordance with the formula promulgated by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments.

(All amounts expressed in millions of RMB unless otherwise stated.)

36 OTHER COMPREHENSIVE INCOME/(LOSSES)

	Six months ended 30 June 2009 Amount before tax	Tax expense	Amount after tax
Other comprehensive income			
Available-for-sale securities	(653)	151	(502)
Changes in fair value taken to equity	(6)	14	8
Changes in fair value transferred to net profit	(647)	137	(510)
Translation difference on foreign operations	67	—	67
Other comprehensive losses for the period	(586)	151	(435)

	Six months ended 30 June 2008 Amount before tax	Tax expense	Amount after tax
Other comprehensive income			
Available-for-sale securities	(1,649)	386	(1,263)
Changes in fair value taken to equity	(1,356)	324	(1,032)
Changes in fair value transferred to net profit	(293)	62	(231)
Translation difference on foreign operations	(482)	—	(482)
Other comprehensive losses for the period	(2,131)	386	(1,745)

37 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Analysis of changes in financing during the period

	Dividends	Share capital	Capital surplus	Subordinated term debt (including interest payable)
At 1 January 2009	130	48,994	43,100	41,265
Dividends	4,899	—	—	—
Net cash outflow from financing	(3,657)	—	—	(1,045)
Interest expense recognised on term debts	—	—	—	941
At 30 June 2009	1,372	48,994	43,100	41,161
At 1 January 2008	1,289	48,994	43,100	38,207
Dividends	7,349	—	—	—
Net cash outflow from financing	(8,454)	—	—	(1,577)
Interest expense recognised on term debts	—	—	—	778
At 30 June 2008	184	48,994	43,100	37,408

(All amounts expressed in millions of RMB unless otherwise stated.)

37 NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Analysis of the balance of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with original maturities of less than 90 days used for the purpose of meeting short-term cash commitments:

	30 June 2009	31 December 2008
Cash and balances with central banks (Note 15)	95,945	109,993
Due from other banks and financial institutions (Note 16(a))	85,315	115,739
	181,260	225,732

38 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group is subject to the control of the State Council of the PRC Government.

(a) Transactions with the MOF

The Group enters into banking transactions with the MOF in the normal course of business. These include the purchase and redemption of investment securities issued by the MOF. The volumes of related party transactions, deposits and outstanding balances at the period/year end, and related income for the period/year are as follows:

Treasury bonds

	Six months ended 30 June	
	2009	2008
Purchase during the period	49,054	21,387
Redemption during the period	(19,311)	(18,750)
Interest income	2,943	2,783

	30 June 2009	31 December 2008
Outstanding balance at beginning of the period	173,825	161,303
Outstanding balance at end of the period	205,873	173,825

(All amounts expressed in millions of RMB unless otherwise stated.)

38 RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions with the MOF *(Continued)*

Deposits

	30 June 2009	31 December 2008
Time Deposits	22,900	3,200

Interest expense

	Six months ended 30 June	
	2009	2008
Interest expense	86	80

(b) Transactions with other government agencies and other state-controlled entities

The Group is ultimately controlled by the PRC government, which also directly and indirectly controls a significant number of entities through its government authorities, agencies and affiliates. Accordingly, the Group is likely to have extensive transactions with government authorities, agencies and affiliates and other state-controlled entities.

Transactions with government authorities and agencies conducted include purchase and redemption of investment securities issued by government agencies, maintenance of mandatory reserve deposits, other deposits and amounts due to/due from government agencies.

The state-controlled entities are those over which the PRC government directly holds over 50% of the outstanding shares or voting rights, and has the ability to control or the power to govern their financial or operational policies.

(All amounts expressed in millions of RMB unless otherwise stated.)

38 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with other government agencies and other state-controlled entities *(Continued)*

Transactions with other state controlled-entities are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group has also established its pricing strategy and approval processes for major products and services, such as loans, deposits, investment securities, money market transactions financial guarantees and credit related commitments etc. Such pricing strategy and approval processes do not depend on whether the customers are state-owned entities or not. Except these disclosed elsewhere in these financial statements, the volumes of such related party transactions, outstanding balances and related provisions at the period/year end, and the related expense and interest ranges for the period/year are as follows:

(i) Loans and advances to customers

	Six months ended 30 June	
	2009	2008
Outstanding balance at beginning of the period	340,018	289,764
Outstanding balance at end of the period	456,516	307,906
Less: allowance for impairment losses	(5,476)	(3,767)
	451,040	304,139
Including: discounted bills	9,136	2,202
Interest rate range of discounted bills	1.44%~6.75%	2.4%~7.96%
Interest rate range of loans and advances other than discounted bills	0.05%~18.00%	0.05%~18.00%

The loan interest rate range stated above covers interest rates for loans granted in various currencies and periods.

