

Global Partner of Expo 2010 Shanghai China

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



# 2010 INTERIM REPORT

Stock Code: 03328



# Contents

Financial Highlights	2
Corporate Information	3
Management Discussion and Analysis	4
Details of Changes in Share Capital and Shareholdings of Substantial Shareholders	38
Directors, Supervisors, Senior Management and Staff	43
Corporate Governance	46
Corporate Social Responsibilities	49
Significant Events	54
List of Branches	58
Independent Auditors' Report	61
Unaudited Condensed Consolidated Interim Financial Information	62
Notes to the Unaudited Condensed Consolidated Interim Financial Information	67
Supplementary Unaudited Financial Information	109

# Financial Highlights

The major interim financial data and indicators of the group for the six months ended 30 June 2010 prepared under International Financial Reporting Standards (“IFRS”) are as follows:

<i>(in millions of RMB, unless otherwise stated)</i>			
	<b>As at 30 June 2010</b>	As at 31 December 2009	Increase/ (decrease) (%)
Total assets	<b>3,709,279</b>	3,309,137	12.09
Includes: loans and advances to customers	<b>2,070,568</b>	1,839,314	12.57
Total liabilities	<b>3,512,129</b>	3,144,712	11.68
Includes: due to customers	<b>2,702,931</b>	2,372,055	13.95
Shareholders' equity (excluding minority interest)	<b>196,348</b>	163,848	19.84
Net asset per share (excluding minority interest, in RMB, Yuan)	<b>3.72</b>	3.34	11.38
	<b>January to June 2010</b>	January to June 2009	Increase/ (decrease) (%)
Net interest income	<b>39,896</b>	29,785	33.95
Profit before tax <sup>1</sup>	<b>26,151</b>	19,997	30.77
Net profit (excluding minority interest) <sup>1</sup>	<b>20,357</b>	15,649	30.08
Diluted earnings per share (in RMB, Yuan) <sup>1,2</sup>	<b>0.40</b>	0.31	29.03
	<b>As at 30 June 2010 (%)</b>	As at 31 December 2009 (%)	Change (percentage points)
Return on average total assets <sup>3</sup>	<b>1.16</b>	1.01	0.15
Return on average shareholders' equity <sup>4</sup>	<b>22.61</b>	19.49	3.12
Net interest spread <sup>5</sup>	<b>2.36</b>	2.22	0.14
Net interest margin <sup>6</sup>	<b>2.43</b>	2.30	0.13
Cost to income ratio <sup>7</sup>	<b>28.35</b>	33.10	(4.75)
Impaired loans ratio <sup>8</sup>	<b>1.22</b>	1.36	(0.14)
Provision coverage of impaired loans <sup>9</sup>	<b>161.17</b>	151.05	10.12
Core capital adequacy ratio	<b>8.94</b>	8.15	0.79
Capital adequacy ratio	<b>12.17</b>	12.00	0.17

## Notes:

- The comparative data (including profit before tax, net profit, etc.) were adjusted retrospectively due to changes in accounting policies for fixed assets. (same applies hereinafter)
- Earnings per share were recalculated in accordance with IFRS due to the rights issue during the reporting period.
- Calculated by dividing annualised net profit of the reporting period by the average of total assets at the beginning and the end of the reporting period.
- Calculated by dividing annualised net profit (excluding minority interest) of the reporting period by the average of shareholders' equity (excluding minority interest) at the beginning and the end of the reporting period.
- Refers to the difference between the average returns (annualised) on the average balance of total interest-earning assets and the average cost (annualised) of the average balance of total interest-bearing liabilities.
- Refers to the ratio of net interest income (annualised) to average balance of total interest-earning assets.
- Refers to the ratio of certain categories of operating expenses over certain categories of net income.
- Calculated by dividing the outstanding balance of impaired loans by the outstanding balance of loans before impairment allowances as at the end of the reporting period.
- Calculated by dividing the outstanding balance of impairment allowances by the outstanding balance of impaired loans as at the end of the reporting period.

# Corporate Information

## LEGAL NAME

Bank of Communications Co., Ltd.

## LEGAL REPRESENTATIVE

Hu Huaibang

## COMPANY SECRETARY

Du Jianglong

## AUTHORISED REPRESENTATIVES APPOINTED IN ACCORDANCE WITH THE LISTING RULES OF THE HONG KONG STOCK EXCHANGE

Qian Wenhui

Du Jianglong

## COMPANY ADDRESS AND INVESTOR CONTACT

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Website: www.bankcomm.com

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Address: 20 Pedder Street, Central, Hong Kong  
Tel: 852-29738861

## SELECTED NEWSPAPERS AND WEBSITES FOR INFORMATION DISCLOSURE

A shares: China Securities Journal,  
Shanghai Securities News,  
Securities Times and website of the  
Shanghai Stock Exchange  
<http://www.sse.com.cn>

H shares: HKExnews website of The Stock Exchange  
of Hong Kong Limited  
("Hong Kong Stock Exchange")  
<http://www.hkexnews.hk>

## PLACES WHERE THE INTERIM REPORT CAN BE OBTAINED:

Head Office of the Bank and principal business  
locations

## AUDITORS

PricewaterhouseCoopers  
Deloitte Touche Tohmatsu CPA Ltd.

## HONG KONG LEGAL ADVISER

Baker & McKenzie LLP

## PRC LEGAL ADVISER

King & Wood PRC Lawyers

## 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, PRC

H shares: Computershare Hong Kong  
Investor Services Limited,  
Rooms 1712-1716, 17th Floor,  
Hopewell Centre, 183 Queen's Road East,  
Hong Kong

## LISTING INFORMATION

A shares: Shanghai Stock Exchange  
Stock Name: Bank of Communications  
Stock Code: 601328

H shares: The Hong Kong Stock Exchange  
Stock Name: BANKCOMM  
Stock Code: 03328

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

# Management Discussion and Analysis

## (1) GROUP OPERATION OVERVIEW

In the first half of 2010, China continued with its rescue measures in response to the international financial crisis. This helped accelerate economic growth and improved the economic structure, leading to good results in the overall national economy. Efficiency of businesses improved significantly and sales grew at a fast pace. Investment in fixed assets also grew, albeit at a lower but more stable rate. Foreign trade recovered faster but also with a noticeable reduction in trade surplus. The growth rate of money supply dropped gradually and the balance in RMB savings and loans grew at a slower rate as compared to the corresponding period in prior year.

The group thoroughly studied the influence of such macro-economic changes and their economic and financial impact on commercial banking and took steps to comply with these national macro-economic policy adjustments, thus positioning itself accordingly to take advantage of these changes to achieve a good balance between strong business growth, prudent risk management and structural adjustments, resulting in strong growth. The group's total assets increased by 12.09% from the beginning of the year to RMB3,709.279 billion as at the end of the reporting period. Net profits increased by 30.08% as compared to the corresponding period in prior year to RMB20.357 billion. Average asset return (annualised) and average return on shareholders' equity (annualised) were 1.16% and 22.61% respectively. Balance of customer deposits increased by 13.95% from the beginning of the year to RMB2,702.931 billion. Balance of customer loans and advances (before provisioning, same applies hereinafter unless otherwise stated) increased by 12.57% from the beginning of the year to RMB2,070.568 billion. Net interest spread and net interest margin increased by 25 basis points and 22 basis points respectively, as compared to the corresponding period in prior year to 2.36% and 2.43% respectively. The impaired loans ratio decreased by 0.14 percentage point since the beginning of the year to 1.22%. Provisions coverage of impaired loans also increased by 10.12 percentage points from the beginning of the year to 161.17%.

## (2) BUSINESS REVIEW

Faced with challenging economic and financial environment, the group took advantage of opportunities presented by market changes to improve quality and efficiency and to expand its business. The group maintained an active and prudent management style, accelerating reforms, promoting innovations and moving forward steadily with business restructuring. With these management initiatives, capabilities across all businesses improved significantly.

### Accelerated Improvement in Business Development and Strong Growth in Profitability

The group accelerated its pace in business development while taking advantage of development opportunities and grasped market potentials. This resulted in significant growth in the group's business development capabilities. In the corporate banking business, while there was tighter liquidity due to the reduced growth rate of money supply as compared to prior year, the group focused on new accounts development and achieved good growth in its corporate savings. At the end of the reporting period, the balance of corporate savings of the group was RMB1,831.993 billion, representing an increase of 17.52%



## Management Discussion and Analysis (Continued)

from the beginning of the year. New corporate accounts contributed to 45.18% of the total increase in the group's corporate savings. Meanwhile, disbursement of corporate loans was carried out in good order and the group was able to continuously optimise its credit structure. At the end of the reporting period, the balance of corporate loans was RMB1,698.519 billion, representing an increase of 11.11% from the beginning of the year. The group's Green Credit initiative also progressed well, with loans extended to green-category customers making 99.42% of total loans. In the personal banking business, the group continued to improve its tiered service system for personal clients with new business innovations and better cross-selling opportunities which helped improve the penetration rate of products and concerted growth of the business. At the end of the reporting period, the balance of personal savings of the group was RMB866.466 billion, representing an increase of 7.48% from the beginning of the year. Balance of individual loans increased by RMB61.411 billion, representing an increase of 19.77% from the beginning of the year, and its proportion of total loans increased by 1.08 percentage points from the beginning of the year to 17.97%. In the financial markets business, the group used scientific measures to forecast macro-economic trends. The group also took advantage of RMB bonds investment opportunities and strengthened its flexibility in the management of its foreign assets portfolio. The group continued to remain active in domestic and foreign currencies market trading and was ranked among the more active interbank foreign currency market-makers, coming in at No. 1 in terms of trade volume and No. 2 in terms of market-making volume.

Benefiting from the ongoing improvement of its business development capabilities, the group's profit levels improved significantly. During the reporting period, the group reported net profit of RMB20.357 billion, representing an increase of 30.08% from the corresponding period in prior year. Return on Average Assets (ROAA, annualised) and Return on Average Equity (ROAE, annualised) were 1.16% and 22.61% respectively, representing increases of 0.11 percentage point and 1.79 percentage points respectively as compared to the corresponding period in prior year. The group was again ranked among Fortune Global 500 with its operating income at No. 440, an improvement of 54 places from last year. The group was also ranked No. 49 in Tier 1 capital among the top 1,000 banks in the world by The Banker magazine.

### Strengthening Management's Capabilities and Steady Improvement in Development Efficiency

The group continued to focus on improving development efficiency and management capabilities, with the objective of encouraging new management ideas, uplifting the level of professionalism and management proficiency, thus leading to steady improvement of development efficiency.

During the reporting period, the group continued to optimise its asset/liability structure by increasing the scope of its balance sheet restructuring. In terms of assets, the proportion of high-yield assets further increased. Proportion of customer loans and advances (after impairment) to total assets increased by 3.20 percentage points as compared to the corresponding period in prior year. Proportion of domestic RMB mid-and-long term loans increased by 3.91 percentage points as compared to the beginning of the year. Proportion of discounted bills held to customer loans and advances decreased by 2.10 percentage points at the end of the reporting period as compared to the beginning of the year. In terms of liabilities, the proportion

## Management Discussion and Analysis (Continued)

of current savings deposits as a component of total deposits at the end of the reporting period decreased slightly by 0.39 percentage point to 49.31% as compared to the beginning of the year. Meanwhile, due to better pricing management and the lagging effect of interest rate decreases on savings interest rates, the cost of deposit dropped significantly by 45 basis points as compared to the corresponding period in prior year, outpacing the drop in loan yield of 23 basis points. Benefiting from this, the interest spread of the group continued to improve, resulting in a big increase in net interest income. Net interest spread and net interest margin were 2.36% and 2.43% respectively, representing increases of 25 basis points and 22 basis points respectively from the corresponding period in prior year. Net interest spread and net interest margin for the second quarter were 2.39% and 2.46% respectively, representing an increase of 5 basis points respectively from the first quarter of this year. Net interest income was RMB39.896 billion, representing an increase of 33.95% from the corresponding period in prior year, of which net interest income in the second quarter was RMB20.866 billion, representing an increase of 9.65% from the first quarter of the year.

While keeping a strong growth in net interest income, the group continued to improve the quality of its fee-based businesses to achieve a better diversification in sources of income. During the reporting period, the group continued to report rapid growth of its net income from fees and commissions which increased by RMB1.649 billion or 30.11% from the corresponding period in prior year to RMB7.125 billion. The group seized opportunities in the recovery of the economy and foreign trade and actively pushed forward the rapid growth of businesses such as consultation and advisory business, bond underwriting and trade settlement. Fee income from the consultation and advisory business was RMB1.565 billion, representing a significant increase of 85.65% from the corresponding period in prior year. Disbursement, settlement and agency fee income increased by 32.51% from the corresponding period in prior year. With the deep correction in the stock market, the group promoted agency insurance business actively, leading to strong growth of the bancassurance business. Fee income from agency insurance business was RMB452 million, representing an increase of 42.59% from the corresponding period in prior year. Faced with increasing consumption demand, the group further developed its bank card business actively, reporting annual fee and transaction fee from bank cards of RMB2.351 billion, representing an increase of 27.43% from the corresponding period in prior year. Among these, 17.52 million credit cards were issued with cumulative consumption exceeding RMB100 billion in the first half of the year.

### Comprehensive Enhancement in Risk Management and Effective Strengthening of Capital

In 2010, with the continued recovery of the economy, commercial banks were presented with both opportunities and higher credit risk. The group rigorously implemented its national macro-economic policies and tightened requirements on credit issuance while coordinating its business development and risk control. In particular, it enhanced its credit procedures over high-risk areas during the economic rebound. The group implemented quota management on loans to industries with excess capacity, watch-list based credit management on the real estate sector and inspection on loans to high-risk sectors. These measures helped to reduce the Bank's exposure to high risk sectors.



## Management Discussion and Analysis (Continued)

At the same time, the group hastened its development of risk management systems so as to continuously develop and upgrade various functions of its risk management system. The group implemented its “3 Regulations and 1 Guidance” policy, improving its comprehensive loans process management, strengthening the monitoring of fund flow destination and risk control and increasing early warning detection for major risk areas to ensure the integrity and stability of its credit assets. In addition, the group increased the scope of its market risk management system development. The group also implemented its middle office management information system and continued to optimise its management cooperation mechanism and system. The group encouraged widespread adoption of its operational risk management system and information system and implemented the systematic operation of the three key tools of risk control self-evaluation, key risk indices and loss data collection. The group also complied fully with The New Basel Capital Accords during the reporting period. Consolidated group-wide risk management progressed well and auditing and supervision capabilities of internal control and risk direction initiatives were enhanced further. At the end of the reporting period, the balance of impaired loans of the group remained stable at RMB25.333 billion. The ratio of impaired loans was 1.22%, representing a decrease of 0.14 percentage point from the beginning of the year. The provision coverage of impaired loans was 161.17%, representing an increase of 10.12 percentage points from the beginning of the year.

The Bank also made the rights issue of A shares and H shares in order to strengthen the group’s core capital base and to further increase its capability to weather any uncertain economic shocks. The Bank attracted widespread market attention upon the successful completion of the rights issue on 19 July 2010, as it became the first major commercial bank to successfully complete a rights issue for both A shares and H shares. Faced with significant downward correction in domestic and overseas capital markets, the group still managed to raise RMB17.125 billion and HKD17.783 billion, with a subscription rate of 97.84% for its A shares and its H shares being 3 times oversubscribed. This provided the group with a good capital reserve for future developments. At the end of the reporting period, funds raised from the A shares rights issue were fully received. The Capital Adequacy Ratio and Core Capital Adequacy Ratio were 12.17% and 8.94% respectively, representing increases of 0.17 percentage point and 0.79 percentage point from the beginning of the year.

### Continuous Enhancement of Strategic Restructuring Capability and Further Reforms in Operation Model

Faced with changes in the market operating environment, the group carried out its “Management Enhancement Year” programs to push forward strategic restructuring and reforms in operating model.

The group built “new platforms, channels and mechanisms” at the Head Office and branch level, adopted the marketing model featuring “uniform tiered sales and one-stop approval” and enhanced relationship development for major corporate clients and high-end personal finance clients. The group further developed its service channels and continued to build a comprehensive service network consisting of physical branches, e-banking and relationship managers (under the “3 Regulations and 1 Guidance” policy). During the reporting period, e-banking continued to process an increasing volume of transactions. Ratio of process

## Management Discussion and Analysis (Continued)

rate by e-banking was 53.82%, representing an increase of 4.15 percentage points from the beginning of the year. The group achieved higher efficiency due to centralised back-office operation with the deepened reforms on the matrix management of provincial branches.

The group continued to steadily forge ahead with its overseas expansion and universal banking development strategy to continuously strengthen its trans-market competitiveness and diversification capabilities, the group steadily expanded its competitiveness in comprehensive and cross-market business offerings. During the reporting period, work for the setting up or upgrading of overseas branches such as the Ho Chi Minh City branch, the San Francisco branch and the Sydney branch had progressed actively. Overseas business grew at a steady pace with asset in overseas branches amounting to USD33.159 billion, representing an increase of more than 13% from the beginning of the year. Subsidiaries also grew at a fast pace. Bank of Communications Schroder Fund Management Co., Ltd. continued to enjoy good growth momentum in its personalised wealth management business. BoCommLife Insurance Company Limited achieved a higher market share and realised insurance premium income of RMB313 million during the reporting period or 3.96 times the amount as compared to that in 12 months of 2009. Leased assets balance of Bank of Communications Finance Leasing Co Ltd. broke through the RMB20 billion level for the first time and it was among the first to establish Special Purpose Vehicle (SPV) to operate motorised ship leasing business in the Free Trade Zone. Dayi Bocom Rural Bank grew at an increasing pace and Zhejiang Anji Bocom Rural Bank Ltd. has also been successfully set up. During the reporting period, subsidiaries contributed net profit of RMB425 million to the group, representing an increase of 89.73% from the corresponding period in prior year.

### Continuous Improvement of Product Innovation and Strengthening of Wealth Management as a Niche

Innovation is the source of growth. The group accelerated its technology and product innovation by improving its organisational system of product innovation, enhanced sales and service efficiency. The group also offered diversified and differentiated services, including niche areas such as wealth management. The group was among the first to offer trial service of New Taiwan Dollar exchange, increasing the number of currencies under management to 18, thus making it one of two banks within the domestic market to operate the largest number of foreign currencies. Cross-border RMB settlement expanded from goods trade to services trade and non-trade businesses. The number of branches operating cross-border RMB settlement at the provincial level also increased to 16. During the reporting period, the volume of cross-border RMB settlement was RMB10.611 billion or 48.2 times the volume transacted in the preceding 12 months of prior year. The group launched its first wealth management product that invests in domestic index futures and agency business for the first domestic closed FOF fund with strong market response. The group also launched a new personal loan product “Dai Li Tong” which incorporates both deposit and loan features, to satisfy the personalised financial needs of premium clients to utilise funds reasonably and increase wealth. The group also launched the special credit product “Venture Account” for micro-enterprises, to fill the void of servicing micro-enterprises and complete a tiered credit service system for small businesses. The group also innovated its credit cards products by launching the “instant card issuance” functionality while “eMobile BOCOM” mobile banking also enabled card-free cash withdrawal, making it the first in the industry to do so.

## Management Discussion and Analysis (Continued)

Continuous product innovation and service capabilities became important basis of client relationship development. During the reporting period, the group had rapidly increased the number of clients and continuously optimised its client structure. The number of new corporate clients increased to 71,465. The increases in client numbers for private banking, “OTO Wealth” and “BoCom Fortune” were 52%, 25.5% and 20.3% respectively.

### Improvements in Client Service Capabilities with Strong Results from Participation in the Shanghai World Expo

As the Global Commercial Banking Partner of the 2010 Shanghai World Expo, the group comprehensively provided a full suite of its financial services to all stakeholders and carefully planned for the World Expo. The group concentrated on the three main areas, namely on-site operations, IT services and security backup, while actively organising resource inputs, system maintenance and business operations and emergency handling. With the objective of “zero complaint” for its World Expo services in mind, the group utilised its client servicing capabilities to provide comprehensive, excellent and efficient financial services for organisers, exhibitors and commercial participants. The group also implemented customer comment categorisation management, strengthened service guidance and feedback mechanisms. The group ensured trouble-free operations of all kinds of financial services by providing dedicated teams, dedicated plans and express channels. The group also participated actively in sales of World Expo tickets and franchised products. As at the end of the reporting period, the group, as a sales agency, had sold 7.30 million World Expo tickets. The group had also sold World Expo-themed precious metal merchandise totalling RMB1.049 billion.

## (3) FINANCIAL STATEMENT ANALYSIS

### 1. Income Statement Analysis

#### (1) Profit before tax

During the reporting period, the group’s profit before tax increased by RMB6.154 billion or 30.77% as compared to the corresponding period in prior year to RMB26.151 billion. Main sources of profit before tax are net interest income and net fee and commission income.

The table below shows the significant items which make up the group’s profit before tax for the period indicated:

	<i>(in millions of RMB)</i>	
	<b>For the six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
Net interest income	<b>39,896</b>	29,785
Net fee and commission income	<b>7,125</b>	5,476
Impairment losses	<b>(5,272)</b>	(4,515)
Profit before tax	<b>26,151</b>	19,997

## Management Discussion and Analysis (Continued)

### (2) Net interest income

During the reporting period, the group's net interest income increased by 33.95% as compared to the corresponding period in prior year to RMB39.896 billion and accounted for 80.54% of the group's net operating income. Net interest income was a main component of the group's operating income.

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

	For the six months ended 30 June 2010			(in millions of RMB unless otherwise stated) For the six months ended 30 June 2009		
	Average balance <sup>1</sup>	Interest income/ (expenses)	Annualised average yield/(cost) ratio (%)	Average balance <sup>1</sup>	Interest income/ (expenses)	Annualised average yield/(cost) ratio (%)
<b>ASSETS</b>						
Balances with central banks	432,198	3,209	1.48	330,282	2,636	1.60
Due from other banks and financial institutions	209,774	1,871	1.78	322,312	3,023	1.88
Loans and receivables	1,959,888	49,246	5.03	1,474,411	38,713	5.25
Of which:						
Corporate loans and receivables	1,513,821	38,809	5.13	1,096,135	30,742	5.61
Individual loans	315,791	8,525	5.40	200,198	6,010	6.00
Discounted bills	130,276	1,912	2.94	178,078	1,961	2.20
Investment securities	740,045	11,507	3.11	626,303	11,292	3.61
Total interest-earning assets	3,280,769 <sup>4</sup>	65,343 <sup>4</sup>	3.98	2,701,453 <sup>4</sup>	55,237 <sup>4</sup>	4.09
Total non-interest earning assets	150,383			133,228		
<b>TOTAL ASSETS</b>	<b>3,431,152<sup>4</sup></b>			<b>2,834,681<sup>4</sup></b>		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
Due to customers	2,443,005	16,178	1.32	2,011,286	17,838	1.77
Of which:						
Corporate deposits	1,615,307	10,488	1.30	1,315,447	10,948	1.66
Individual deposits	827,698	5,690	1.37	695,839	6,890	1.98
Due to other banks and financial institutions	697,540	8,734	2.50	566,787	7,060	2.49
Debts issued and others	59,865	1,025	3.42	44,132	981	4.45
Total interest-bearing liabilities	3,139,274 <sup>4</sup>	25,447 <sup>4</sup>	1.62	2,570,350 <sup>4</sup>	25,452 <sup>4</sup>	1.98
Shareholders' equity and non-interest bearing liabilities	291,878			264,331		
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>3,431,152<sup>4</sup></b>			<b>2,834,681<sup>4</sup></b>		
<b>Net interest income</b>		<b>39,896</b>			<b>29,785</b>	
<b>Net interest spread<sup>2</sup></b>			<b>2.36<sup>4</sup></b>			<b>2.11<sup>4</sup></b>
<b>Net interest margin<sup>3</sup></b>			<b>2.43<sup>4</sup></b>			<b>2.21<sup>4</sup></b>
<b>Net interest spread<sup>2</sup></b>			<b>2.43<sup>5</sup></b>			<b>2.18<sup>5</sup></b>
<b>Net interest margin<sup>3</sup></b>			<b>2.50<sup>5</sup></b>			<b>2.28<sup>5</sup></b>

Notes:

- Daily average balances calculated under Chinese Accounting Standards ("CAS") and adjusted in accordance with IFRS.
- This ratio represents the difference between the annualised average yield on total average interest-earning assets and the annualised average cost of total average interest-bearing liabilities.
- This ratio represents the annualised net interest income to total average interest-earning assets.
- This eliminates the impact of wealth management products.
- This eliminates the impact of wealth management products and takes into account the tax exemption on the interest income from investments in Government bonds.

## Management Discussion and Analysis (Continued)

Moving in tandem with the gradual macro-economic recovery during the reporting period, the group's net interest income margin continued to maintain its positive trend to rise gradually. The group's net interest spread and net interest margin increased by 25 and 22 basis points respectively as compared to the corresponding period in prior year, to 2.36% and 2.43% respectively. Reported net interest income for the second quarter alone increased by 9.65% as compared to the first quarter to RMB20.866 billion. Net interest spread and net interest margin for the second quarter also increased by 5 basis points to 2.39% and 2.46% respectively as compared to the first quarter.

The overall increases in net interest spread and net interest margin were mainly due to the following reasons:

- (1) The increase in the proportion of current deposits and the residual effects of the re-pricing of deposits. During the reporting period, the proportion of current deposits by customers increased by 3.03 percentage points as compared to the corresponding period in prior year to 49.31%. Together with the residual effects of the re-pricing of deposits, this has led to a decline of 45 basis points in average costs on customer deposits and a decline of 36 basis points in average costs on interest-bearing liabilities.
- (2) The increase in the proportion of loans and advances to customers to total assets and the increase in the proportion of domestic RMB mid-and-long term loans. During the reporting period, the proportion of loans and advances to customers (after impairment) to total assets increased by 3.20 percentage points as compared to the corresponding period in prior year to 54.72% while the proportion of mid-and-long term loans increased by 12.47 percentage points as compared to the corresponding period in prior year to 63.10%. These changes in the proportion of loans and advances to customers and the increase in mid-and-long term loans have mitigated the effects of the several rounds of interest rate reductions in 2008 leading to average returns on interest-earning assets declining by only 11 basis points although average returns on loans and receivables declined by 22 basis points as compared to the corresponding period in prior year.

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

	<i>(in millions of RMB)</i>		
	<b>Comparison between January to June 2010 and January to June 2009</b>		
	<b>Increase/(decrease) due to</b>		
	<b>Net increase/ (decrease)</b>		
	<b>Balance</b>	<b>Interest rate</b>	<b>(decrease)</b>
<b>Interest-earning Assets</b>			
Balances with central banks	815	(242)	573
Due from other banks and financial institutions	(1,058)	(94)	(1,152)
Loans and receivables	12,744	(2,211)	10,533
Investment securities	2,053	(1,838)	215
Changes in interest income	14,554	(4,385)	10,169
<b>Interest-bearing Liabilities</b>			
Due to customers	3,821	(5,481)	(1,660)
Due to other banks and financial institutions	1,628	46	1,674
Debt issued and others	350	(306)	44
Changes in interest expense	5,799	(5,741)	58
Changes in net interest income	8,755	1,356	10,111

## Management Discussion and Analysis (Continued)

During the reporting period, the group's net interest income increased by RMB10.111 billion as compared to the corresponding period in prior year, of which changes in the average daily balances of assets and liabilities contributed to net interest income increasing by RMB8.755 billion, while changes in average returns and average costs led to net interest income increasing by RMB1.356 billion.

### (1) Interest income

During the reporting period, the group's interest income increased by RMB10.169 billion or 18.27% as compared to the corresponding period in prior year to RMB65.833 billion.

#### a. *Interest income from loans and receivables*

Interest income from loans and receivables contributed most to the group's interest income. During the reporting period, interest income from loans and receivables increased by RMB10.533 billion or 27.21% as compared to the corresponding period in prior year, to RMB49.246 billion. The stable and balanced growth of the scale of loans and receivables during the reporting period has mitigated the decline in returns from loans and receivables.

#### b. *Interest income from investment securities*

During the reporting period, interest income from investment securities increased by RMB215 million or 1.90% as compared to the corresponding period in prior year to RMB11.507 billion. This was mainly due to the group's in-depth grasp of market trends, efficient allocation of its investment portfolio and its ability to seize favourable investment opportunities to adjust its investment strategy and optimise its investment structure. These helped the group to maintain its return on investment securities at a relatively positive level of 3.11%.

#### c. *Interest income from balances with central banks*

Balances with central banks include mainly balances in statutory reserves and in excess reserves. During the reporting period, interest income from balances with central banks increased by RMB573 million as compared to the corresponding period in prior year to RMB3.209 billion. This was mainly due to the increase in balances in statutory reserves as a result of the increase in customer deposits. Average balances with central banks also increased by RMB101.916 billion or 30.86% as compared to the corresponding period in prior year.

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

Total interest income due from other banks and financial institutions decreased by RMB1.152 billion as compared to the corresponding period in prior year to RMB1.871 billion. This was generally due to the general reduction in money market interest rates.



## Management Discussion and Analysis (Continued)

Average returns arising from amounts due from other banks and financial institutions decreased by 10 basis points to 1.78% as compared to the corresponding period in prior year.

### **(2) Interest expense**

During the reporting period, the group's gross interest expense increased by RMB58 million or 0.22% as compared to the corresponding period in prior year to RMB25.937 billion.

#### *a. Interest expense due to customers*

Customer deposits are the group's main source of funding. During the reporting period, interest expense due to customers decreased by RMB1.660 billion or 9.31% as compared to the corresponding period in prior year to RMB16.178 billion, accounting for 62.37% of total interest expense. The reduction in interest expense due to customers was mainly due to the lagging effects of interest rate reductions. The average cost of funds decreased from 1.77% as compared to the corresponding period in prior year to 1.32%.

#### *b. Interest expense due to other banks and financial institutions*

During the reporting period, interest expense from amounts due to other banks and financial institutions increased by RMB1.674 billion or 23.71% as compared to the corresponding period in prior year to RMB8.734 billion. This arose mainly from an increase in average balance of 23.07% as compared to the corresponding period in prior year.

#### *c. Interest expense from debts issued and others*

During the reporting period, interest expense from debts issued and other interest-bearing liabilities increased by RMB44 million as compared to the corresponding period in prior year to RMB1.025 billion.

### **(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 achieved relatively rapid growth of its fee-based business by actively devoting itself to product and service innovation, solidifying customer base, developing new businesses and expanding its revenue streams diversification initiative. The group's net fee and commission income maintained its rapid growth momentum as it increased by RMB1.649 billion or 30.11% as compared to the corresponding period in prior year to RMB7.125 billion. Overall, this accounted for 14.38% of net operating income. Commission income on settlement and agent service and consulting income increased by 32.51% and 85.65% respectively as compared to the corresponding period in prior year as they benefited from the sustained rapid growth of consulting, bonds underwriting and trade settlement businesses.

## Management Discussion and Analysis (Continued)

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

	<i>(in millions of RMB)</i>	
	<b>For the six months ended 30 June</b>	
	<b>2010</b>	2009
Commission income on settlement and agent service	<b>1,818</b>	1,372
Bank card annual fee and commission income	<b>2,351</b>	1,845
Guarantee and commitment commission income	<b>616</b>	610
Commission income on custodian service	<b>336</b>	303
Commission income on sales of investment funds	<b>323</b>	373
Commission income on funds management	<b>386</b>	306
Consulting commission income	<b>1,565</b>	843
Other commission income	<b>915</b>	585
<b>Total fee and commission income</b>	<b>8,310</b>	6,237
<b>Less: Fee and commission expense</b>	<b>(1,185)</b>	(761)
<b>Net fee and commission income</b>	<b>7,125</b>	5,476

Commission income on settlement and agent service increased by RMB446 million or 32.51% as compared to the corresponding period in prior year to RMB1.818 billion. Of these amounts, bancassurance commission income increased by 42.59% as compared to the corresponding period in prior year to RMB452 million.

Bank card annual fee and commission income increased by RMB506 million or 27.43% as compared to the corresponding period in prior year to RMB2.351 billion. This increase was mainly due to the continued increase in bank card issuance, gradual growth in consumption and growth in transaction volumes at self-service machines.

Guarantee and commitment commission income increased by RMB6 million as compared to the corresponding period in prior year to RMB616 million.

Commission income on custodian service increased by RMB33 million as compared to the corresponding period in prior year to RMB336 million.

Commission income on sales of investment funds and funds management increased by RMB30 million as compared to the corresponding period in prior year to RMB709 million.

Consulting commission income increased by RMB722 million or 85.65% as compared to the corresponding period in prior year to RMB1.565 billion. This increase was mainly due to the rapid growth of the corporate wealth management and various investment financing consultancy businesses.

## Management Discussion and Analysis (Continued)

### (4) **Operating expenses**

The group was able to control its cost-to-income ratio at a reasonable level by continuing to strengthen its cost management strategy. This was achieved by implementing various cost-cutting measures and improving operating efficiency. During the reporting period, the group's operating expenses increased by RMB3.634 billion or 35.83% as compared to the corresponding period in prior year to RMB13.776 billion. The cost management situation continued to remain positive as cost-to-revenue ratio increased by 0.88 percentage point as compared to the corresponding period in prior year and decreased by 4.75 percentage points as compared on an annualised level in prior year.

### (5) **Impairment losses**

During the reporting period, the group's impairment losses increased by RMB757 million as compared to the corresponding period in prior year to RMB5.272 billion. Of this, collective allowances for impairment increased by RMB1.481 billion as compared to the corresponding period in prior year to RMB4.369 billion while individually assessed allowances decreased by RMB727 million as compared to the corresponding period in prior year to RMB903 million.

During the reporting period, credit-to-cost ratio (annualised) remained approximately constant at 0.51% as compared to the corresponding period in prior year.

### (6) **Income tax**

During the reporting period, the group's income tax expense increased by RMB1.431 billion or 33.34% as compared to the corresponding period in prior year to RMB5.723 billion. The effective tax rate of 21.88% was lower than the statutory tax rate of 25% due to the group's holdings of Government bonds for which the interest income was tax exempt pursuant to the relevant tax provisions.

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

	<i>(in millions of RMB)</i>	
	<b>For the six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
Current tax	<b>5,690</b>	4,048
Deferred tax	<b>33</b>	244

## Management Discussion and Analysis (Continued)

### 2. Analysis on Major Balance Sheet Items

#### (1) Assets

At the end of the reporting period, the group's total assets was RMB3,709.279 billion, representing an increase of RMB400.142 billion or 12.09% from the beginning of the year. The four principal components of the group's assets include loans and advances to customers, investment securities, cash and balances with central banks and due from other banks and financial institutions, which make up 54.72%, 22.30%, 13.34% and 7.11% (each calculated at their net amounts respectively) of the group's total assets respectively.

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

	<i>(in millions of RMB unless otherwise stated)</i>			
	30 June 2010		31 December 2009	
	Balance	Proportion (%)	Balance	Proportion (%)
Loans and advances to customers	2,029,740	54.72	1,801,538	54.44
Investment securities	827,044	22.30	775,761	23.44
Cash and balances with central banks	494,687	13.34	434,996	13.15
Due from other banks and financial institutions	263,729	7.11	222,671	6.73
Total assets	3,709,279	—	3,309,137	—

#### a. Loans business

During the reporting period, the group took advantage of the opportunities offered by sustained demand for loans as a result of the gradual economic recovery to achieve a balanced growth of its credit portfolio, while effectively controlling its risks through increasing lending to high credit quality customers. At the end of the reporting period, the group's total gross amount of loans and advances before investment was RMB2,070.568 billion. This represented an increase of RMB231.254 billion or 12.57% from the beginning of the year.

##### *Loans concentration by industries*

During the reporting period, the group diligently pursued its national macro-economic policy by undertaking detailed research into the development trends of specific regions and industries, so as to enable the group to provide differentiated products based on the credit profile of different regions, industries, clients and products. This enabled the group to increase the scope of its credit services to critical areas such as key national investments, important infrastructure projects, small-and-medium enterprises, emission conservation as well as to the agriculture sector, rural areas and farmers. At the same time it has also enabled the group to withdraw from industries with excessive production, thereby allowing it to continue to optimise its credit portfolio.

## Management Discussion and Analysis (Continued)

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

	<i>(in millions of RMB unless otherwise stated)</i>			
	30 June 2010		31 December 2009	
	Outstanding balance	Proportion (%)	Outstanding balance	Proportion (%)
Manufacturing				
– Petroleum and chemical	85,876	4.15	73,062	3.97
– Electronics	25,040	1.21	23,992	1.30
– Steel making and processing	43,936	2.12	40,109	2.18
– Machinery	87,675	4.23	76,532	4.16
– Textile	24,257	1.17	24,163	1.31
– Others	147,843	7.14	140,836	7.66
Transportation	277,001	13.38	226,757	12.33
Electricity	115,221	5.56	119,824	6.51
Wholesale and retail	191,496	9.25	145,278	7.90
Commercial services	102,963	4.97	81,699	4.44
Real estate	156,720	7.57	129,325	7.03
Public utilities	190,167	9.18	183,704	9.99
Construction	65,966	3.19	55,387	3.01
Energy and mining	32,664	1.58	31,230	1.70
Recreation and entertainment	20,582	0.99	19,485	1.06
Accommodation and catering	13,378	0.65	13,163	0.72
IT and communications services	9,893	0.48	8,213	0.45
Financial institutions	22,617	1.09	22,853	1.24
Others	14,069	0.68	11,192	0.61
Discounted bills	71,155	3.44	101,872	5.54
<b>Total corporate loans</b>	<b>1,698,519</b>	<b>82.03</b>	<b>1,528,676</b>	<b>83.11</b>
Mortgage loans	242,971	11.73	198,695	10.80
Medium-term and long-term working capital loans	30,443	1.47	27,573	1.50
Short-term working capital loans	25,970	1.25	21,482	1.17
Car loans	5,641	0.27	4,894	0.27
Credit card advances	32,269	1.56	30,693	1.67
Others	34,755	1.69	27,301	1.48
<b>Total individual loans</b>	<b>372,049</b>	<b>17.97</b>	<b>310,638</b>	<b>16.89</b>
<b>Gross amount of loans and advances to customers before impairment allowances</b>	<b>2,070,568</b>	<b>100.00</b>	<b>1,839,314</b>	<b>100.00</b>

## Management Discussion and Analysis (Continued)

At the end of the reporting period, the group's total outstanding corporate loans amounted to RMB1,698.519 billion, which represented an increase of RMB169.843 billion or 11.11% from the beginning of the year. Loans and advances to corporate clients were mainly concentrated in the following four industries: manufacturing, transportation, wholesale and retail and public utilities. These industries collectively accounted for 63.19% of total corporate loans and 51.83% of total loans.

At the end of the reporting period, the group's total outstanding individual loans amounted to RMB372.049 billion, which represented an increase of RMB61.411 billion or 19.77% from the beginning of the year. The proportion of individual loans has also increased by 1.08 percentage points from the end of 2009 to 17.97% of total loans.