	Six months ended 30 June	
	2009	2008
Provision for impairment during the period	642	428

(All amounts expressed in millions of RMB unless otherwise stated.)

38 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with other government agencies and other state-controlled entities *(Continued)*

(ii) Investment securities

	Six months ended 30 June	
	2009	2008
Purchase during the period	573,105	769,690
Redemption during the period	(221,546)	(14,565)
Sales during the period	(819,515)	(716,655)
Interest income	5,443	4,803

	Six months ended 30 June	
	2009	2008
Outstanding balance at beginning of the period	326,592	220,659
Outstanding balance at end of the period	405,724	277,321

(iii) Due from other banks and financial institutions

	Six months ended 30 June	
	2009	2008
Outstanding balance at beginning of the period	57,649	51,230
Outstanding balance at end of the period	53,484	95,886
Less: allowance for impairment	(17)	(38)
	53,467	95,848

	Six months ended 30 June	
	2009	2008
Provision for impairment reversed during the period	—	(3)

(All amounts expressed in millions of RMB unless otherwise stated.)

38 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with other government agencies and other state-controlled entities *(Continued)*

(iv) Due to other banks and financial institutions

	Six months ended 30 June	
	2009	2008
Outstanding balance at beginning of the period	116,675	91,134
Outstanding balance at end of the period	154,680	135,942

(v) Due to customers

	Six months ended 30 June	
	2009	2008
Outstanding balance at beginning of the period	454,936	361,337
Outstanding balance at end of the period	585,009	501,026

(vi) Financial guarantees and credit related commitments

	30 June 2009	31 December 2008
Guarantees	48,968	67,647
Letters of credit	10,179	11,298
Acceptances	36,300	22,983
Derivative transactions unsettled	37,885	14,410

(All amounts expressed in millions of RMB unless otherwise stated.)

38 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Transactions with directors and senior management

The Group enters into banking transactions with directors and senior management in the normal course of business. These include loans and deposits, which are carried out under commercial terms and at market rates except that loans and deposits have been made to and taken from senior management of the Hong Kong branch at preferential rates. The volumes of related party transactions during the six months ended 30 June 2009 and 30 June 2008, outstanding balances at the reporting date are as follows:

(i) Loans

	Six months ended 30 June	
	2009	2008
Outstanding balance at beginning of the period	201	33
Addition during the period	28	5
Repayment during the period	(11)	(21)
Outstanding balance at end of the period	218	17

No allowance for impairment has been recognised in respect of loans granted to directors and senior management.

(ii) Deposits

	Six months ended 30 June	
	2009	2008
Outstanding balance at beginning of the period	54	45
Addition during the period	113	66
Withdrawal during the period	(107)	(80)
Outstanding balance at end of the period	60	31

(d) Transactions with HSBC

As at 30 June 2009, The Hong Kong and Shanghai Banking Corporation Limited ("HSBC") holds 9,381 million shares of the Bank of Communications Co., Ltd which represents 19.15%. Transactions between the Group and HSBC are mainly banking activities under commercial terms and at market rates. Detail transaction volumes since the above share acquisition are set out below:

(i) Placement with HSBC

	Six months ended 30 June	
	2009	2008
Outstanding balance at beginning of the period	799	1,415
Addition during the period	138,580	189,062
Repayment during the period	(137,524)	(189,726)
Outstanding balance at end of the period	1,855	751
Interest income	16	48

(All amounts expressed in millions of RMB unless otherwise stated.)

38 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Transactions with HSBC *(Continued)*

(ii) Due to HSBC

	Six months ended 30 June 2009	Six months ended 30 June 2008
Outstanding balance at beginning of the period	389	1,769
Addition during the period	30,447	72,735
Withdrawal during the period	(28,188)	(71,850)
Outstanding balance at end of the period	2,648	2,654
Interest expense	7	54

(iii) Investment securities

	Six months ended 30 June 2009	Six months ended 30 June 2008
Interest income	4	11

	30 June 2009	30 June 2008
Outstanding balance	558	374

(iv) Derivative transactions unsettled

	30 June 2009	30 June 2008
Derivative transactions unsettled	11,847	8,449
Fair Value	(21)	(9)

(All amounts expressed in millions of RMB unless otherwise stated.)