### *Loans concentration by borrowers*

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

<i>(in millions of RMB unless otherwise stated)</i>			
<b>As at 30 June 2010</b>			
	<b>Type of industry</b>	<b>Outstanding loan balance</b>	<b>Percentage of total loans and advances (%)</b>
Customer A	Real estate	10,000	0.48
Customer B	Transportation	7,408	0.36
Customer C	Transportation	6,438	0.31
Customer D	Transportation	6,349	0.31
Customer E	Transportation	6,239	0.30
Customer F	Wholesale and retail	5,750	0.28
Customer G	Public utilities	5,000	0.24
Customer H	Commercial services	4,900	0.24
Customer I	Transportation	4,850	0.23
Customer J	Transportation	4,700	0.23
<b>Total</b>		<b>61,634</b>	<b>2.98</b>

### *Loans concentration by geographical locations*

The group's loans and advances to customers were mainly concentrated in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta. At the end of the reporting period, loans and advances to customers in these three regions increased by 9.97%, 12.82% and 11.18% respectively, as compared to the beginning of the year to 31.70%, 22.94% and 8.43% of total loans.



## Management Discussion and Analysis (Continued)

### *Customer structure*

The group further optimised its customer structure during the reporting period. Corporate customers of domestic branches were classified using a 10-class rating system. As at the end of the reporting period, loans outstanding from high quality class 1 to class 5 customers amounted to 92.39% of the total outstanding loan balance. This represented an increase of 3.20 percentage points from the beginning of the year. Loans outstanding to customers from class 6 to class 7 amounted to 3.59% of the total outstanding loan balance, which represented a decrease of 0.83 percentage point and loans outstanding to high risk customers from class 8 to class 10 only amounted to 1.44% of the total outstanding loan balance, which represented a decrease of 0.10 percentage point from the beginning of the year.

### *Loan quality*

The group continuously strived to improve the quality of its loans. As at the end of the reporting period, the impaired loans ratio was 1.22%, representing a decrease of 0.14 percentage point from the beginning of the year. The group's risk management capabilities have also been further strengthened as its provision coverage of impaired loans was 161.17%, representing an increase of 10.12 percentage points from the beginning of the year.

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

	<i>(in millions of RMB unless otherwise stated)</i>	
	<b>30 June 2010</b>	31 December 2009
Individually identified impaired loans	<b>25,333</b>	25,009
Loans overdue by more than 90 days	<b>17,788</b>	21,190
Percentage of impaired loans to gross amount of loans and advances to customers (%)	<b>1.22</b>	1.36

### **b. Investment securities**

By continuing the group's strategy of having in-depth grasp of market trends, intensifying its activities in both domestic and foreign currency issues and making timely adjustments to its investment strategy and investment structure where necessary, the group's outstanding balance of investment securities as at the end of the reporting period amounted to RMB827.044 billion, which represented an increase of RMB51.283 billion or 6.61% as compared to the corresponding period in prior year. The group's overall returns on investment securities were maintained at a relatively high level at 3.11% due to the optimisation of its investment portfolio and the maturities of its investments.

## Management Discussion and Analysis (Continued)

### *Distribution of the group's investment securities*

The table below shows the distribution of the group's investment securities by holding purposes and by type of issuers as of the dates indicated:

- By holding purposes

	<i>(in millions of RMB unless otherwise stated)</i>			
	30 June 2010		31 December 2009	
	Balance	Proportion (%)	Balance	Proportion (%)
Investments at fair value through profit or loss	41,904	5.07	26,884	3.47
Loans and receivables	80,061	9.68	107,604	13.87
Available-for-sale investments	152,027	18.38	132,094	17.03
Held-to-maturity investments	553,052	66.87	509,179	65.63
<b>Total</b>	<b>827,044</b>	<b>100.00</b>	<b>775,761</b>	<b>100.00</b>

- By type of issuers

	<i>(in millions of RMB unless otherwise stated)</i>			
	30 June 2010		31 December 2009	
	Balance	Proportion (%)	Balance	Proportion (%)
Central governments and central banks	318,976	38.57	301,136	38.82
Public sector entities	10,488	1.27	11,643	1.50
Banks and other financial institutions	257,121	31.09	250,860	32.34
Corporate entities	240,459	29.07	212,122	27.34
<b>Total</b>	<b>827,044</b>	<b>100.00</b>	<b>775,761</b>	<b>100.00</b>

## (2) **Liabilities**

As at the end of the reporting period, the group's total liabilities reached RMB3,512.129 billion, which represented an increase of RMB367.417 billion or 11.68% from the beginning of the year. Customer deposits which accounted for 76.96% of total liabilities, increased by RMB330.876 billion or 1.53 percentage points from the beginning of the year. Amounts due to other banks and financial institutions increased by RMB14.442 billion while its proportion to total liabilities decreased by 1.76 percentage points from the beginning of the year to 19.01%.

### **Customer deposits**

Customer deposits are the main source of funding for the group. As at the end of the reporting period, the group's customer deposits balance amounted to RMB2,702.931 billion, which represented an increase of RMB330.876 billion or 13.95% from the beginning of the year. In terms of customer portfolio, corporate deposits accounted for 67.77% of total deposits, which represented an increase of 2.05 percentage points from the beginning of the year. Individual deposits accounted for 32.06% of total deposits, which represented a decrease of 1.93 percentage points from the beginning of the year. With regards to the term of deposits, current deposits accounted for 49.31% of total deposits, representing a decrease of 0.39 percentage

## Management Discussion and Analysis (Continued)

point from the beginning of the year while time deposits accounted for 50.52% of total deposits, representing an increase of 0.52 percentage point from the beginning of the year.

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

	<i>(in millions of RMB)</i>	
	<b>30 June 2010</b>	31 December 2009
Corporate deposits	<b>1,831,993</b>	1,558,842
Of which:		
Corporate current deposits	<b>991,074</b>	865,097
Corporate time deposits	<b>840,919</b>	693,745
Individual deposits	<b>866,466</b>	806,190
Of which:		
Individual current deposits	<b>341,858</b>	313,835
Individual time deposits	<b>524,608</b>	492,355

### 3. Segment Analysis

#### (1) Operating results by geographical segments

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

	<i>(in millions of RMB)</i>			
	<b>For the 6 months ended 30 June</b>			
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>Net profit</b>	<b>Gross income<sup>1</sup></b>	<b>Net profit</b>	<b>Gross income<sup>1</sup></b>
Northern China <sup>2</sup>	<b>1,790</b>	<b>13,829</b>	2,485	12,661
North Eastern China <sup>3</sup>	<b>527</b>	<b>3,790</b>	331	3,386
Eastern China <sup>4</sup>	<b>7,303</b>	<b>28,742</b>	4,937	23,189
Central and Southern China <sup>5</sup>	<b>4,032</b>	<b>13,957</b>	1,701	11,153
Western China <sup>6</sup>	<b>1,779</b>	<b>6,040</b>	1,115	4,477
Overseas <sup>7</sup>	<b>791</b>	<b>2,369</b>	835	2,378
Head Office	<b>4,206</b>	<b>19,178</b>	4,301	16,296
Elimination	<b>—</b>	<b>(11,247)</b>	—	(9,805)
<b>Total<sup>8</sup></b>	<b>20,428</b>	<b>76,658</b>	15,705	63,735

Notes:

- Includes interest income, fee and commission income, dividend income, gains less losses arising from trading activities, gains less losses arising from the de-recognition of investment securities, insurance business income and other operating income.
- Includes Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province and the Inner Mongolia Autonomous Region. (same applies hereinafter)
- Includes Liaoning Province, Jilin Province and Heilongjiang Province. (same applies hereinafter)
- Includes Shanghai Municipality (excluding Head Office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province. (same applies hereinafter)
- Includes Henan Province, Hunan Province, Hubei Province, Guangdong Province, Guangxi Autonomous Region and Hainan Province. (same applies hereinafter)
- 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. (same applies hereinafter)
- Includes overseas subsidiaries and branches in Hong Kong, New York, Singapore, Tokyo, Seoul, Macau and Frankfurt. (same applies hereinafter)
- Includes minority interests.

## Management Discussion and Analysis (Continued)

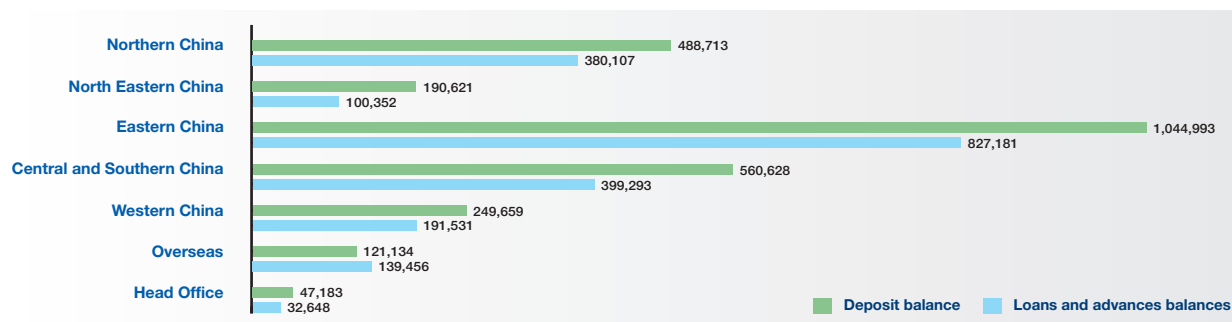
### (2) Deposits and loans and advances by geographical segments

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

	30 June 2010		(in millions of RMB) 31 December 2009	
	Deposit balance	Loans and advances balances	Deposit balance	Loans and advances balances
Northern China	488,713	380,107	446,405	332,812
North Eastern China	190,621	100,352	175,077	90,882
Eastern China	1,044,993	827,181	920,550	750,489
Central and Southern China	560,628	399,293	482,137	360,322
Western China	249,659	191,531	222,223	172,251
Overseas	121,134	139,456	93,918	100,761
Head Office	47,183	32,648	31,745	31,797
<b>Total</b>	<b>2,702,931</b>	<b>2,070,568</b>	<b>2,372,055</b>	<b>1,839,314</b>

### 2010 Deposits and loans and advances balance as at 30 June 2010

(in millions of RMB)



### (3) Operating results by business segments

Among the four main business segments comprising corporate banking, retail banking, treasury operations and other businesses, the corporate banking segment is the primary source of profit for the group. Net interest income from the corporate banking segment accounted for 60.86% of total net interest income.

## Management Discussion and Analysis (Continued)

The table below shows the group's net interest income from each of the group's business segments for the periods indicated:

	<i>(in millions of RMB)</i>				
	<b>For the six months ended 30 June 2010</b>				
	<b>Corporate banking</b>	<b>Retail banking</b>	<b>Treasury operations</b>	<b>Other businesses</b>	<b>Total</b>
Net interest income/(expenses) from external customers	21,122	3,240	15,413	121	39,896
Net interest income/(expenses) from internal customers	3,160	6,422	(9,582)	—	—
Net interest income	24,282	9,662	5,831	121	39,896

### (4) RISK MANAGEMENT

In the first half of 2010, under the guidance of its new three-year plan, the group was able to continuously reinvent its management capabilities and optimise its collective resources. This was achieved through leveraging on the opportunities that arose from the implementation of The New Basel Capital Accords, meeting post-loan management targets and a continued focus on its asset quality. Consequently, the group comprehensively improved its management efficiency and actively enhance its risk management capabilities.

#### 1. Risk Management Framework

The Board of Directors has ultimate responsibility and decision-making authority for the group's risk management policies. As such, the Board has responsibility over the approval of the overall risk bias and overall risk strategy, determining the risk tolerance thresholds and ensuring the availability of risk management resources. The Board is assisted by the Risk Management Committee under the Board in monitoring and controlling the group's risk profile.

The Bank's senior management formulates appropriate risk policies and implement management and control procedures in accordance with the risk management strategy approved by the Board of Directors. They have also established the Risk Management Committee together with the Credit Risk Management, Market Risk Management and Operating Risk Management Sub-committees to manage periodic risk assessments and perform management effectiveness assessments.

The Bank's Chief Risk Management Officer assists senior management in the discharge of its comprehensive risk management responsibilities. He is responsible for executing the risk management strategy, formulating and developing the comprehensive risk management structure. He is also responsible for coordinating the management of the group's four key risk areas and the implementation of the various risk management policy processes and tools.

## Management Discussion and Analysis (Continued)

The group has established a comprehensive risk management structure with the Head Office Risk Management Department, which serves as the “major fulcrum”, assuming responsibility for the overall risk management function while the specialised risk management departments based in all domestic and overseas branches and subsidiaries, which serve as “minor fulcrums”, assume responsibility for the actual risk management functions for all regional and subordinate institutions. A basic four-tier risk management structure comprising the Business Operations, Line Management, Risk Management and Internal Audit Departments has been established through clear definitions of the division of responsibilities and the development of a dual-reporting mechanism.

### 2. Credit Risk Management

The Bank’s Corporate Business Department, Credit Management Department, Credit Approval Center, Risk Management Department, Asset Custody Department, Retail Finance Management Department and Credit Card Center, amongst others, are the main functional departments responsible for the group’s credit risk management. The group has implemented standardised credit risk management procedures over the retail financing and credit card business as well as over certain portions of the entire corporate financing process. This includes credit assessment and application, credit approval, loan disbursement, credit administration and non-performing loans management.

#### **(1) Risk classification methodology and procedures**

The group uses its asset risk management system to carry out a three-level risk filtering assessment of its corporate customers to identify potential risks on a daily basis. The Bank also employs a discounted cash flow model to estimate the loss for each loan and thus identify impaired credit assets. For impaired credit assets, the group formulates a thorough action plan for each customer. This includes the appointment of designated personnel for recovery or disposal and specific allowances based on the expected loss. The group continues to use an internally developed 10-class credit rating scale to manage its non-impaired credit asset of corporate clients, by taking into account customers’ credit rating, financial health and repayment capability. Customers with ratings 1–5 are considered as high-quality customers by the group, ratings 6–7 as average customers and ratings 8–10 as low-quality customers and the group will appropriately adopt different strategies for customers in different gradings.

Furthermore, the group categorised its retail loans based on overdue status and the type of guarantees provided. With regards to performing retail loans, the group manages its risk through regular visits to customers and placing higher risk customers into a watchlist for special management. For overdue retail customers, the collection approach differs according to the overdue duration. Retail loans overdue for more than a specific period are treated as impaired assets and impairment allowances are made accordingly.



## Management Discussion and Analysis (Continued)

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

During the reporting period, the group strictly adhered to the national macro-economic policies by implementing stringent controls over high credit risk areas. This included the implementation of a watchlist and imposing disbursement/credit limits over loans to the real estate sector, government financing platforms and businesses with excess capacities. These controls helped accelerate the group's withdrawal from higher risk areas and optimise its credit structure. The group also further enhanced its credit business policy guidelines, implemented a credit policy feedback mechanism and extended more loans to areas in line with current economic developments. The group also enhanced environmental conservation messages by issuing and distributing the "Green Credit Policy Guidelines" and formalised its "Green Credit" management and operating requirements. It has also forged ahead with the certification of its credit approvers' professional qualifications and implemented a new credit management assessment system on a pilot basis. This new corporate internal assessment system has just come online during the reporting period and was further enhanced through using new parameters, models and a better refined "customer value management" policy.

During the reporting period, the group continued to strengthen its risk control framework to ensure the stability of its asset quality by controlling its default risk, increasing its focus on special mention loans management, enhanced early warning system for major risk areas and improved risk classification systems. The group actively promoted the "3 methods and 1 directive" loan regulation issued by the relevant regulatory authorities to standardise risk management requirements, facilitate prudent loan disbursements and payments and strengthen the supervision of capital flows. The group will continue to forge ahead with its benchmarking of credit administration standards, actively exploring and developing an effective credit administration system and improving the level of detail of credit administration.

During the reporting period, the group further improved its rules and regulations over personal financing and actively adjusted its policies relating to housing loans. The group initiated the stress testing for housing loans to enhance its early warning system and integrated its quality migration model to improve the monitoring of overdue loans and mitigate risk in advance. The group officially launched its centralised Head Office debt recovery platform which integrates all debt recovery methods such as text messages, telephones and letters. This helps create a strong foundation for improving the credit quality of personal financing assets.

The group has an independent Credit Card Center responsible for the operation and management of its credit card business. During the reporting period, the group has strengthened its credit card risk management process to enable more effective control of credit risk, thus further enhancing the stability of its asset quality.

## Management Discussion and Analysis (Continued)

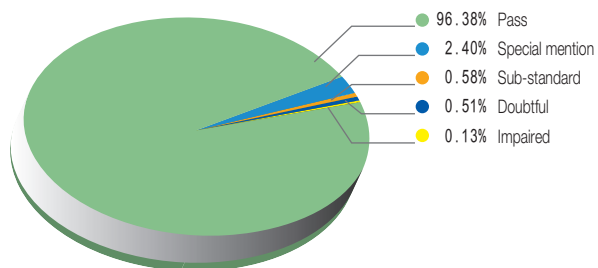
During the reporting period, the group also implemented centralised Head Office oversight of credit approval and credit limits with respect to loans and placements with other financial institutions. The Credit Approval Management and Financial Markets Departments are the main departments involved with loans and placements with other financial institutions. The Bank has also further strengthened its risk management over loans and placements with other financial institutions through measures such as more detailed assessments of counterparties with a strong focus on credit risk, credit disbursements by loan classification and timely adjustments to credit limits.

### (3) Asset quality and migration

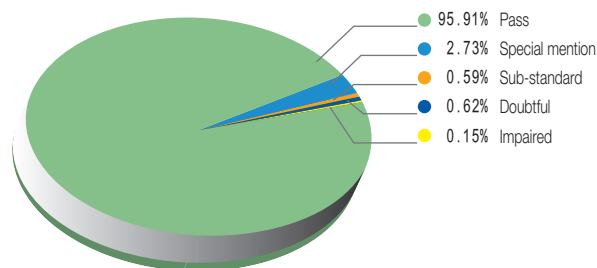
As at 30 June 2010, the distribution of the group's outstanding loans based on the five-level credit categories was as follows:

Categories	<i>(in millions of RMB unless otherwise stated)</i>				
	As at 30 June 2010		As at 31 December 2009		Increase or decrease (percentage points)
	Balance	Proportion (%)	Balance	Proportion (%)	
Pass	1,995,527	96.38	1,764,060	95.91	0.47
Special mention	49,708	2.40	50,245	2.73	(0.33)
<b>Total performing loan balance</b>	<b>2,045,235</b>	<b>98.78</b>	<b>1,814,305</b>	<b>98.64</b>	<b>0.14</b>
Sub-standard	12,042	0.58	10,756	0.59	(0.01)
Doubtful	10,608	0.51	11,490	0.62	(0.11)
Impaired	2,683	0.13	2,763	0.15	(0.02)
<b>Total non-performing loan balance</b>	<b>25,333</b>	<b>1.22</b>	<b>25,009</b>	<b>1.36</b>	<b>(0.14)</b>
<b>Total</b>	<b>2,070,568</b>	<b>100.00</b>	<b>1,839,314</b>	<b>100.00</b>	<b>—</b>

**2010** 30 June **Proportion**



**2009** 31 December **Proportion**



Note: Calculated in accordance with the regulatory requirements applicable to the Chinese banking industry.

## Management Discussion and Analysis (Continued)

As at 30 June 2010, the Bank's loan migration rates were as follows:

Loan migration rate (%)	H1 2010	2009	2008
Pass	<b>0.96</b>	1.96	2.32
Special mention	<b>15.65</b>	24.22	21.72
Sub-standard	<b>21.57</b>	36.46	43.86
Doubtful	<b>9.77</b>	5.46	9.04

Note: Computed based on the definitions stipulated in the "Notice in relation to Off-site Monitoring Indicators and Computation Formula" issued by the China Banking Regulatory Commission.