39 SEGMENTAL INFORMATION

(a) The Bank's senior management team as represented by the governor reviewed the Bank's operation by the particular economic areas in which the Bank's branches and subsidiaries provide 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. The operating segments are:

(i) Northern China — Including the following provinces: Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia;

(ii) North-Eastern China — Including the following provinces: Liaoning, Jilin, Heilongjiang;

(iii) Eastern China — Including the following provinces: Shanghai (excluding head office), Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;

(iv) Central & Southern China — Including the following provinces: Henan, Hunan, Hubei, Guangdong, Guangxi, Hainan;

(v) Western China — Including the following provinces: Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang;

(vi) Head office;

(vii) Overseas — Including overseas subsidiaries and the following branches: Hong Kong, New York, Singapore, Seoul, Tokyo, Frankfurt and Macao.

(a) Geographical segment information

	Head Office	Northern China	North-eastern China	Eastern China	Central & Southern China	Western China	Overseas	Eliminations	Group Total
Six months ended 30 June 2009									
External income	15,099	10,382	2,566	20,379	9,196	3,798	2,315	–	63,735
Inter-segment income	1,197	2,279	820	2,810	1,957	679	63	(9,805)	–
Total segment income	16,296	12,661	3,386	23,189	11,153	4,477	2,378	(9,805)	63,735
Net profit	4,290	2,469	324	4,905	1,688	1,106	829	–	15,611

	Head Office	Northern China	North-eastern China	Eastern China	Central & Southern China	Western China	Overseas	Eliminations	Group Total
Six months ended 30 June 2008									
External income	11,942	9,623	2,953	20,296	9,624	3,940	3,072	–	61,450
Inter-segment income	1,685	1,535	764	3,496	2,190	767	150	(10,587)	–
Total segment income	13,627	11,158	3,717	23,792	11,814	4,707	3,222	(10,587)	61,450
Net profit	2,527	2,371	672	5,923	2,891	684	499	–	15,567

(All amounts expressed in millions of RMB unless otherwise stated.)

40 FIDUCIARY ACTIVITIES

The Group provides custody and trustee services to third parties. Those assets that are held in a fiduciary capacity are not included in the financial statements. And the Group grants entrusted loans on behalf of third-party lenders, which are also not included in the financial statements.

	As at 30 June 2009	As at 31 December 2008
Investment custody accounts	570,295	466,213
Wealth Management	21,355	40,639
Entrusted loans	136,712	125,719

41 LIQUIDITY RISK

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period from reporting date to the contractual maturity date.

	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Total
As at 30 June 2009								
Assets								
Cash and balances with central banks	409,312	–	–	–	–	–	–	409,312
Due from other banks and financial institutions	31,208	135,814	99,360	71,421	–	–	13	337,816
Financial assets held for trading	142	1,321	3,729	5,697	24,569	6,651	–	42,109
Loans and advances to customers	115	156,347	231,965	584,937	449,747	258,232	15,862	1,697,205
Investment securities								
– loans and receivables	–	5,370	11,135	43,003	21,846	964	–	82,318
– available-for-sale	–	15,015	29,822	30,606	70,877	20,072	–	166,392
– held-to-maturity	–	10,401	12,332	49,477	265,198	152,776	–	490,184
Other assets, including deferred tax assets	7,162	6,352	3,536	8,464	10,612	37,382	16	73,524
Total assets	447,939	330,620	391,879	793,605	842,849	476,077	15,891	3,298,860
Liabilities								
Due to other banks and financial institutions	(281,343)	(78,384)	(51,215)	(117,974)	(126,339)	(4,096)	–	(659,351)
Financial liabilities held for trading	–	(1,795)	(1,437)	(2,512)	(1,667)	(1,238)	–	(8,649)
Due to customers	(1,101,054)	(329,538)	(310,852)	(509,884)	(114,006)	–	–	(2,365,334)
Other liabilities, including deferred tax liabilities	(31,310)	(14,337)	(23,420)	(4,711)	(13,001)	(18,375)	–	(105,154)
Total liabilities	(1,413,707)	(424,054)	(386,924)	(635,081)	(255,013)	(23,709)	–	(3,138,488)
Net liquidity gap	(965,768)	(93,434)	4,955	158,524	587,836	452,368	15,891	160,372

(All amounts expressed in millions of RMB unless otherwise stated.)

41 LIQUIDITY RISK *(Continued)*

	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Total
As at 31 December 2008								
Assets								
Cash and balances with central banks	362,180	–	–	–	–	–	–	362,180
Due from other banks and financial institutions	80,614	176,620	38,937	34,827	500	–	13	331,511
Financial assets held for trading	–	1,614	2,332	10,515	9,170	3,305	–	26,936
Loans and advances to customers	797	88,802	145,404	554,908	305,592	187,485	15,788	1,298,776
Investment securities								
– loans and receivables	–	625	9,659	34,542	45,116	961	–	90,903
– available-for-sale	–	4,306	15,536	43,165	59,204	19,799	–	142,010
– held-to-maturity	–	2,054	4,551	36,244	191,948	133,081	–	367,878
Other assets, including deferred tax assets	9,541	11,929	316	1,167	3,575	35,986	239	62,753
Total assets	453,132	285,950	216,735	715,368	615,105	380,617	16,040	2,682,947
Liabilities								
Due to other banks and financial institutions	(244,719)	(53,225)	(43,131)	(100,875)	(117,437)	(10,066)	–	(569,453)
Financial liabilities held for trading	–	(931)	(558)	(4,529)	(2,708)	(1,287)	–	(10,013)
Due to customers	(919,140)	(234,148)	(206,153)	(406,242)	(99,629)	(503)	–	(1,865,815)
Other liabilities, including deferred tax liabilities	(17,166)	(1,400)	(19,313)	(18,270)	(13,020)	(18,402)	–	(87,571)
Total liabilities	(1,181,025)	(289,704)	(269,155)	(529,916)	(232,794)	(30,258)	–	(2,532,852)
Net liquidity gap	(727,893)	(3,754)	(52,420)	185,452	382,311	350,359	16,040	150,095

42 EVENTS AFTER THE REPORTING DATE

Under the approval of CBRC and PBOC, the Bank issued 25 billion subordinated debts in the inter-bank bond market on 1 July 2009.

43 RECLASSIFICATION OF COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period presentation.

Supplementary Unaudited Financial Information

(All amounts expressed in millions of RMB unless otherwise stated.)

(All amounts expressed in millions of RMB unless otherwise stated.)

1 CAPITAL ADEQUACY RATIOS

The capital adequacy ratio that the Group submitted to the Regulators is calculated in accordance with the formula promulgated by CBRC. The table below summarises the composition of regulatory capital after deductions and the ratios of the Group that submitted to the Regulators as at 30 June 2009 and 31 December 2008:

	30 June 2009	31 December 2008
Core capital:		
Paid up ordinary share capital	48,994	48,994
Surplus	37,278	37,888
Reserves and general provision	26,838	26,863
Retained earnings	28,175	17,973
Minority interest	522	433
	141,807	132,151
Supplementary capital:		
Revaluation reserve for properties	3,706	3,718
Impairment allowances for impaired assets and regulatory reserves	25,005	19,549
Term subordinated debt	27,400	27,400
Others	4,636	4,049
Gross value of supplementary capital	60,747	54,716
Eligible value of supplementary capital	60,747	54,716
Total capital base before deductions	202,554	186,867
Deductions:		
Goodwill	(200)	(200)
Unconsolidated investments in financial institutions	(655)	(706)
Investments in enterprises	(473)	(514)
	(1,328)	(1,420)
Total capital base after deductions	201,226	185,447
Risk-weighted assets:		
On-statement risk-weighted assets	1,423,703	1,194,962
Off-statement risk-weighted assets	141,656	156,476
Total risk-weighted assets	1,565,359	1,351,438
Market risk capital	2,863	2,000
Capital adequacy ratio	12.57%	13.47%
Core capital adequacy ratio	8.81%	9.54%

(All amounts expressed in millions of RMB unless otherwise stated.)

2 LIQUIDITY RATIOS

The liquidity ratio that the Group submitted to the Regulators is calculated in accordance with the formula promulgated by CBRC.