### 3. Liquidity Risk Management

The objective of the group's liquidity risk management is to ensure that the group has sufficient funds to meet its asset growth targets and obligations on maturity under a normal operating environment or under stress. The key measures undertaken by the group to manage its liquidity include keeping its liabilities stable, increasing its core deposits-to-debt ratio and utilising indicators and limits to monitor and manage the entire Bank's liquidity position. Other liquidity risk management measures include centralised management and allocation of the entire Bank's liquidity position by Head Office, maintaining appropriate ratios for balances placed with Central Bank, securing overnight interbank deposits and highly liquid debt instruments, and active participation in the currency and debt markets to guarantee good market financing capabilities. The group also monitors proper distribution of its asset maturity structure and adopts a multi-level approach to mitigate liquidity risk.

During the reporting period, the group maintained tight control over the volume of its RMB-denominated loans whilst enhancing its RMB liquidity through the expansion of its deposits business principally through strengthening relationships with other financial institutions and exploring new financing channels. In relation to the liquidity of foreign currencies, the group has restricted the volume of its foreign currency denominated loans issued and increased loan interest rates to enhance its ability to accept foreign currency deposits and placements by financial institutions. The group strictly adhered to its principle of approving loans based on deposits and maintained a 75% control line for its loan-to-deposit ratio. The group also further enhanced its foreign currency management processes and strictly followed the new credit approval procedures.

As at 30 June 2010, the Bank's major liquidity indicators are as follows:

Major regulatory indicators (%)	As at 30 June 2010	As at 31 December 2009
Liquidity ratio (local and foreign currencies)	<b>28.90</b>	27.83
Loan-to-deposit ratio (local and foreign currencies)	<b>70.45</b>	71.97

Note: Calculated in accordance with the regulatory requirements applicable to the Chinese banking industry.

## Management Discussion and Analysis (Continued)

For the matching of maturities and structures of balance sheet of the group as at the end of June 2010, please refer to Note 42 Liquidity Risk of the Notes to the Unaudited Condensed Consolidated Interim Financial Information of this Interim Report.

### 4. Market Risk Management

The Bank's Asset-Liability Management, Financial Markets and Risk Management Departments are the main departments responsible for market risk management. Through these departments, the group executes its centralised control framework for market risk management.

During the reporting period, the group systematically enhanced the development of its market risk management system and its market risk management support system's capabilities. The group further enhanced communication between its risk management units and implemented various market risk management procedures to continually improve its risk management process. Market position monitoring was also put in place following the completion and implementation of the middle office risk management information system. This new system allows the performance of valuations, sensitivity analysis, value-at-risk computations, stress tests, returns tests and other tests that greatly enhanced its market risk measurement capabilities. Regular measurements of market risk capital requirements also help the group ensure that sufficient capital is maintained to meet market risks.

#### **(1) Interest rate risk management**

To mitigate interest rate risks on its trading books, the group further enhanced its interest rate risk monitoring system. These include enhancements to the measurement and monitoring of interest rate sensitivity indicators such as portfolio duration and basis point valuation to strengthen the monitoring of interest rate risks and limits monitoring. During the reporting period, due to market anticipation of a tightening of floating capital, the short term rate of returns was at a historic low. This increased the risk of short term rate of returns and the flattening of the yield curve. The group will carry out scenario and stress testings on its debt investment portfolios based on market trends and will continually adjust the maturity structure of its debt investments based on the results of such risk measurements to ensure that interest rate risk is maintained at a controllable level.

In relation to the interest rate risks on the group's banking books, the group has also formulated a "banking books interest rate risk management solution" to construct and institutionalise a quantified risk measurement and monitoring system. The balance sheet management system provides valuable support to the management of the banking book's interest rate risks as the group is able to perform interest rate sensitivity and duration gap analysis on its exposures and quantify the net interest income and economic value as part of the stress tests analysis.

## Management Discussion and Analysis (Continued)

### (2) Exchange rate risk management

The group continues to effectively monitor its exchange rate risk by means of quota. The appreciation of the RMB against key international currencies such as USD and Euro during the reporting period is expected to continue. The group utilises foreign exchange forwards, swaps and other derivatives to adjust its foreign currency exposure to the USD, Euro and other foreign currencies to ensure its foreign exchange rate exposure falls within acceptable levels.

### (3) Other price risk management

Other price risk arises mainly from equity investments held by the group and other commodity-linked bonds and derivatives. Most equity investments were obtained due to historical reasons or foreclosure. The group is of the view that the price risk faced by the group is not significant.

### (4) Risk analysis

During the reporting period, the group has actively enhanced value-at-risk measurement and analysis tools for analysing and quantification of market risks and continues to use these tools to measure and monitor the market risk for part of its trading books. At the moment, sensitivity analysis is still the main method for the assessment and quantification of market risks on the trading and banking books.

#### Interest rate risk and sensitivity analysis

The group's asset/liability re-pricing date or maturity date (whichever is earlier) as at 30 June 2010 is as follows:

	<i>(in millions of RMB)</i>						
	Due in 1 month	Due between 1 month and 3 months	Due between 3 months and 1 year	Due between 1 year and 5 years	Due in more than 5 years	Non- interest bearing	Total
Total assets	1,508,545	398,342	1,117,682	399,141	189,715	95,854	3,709,279
Total liabilities	(2,050,618)	(295,565)	(630,729)	(379,375)	(67,146)	(88,696)	(3,512,129)
Net exposure	(542,073)	102,777	486,953	19,766	122,569	7,158	197,150

## Management Discussion and Analysis (Continued)

The table below shows the impact of a 100 basis point movement in interest rate levels on the group's net interest income and its effects on the group's equity based on the asset/liability structure as at the dates shown:

	<i>(in millions of RMB)</i>			
	Expected change in net interest income		Change in equity	
	30 June 2010	31 December 2009	30 June 2010	31 December 2009
Increase of all interest rates by 100 basis points	7,935	5,387	(2,124)	(1,951)
Decrease of all interest rates by 100 basis points	(7,935)	(5,387)	2,221	2,055

### Exchange rate risk and sensitivity analysis

As at 30 June 2010, the group's foreign exchange risk exposure is as follows:

	<i>(in millions of RMB)</i>				
	RMB	USD converted to RMB	HKD converted to RMB	Other currencies converted to RMB	Total
Total assets	3,396,335	214,536	68,593	29,815	3,709,279
Total liabilities	(3,231,393)	(162,053)	(83,618)	(35,065)	(3,512,129)
Net exposure	164,942	52,483	(15,025)	(5,250)	197,150

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 based on the asset/liability structure as at the dates shown:

	<i>(in millions of RMB)</i>			
	Net profit/(loss)		Equity	
	30 June 2010	31 December 2009	30 June 2010	31 December 2009
RMB appreciate by 5%	(826)	(747)	(492)	(496)
RMB depreciate by 5%	826	747	492	496

## Management Discussion and Analysis (Continued)

### 5. Operational Risk Management

During the reporting period, the group put in place a bank-wide operational risk management system by introducing a series of rules and regulations on operational risk management policies as well as implementation plans. Management also operationalised the three new operational risk management tools of risk control assessment and self-evaluation, key risk indicators and incurred loss data collection. In addition, the group also placed additional focus on the management of operational risks in areas such as accounting, information technology and anti-fraud. The group did not experience any significant operational risk issues during the reporting period and all business lines experienced trouble-free operations.

During the reporting period, the group closely embraced its core target of “achieving smooth, efficient operations and providing high quality service”. Using opportunities offered by the segregation of front and middle office operations as part of its process-based initiative as well as the in-depth study of risk arising from accounting matters, the group strengthened accountability over operational risk management responsibilities and restructured the accounting risk management model. Concurrently, the group actively used its accounting risk evaluation system and continued to develop risk management and control tools such as its anti-forgery customer identification imaging system.

During the reporting period, the group did not experience any operational events with significant external impact and overall, there was stability in the operation of its information systems. Head Office also realised its operating target of “zero downtime” as both its Level I and II systems achieved 100% operating efficiency. The group was able to monitor system operations on a real time basis via its integrated monitoring system and its exception warning function also enabled the group to identify operating risk and production issues in a timely manner. Its strict problem reporting system and quick response process also enabled the group to quickly resolve any system issues. Collectively, this has helped to achieve excellent results in its various measures to ensure comprehensive coverage of the Shanghai World Expo.

During the reporting period, the group focused on preventing fraudulent activities by developing and rolling out the second phase of its anti-fraud system and formulating its “Anti-fraud Cross-Referencing and Investigation Directive”. It also initiated a specialised anti-fraud operation focusing on controlling operational and employee integrity risks as well as investigating the inherent risks associated with various cases. Regional anti-fraud action teams have also been established to supervise and test anti-fraud processes and carry out related work such as fraud investigations and anti-fraud awareness.

### 6. Anti-Money Laundering (“AML”) Management

During the reporting period, the group was able to commence in-depth AML processes including establishing a bank-wide AML system built on the foundation of its organisational development, with its internal control systems at its core and secured by the group’s system platforms.

## Management Discussion and Analysis (Continued)

The group also strengthened its identification and mitigation of AML risks by strictly enforcing its large and suspicious transactions reporting procedures and actively cooperating with the supervisory departments in transaction investigations while also identifying and resolving AML associated regulatory issues in a timely manner by increasing the scope of its AML investigations. The implementation of the third phase of the AML system has also effectively enhanced the quality of the identification of suspicious transactions by allowing the classification of suspicious transactions by customers.

### (5) INTERNAL CONTROL

In 2010, the Bank's focus on internal controls revolves around the theme of "Management Enhancement Year". The Bank undertook a comprehensive evaluation of various internal control management systems and processes since the share restructuring and rolled out ten key management innovation and improvement projects, including enhancement of the organisational structure and the development of the operating system, all of which are currently proceeding as planned. Concurrently, the Bank has also continued to strengthen risk controls over its main business lines to ensure that the Bank's internal control system continued to be reliable during the first half of 2010.

#### (1) Asset-liability management and budget management

Firstly, the group implemented the total fund management concept and launched its FTP (Funds Transfer Pricing) pricing system whereby Head Office centralised the planning and control of funding through FTP pricing over business products. This has enabled the group to improve pricing and cost management, capital distribution and business performance analysis for its various branches. Secondly, the group established an internal services pricing mechanism and formulated its "Internal Services Pricing Management Plan" to define a series of procedures and processes for the following: internal service requirements, pricing, revenue and expenditure computations, and service level agreements templates. Thirdly, the group further enhanced the functionality of its management accounting system by improving FTP analysis, accounting, product management and performance evaluation modules for business lines such as private banking. System's database structure and reporting functionality were also enhanced.

#### (2) Risk management

During the reporting period, the Bank's implementation of The New Basel Capital Accords achieved its projected milestone. Credit risk, market risk and operational risk development in the first phase have also been progressively evaluated by the China Banking Regulatory Commission and the Bank has also formulated procedures such as the "Internal Assessment System Management Policy" and "Risk Assessment Model Management Plan" while formalising the content for the relevant corporate governance and reporting systems. The Bank has also further optimised its internal evaluation model for its corporate, personal, small enterprises and credit card lines of business while performing in-depth evaluation of business processes to perform an internal audit of the internal evaluation system and credit risk assessment process. It has completed the second phase of the development of its market risk management system and was able to apply its domestic market risk management database



## Management Discussion and Analysis (Continued)

and management tools for its overseas branches. The group also implemented its operational risk management project at all levels on a bank-wide basis. Development for the second phase has commenced and is progressing as planned.

### (3) Corporate and credit business

Firstly, the Bank enhanced its policy guidance for credit business by setting guidance for loans to 38 industry sectors and 112 industry subsectors respectively, including that for high risk areas such as excess capacity industries. It has also included tools such as watchlists, credit limits, disbursement limits and quantity requirements into its credit disbursement policy guidance. Secondly, the Bank released its “Green Credit” policy guidance whereby it stipulated that the management and operational requirements for “Green Credit” loans for 31 industry sectors subjected to environmental conservation and emission reduction requirements in accordance with standards and limits based on the national emission conservation policy. In addition, it also stressed the incorporation of environmental conservation messages into the entire credit management process and emphasised the importance of customer and project environmental risk. Thirdly, the Bank has established a specialised professional audit team to review and certify the qualifications of the Company’s credit granting officers such that employees can only assume their posts within the credit approval department only upon certification of their capabilities. Fourthly, the Bank has designed a new risk classification system to facilitate the implementation of its three-in-one plan to integrate corporate loan provisioning, 5-level credit category risk classification and internal assessment. It is also in the process of formulating a new 5-level credit category risk classification plan incorporating features such as quantifiable classification and detailed characteristic classification standards. It has also tightened its risk classification standards and has initiated system developments to strengthen its automated classification and control capabilities. Fifthly, the Bank has continued to strengthen the credit management over its local government financing vehicle loans by organising specialised risk investigation activities in accordance with the requirements of the relevant regulatory authorities. Sixthly, the Bank has standardised the reporting procedures for interbank placements and deposits by implementing a bank-wide interbank placements and deposits management system to strengthen the information and limits management among interbank counterparties. Seventhly, in accordance with the directives from the China Banking Regulatory Commission, the Bank has formulated new implementation plans for floating capital loans and new operating procedures for loans disbursements. It has also instituted a series of bank-wide training on the new loans guidelines implemented and undertook a self inspection of the implementation of the fixed loan management plan. At the same time, it has further enhanced and promoted the use of its surveillance system for monitoring the disbursed funds usage while at the same time clearly defining the surveillance requirements of the respective credit business lines. Eighthly, the Bank has formulated its credit administration responsibility directives and assessment plans to continue to meet credit administration targets and thus strengthen its credit administration management.

## Management Discussion and Analysis (Continued)

### (4) Personal financing and retail financing business

Firstly, the Bank strengthened its personal financing risk management by establishing specialised personal financing risk management units and formulating the “Personal Financing Risk Evaluation and Sales Violation Penalty Management Plan” to segregate business risks into 5 levels for evaluation and management based on losses incurred. Secondly, the Bank strengthened management over its wealth management business by formulating the “Personal Wealth Management Product Sales Process Directive” and regulating sales behaviour. It has also defined the responsibilities of the respective business departments involved with the credit risk management for wealth management products and formulated a contingency response plan for the personal wealth management business. Thirdly, the Bank promoted the innovation of its retail financing channels by introducing its retail financing sales channel and pre-approval system and online personal financing imagery transmission system. Relying on available information technology, the Bank has developed an interactive retail financing product platform between the Bank and its customers to test the capabilities of the retail financing automated assessment system on a pilot basis. Fourthly, the Bank implemented centralised debt collection for overdue loans by having Head Office collate debt collection information for centralised debt collection, implementing specialised management for key branch customers and conducting door-to-door debt collection as part of its overdue loan management. In addition, it has also launched a centralised telephone debt collection system for overdue loans. Fifthly, the Bank has formulated management plans for its retail financing customer relationship managers to regulate their conduct.

### (5) Settlement and IT support

Firstly, the Bank has continued with the restructuring of its operating process by making preparations for the construction of a second Head Office level settlement centre to take over the back office operations for 12 provincial level branches. Currently, the administration of middle office operations for 26 provincial level branches is now being centrally managed at the respective provincial level. Secondly, the Bank implemented the dual accountant mechanism whereby one or more deputy accountants are appointed in addition to the original accountant to split and coordinate the work while at the same time serving as a counterbalance to each other. Thirdly, the Bank strengthened the management of outsourced functions by formulating the “Accounting for Outsourced Functions Management Plan” and “Receipt of Services for Outsourced Functions Management Plan” to clearly define the scope, type, organisational management, service provider management and contingency responses for outsourced functions. Fourthly, the Bank reviewed its institutional policies for off-shore businesses by progressively formulating and revising its “Off-shore Settlement & Management Procedure” and 8 other institutional policies based on the circumstances of the respective business units. Fifthly, the Bank initiated the development of a new generation centralised information system in preparation for the future operating management information technology platform for the entire group.

## Management Discussion and Analysis (Continued)

### (6) Regulatory compliance management and incident prevention

Firstly, the Bank strengthened its management of employee conduct by formulating its “Employee Conduct Management Plan” and conducting bank-wide regulatory seminars and training as well as holding regulatory knowledge competitions. Secondly, the group strengthened its AML management by integrating suspicious transaction monitoring and analysis with customer due diligence while clearly defining the responsibilities of each department with regards to the reporting of suspicious transactions. The implementation of the third phase of the AML system and cross border black-list transaction retrieval system has also enabled the Bank to filter suspicious transactions on an individual customer basis and enhanced the manual analysis of suspicious transactions while improving the quality of suspicious transactions identification. The quantity of suspicious transactions has thus been reduced and this has led to faster response times for foundational level employee operated systems. Thirdly, the Bank launched its “Internal Control and Incident Prevention Year” campaign with “Employee Management and Control” and “Procedure Execution” as the main theme focusing on basic operating units to strengthen its monitoring and supervision. This has also helped to raise the regulatory awareness and execution by senior employees. Fourthly, the Bank continued with the development of its anti-fraud system while actively focusing on the second phase of anti-fraud management software system and setting key inspections points with quarterly cycles to enhance the organisation's anti-fraud efforts.

### (6) STRATEGIC PARTNERSHIP WITH HSBC

The Bank's strategic partnership with HSBC grew progressively during the first half of 2010. Active and effective communications between the management of both banks and sincere cooperation between the respective working teams within both banks have effectively facilitated synergies in the credit card and other key focus businesses as well as technical cooperation and exchanges between both banks. In particular, the Bank's A shares and H shares rights issue received strong support from HSBC which subscribed to the entire amount of shares for which it was allocated. This has further solidified both banks' strategic partnership which was built on shareholdings.

During the reporting period, technical cooperation and exchanges between both banks achieved remarkable synergies:

— Exchange of technical expertise:

As at 30 June 2010, HSBC has sent and stationed a total of 23 experts to 12 departments within the Bank to provide operational guidance. These departments include the Credit, Audit, Risk Management, Budgetary and Financial and Corporate Culture Departments amongst others. These experts from HSBC also participated in and supported the Bank's 15 major strategic development projects, including the “process-based bank” development, internal evaluation, comprehensive risk management and data collection.

## Management Discussion and Analysis (Continued)

- Staff training:

The Bank and HSBC commenced a fresh round of secondments whereby the Bank's senior management personnel from various business lines were seconded to HSBC. The first batch of personal wealth management exchanges was officially held from 25 June 2010 to 10 July 2010. During this period, training was conducted for 18 senior management personnel from the Personal Banking Department. This plan aims to send provincial Branch Presidents and relevant Head Office personnel from the respective business units such as personal banking, corporate banking, international banking, finance, risk management and IT departments for training over a three-year period to further enhance the capabilities of the Bank's senior management personnel in terms of innovation, competitiveness and rising to challenges.

- Staff exchange programs:

The Bank has sent a total of 123 core employees from departments such as the Corporate Banking, Custodian Services, Asset Preservation, Personal Banking and Marketing Departments to HSBC in Hong Kong on internship programs to learn from HSBC's advance management experience and operating model as at 30 June 2010.

- Bilateral cooperation:

The Bank has also conducted a total of 38 seminars for 435 HSBC employees and arranged for working exchanges with the Bank for 8 members from HSBC's Asia-Pacific region as at 30 June 2010. In addition, it has also sent two experts to provide technical consultation and support to HSBC to share the Bank's vast experience in the domestic banking sector.

### Further exploration and expansion of business cooperation

- Credit card business:

Total credit card issuance as at 30 June 2010 has exceeded 17 million and accumulated consumer spending for the first half of 2010 has exceeded RMB100 billion with indicators such as average spending per card and average lending per card ranking among the industry leaders.

- Corporate banking business:

The Bank and HSBC have jointly provided financial services to renowned multi-national corporations and environmental conservation projects via mutual referrals. In addition, the second phase of the corporate banking system interface between the two banks, third party enquiries of customer accounts, has continued to function without issues. This has enhanced both banks' service capabilities in terms of trans-national global wealth management. At the same time, both banks have actively explored cooperation in the area of rural financing and have achieved significant breakthroughs in this area.

## Management Discussion and Analysis (Continued)

— International banking business:

Both banks have developed a “International Business Ambassador” working mechanism to further enhance their cooperation in the areas of foreign currency settlement, overseas corporate financing, cash management and cross-border RMB trade settlements. They have also constantly enhanced their capabilities to provide financial services to multi-national corporations by jointly providing a basket of financial services plans in order to satisfy the increasing demand for trans-national financial services of domestic and foreign large enterprises as well as individual customers.

### (7) PROSPECTS

The global economy is expected to remain in a “post crisis” adjustment period during the second half of 2010 while the outlook for China’s economy is expected to remain positive. At the same time, the government’s mission to manage inflation while maintaining relatively rapid stable economic growth and restructure its economic development model, is expected to be an uphill battle. Commercial banks can also be expected to face new pressures and challenges. The group will continue to execute its strategy to build “a first-class publicly-listed universal banking group focused on international expansion and specialising in wealth management”. With steadfast determination to carry out its “Management Enhancement Year” programs and with persistent implementation of its plan to maintain stable development, the group is able to optimise its organisational structure, improve operating efficiency while tightly controlling risks by focusing on the following aspects:

1. Implementing the Central Government’s macro-economic policies while strengthening its currency control policy and maintaining a reasonable rate of growth of its credit portfolio while following through with its upgrading and restructuring efforts.
2. Diligently increasing market share by strengthening customer classification, accelerating innovation while enhancing service quality.
3. Accelerating the development of its competitive advantage and brand image in wealth management by utilising its strategic leadership position to forge ahead with its overseas expansion and universal banking development.
4. Strengthening its sustainable development capability by progressively implementing its “Management Enhancement Year” programs, perfecting its operating management system, revamping its operating model and enhancing operating management procedures.
5. Perfecting the group’s early risk warning mechanism by further enhancing its risk management organisational structure via strengthening periodic monitoring and comprehensive evaluation while increasing risk management and risk mitigation capabilities.

# Details of Changes in Share Capital and Shareholdings of Substantial Shareholders

## 1. DETAILS OF CHANGES IN SHARE CAPITAL

As at 30 June 2010, the Bank had a total of 482,472 shareholders with 429,679 shareholders holding A shares and 52,793 shareholders holding H shares.

	1 January 2010		Increase/(decrease) during the reporting period					30 June 2010	
	Number of shares	Percentage (%)	Issue of new shares <sup>1</sup>	Bonus shares	Shares transferred from the surplus reserve	Others <sup>2</sup>	Sub-total	Number of shares	Percentage (%)
<b>1. Shares subject to restriction on sales</b>	<b>9,974,982,648</b>	<b>20.36</b>	–	–	–	<b>-9,974,982,648</b>	<b>-9,974,982,648</b>	–	–
1. State-owned shares	9,974,982,648	20.36	–	–	–	-9,974,982,648	-9,974,982,648	–	–
2. Shares held by state-owned entities	–	–	–	–	–	–	–	–	–
3. Shares held by other domestic investors	–	–	–	–	–	–	–	–	–
Comprising:									
Shares held by domestic legal persons	–	–	–	–	–	–	–	–	–
Shares held by domestic natural persons	–	–	–	–	–	–	–	–	–
4. Shares held by foreign investors	–	–	–	–	–	–	–	–	–
Comprising:									
Shares held by foreign legal persons	–	–	–	–	–	–	–	–	–
Shares held by foreign natural persons	–	–	–	–	–	–	–	–	–
<b>2. Shares not subject to restriction on sales</b>	<b>39,019,401,055</b>	<b>79.64</b>	<b>+3,805,587,475</b>	–	–	<b>+9,974,982,648</b>	<b>+13,780,570,123</b>	<b>52,799,971,178</b>	<b>100.00</b>
1. RMB-denominated ordinary shares	15,954,932,919	32.57	+3,805,587,475	–	–	+9,974,982,648	+13,780,570,123	29,735,503,042	56.32
2. Domestically listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas listed foreign shares	23,064,468,136	47.07	–	–	–	–	–	23,064,468,136	43.68
4. Others	–	–	–	–	–	–	–	–	–
<b>3. Total</b>	<b>48,994,383,703</b>	<b>100.00</b>	<b>+3,805,587,475</b>	–	–	–	<b>+3,805,587,475</b>	<b>52,799,971,178</b>	<b>100.00</b>

Notes:

- Pursuant to the approval at the 2010 First Extraordinary General Meeting, the 2010 First A Shareholders Class Meeting and the 2010 First H Shareholders Class Meeting and by the domestic and overseas regulatory authorities, the Bank undertook a rights issue for its A shares and H shares during the reporting period. The rights issue for A shares was completed in June 2010 with 3,805,587,475 A shares issued which was listed and traded on 30 June 2010 and the rights issue for H shares was completed with 3,459,670,220 H shares issued in July 2010. The share capital of the Bank increased to 56.260 billion shares after the rights issue was completed.
- Based on the 36-month restriction on sales period guaranteed by the largest shareholder, the Ministry of Finance of the People's Republic of China, during the listing of the Bank's A shares, the 9,974,982,648 shares held by it became available for trading on 17 May 2010. For more details, please refer to the announcements in the China Securities Journal, Shanghai Securities News, Securities Times and the Shanghai Stock Exchange website ([www.sse.com.cn](http://www.sse.com.cn)) on 12 May 2010.

## Details of Changes in Share Capital and Shareholdings of Substantial Shareholders (Continued)

### 2. PARTICULARS OF SHAREHOLDINGS OF THE TOP 10 SHAREHOLDERS AND THE 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 pledged or frozen <sup>1</sup>
1	Ministry of Finance of the People's Republic of China	State	27.41	14,471,230,045	Nil
2	HKSCC Nominees Limited <sup>2</sup>	Foreign-owned	20.32	10,727,295,889	
3	The Hongkong and Shanghai Banking Corporation Limited	Foreign-owned	17.26	9,115,002,580	Nil
4	Capital Airports Holding (Group) Company	State-owned	2.15	1,133,264,625	
5	State Grid Asset Management Company Limited	State-owned	0.98	519,161,972	
6	Shanghai Tobacco (Group) Corp.	State-owned	0.82	435,077,253	
7	Yunnan Hongta Group Co. Ltd.	State-owned	0.76	398,806,176	
8	Sinopec Finance Company Limited	State-owned	0.67	352,958,920	
9	Aviation Industry Corporation of China	State-owned	0.53	282,434,940	
10	Daqing Petroleum Administration Bureau	State-owned	0.51	268,123,786	

#### Notes:

- Unless otherwise stated, the Bank is not aware of any circumstances whereby the shares held by the above shareholders have been frozen or pledged, or of the existence of any connected relationship between the above shareholders.
- 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 2010. According to the information provided by the National Council for Social Security Fund, the National Council for Social Security Fund held 5,555,555,556 H shares of the Bank as at 30 June 2010, representing 10.52% of the total issued share capital of the Bank and all these shares are held through HKSCC Nominees Limited. (same applies hereinafter)

## Details of Changes in Share Capital and Shareholdings of Substantial Shareholders (Continued)

2. Shareholdings of the top 10 shareholders not subject to restriction on sales

No.	Name of shareholder	Number of shares held	Shareholding percentage (%)	Type of share
1	Ministry of Finance of the People's Republic of China	14,471,230,045	27.41	A and H shares
2	HKSCC Nominees Limited	10,727,295,889	20.32	H shares
3	The Hongkong and Shanghai Banking Corporation Limited	9,115,002,580	17.26	H shares
4	Capital Airports Holding (Group) Company	1,133,264,625	2.15	A shares
5	State Grid Asset Management Company Limited	519,161,972	0.98	A shares
6	Shanghai Tobacco (Group) Corp.	435,077,253	0.82	A shares
7	Yunnan Hongta Group Co. Ltd.	398,806,176	0.76	A shares
8	Sinopec Finance Company Limited	352,958,920	0.67	A shares
9	Aviation Industry Corporation of China	282,434,940	0.53	A shares
10	Daqing Petroleum Administration Bureau	268,123,786	0.51	A shares
	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.		

### 3. SUBSTANTIAL SHAREHOLDERS AND HOLDERS OF INTEREST 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 2010, the substantial shareholders and other person (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 <sup>1</sup>	Approximate percentage of issued A shares <sup>2</sup> (%)	Approximate percentage of total issued shares <sup>2</sup> (%)
Ministry of Finance of the People's Republic of China	Beneficial owner	11,471,230,045	Long position	38.58	21.73



## Details of Changes in Share Capital and Shareholdings of Substantial Shareholders (Continued)

Name of substantial shareholder	Capacity	Number of H shares	Nature of interest <sup>1</sup>	Approximate percentage of issued H shares <sup>2</sup> (%)	Approximate percentage of total issued shares <sup>2</sup> (%)
National Council for Social Security Fund	Beneficial owner	5,555,555,556	Long position	24.09	10.52
Ministry of Finance of the People's Republic of China	Beneficial owner	3,000,000,000	Long position	13.01	5.68
The Hongkong and Shanghai Banking Corporation Limited	Beneficial owner	10,854,645,182 <sup>3</sup>	Long position	47.06	20.56
	Interest of controlled corporations <sup>4</sup>	48,463,922	Long position	0.21	0.09
	Total:	10,903,109,104		47.27	20.65
HSBC Finance (Netherlands)	Interest of controlled corporations <sup>5</sup>	10,903,109,104	Long position	47.27	20.65
HSBC Bank plc	Beneficial owner	352,128	Long position	0.0015	0.0007
	Interest of controlled corporations <sup>6</sup>	57,500	Long position	0.0002	0.0001
	Total:	409,628		0.0017	0.0008
HSBC Holdings plc	Interest of controlled corporations <sup>7</sup>	10,903,518,732	Long position	47.27	20.65

Notes:

- Long positions held other than through equity derivatives.
- Pursuant to the approval at the Bank's shareholders' meeting and the approval from domestic and overseas regulatory authorities, the Bank undertook a rights issue for its A shares and H shares during the reporting period. The rights issue for A shares was completed during the reporting period, whereas the rights issue for H shares was completed in July 2010. As at 30 June 2010, the Bank has 52,799,971,178 shares in issue, comprising 29,735,503,042 A shares and 23,064,468,136 H shares.
- These include the number of H shares of the Bank beneficially owned by The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), the H shares it is entitled to subscribe for in its capacity as a shareholder and the H shares it is obligated to underwrite in its capacity as a joint lead underwriter in the rights issue for H shares in 2010. According to the Bank's register of shareholders kept by Computershare Hong Kong Investor Services Limited as at 30 June 2010, HSBC held 9,115,002,580 H shares of the Bank, representing approximately 17.26% of the Bank's total issued shares.
- HSBC holds 62.14% equity interest in Hang Seng Bank Limited. Pursuant to the SFO, HSBC is deemed to be interested in the Bank's H shares held by Hang Seng Bank Limited. Hang Seng Bank Limited is deemed to be interested in the 48,463,922 H shares held by its wholly-owned subsidiaries. Such 48,463,922 H shares represent the aggregate of the 48,302,360 H shares directly held by Hang Seng Bank Trustee International Limited and 161,562 H shares directly held by Hang Seng Bank (Trustee) Limited.

## Details of Changes in Share Capital and Shareholdings of Substantial Shareholders (Continued)

5. HSBC is wholly-owned by HSBC Asia Holdings BV. HSBC Asia Holdings BV is, in turn wholly-owned by HSBC Asia Holdings (UK) Limited. HSBC Asia Holdings (UK) Limited is, in turn wholly-owned by HSBC Holdings BV. HSBC Holdings BV is, in turn wholly-owned by HSBC Finance (Netherlands). Pursuant to the SFO, HSBC Asia Holdings BV, HSBC Asia Holdings (UK) Limited, HSBC Holdings BV and HSBC Finance (Netherlands) are each deemed to be interested in the 10,903,109,104 H shares in which HSBC has an interest.
6. HSBC Trustee (C.I.) Limited holds 57,500 H shares. HSBC Trustee (C.I.) Limited is wholly-owned by HSBC Private Bank (C.I.) Limited which is, in turn wholly-owned by HSBC Private Banking Holdings (Suisse) SA. HSBC Private Banking Holdings (Suisse) SA is, in turn wholly-owned by HSBC Europe (Netherlands) BV, which is, in turn 94.9% owned by HSBC Bank plc. Pursuant to the SFO, HSBC Private Bank (C.I.) Limited, HSBC Private Banking Holdings (Suisse) SA, HSBC Europe (Netherlands) BV and HSBC Bank plc are each deemed to be interested in the 57,500 H shares held by HSBC Trustee (C.I.) Limited.
7. HSBC Financial (Netherlands) and HSBC Bank plc are wholly-owned by HSBC Holdings plc. Pursuant to Note 4, 5 and 6 and the SFO, HSBC Holdings plc is deemed to be interested in the 10,903,109,104 H shares in which HSBC has an interest and the 409,628 H shares in which HSBC Bank plc has an interest. Based on the disclosures submitted by HSBC Holdings Plc to the Hong Kong Stock Exchange after the completion of the rights issue for its A shares and H shares in July 2010, HSBC Holdings Plc and its subsidiaries are interested in 10,757,632,277 H shares of the Bank, representing approximately 19.12% of the Bank's total issued shares as at 16 July 2010.

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 Division 2 and 3 of Part XV of the SFO as at 30 June 2010.

#### 4. SHAREHOLDINGS OF SHAREHOLDERS WHO HOLD MORE THAN 5% OF THE BANK'S SHARES (AFTER THE RIGHTS ISSUE)

The rights issue of A shares and H shares of the Bank was completed on 19 July 2010. After the rights issue, the Bank had a total of 56,259,641,398 shares in issue. Shareholders holding more than 5% of the Bank's shares include: the Ministry of Finance of the People's Republic of China, which held 14,921,230,045 of the Bank's shares, representing approximately 26.52% of the Bank's total shares; HSBC, which beneficially held 10,708,815,617 of the Bank's shares, representing approximately 19.03% of the Bank's total shares; the National Council for Social Security Fund, which held 6,388,888,889 of the Bank's shares, representing approximately 11.36% of the Bank's total shares.

# Directors, Supervisors, Senior Management and Staff

## (1) MEMBERS OF THE BOARD OF DIRECTORS

Name	Position	Name	Position
Hu Huaibang	Chairman, Executive Director	Ji Guoqiang	Non-executive Director
Niu Ximing	Vice Chairman, Executive Director and President	Lei Jun	Non-executive Director
Qian Wenhui	Executive Director and Vice President	Yang Fenglin	Non-executive Director
Wang Bin	Executive Director and Vice President	Xie Qingjian	Independent Non-executive Director
Zhang Jixiang	Non-executive Director	Ian R. Wilson	Independent Non-executive Director
Hu Huating	Non-executive Director	Thomas J. Manning	Independent Non-executive Director
Qian Hongyi	Non-executive Director	Chen Qingtai	Independent Non-executive Director
Peter Wong Tung Shun	Non-executive Director	Eric Li Ka-cheung	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	Zheng Li	External Supervisor
Guan Zhenyi	Supervisor	Jiang Zuqi	External Supervisor
Yang Fajia	Supervisor	Liu Sha	Staff Supervisor
Wang Lisheng	Supervisor	Chen Qing	Staff Supervisor
Li Jin	Supervisor	Shuai Shi	Staff Supervisor
Yan Hong	Supervisor		

## Directors, Supervisors, Senior Management and Staff (Continued)

### (3) MEMBERS OF SENIOR MANAGEMENT

Name	Position	Name	Position
Niu Ximing	President	Hou Weidong	Chief Information Officer
Qian Wenhui	Vice President	Dicky Peter Yip	Vice President
Wang Bin	Vice President	Yang Dongping	Chief Risk Management Officer
Yu Yali	Vice President and Chief Financial Officer	Du Jianglong	Secretary of the Board of Directors
Shou Meisheng	Secretary of Discipline Committee	Zhu Hexin	Corporate Business Supervisor

### (4) CHANGES IN SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Number of shares held at the beginning of the year	Increase in shareholding during the reporting period	Decrease in shareholding during the reporting period	Number of shares held at the end of the reporting period	Reason for changes in shareholding
Yang Dongping	Chief Risk Management Officer	75,000	11,200	0	86,200	A shares rights issue

As at 30 June 2010, none of the Bank's directors, supervisors or 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 the 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 "**Listing Rules**"), to be notified to the Bank and the Hong Kong Stock Exchange.

### (5) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

On 23 February 2010, as approved at the Twenty-second Meeting of the Fifth Session of the Board of Directors, Mr. Zhu Hexin was appointed as the Bank's Corporate Business Supervisor.

## Directors, Supervisors, Senior Management and Staff (Continued)

On 29 April 2010, as approved at the Twenty-fourth Meeting of the Fifth Session of the Board of Directors, Mr. Wang Bin was appointed as Executive Director of the Bank's Board of Directors and his appointment has been approved by the China Banking Regulatory Commission.

### (6) STAFF AND HUMAN RESOURCE MANAGEMENT

#### 1. Number of staff

As at 30 June 2010, the Bank had a total of 80,137 employees domestically, representing an increase of 1.28% from the beginning of the year. Among these employees, 616 employees hold advanced professional and technical qualifications which account for approximately 0.77% of the work force; 16,614 employees hold intermediate professional and technical qualifications which account for approximately 20.73% of the work force; 3,857 employees hold Masters or higher academic degrees which account for approximately 4.81% of the work force; 41,612 employees hold bachelor degrees which account for approximately 51.93% of the work force; 30,650 employees hold diplomas or lower educational qualifications which account for approximately 38.25% of the work force.

#### 2. Human Resource Management

Revolving around its development strategy of "seeking international expansion and universal banking while focused on wealth management business", the Bank promotes the reform of the organisational structure and job designation structure while strengthening the linkages between organisational structure, job designation structure and strategic goals. In particular, it actively promotes the development of its electronic banking business and explores new management models for its base organisational units. As part of its efforts to facilitate the rapid development of the private banking business, the Bank actively engages in research concerning private banking operating procedures and management structures. Human resources increments, operating efficiencies and business model restructuring are interlinked to further enhance the management policy to ensure adequate staffing and to closely follow the pace of business and organisational restructuring, thus realistically increase employee productivity. It has also developed multi-strata employee career development plans and strengthened employee training to enhance the professional capabilities and responsibility awareness of employees.

In the area of remuneration policy, the Bank continues to implement its unique remuneration framework and human capital management system which "ensures that remuneration is determined with reference to job positions, responsibilities and employee capabilities, and is reflective of market value in the labour market". The Bank continues to design and implement the staff welfare policy with the enterprise annuity as the major component and characterised with the principle of "unified approach and standardised operation and management" throughout the Bank.

# Corporate Governance

The Bank abided strictly with relevant laws and regulations such as the PRC Company Law, the PRC Securities Law and the PRC Commercial Banking Law, and continued to enhance the level of its corporate governance based on the Bank's actual situation to fully safeguard the rights and interests of domestic and foreign shareholders and other interested parties.

The Directors of the Bank confirm that, during the reporting period, the Bank has fully complied with the principles and code provisions stipulated in Appendix 14 to the Listing Rules "Code of Corporate Governance Practices" and essentially complied with most of the recommended best practices as set out in the Code of Corporate Governance Practices.

## (1) SHAREHOLDERS' GENERAL MEETING

During the reporting period, the Bank convened its 2010 First Extraordinary General Meeting, 2010 First A Shareholders Class Meeting and 2010 First H Shareholders Class Meeting, and approved the following five resolutions:

- the plan for A shares and H shares rights issue of the Bank;
- the distribution of accumulated undistributed profits prior to the A shares and H shares rights issue;
- the feasibility report on the use of proceeds raised from the A shares and H shares rights issue;
- the report on the use of proceeds raised from the A shares and H shares rights issue; and
- the dividend distribution plan of the Bank for the year 2009.