	30 June 2009	31 December 2008
Liquidity ratios	35.71%	39.72%

3 CURRENCY CONCENTRATIONS

	US Dollars	HK Dollars	Others	Total
As at 30 June 2009				
Spot assets	171,923	72,634	30,758	275,315
Spot liabilities	(153,948)	(79,245)	(27,358)	(260,551)
Forward purchases	96,800	13,874	10,769	121,443
Forward sales	(93,124)	(12,210)	(13,531)	(118,865)
Net long/(short) position	21,651	(4,947)	638	17,342
Net structural position	4,895	4,893	1,248	11,036

	US Dollars	HK Dollars	Others	Total
As at 31 December 2008				
Spot assets	150,198	59,612	28,099	237,909
Spot liabilities	(126,943)	(68,716)	(24,728)	(220,387)
Forward purchases	81,451	9,036	9,347	99,834
Forward sales	(78,776)	(2,256)	(13,153)	(94,185)
Net long/(short) position	25,930	(2,324)	(435)	23,171
Net structural position	2,140	4,587	856	7,583

The net options position is calculated using the model user approach as set out by CBRC. The net structural position of the Group includes the structural positions of the Bank’s overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

— Investments in property and equipment and premises, net of depreciation charges;

— Capital and statutory reserves of overseas branches;

— Investments in overseas subsidiaries and related companies; and

— Loan capital.

(All amounts expressed in millions of RMB unless otherwise stated.)

4 CROSS-BORDER CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as cross-border claims.

Cross-border claims include loans and advances, balances and placements with banks and other financial institutions, holdings of trade bills and certificates of deposit and investment securities.

Cross-border claims have been disclosed by different countries or geographical areas. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	Banks and other financial institutions	Public sector entities	Others	Total
As at 30 June 2009				
Asia Pacific excluding Mainland China	28,524	2,497	54,395	85,416
— of which attributed to Hong Kong	2,321	2,229	44,262	48,812
North and South America	21,910	333	12,189	34,432
Africa	805	—	—	805
Europe	43,271	935	914	45,120
	94,510	3,765	67,498	165,773

	Banks and other financial institutions	Public sector entities	Others	Total
As at 31 December 2008				
Asia Pacific excluding Mainland China	32,199	2,276	42,926	77,401
— of which attributed to Hong Kong	1,926	1,995	36,106	40,027
North and South America	13,915	333	7,762	22,010
Africa	149	—	—	149
Europe	44,308	197	2,954	47,459
	90,571	2,806	53,642	147,019

(All amounts expressed in millions of RMB unless otherwise stated.)

5 OVERDUE AND RESCHEDULED ASSETS

(a) Gross amount of overdue loans

	30 June 2009	31 December 2008
Gross advances to customers which have been overdue for:		
— within 3 months	7,533	8,381
— between 3 and 6 months	3,099	2,395
— between 6 and 12 months	3,803	3,588
— over 12 months	14,195	14,996
	28,630	29,360
Percentage:		
— within 3 months	0.44%	0.63%
— between 3 and 6 months	0.18%	0.18%
— between 6 and 12 months	0.22%	0.27%
— over 12 months	0.82%	1.13%
	1.66%	2.21%
Gross advances to banks and other financial institutions which have been overdue for:		
— within 3 months	—	—
— between 3 and 6 months	—	—
— between 6 and 12 months	—	—
— over 12 months	223	226
	223	226
Percentage:		
— within 3 months	—	—
— between 3 and 6 months	—	—
— between 6 and 12 months	—	—
— over 12 months	0.07%	0.07%
	0.07%	0.07%

* Included in the gross overdue advances to customers as at 30 June 2009, there are trade bills which have been overdue for:

	30 June 2009
— within 3 months	76
— between 3 and 6 months	89
— between 6 and 12 months	85
— over 12 months	62
	312

(All amounts expressed in millions of RMB unless otherwise stated.)

5 OVERDUE AND RESCHEDULED ASSETS *(Continued)*

(b) Overdue and rescheduled loans

	30 June 2009	31 December 2008
Total rescheduled loans and advances to customers	4,355	5,315
Including: rescheduled loans and advances to customers overdue above 3 months in total loans	2,228	2,811
Percentage of rescheduled loans and advances to customers overdue above 3 months in total loans	0.13%	0.21%

6 SEGMENTAL INFORMATION OF LOANS

(a) Impaired loans by geographical area

	30 June 2009		31 December 2008	
	Impaired loan	Specific Provision	Impaired loan	Specific Provision
Domestic regions				
— Northern China	3,768	(2,475)	3,822	(2,564)
— North-eastern China	2,888	(1,783)	3,173	(2,130)
— Eastern China	9,124	(5,451)	10,133	(6,203)
— Central & Southern China	6,936	(3,923)	4,451	(2,967)
— Western China	2,711	(1,668)	3,537	(2,179)
	25,427	(15,300)	25,116	(16,043)
Hong Kong and overseas countries	599	(377)	404	(340)
	26,026	(15,677)	25,520	(16,383)