## (2) BOARD OF DIRECTORS

During the reporting period, the Board of Directors convened five meetings and approved 36 resolutions. The various committees of the Board of Directors also convened 10 meetings and approved 26 resolutions or reports. All directors have diligently attended the board and board committee meetings and have discharged their duties effectively, thereby demonstrating the Board of Directors strategic decision making capability.

During the reporting period, the Board of Directors has diligently executed the resolutions approved at the shareholders' general meeting to implement the A shares and H shares rights issue plan by successfully overcoming the unfavourable market conditions. With strong and widespread support from shareholders, the Bank's rights issue was successfully completed on 19 July 2010, with a total of RMB32.6 billion raised from the rights issue, thereby laying a solid foundation for the Bank's rapid and steady development in the future. Concurrently, the Board of Directors has actively discharged its capital management responsibilities by formulating a comprehensive five-year capital management plan which was submitted to the shareholders' general meeting for approval.

The Board of Directors has also diligently discharged its duties by implementing the targets set by the New Basel Capital Accords and approved the “Operating Risk Management Policy”, “Internal Evaluation System Governance Policy” and “Market Risk Internal Modeling Simulation Plan” in accordance with the requirements of relevant regulatory authorities. This has helped to enhance the Bank’s risk management decision-making capabilities and thus bring its risk management to a new level.

### (3) BOARD OF SUPERVISORS

During the reporting period, the Board of Supervisors convened two meetings and approved the following:

- periodic reports;
- the financial reports;
- the profit distribution plan;
- the report of the Board of Supervisors for the year 2009;
- the suggestions of the Board of Supervisors on the performance of duties by the Board of Directors and senior management for the year 2009;
- the self-evaluation report on discharge of duties by the Board of Supervisors for the year 2009; and
- the work plan for the Board of Supervisors and the various specialised committees for the year 2010.

It also reported to the Board of Directors and senior management regarding its comments on the performance of duties by the Board of Directors and senior management and provided feedback of its evaluation on the discharge of duties by individual directors and senior management in writing. At the same time, it also further enhanced the efficiency of its discharge of duties through self evaluation and reported its findings to the relevant regulatory authorities. In accordance with its work plan, the Board of Supervisors reviewed the reports prepared by senior management with regards to regulatory compliance risk management and performed regulatory compliance inspections at relevant departments of the Head Office as well as four other domestic branches, and it also communicated with HSBC on specific topics and provided its views and suggestions.

All supervisors have diligently attended the meeting of the Board of Supervisors and were present at the meetings of the Board of Directors and its committees. They have diligently discharged their duties thus effectively demonstrating their role in safeguarding the interests of shareholders and enhancing the Bank’s management.

## Corporate Governance (Continued)

### (4) SENIOR MANAGEMENT

The Bank's senior management consists of nine members, including the President, Vice-Presidents, Secretary of Discipline Committee, Chief Financial Officer, Chief Information Officer, Chief Risk Management Officer and Corporate Business Supervisor. The Bank's senior management have diligently executed the resolutions of the Board of Directors and organised the Bank's operating activities in accordance with the Bank's Articles of Association, applicable laws and regulations and the authorisation of the Board of Directors.

### (5) INVESTOR RELATIONS MANAGEMENT

The Bank's investor relations management continues to be a key focus for the Board of Directors and management. The investor relations team comprises of the Bank's senior management, business and department heads, key position holders and investor relations management personnel. The investor relations team continues to maintain close communication and interaction with investors through various means and channels.

During the reporting period, the investor relations team provided important support to the Bank's A shares and H shares rights issue. In response to the complicated shareholding structure of the Bank, large number of legal persons and institutional shareholders with high shareholding ratio, the Bank has implemented a comprehensive shareholder communications work plan right from the beginning of the implementation of the rights issue to achieve an all-encompassing interaction with 2,000 legal person shareholders. This included avenues such as written correspondences, door-to-door visits, shareholder symposiums and telephone conversations. With regards to institutional investors, senior management has also communicated these plans to nearly 300 domestic and foreign institutional investors via a series of global non-transactional road-shows after the release of the first quarter results. The implementation of these effective measures has contributed to the recognition of the Bank's investment value among legal person and institutional shareholders and also helped to lay an excellent foundation for the success of the Bank's A shares and H shares rights issue.

During the reporting period, the Bank held two analysts' meetings regarding the release of periodic results. It also hosted the visits by 50 groups of investors and research analysts and 10 tele-conferences with investors. In addition, it also organised one reverse road-show and participated in two investors forums organised by investors. In addition, the Bank has also managed to communicate with and engage nearly 700 domestic and overseas investors and analysts through various means.

The Bank will continue to focus on the maximisation of shareholders' value and continuously strengthen its communications with investors to enhance their understanding and recognition of the Bank's investment value.



# Corporate Social Responsibilities

In the light of the rapid changes in the international and domestic macro-economic environment, the Bank continued to actively fulfill its corporate responsibilities towards the economy, environment and the society during the reporting period.

## (1) ECONOMIC RESPONSIBILITIES

The Bank adopted a policy of ensuring stable, rapid development of national economy and continuous improvement of people's living standard as the basic requirement for its corporate social responsibilities. The Bank focused on striking a balance between corporate benefits and social responsibilities, thereby allowing the Bank to fulfill its responsibility as a large Bank to support the national macro-economic policies.

1. The Bank earnestly supported the government's macro-economic policies. In response to the state's continuous economic stimulation request, the Bank increased its loan disbursement by RMB220 billion, most of which to transportation, wholesale and retail, public facilities management and infrastructure construction related areas. In addition, the Bank strictly applied quota management on nine industries with excess production capacity. Total increase of loans to those industries was 4.85%, which was far below the Bank's average loan increase rate.
2. While executing the government's macro-economic policies, the Bank also actively supported the state's initiative to "maintain economic growth, maintain employment and enhance the public well-being" by providing support to the development of small enterprises as a significant means to discharge its corporate social responsibilities. As at 30 June 2010, the Bank has provided financing to 21,279 small enterprises under its "Zhan Ye Tong" loans scheme for small enterprises, representing an increase of 6,522 enterprises or 44.20% from the beginning of the year. Total credit granted has increased by 63.02% to RMB87.9 billion from the beginning of the year, while the balance of loans increased by 51.77% to RMB59.3 billion. The loan business to small enterprises has been the leading contributor to the Bank's business growth and received wide attention from investors as well as both the domestic and foreign media.

The Bank also provided support to small enterprises through the following measures. Firstly, the Bank continued to set up the small enterprises credit service centers and developed the professionalism of its small enterprise credit business. The Bank has also completed the publicity work for the third batch of its small enterprises credit service centers with 200 new small enterprises credit service centers set up within the Bank's 24 provincial level branches during the first half of the year. Secondly, the Bank placed emphasis on product and service innovation for small enterprises by introducing a series of new financing products with flexible and varied types of guarantees. These include one-stop venture accounts, small enterprises commercial banking cards, one-stop corporate premium accounts, electronic supply chains, "Yin Zu Tong" and "Yin Bao Tong". Also, the Bank adopted clustered marketing strategies, such as stripe marketing, mass marketing and nature marketing, which enabled them to effectively target small enterprises with difficulties in attaining financing and guarantee. Thirdly,

## Corporate Social Responsibilities (Continued)

the Bank organised the third small enterprise development index press conference, which attracted public attention regarding the development of small enterprises.

3. The Bank continued to extend its financial services to “agriculture, rural areas and farmers”. Firstly, the Bank worked closely with leading agriculture enterprises. For instance, the Bank signed a comprehensive cooperation agreement with China Yurun Food (Group) Co., Ltd., the country’s leading agricultural industrial enterprise and largest meat products processing enterprise. The Bank also partnered with Yili Corporation and Mengniu Corporation by extending services to their upstream suppliers and downstream clients, to establish credit to support industrialised agriculture and animal husbandry. Secondly, the Bank continued to support the small-and-medium enterprise in rural areas. The Bank increased the scope of loan collaterals and guarantees which effectively benefited those agriculture enterprises with difficulties in financing and obtaining guarantees. The Bank also opened credit processing green channel for agriculture enterprises by way of simplifying non-credit-risk related requirements and improving the efficiency of credit approval process. Thirdly, the Bank focused on increasing the number of network locations to strengthen its financial service capabilities in rural areas. The establishment of the Zhejiang Anji Bocom Rural Bank during the first half of the year and the Bank’s various measures to promote the development of county-level sub-branches have all helped to improve the Bank’s capabilities in providing financial services to rural areas.
4. The Bank continued to focus on the society’s financial needs on education, housing, health care and consumption and provided innovative financial products and excellent financial services to fulfill its social responsibilities. The Bank introduced its education financial service solution “Wealth-Intelligence Campus” which provides schools, teachers and students with integrated financing, settlement, wealth management services and the school information system development. The Bank hosted the “Housing Management Financial Service Seminar”, promoting the Bank’s “Rong Zu Residential” financial service solution, sinking fund management system and its social security housing pilot project funded by the housing provident fund. The Bank actively employed various methods to develop its car loan products. The branches provided various “livelihood” financial service solution based on geographic characteristics. For example, the Qingdao branch is the only participating financial institution, which comprehensively involved in the construction of Qingdao social security card project “Smart Card”, while the Beijing branch customised its “one basket” financial service solution for its relocated clients.
5. As the global commercial banking partner of the Shanghai 2010 World Expo, the Bank actively extended its full financial services to stakeholders of this event. As at 30 June 2010, the Bank has disbursed RMB5.4 billion loans to the Shanghai World Expo’s infrastructure construction and operator. The Bank also actively took part in supporting the Shanghai World Expo’s ticketing service by helping with timely settlement of 7.3 million tickets amounting to RMB1.168 billion which enabled the organisers to maintain sufficient operating capital. The Bank also opened 679 domestic and foreign currency accounts for 218 participating countries and offered one-stop financial services to all participants.

## Corporate Social Responsibilities (Continued)

### (2) ENVIRONMENTAL RESPONSIBILITIES

The Bank actively responded to the state's initiative of energy conservation, emission reduction and environment protection through its financial services. In addition, the Bank also extensively carried out other environment initiatives, including forestation, "Earth Hour" and other resource saving activities.

During the reporting period, the Bank fulfilled its environmental responsibilities by way of carrying out specific credit review on loans with higher environment risk, strictly controlling credit allocations and closely monitoring the environmental responsibilities of those customers. The Bank also increased its credit support to the key energy conservation and emission reduction projects. As at 30 June 2010, customers in the "Green" category comprised 98.56% of the Bank's total credit customers and 99.42% of its total loan portfolio, representing an increase of 0.29% and 0.10% respectively from the end of prior year. Customers in the "Yellow" category comprised 1.36% of the Bank's total credit customers and 0.55% of its total loan portfolio, representing decreases of 0.28% and 0.11% respectively from the end of prior year. Customers in the "Red" category comprised only 0.08% of the Bank's total credit customers and 0.03% of its total loan portfolio, representing a decrease of 0.01% and an increase of 0.01% respectively from the end of prior year.

1. The Bank continued with its "Green Credit" project. Based on the state's energy conservation and emission reduction policy, the Bank issued "Green Credit Policy and Guidance" which set out the green credit policies and procedures for 31 higher environmental risk industries regulated with reference to relevant national standards and quota. The guidance places emphasis on incorporating customer's environmental conservation information into the credit assessment process and monitoring the environmental risk during the customer acceptance, credit application, evaluation and analysis, credit approval and after-loan management process.

The Bank also published its "Excess Production Capacity, High Energy Consumption, High Pollution and Resource Consumption Industrial Policy and Practising Standard" which clearly defined the entry standards for 15 high energy consumption and high pollution industries such as steel and nonferrous metals from the perspective of "workmanship, product and equipment requirements" and "energy consumption and environmental conservation indicator requirements". In addition, it also completed the basic establishment of quantity standards for "Green Credit" loans to high energy consumption and high pollution industries.

2. The Bank continuously reduced or exited from its exposure to high-environmental-risk customers. The Bank issued the "trial implementation notice of industrial credit quota management in 2010". This notice was drafted based on the summary of management requirement for industrial credit direction and performance of credit business for loans to various businesses for 2010 and specified the quota management requirement for the excess production capacity industries (e.g. iron and steel production, cement production, electrolytic aluminum production). The implementation of this notice has restricted the excess investment and excess growth of industries with high energy consumption, pollution, resource consumption and excess production capacity. The implementation of this notice also led to

## Corporate Social Responsibilities (Continued)

the Bank to exit from exposure to those customers with rundown production capabilities, or production technologies and facilities classified under elimination or restricted category, or customers without near-term upgrading plans or proper compliance-aligned new projects, or customers with high energy consumption and pollution.

3. The Bank also developed low-carbon financial products and developed new business modules that catered to a low-carbon economy, including Clean Development Mechanism (“CDM”) project finance and CDM international factoring finance. As at the end of June 2010, loan balances for energy conservation projects, including heat recovery steam generator technology and insulating glass technology have reached RMB39.98 billion; resource integrated utilisation projects, including crop straw power generation, bagasse power generation, have reached RMB6.31 billion; new energy projects, including nuclear power, wind power, have reached RMB6.17 billion; environment protection projects, including wastewater treatment and soil remediation, have reached RMB1.37 billion and other low-carbon projects, including plantation and green agriculture, have reached RMB4.39 billion.
4. The Bank has carried out a series of environment protection initiatives, including office waste cutting, energy saving, participating in “Earth Hour” and promoting an environmental friendly life to its customers to fulfil its environmental responsibilities.

### 3. SOCIAL RESPONSIBILITIES

The Bank closely adheres to its guideline of “focus on harmony and integrity, 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 “Towards Tomorrow — BOCOM Disabled Youths Scholarship Program” continued to achieve progress. At the beginning of 2010, funding for the first phase of the program amounting to RMB30 million has been distributed to needy students and schools, comprising more than 8,000 students and 24 schools in more than two thirds of all provinces, cities and autonomous regions of China. The second phase of the program amounting to RMB10 million is also on track of smooth development during the first half of the year.
2. The Bank also continued with its charity program in Tianzhu Tibetan Autonomous County, Gansu Province. Total funding already injected into the program exceeded RMB18 million since March 2002. The program has significantly improved the living standards of the local residents. In the first half of the year, the Bank donated RMB2 million for the construction of 200 green houses for fruits and vegetables. The project will, at its completion, improve the local crop production structure, the industrialisation process for fruits and vegetable production and increase the rural employment and income. Moreover, the project will reduce the agriculture water consumption and protect the ecological environment.

## Corporate Social Responsibilities (Continued)

3. There are 23 donation projects carried out by 22 branches of the Bank, with total donation amounting to RMB2.877 million. The funds raised have been mainly used to construct new farming villages and to build schools and fund education in remote regions. In addition, the funds were used to help the victims of regions affected by natural disasters and to support needy militia-police members as well as to provide targeted assistance.
4. In the first half of the year, due to frequent natural disasters outbreak in China, the Bank organised several fund raising events to help those affected. The Bank donated its first tranche of disaster relief funds amounting to RMB5.7361 million to the national Civil Affairs Ministry on 19 April 2010. This was supplemented by various local branches, acting on their own initiative, making additional donations of RMB446,900 to provincial Red Cross and other charity organisations. At the same time, a well organised bank-wide charity drive participated by 34,904 employees raised approximately RMB6.70 million which was donated to the Qinghai Department of Civil Affairs in July for reconstruction of Yushu city after the earthquake. More than 65 thousand staff from 52 offices of the Bank donated RMB1.3907 million to support the drought relieving efforts in southwest China. The regional branches also supported rescue works in the disaster areas through credit support and social channels.
5. On 1 May 2010, the world's famous Shanghai World Expo was launched successfully. Being the only global commercial banking partner to this important event, the Bank takes this event as an important social responsibility. Other than the infrastructure and economic support to the Shanghai World Expo, the Bank also participated in providing a safe and convenient payment environment and high quality financial services to visitors. Since the opening of the Shanghai World Expo, the Bank achieved its service objectives of "system free of malfunction, service free of mistake, safety protection free of accident" in both the frontline office and the back office, including internet banking, over-the-counter service, automated teller machine, card services, command and monitor, information system, logistics etc. This excellence was recognised by the Shanghai World Expo committee and praised by both customers and the media.

# Significant Events

## 1. PROFIT DISTRIBUTION

- Implementation of the profit distribution plan during the reporting period  
The Bank's "2009 Final Profit Distribution Plan" was approved at the 2010 First Extraordinary General Meeting held on 20 April 2010. Based on 48.994 billion shares of the Bank in issue as at 31 December 2009, a final cash dividend of RMB0.10 per share (pre-tax) was distributed, totalling RMB4.899 billion. The registration date of shares for the above dividend distribution was on 5 May 2010 and the distribution date was on 31 May 2010.
- 2010 Interim Profit Distribution Plan  
The group's net profit (excluding minority interest) and the Bank's net profit calculated in accordance with International Financial Reporting Standards and Chinese Accounting Standards for the first half of 2010 was RMB20.357 billion and RMB20.036 billion respectively while profits available for distribution was RMB20.036 billion (Prior year undistributed profit was zeroised). In accordance with the Bank's Articles of Association, the Board of Directors approved the 2010 Interim Profit Distribution Plan at the Twenty-seventh Meeting of the Fifth Session of the Board of Directors on 18 August 2010. A cash dividend of RMB0.10 per share (pre-tax), totalling RMB5.626 billion, was to be distributed to the Bank's A shares and H shares shareholders per the Bank's registrar based on the total share capital of 56.26 billion shares after the completion of the A shares and H shares rights issue in 2010.

## 2. INVESTMENT IN OTHER COMPANIES

- Holding of shares and securities issued by other listed companies

<i>(in RMB unless otherwise stated)</i>								
Stock code	Simplified stock name	Initial investment cost	Percentage of shareholding in the company (%)	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
600068	Gezhouba	135,080,299.07	1.42	342,818,000.00	—	(42,441,000.00)	Available-for-sale securities	Foreclosure
000979	Zhonghong Real Estate	12,494,400.00	1.95	102,366,400.00	—	(70,582,400.00)	Available-for-sale securities	Foreclosure
03377	Sino-Ocean Land	138,614,750.21	0.36	100,975,839.69	—	(26,583,936.60)	Available-for-sale securities	Acquisition
00388	HKEX	2,253,274.18	0.07	82,680,715.76	—	(12,415,285.39)	Available-for-sale securities	Acquisition
00658	China Transmission	34,315,623.84	0.22	40,348,781.02	—	(5,840,275.65)	Available-for-sale securities	Acquisition
01093	China Pharmaceutical	19,714,687.28	0.33	20,492,878.56	778,191.28	—	Financial asset at fair value whose change is included in gain/(loss) during the reporting period	Acquisition
00916	Longyuan Power	26,070,876.05	0.12	20,447,193.80	(9,485,601.67)	(7,974,456.90)	Available-for-sale securities	Acquisition
00082	VODone Limited	10,145,877.59	0.42	20,275,332.08	2,193,125.58	—	Financial asset at fair value whose change is included in gain/(loss) during the reporting period	Acquisition
600728	*ST Suntek	6,152,015.00	0.76	17,963,883.80	—	11,811,868.80	Available-for-sale securities	Foreclosure
000691	*ST Hainan Yatai	1,875,000.00	0.93	17,400,000.00	22,918,785.81	(20,232,750.00)	Available-for-sale securities	Acquisition
	Others	299,123,054.24		239,065,455.28	17,580,656.68	(58,381,680.57)		
	<b>Total</b>	<b>685,839,857.46</b>		<b>1,004,834,479.99</b>	<b>33,985,157.68</b>	<b>(232,639,916.31)</b>		

### Notes:

- The table above sets out equity investments in other listed companies recorded as available-for-sale securities and financial assets at fair value whose change is included in gain/(loss) during the reporting period.
- Gain/(loss) during the reporting period refers to the impact of this item of investment on the consolidated net profit during the reporting period of the group.

## Significant Events (Continued)

### 2. Holding of shares issued by unlisted financial institutions

<i>(in RMB unless otherwise stated)</i>								
Name of institution	Initial investment cost	Number of shares held	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
Jiangsu Changshu Rural Commercial Bank Co., Ltd.	380,000,000.00	57,560,225	10.00	380,000,000.00	17,268,067.50	—	Available-for-sale securities	Acquisition
China Union Pay Co., Ltd.	146,250,000.00	112,500,000	3.90	146,250,000.00	—	—	Available-for-sale securities	Acquisition
<b>Total</b>	<b>526,250,000.00</b>	<b>170,060,225</b>		<b>526,250,000.00</b>	<b>17,268,067.50</b>	<b>—</b>		

### 3. Trading of shares issued by other listed companies

<i>(in RMB unless otherwise stated)</i>						
	Number of shares at the beginning of the reporting period	Number of shares bought or sold during the reporting period	Number of shares at the end of the reporting period	Investment cost	Investment return	
Bought	2,425,000	30,184,705	32,609,705	166,392,496.76	—	
Sold	76,202,016	51,797,390	24,404,626	—	51,135,953.49	

Note: Changes in shareholding shown in the table were all due to the trading of shares of listed companies by subsidiaries of the group as well as shares acquired from foreclosures by the group in the course of its daily operations.

### 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 CONNECTED PARTY TRANSACTIONS

During the reporting period, the Bank did not enter into any significant connected party transactions under the listing rules of the Shanghai Stock Exchange.

## Significant Events (Continued)

### 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 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, also serves as the Chairman of the Audit Committee. The Audit Committee reviewed the Bank's accounting policies and practices together with senior management and discussed 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") as set out in Appendix 10 to the 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 group endeavoured to establish a high standard of corporate governance. The group believed that effective corporate governance is crucial to maximising shareholder value. In order to maintain a high standard of corporate governance, the Bank established a responsible, professional and accountable Board of Directors, Board of Supervisors and experienced senior management. The members of the Bank's Board of Directors and Board of Supervisors, except employee supervisors, were elected by the shareholders at the shareholders' general meetings. The Bank also established five special committees under the Board of Directors, namely the Strategy Committee, the Audit Committee, the Risk Management Committee, the Personnel and Compensation Committee and the Social Responsibility Committee. Non of the Bank's directors is aware of any information that would reasonably indicate that the Bank had not, for any time during the period ended 30 June 2010, been in compliance with the Code Provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.



### 9. USAGE OF FUNDS RAISED

The RMB17.290 billion raised from the Bank's foreign issuance of 6.73397 billion H shares (including the 878.34 million shares over-subscribed and issued) in June 2005 has been fully utilised to strengthen the capital base of the Bank.

The RMB24.750 billion raised from the Bank's domestic issuance of 3,190,350,487 A shares in April 2007 has been fully utilised to strengthen the capital base of the Bank.

Pursuant to the resolution approved at the 2010 First Extraordinary General Meeting, the 2010 First A Shareholders Class Meeting and the 2010 First H Shareholders Class Meeting and approval by the relevant domestic and foreign regulatory authorities, the Bank implemented its A share and H share rights issue plan. Of this, the RMB17.000 billion, after deducting all the costs and expenses incidental to the rights issue, raised from the issuance of 3,805,587,475 A shares during the A share rights issue completed in June 2010 and the funds raised from the H share rights issue completed in July 2010 have been fully utilised to strengthen the capital base of the Bank.

# 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	107	4,329
2	Tianjin Branch	35 Nanjing Lu, He Xi District, Tianjin	70	1,499
3	Hebei Branch	22 Zi Qiang Lu, Shijiazhuang, Hebei Province	30	887
4	Tangshan Branch	103 Xin Hua Dong Dao, Tangshan, Hebei Province	21	546
5	Qinhuangdao Branch	174 Wen Hua Lu, Hai Gang District, Qinhuangdao, Hebei Province	22	465
6	Handan Branch	340 Ren Min Dong Lu, Handan, Hebei Province	1	59
7	Shanxi Branch	35 Jie Fang Lu, Taiyuan, Shanxi Province	27	694
8	Jincheng Branch	878 Huang Hua Jie, Jincheng, Shanxi Province	6	139
9	Linfen Branch	34 Jie Fang Dong Lu, Linfen, Shanxi Province	1	29
10	Inner Mongolia Branch	110 West Da Xue Lu, Sai Han District, Huhhot, Inner Mongolia Autonomous Region	4	223
11	Baotou Branch	24 Gang Tie Da Jie, Qing Shan District, Baotou, Inner Mongolia Autonomous Region	9	226
12	Liaoning Branch	100 Shi Yi Wei Lu, Shen He District, Shenyang, Liaoning Province	46	1,151
13	Anshan Branch	38 Er Yi Jiu Lu, Tie Dong District, Anshan, Liaoning Province	27	528
14	Fushun Branch	2 Xi Yi Lu, Xin Fu District, Fushun, Liaoning Province	21	503
15	Dandong Branch	68 Jin Shan Da Jie, Dandong, Liaoning Province	16	348
16	Jinzhou Branch	42 Yun Fei Jie Er Duan, Jinzhou, Liaoning Province	20	375
17	Yingkou Branch	21 Bo Hai Da Jie Xi, Xi Shi District, Yingkou, Liaoning Province	29	576
18	Liaoyang Branch	114 Xin Yun Da Jie, Liaoyang, Liaoning Province	6	128
19	Dalian Branch	6 Zhong Shan Square, Zhong Shan District, Dalian, Liaoning Province	48	1,306
20	Jilin Provincial Branch	3515 Ren Min Da Jie, Changchun, Jilin Province	36	1,025
21	Jilin Branch	4 Song Jiang Dong Lu, Jilin, Jilin Province	23	520
22	Yanbian Branch	172 Guang Ming Jie, Yanji, Jilin Province	11	305
23	Heilongjiang Branch	428 You Yi Lu, Dao Li District, Harbin, Heilongjiang Province	44	1,066
24	Qiqihar Branch	199 Bu Kui Da Jie, Jian Hua District, Qiqihar, Heilongjiang Province	20	409
25	Daqing Branch	2 Re Yuan Jie, Dong Feng Lu, Sang Er Tu District, Daqing, Heilongjiang Province	23	647
26	Shanghai Branch	99 Zhong Shan Nan Lu, Shanghai	119	4,378
27	Jiangsu Branch	124 Zhong Shan Bei Lu, Nanjing, Jiangsu Province	73	1,752
28	Xuzhou Branch	56 Zhong Shan Nan Lu, Xuzhou, Jiangsu Province	24	463
29	Lianyungang Branch	141 Hai Lian Zhong Lu, Xin Pu District, Lianyungang, Jiangsu Province	20	374
30	Yangzhou Branch	2 Wen He Bei Lu, Yangzhou, Jiangsu Province	21	437
31	Taizhou Branch	151 Qing Nian Bei Lu, Taizhou, Jiangsu Province	15	293
32	Nantong Branch	27 Ren Min Zhong Lu, Nantong, Jiangsu Province	21	468
33	Zhenjiang Branch	229 Jie Fang Lu, Zhenjiang, Jiangsu Province	24	497
34	Changzhou Branch	171 Yan Ling Xi Lu, Changzhou, Jiangsu Province	36	700
35	Yancheng Branch	68 Jian Jun Dong Lu, Yancheng, Jiangsu Province	3	110
36	Huai'an Branch	126 Huai Hai Dong Lu, Huai'an, Jiangsu Province	1	42
37	Suzhou Branch	77 Nan Yuan Bei Lu, Suzhou, Jiangsu Province	61	1,269
38	Wuxi Branch	198 Ren Min Zhong Lu, Wuxi, Jiangsu Province	51	1,247
39	Zhejiang Branch	173 Qing Chun Lu, Hangzhou, Zhejiang Province	41	1,112
40	Wenzhou Branch	Jiao Hang Plaza, Che Zhan Da Dao, Wenzhou, Zhejiang Province	21	654
41	Jiaxing Branch	1086 Zhong Shan Dong Lu, Jiaxing, Zhejiang Province	13	422

## List of Branches (Continued)

No	Branch name	Address	Number of outlets	Number of employees
42	Huzhou Branch	299 Ren Min Lu, Huzhou, Zhejiang Province	10	340
43	Shaoxing Branch	283 Ren Min Zhong Lu, Shaoxing, Zhejiang Province	35	807
44	Taizhou Branch	298 Dong Huan Da Dao, Jiao Jiang District, Taizhou, Zhejiang Province	5	183
45	Jinhua Branch	191 Shuang Xi Xi Lu, Jinhua, Zhejiang Province	3	166
46	Ningbo Branch	55 Zhong Shan Dong Lu, Ningbo, Zhejiang Province	40	1,029
47	Anhui Branch	38 Hua Yuan Jie, Hefei, Anhui Province	28	773
48	Wuhu Branch	BOCOM Tower, Bei Jing Xi Lu, Wuhu, Anhui Province	19	376
49	Bengbu Branch	88 Nan Shan Lu, Bengbu, Anhui Province	19	328
50	Huainan Branch	95 Chao Yang Zhong Lu, Huainan, Anhui Province	18	296
51	Anqing Branch	99 Long Shan Lu, Anqing, Anhui Province	13	293
52	Maanshan Branch	156 Hu Dong Nan Lu, Maanshan, Anhui Province	3	104
53	Tongling Branch	990 Chang Jiang Zhong Lu, Tongling, Anhui Province	1	34
54	Fujian Branch	116 Hu Dong Road, Fuzhou, Fujian Province	26	722
55	Quanzhou Branch	550 Feng Ze Jie, Quanzhou, Fujian Province	2	87
56	Xiamen Branch	9 Hu Bin Zhong Lu, Xiamen, Fujian Province	19	474
57	Jiangxi Province	199 Hui Zhan Lu, Hong Gu Tan Xin District, Nanchang, Jiangxi Province	28	620
58	Jingdezhen Branch	1 Chang Nan Da Dao, Chang Jiang District, Jingdezhen, Jiangxi Province	12	209
59	Xinyu Branch	98 Bei Hu Xi Lu, Xinyu, Jiangxi Province	11	185
60	Jiujiang Branch	139 Xun Yang Lu, Jiujiang, Jiangxi Province	11	187
61	Shandong Branch	98 Gong Qing Tuan Lu, Jinan, Shandong Province	31	809
62	Zibo Branch	100 Jin Jing Da Dao, Zhang Dian District, Zibo, Shandong Province	29	562
63	Weifang Branch	358 Dong Feng Dong Jie, Weifang, Shandong Province	22	483
64	Yantai Branch	5 Da Ma Lu, Yantai, Shandong Province	24	441
65	Weihai Branch	34 Hai Bin Bei Lu, Weihai, Shandong Province	13	291
66	Jining Branch	36 Hong Xing Dong Lu, Jining, Shandong Province	16	323
67	Taian Branch	55 Dong Yue Da Jie, Taian, Shandong Province	12	255
68	Qingdao Branch	6 Zhong Shan Lu, Qingdao, Shandong Province	58	1,213
69	Henan Branch	11 Zheng Hua Lu, Zhengzhou, Henan Province	69	1,476
70	Luoyang Branch	226 Kai Xuan Da Dao, Luoyang, Henan Province	17	454
71	Nanyang Branch	25 Zhong Zhou Lu, Nanyang, Henan Province	1	70
72	Anyang Branch	1 You Yi Lu, Anyang, Henan Province	1	51
73	Hubei Branch	847 Jian She Da Dao, Wuhan, Hubei Province	55	1,345
74	Huangshi Branch	380 Yi Yang Lu, Huangshi, Hubei Province	13	262
75	Yichang Branch	22 Sheng Li Si Lu, Yichang, Hubei Province	10	226
76	Xiangfan Branch	8 Yan Jiang Da Dao Te, Fan Cheng Xiangfan, Hubei Province	1	46
77	Hunan Branch	37 Shao Shan Zhong Lu, Changsha, Hunan Province	34	879
78	Yueyang Branch	Yin Du Mansion, Nan Hu Da Dao, Yueyang, Hunan Province	13	250
79	Changde Branch	1508 Renmin Lu, Changde, Hunan Province	1	47
80	Guangdong Branch	123 Jie Fang Nan Lu, Guangzhou, Guangdong Province	81	1,978
81	Zhuhai Branch	1227 Jiu Zhou Da Dao Dong, Ji Da, Zhuhai, Guangdong Province	21	589
82	Shantou Branch	83 Jin Sha Lu, Shantou, Guangdong Province	28	634
83	Dongguan Branch	190 Qi Feng Lu, Dongguan, Guangdong Province	9	204
84	Zhongshan Branch	30 Yue Lai Nan Lu, Shi Qi District, Zhongshan, Guangdong Province	20	495
85	Foshan Branch	30 Ji Hua Wu Lu, Chan Cheng District, Foshan, Guangdong Province	27	553
86	Jieyang Sub-branch	6 Bei Huan Cheng Lu, Rong Cheng District, Jieyang, Guangdong Province	10	196

## List of Branches (Continued)

No	Branch name	Address	Number of outlets	Number of employees
87	Huizhou Branch	BOCOM Tower, 8 Yun Shan Xi Lu, Jiang Bei, Huicheng District, Huizhou, Guangdong Province	4	130
88	Jiangmen Branch	18 Dong Hua Er Lu, Jiangmen, Guangdong Province	1	69
89	Shenzhen Branch	2066 Shen Nan Zhong Lu, Shenzhen, Guangdong Province	48	1,618
90	Guangxi Branch	228 Ren Min Dong Lu, Nanning, Guangxi Zhuang Autonomous Region	37	803
91	Liuzhou Branch	32 Yue Jin Lu, Liuzhou, Guangxi Zhuang Autonomous Region	24	481
92	Guilin Branch	8 Nan Huan Lu, Guilin, Guangxi Zhuang Autonomous Region	17	371
93	Wuzhou Branch	47 Da Zhong Lu, Wuzhou, Guangxi Zhuang Autonomous Region	7	187
94	Beihai Branch	BOCOM Tower, 25 Yun Nan Lu, Beihai, Guangxi Zhuang Autonomous Region	4	128
95	Hainan Branch	45 Guo Mao Road, Haikou, Hainan Province	16	452
96	Chongqing Branch	158 Zhong Shan San Lu, Yu Zhong District, Chongqing	58	1,391
97	Sichuan Branch	BOCOM Tower, 211 Xi Yu Long Jie, Chengdu, Sichuan Province	75	1,613
98	Zigong Branch	108 Wu Xing Jie, Zi Liu Jing District, Zigong, Sichuan Province	9	171
99	Panzhihua Branch	129 Bing Cao Gang Da Jie, Panzhihua, Sichuan Province	10	151
100	Deyang Branch	10 Zhu Jiang Dong Lu, Deyang, Sichuan Province	1	36
101	Guizhou Branch	4 Sheng Fu Lu, Guiyang, Guizhou Province	28	484
102	Zunyi Branch	108 Zhong Hua Lu, Hong Hua Gang District, Zunyi, Guizhou Province	17	315
103	Yunnan Branch	67 Hu Guo Lu, Kunming, Yunnan Province	31	844
104	Qujing Branch	At the intersection of Qi Lin Nan Lu and Wen Chang Street, Qi Lin District, Qujing, Yunnan Province	5	109
105	Yuxi Branch	61 Yu Xing Lu, Hong Ta District, Yuxi, Yunnan Province	5	93
106	Chuxiong Branch	102 Bei Pu Lu, Chuxiong Yunnan Province	5	99
107	Shaanxi Branch	88 Xi Xin Jie, Xian, Shaanxi Province	50	1,044

## 2. OVERSEAS OFFICES

No.	Branch Name	Address	Number of outlets	No of employees
1	Hong Kong Branch	20 Pedder Street, Central, Hong Kong	44	1,407
2	New York Branch	One Exchange Plaza/55 Broadway 31st & 32nd Floor, New York, USA	1	46
3	Tokyo Branch	Toranomon, No.37 MORI BLDG. 9F 3-5-1, Toranomon minato-ku Tokyo, Japan	1	34
4	Singapore Branch	50 Raffles Place #18-01, Singapore Land Tower	1	32
5	Seoul Branch	6th Floor Samsung Fire & Marine Bldg, #87, Euljiro 1-Ga, Jung-Gu, Seoul, Korea	1	26
6	Frankfurt Branch	Neue Mainzer Str. 75 FFM, Germany	1	21
7	Macau Branch	Room 03-08, 16/F AIA Tower No.251A-301, Avenida Commercial De, Macau	1	38
8	London Representative Office	3rd Floor, 145 Leadenhall Street, London EC3V 4QT, UK	—	2
9	Sydney Representative Office	Level 27, 363 George Street, Sydney NSW 2000, Australia	—	5

# 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 62 to 108, which comprise the condensed consolidated statement of financial position of the Bank of Communications Co., Ltd. (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2010 and the related condensed 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, and a summary of significant accounting policies and other explanatory notes. 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". The directors of the Bank are responsible for the preparation and presentation of this interim 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, 18 August 2010

# Unaudited Condensed Consolidated Interim Financial Information

## Unaudited Condensed Consolidated Statement of Comprehensive Income

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

	Note	Three months ended 30 June 2010	2009 Restated	Six months ended 30 June 2010	2009 Restated
Interest income		34,342	27,922	65,833	55,664
Interest expense		(13,476)	(12,721)	(25,937)	(25,879)
<b>Net interest income</b>	3	20,866	15,201	39,896	29,785
Fee and commission income	4	4,235	3,500	8,310	6,237
Fee and commission expense	5	(579)	(438)	(1,185)	(761)
<b>Net fee and commission income</b>		3,656	3,062	7,125	5,476
Dividend income	6	7	23	25	40
Gains less losses arising from trading activities	7	1	416	784	905
Gains less losses arising from de-recognition of investment securities	20	76	207	161	531
Insurance business income		102	—	313	—
Other operating income	8	837	198	1,232	358
Impairment losses	9	(2,660)	(2,562)	(5,272)	(4,515)
Insurance business expense		(66)	—	(271)	—
Other operating expenses	10	(10,153)	(6,732)	(17,842)	(12,583)
<b>Profit before tax</b>		12,666	9,813	26,151	19,997
Income tax	13	(2,730)	(2,119)	(5,723)	(4,292)
<b>Net profit for the period</b>		9,936	7,694	20,428	15,705
<b>Other comprehensive income</b>					
Available-for-sale (“AFS”) securities					
Changes in fair value taken to equity		(101)	450	401	8
Changes in fair value transferred to net profit		(86)	(125)	(184)	(510)
Translation difference on foreign operations		(144)	117	(181)	69
Other comprehensive income/(loss) for the period	36	(331)	442	36	(433)
<b>Total comprehensive income for the period</b>		9,605	8,136	20,464	15,272
<b>Net profit attributable to:</b>					
Shareholders of the Bank		9,906	7,660	20,357	15,649
Non-controlling interest		30	34	71	56
<b>Total comprehensive income attribute to:</b>					
Shareholders of the Bank		9,592	8,080	20,428	15,183
Non-controlling interest		13	56	36	89
<b>Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)</b>		0.19	0.15	0.40	0.31

The accompanying notes presented on pages 67 to 108 form a part of this unaudited condensed consolidated interim financial information.