(b) Overdue loans and advances to customers by geographical area

	30 June 2009			31 December 2008		
	Overdue loan	Specific Provision	Collective provision	Overdue loan	Specific Provision	Collective provision
Domestic regions						
— Northern China	3,636	(2,069)	(14)	4,808	(2,087)	(25)
— North-eastern China	3,097	(1,697)	(11)	4,173	(1,882)	(21)
— Eastern China	10,683	(4,895)	(55)	10,112	(5,087)	(41)
— Central & Southern China	7,366	(2,308)	(53)	6,038	(2,454)	(39)
— Western China	2,824	(1,271)	(14)	3,515	(1,639)	(15)
	27,606	(12,240)	(147)	28,646	(13,149)	(141)
Hong Kong and overseas countries	1,024	(373)	(8)	714	(281)	(1)
	28,630	(12,613)	(155)	29,360	(13,430)	(142)
Fair value of collateral	19,242			17,810		

(All amounts expressed in millions of RMB unless otherwise stated.)

7 LOANS AND ADVANCES TO CUSTOMERS

(a) The economic sector risk concentration analysis for loans and advances to customers (gross)

	30 June 2009			31 December 2008		
	Amount	%	Amount covered by collaterals	Amount	%	Amount covered by collaterals
HK:						
Corporate loans						
Manufacturing						
— Petroleum and chemical	127	—	119	—	—	—
— Electronics	348	—	39	357	1	148
— Steel smelting and processing	—	—	—	—	—	—
— Machinery	19	—	—	—	—	—
— Textile	232	—	70	247	—	85
— Other manufacturing	3,602	5	112	3,504	6	312
Transportation	1,999	3	409	2,139	4	520
Electricity	1,590	2	—	416	1	—
Wholesale and retail	7,900	11	1,971	7,997	14	1,098
Services	—	—	—	309	1	2
Real estate	7,007	10	6,801	6,799	12	5,114
Utilities	—	—	—	—	—	—
Construction	5,610	8	1,298	4,982	9	1,259
Energy and mining	—	—	—	—	—	—
Recreation and entertainment	—	—	—	—	—	—
Accommodation and catering	369	1	3	309	1	2
IT and telecommunication service	974	1	—	479	1	—
Financial institutions	10,805	15	528	5,812	10	284
Others	13,864	21	742	9,786	16	680
Corporate loans total	54,446	77	12,092	43,136	76	9,504
Mortgage loans	9,909	15	8,768	8,831	15	8,816
Medium-term and long-term working capital loans	—	—	—	—	—	—
Short-term working capital loans	587	1	551	110	—	68
Car loans	—	—	—	—	—	—
Credit card advances	52	—	—	69	—	—
Loans secured by deposits	—	—	—	—	—	—
Others	5,244	7	4,649	4,935	9	4,856
Individual loans total	15,792	23	13,968	13,945	24	13,740
Gross amount of loans and advances before allowance for impairment	70,238	100	26,060	57,081	100	23,244
Outside HK:	1,658,980			1,271,509		

The economic sector risk concentration analysis for loans and advances to customers is based on the Group's internal classification system.

The collateral rate is 36% as the period ended 30 June 2009 (2008: 36%).

(All amounts expressed in millions of RMB unless otherwise stated.)

7 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(b) Provision on loans and advances by loan usage

	30 June 2009		31 December 2008	
	Impaired loan	Specific provision	Impaired loan	Specific provision
Corporate	23,012	(13,906)	22,602	(14,823)
Individual	3,014	(1,771)	2,918	(1,560)
	26,026	(15,677)	25,520	(16,383)
Fair value of collateral	8,804	N/A	6,791	N/A

Collateral held against such loans mainly include cash deposits and mortgages over properties.

The amount of new provisions charged to statement of comprehensive income, and the amount of impaired loans and advances written off during the period are disclosed below:

	Six months ended 30 June					
	2009			2008		
	New provisions	Write off	Recoveries of advances written off in previous years	New provisions	Write off	Recoveries of advances written off in previous years
Corporate	3,862	(2,020)	(11)	3,342	(828)	(9)
Individual	667	(16)	—	660	(14)	—
	4,529	(2,036)	(11)	4,002	(842)	(9)

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