## Unaudited Condensed Consolidated Interim Financial Information (Continued)

### Unaudited Condensed Consolidated Statement of Financial Position

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

	Note	30 June 2010	31 December 2009
<b>ASSETS</b>			
Cash and balances with central banks	15	494,687	434,996
Due from other banks and financial institutions	16	263,729	222,671
Financial assets at fair value through profit or loss	17	44,983	29,254
Loans and advances to customers	19	2,029,740	1,801,538
Investment securities — loans and receivables	20	80,061	107,604
Investment securities — available-for-sale (“AFS”)	20	152,027	132,094
Investment securities — held-to-maturity (“HTM”)	20	553,052	509,179
Property and equipment	21	30,440	29,878
Deferred income tax assets	27	5,704	5,821
Other assets	22	54,856	36,102
<b>Total assets</b>		<b>3,709,279</b>	<b>3,309,137</b>
<b>LIABILITIES</b>			
Due to other banks and financial institutions	23	667,614	653,172
Financial liabilities at fair value through profit or loss	24	11,165	9,375
Due to customers	25	2,702,931	2,372,055
Other liabilities	26	73,081	53,349
Current tax liabilities		4,304	3,726
Deferred income tax liabilities	27	34	35
Debts issued	29	53,000	53,000
<b>Total liabilities</b>		<b>3,512,129</b>	<b>3,144,712</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Bank’s shareholders</b>			
Share capital	30	52,800	48,994
Capital surplus	30	57,569	44,404
Other reserves		65,266	44,404
Retained earnings		20,713	26,046
<b>Non-controlling Interest</b>		<b>196,348</b>	<b>163,848</b>
		802	577
<b>Total equity</b>		<b>197,150</b>	<b>164,425</b>
<b>Total equity and liabilities</b>		<b>3,709,279</b>	<b>3,309,137</b>

This unaudited condensed consolidated interim financial information was approved for issue by the Board of Directors on 18 August 2010 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 67 to 108 form a part of this unaudited condensed consolidated interim financial information.

# Unaudited Condensed Consolidated Interim Financial Information (Continued)

## Unaudited Condensed Consolidated Statement of Changes in Equity

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

	Share capital Note 30	Capital surplus Note 30	Statutory reserve Note 31	Discretionary reserve Note 31	Other Reserves			Translation reserve on foreign operations	Retained earnings Note 31, 32	Non-controlling interest	Total
					Statutory general reserve Note 31	Revaluation reserve for AFS securities	Revaluation reserve for properties				
<b>Balance at 1 January 2009</b>											
<b>(Before restatement)</b>	48,994	43,100	4,163	9,087	12,574	2,741	6,090	(1,212)	24,125	433	150,095
Change of Accounting Policy	–	1,307	–	–	–	–	(6,090)	118	170	–	(4,495)
<b>Balance at 1 January 2009</b>	48,994	44,407	4,163	9,087	12,574	2,741	–	(1,094)	24,295	433	145,600
Net profit	–	–	–	–	–	–	–	–	15,649	56	15,705
Changes in fair value taken to equity	–	–	–	–	–	(24)	–	–	–	32	8
Changes in fair value transferred to net profit	–	–	–	–	–	(511)	–	–	–	1	(510)
Translation difference on foreign operations	–	–	–	–	–	–	–	69	–	–	69
<b>Total comprehensive income</b>	–	–	–	–	–	(535)	–	69	15,649	89	15,272
Dividends	–	–	–	–	–	–	–	–	(4,899)	–	(4,899)
Transfer to reserve	–	–	2,830	6,900	5,882	–	–	–	(15,612)	–	–
<b>Balance at 30 June 2009</b>	48,994	44,407	6,993	15,987	18,456	2,206	–	(1,025)	19,433	522	155,973
<b>Balance at 1 January 2010</b>	48,994	44,404	9,949	15,987	18,456	1,001	–	(989)	26,046	577	164,425
Net profit	–	–	–	–	–	–	–	–	20,357	71	20,428
Changes in fair value taken to equity	–	–	–	–	–	423	–	–	–	(22)	401
Changes in fair value transferred to net profit	–	–	–	–	–	(171)	–	–	–	(13)	(184)
Translation difference on foreign operations	–	–	–	–	–	–	–	(181)	–	–	(181)
Total comprehensive income	–	–	–	–	–	252	–	(181)	20,357	36	20,464
Establishment and acquisition of new subsidiaries	–	–	–	–	–	–	–	–	–	145	145
Acquisition of non-controlling interest in a subsidiary (Note 38)	–	(29)	–	–	–	–	–	–	–	(16)	(45)
Capital increase in a subsidiary	–	–	–	–	–	–	–	–	–	113	113
Dividends	–	–	–	–	–	–	–	–	(4,899)	(53)	(4,952)
Transfer to reserve	–	–	–	15,285	5,506	–	–	–	(20,791)	–	–
Rights issue (A shares) (Note 30)	3,806	13,194	–	–	–	–	–	–	–	–	17,000
<b>Balance at 30 June 2010</b>	52,800	57,569	9,949	31,272	23,962	1,253	–	(1,170)	20,713	802	197,150

The accompanying notes presented on pages 67 to 108 form a part of this unaudited condensed consolidated interim financial information.



# Unaudited Condensed Consolidated Interim Financial Information (Continued)

## Unaudited Condensed Consolidated Statement of Cash Flows

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

	Six months ended 30 June	
	2010	2009 Restated
<b>Cash flows from operating activities:</b>		
Profit before taxation:	26,151	19,997
Adjustments for:		
Impairment of loans and advances to customers	5,060	4,217
Reversal of impairment of due from other banks and financial institutions	—	(3)
Impairment of financial leasing receivables	68	41
Impairment of other receivables	6	6
Insurance reserve	271	—
Provision for/(reversal of) impairment of investment securities	78	(118)
Depreciation of property and equipment	1,485	1,334
Amortization of deferred assets	195	176
Amortization of land use rights	17	16
Amortization of intangible assets	118	115
Interest income from investment securities	(11,507)	(11,292)
Gains less losses arising from de-recognition of investment securities	(161)	(531)
Losses/(gains) on disposal of fixed assets	28	(4)
(Increase)/decrease in the fair value of investment property	(13)	1
Interest expense on debt issued	993	941
Dividend income	(25)	(40)
Net increase in mandatory reserve deposits	(62,386)	(61,180)
Net increase in due from other banks and financial institutions	(76,870)	(36,726)
Net increase in financial assets at fair value through profit or loss	(15,729)	(15,173)
Net increase in loans and advances to customers	(233,239)	(402,646)
Net increase in other assets	(18,138)	(10,432)
Net increase in due to other banks and financial institutions	14,442	89,898
Net increase/(decrease) in financial liabilities at fair value through profit or Loss	1,790	(1,364)
Net increase in due to customers	330,876	499,519
Net increase in other liabilities	18,364	16,331
Net increase/(decrease) in business tax payable	90	(37)
Income tax paid	(5,112)	(3,954)
<b>Net cash (used)/generated in operating activities</b>	<b>(23,148)</b>	<b>89,092</b>

## Unaudited Condensed Consolidated Interim Financial Information (Continued)

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

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

	Six months ended 30 June	
	2010	2009 Restated
<b>Cash flows from investing activities:</b>		
Acquisition of subsidiary, net of cash paid	(173)	—
Purchase of investment securities	(209,142)	(403,778)
Disposal or redemption of investment securities	173,840	265,635
Dividends received	25	40
Interest received from investment securities	11,541	10,806
Acquisition of intangible assets and deferred assets	(230)	(74)
Disposal of land use rights	2	4
Purchase and construction of property and equipment	(2,215)	(1,658)
Disposal of property and equipment	123	100
<b>Net cash used in investing activities</b>	<b>(26,229)</b>	<b>(128,925)</b>
<b>Cash flows from financing activities:</b>		
Cash received from A share rights issue	17,125	—
Issuance cost paid	(5)	—
Interest paid on debt	(1,046)	(1,045)
Dividends paid to shareholders of the Bank	(4,901)	(3,657)
Capital contribution by non-controlling interest	186	—
Acquisition of non-controlling interest in a subsidiary	(45)	—
Dividends paid to non-controlling interest	(8)	—
<b>Net cash generated/(used) in financing activities</b>	<b>11,306</b>	<b>(4,702)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(933)</b>	<b>63</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(39,004)</b>	<b>(44,472)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>168,498</b>	<b>225,732</b>
<b>Cash and cash equivalents at the end of the period</b> (Note 37)	<b>129,494</b>	<b>181,260</b>
<b>Supplementary Information</b>		
Interest received	64,987	54,498
Interest paid	(22,855)	(23,022)

The accompanying notes presented on pages 67 to 108 form a part of this unaudited condensed consolidated interim financial information.

# Notes to the Unaudited Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2010

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

## 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 113 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.

On 27 January 2010, the Bank acquired 51% interest of China Life-CMG Life Assurance Company Ltd. (the "Acquired Company") by RMB196 million from China Life Insurance Company Limited. After the business combination, the Acquired Company was renamed as BoComm Life Insurance Company Limited. On 9 February 2010, the Bank signed an agreement to acquire 11.5% interest of BoComm Life Insurance Company Limited by RMB44.6085 million from Colonial Mutual Life Assurance Society Limited. The transaction was completed on 11 June 2010. On 21 June 2010, BoComm Life Insurance Company Limited increased its share capital by RMB300 million. The Bank contributed RMB187.5 million which accounted for 62.5% of the increased capital.

On 18 March 2010, the Bank set up Zhejiang Anji Bocom Rural Bank Co., Ltd. The registered capital is RMB150 million and the Bank owns 51% shares.

## 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 2009 annual financial statements.

On 1 January 2010, the Group adopted the following amendments and interpretations, which were applicable for financial years beginning on/after 1 July 2009.

- IFRS 1 and IAS 27 (revised) — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- IFRS 3 (revised) — Business Combinations
- IAS 27 (revised) — Consolidated and Separate Financial Statements
- IAS 39 (revised) — Financial Instruments: Recognition and Measurements — Eligible Hedged Items
- IFRIC 17 — Distribution of Non-Cash Assets to Owners
- IFRIC 18 — Transfers of Assets from Customers

The amendments and interpretations did not have a material effect on the Group's operating results or financial position. Meanwhile, as it was stated in the 2009 annual financial statements, according to the relevant regulations issued by the Ministry of Finance (the "MOF") of the PRC, since 2009, the Group changed its accounting policy for property and equipment in the financial statements prepared under IFRS from the revaluation model to the cost model, and thereby eliminating the difference in the accounting policy for property and equipment applied in the two sets of financial statements. The Group has made retrospective adjustments to the comparative financial statements for the period ended 30 June 2009. Except for the above amendments and interpretations, the main 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 2009.

# Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

## 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 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.

### 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 judgment 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 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.

#### 3) **Income taxes**

The Group is subject to income taxes in various jurisdictions; principally, 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.

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

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

#### C Critical accounting estimates and judgments in applying accounting policies

(Continued)

##### 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.

##### 5) **Impairment of available-for-sale financial assets and held to maturity securities**

The Group follows the guidance of IAS 39 to determine when an available-for-sale or held to maturity financial asset is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, credit ratings, delinquency rates and counterparty risk.

### 3 NET INTEREST INCOME

	Three months ended 30 June		Six months ended 30 June	
	2010	2009	2010	2009
<b>Interest income</b>				
Balances with central banks	1,670	1,325	3,209	2,636
Due from other banks and financial institutions	1,057	1,256	1,871	3,023
Loans and receivables	25,730	19,735	49,246	38,713
Investment securities	5,885	5,606	11,507	11,292
	34,342	27,922	65,833	55,664
<b>Interest expense</b>				
Due to other banks and financial institutions	(5,203)	(3,705)	(9,727)	(8,001)
Due to customers	(8,273)	(9,016)	(16,210)	(17,878)
	(13,476)	(12,721)	(25,937)	(25,879)
<b>Net interest income</b>	20,866	15,201	39,896	29,785

	Six months ended 30 June	
	2010	2009
Interest income on listed investments	2,569	2,499
Interest income on unlisted investments	8,938	8,793
Interest income accrued on loans and advances to customers individually impaired	287	312

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 4 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2010	2009
Commission income on settlement and agent service	1,818	1,372
Bank card related fee income	2,351	1,845
Guarantee and commitment commission income	616	610
Commission income on custodian service	336	303
Commission income on sale of investment funds	323	373
Commission income on funds management	386	306
Consulting income	1,565	843
Other commission income	915	585
	8,310	6,237

	Six months ended 30 June	
	2010	2009
Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value	102	66
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	336	303

### 5 FEE AND COMMISSION EXPENSE

	Six months ended 30 June	
	2010	2009
Commission expense on settlement and agent service	186	124
Syndicated loan commission expense	44	35
Bank card related fee expense	748	485
Other commission expense	207	117
	1,185	761

	Six months ended 30 June	
	2010	2009
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	44	35

### 6 DIVIDEND INCOME

	Six months ended 30 June	
	2010	2009
Available-for-sale investments — unlisted	25	40

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 7 GAINS LESS LOSSES ARISING FROM TRADING ACTIVITIES

	Six months ended 30 June	
	2010	2009
Foreign exchange	699	585
Interest rate instruments	85	320
	784	905

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

Net income 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	
	2010	2009
Profit on sale of land use rights and buildings	9	4
Revaluation of investment property	13	—
Income from sales of franchised precious metal merchandise	1,049	194
Other miscellaneous income	161	160
	1,232	358

### 9 IMPAIRMENT LOSSES

	Three months ended 30 June		Six months ended 30 June	
	2010	2009	2010	2009
Due from other banks and financial institutions and securities purchased under resale agreements (Note 16(b))	—	(1)	—	(3)
Loans and advances to customers (Note 19(b))				
— Collectively assessed allowances	2,352	1,848	4,369	2,888
— Individually assessed allowances	363	722	978	1,641
	2,715	2,570	5,347	4,529
Less: recovery of loans previously written off	(55)	(7)	(75)	(11)
	2,660	2,562	5,272	4,515

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 10 OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2010	2009 Restated
Staff costs (Note 11)	6,625	4,231
General and administrative expenses	3,278	2,715
Depreciation (Note 21)	1,485	1,334
Business tax and surcharges	3,011	2,373
Operating lease rentals	738	662
Provision for/(reversal of) impairment loss of investment securities ((a), Note 20)	78	(118)
Impairment of other receivables	6	6
Supervision fee to Regulator	205	172
Reversal of outstanding litigation	—	(12)
Amortization of intangible assets	118	115
Professional fees	10	14
Amortization of land use rights	17	16
Impairment of finance lease receivables (Note 22(c))	68	41
Others	2,203	1,034
	17,842	12,583

#### (a) Provision for/(reversal of) impairment loss of investment securities

	Six months ended 30 June	
	2010	2009
Held-to-maturity (Note 20)	—	(5)
Available-for-sale (Note 20)	78	(113)
Net reversal of impairment losses	78	(118)

### 11 STAFF COSTS

	Six months ended 30 June	
	2010	2009
Salary and bonuses	4,738	2,908
Pension costs (Note 28)	636	417
Housing benefits and subsidies	303	136
Other social security and benefit costs	948	770
	6,625	4,231



## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

	Six months ended 30 June	
	2010	2009
Fees	4	7

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

In the first six months of 2010, RMB750,000 was accrued for independent non-executive directors' emolument (In the first six months of 2009: RMB750,000).

During the first six months of 2010, no cash settled share appreciation rights ("SARs") were granted and exercised. Changes in fair value of these SARs (RMB440,000) 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 2010 Number of shares (In millions)	Year ended at 31 December 2009 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 at 30 June 2010 is RMB30.59 million (31 December 2009: RMB30.15 million).

### 13 INCOME TAX

	Three months ended 30 June		Six months ended 30 June	
	2010	2009 Restated	2010	2009 Restated
Current tax				
— Mainland China income tax	3,040	2,756	5,514	3,901
— Hong Kong profits tax	65	83	112	139
— Overseas taxation	36	7	64	8
	3,141	2,846	5,690	4,048
Deferred income tax (Note 27)	(411)	(727)	33	244
	2,730	2,119	5,723	4,292

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.

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 13 INCOME TAX (Continued)

Profits earned by the Hong Kong branch or subsidiaries in Hong Kong are subject to Hong Kong profits tax at the rate of 16.5% (2009: 16.5%), on the estimated assessable profit for the period ended 30 June 2010. Taxation on other overseas profits has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries in which the Group operates during the period ended 30 June 2010.

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

	Three months ended 30 June		Six months ended 30 June	
	2010	2009 Restated	2010	2009 Restated
Profit before tax	12,666	9,813	26,151	19,997
Tax calculated at a tax rate of 25%	3,167	2,453	6,538	4,999
Effect of different tax rates in other countries (region)	(5)	(19)	4	35
Tax effect arising from income not subject to tax (1)	(446)	(344)	(871)	(816)
Tax effect of expenses that are not deductible for tax purposes (2)	14	29	52	74
Income tax expense	2,730	2,119	5,723	4,292

(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 regulation.

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

### 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	
	2010	2009 Restated
Profit attributable to shareholders of the Bank	20,357	15,649
Weighted average number of ordinary shares in issue	51,252	51,252
Basic and diluted earnings per share (expressed in RMB per share)	0.40	0.31

The rights issue of A share during this reporting period and the completed rights issue of H share after the reporting date have been taken into account in the calculation of basic and diluted earnings per share.

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 15 CASH AND BALANCES WITH CENTRAL BANKS

	30 June 2010	31 December 2009
Cash	10,920	11,797
Balances with central banks other than mandatory reserve deposits	86,846	88,664
Included in cash and cash equivalents (Note 37(b))	97,766	100,461
Mandatory reserve deposits	396,921	334,535
	494,687	434,996

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 2010	31 December 2009
Mandatory reserve rate for deposits denominated in RMB	17%	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.

### 16 DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

#### (a) Due from other banks and financial institutions

	30 June 2010	31 December 2009
Placement with other banks	32,247	68,037
<i>Included in cash and cash equivalents (Note 37(b))</i>	31,728	68,037
Securities purchased under resale agreement	60,027	49,352
Loans purchased under resale agreement	111,898	61,985
Loans and advances to other banks	37,937	29,747
Loans to other financial institutions	21,620	13,550
	263,729	222,671

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 16 DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS (Continued)

(b) Movements in allowance for impairment losses on amounts due from other banks and financial institutions

	Six months ended 30 June	
	2010	2009
<b>Balance at beginning of the period</b>	—	213
Reversal of impairment allowances (Note 9)	—	(3)
<b>Balance at end of the period</b>	—	210

### 17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2010	31 December 2009
Derivative financial instruments (Note 18)	3,079	2,370
Government bonds		
— Listed in Hong Kong	741	805
— Listed outside Hong Kong	1,101	1,332
— Unlisted	3,061	1,345
Other debt securities		
— Listed in Hong Kong	2,393	2,401
— Listed outside Hong Kong	4,842	4,643
— Unlisted — corporate entities	17,931	7,003
— Unlisted — public sector	234	861
— Unlisted — banking sector	11,384	8,030
Equity securities		
— Listed in Hong Kong	217	264
— Listed outside Hong Kong	—	200
	44,983	29,254

#### Securities — Financial assets at fair value through profit or loss (by issuer)

	30 June 2010	31 December 2009
<b>Securities — Financial assets at fair value through profit or loss</b>		
— Central governments and central banks	4,903	3,482
— Public sector entities	1,910	2,590
— Banks and other financial institutions	15,616	12,636
— Corporate entities	19,475	8,176
	41,904	26,884

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

All the financial assets at fair value through profit or loss are held for trading.

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

As at 30 June 2010, RMB242.55 million trading securities of the Group were pledged to third parties under repurchase agreements (2009: Nil).

### 18 DERIVATIVE FINANCIAL INSTRUMENTS

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

	Contract/notional Amount	Fair values Assets	Liabilities
<b>As at 30 June 2010</b>			
Foreign exchange contracts	434,801	2,010	(2,346)
Interest rate contracts	210,953	1,069	(1,740)
<b>Total derivatives</b>	<b>645,754</b>	<b>3,079</b>	<b>(4,086)</b>

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

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 for these contracts based on counterparty types, industry sectors and countries. Actual credit exposures and limits are regularly monitored and controlled by management.

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 18 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

#### Credit risk weighted amounts

	30 June 2010	31 December 2009
Derivatives		
– Foreign exchange contracts	2,483	1,395
– Interest rate contracts	522	516
	3,005	1,911

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 2010	31 December 2009
Derivatives		
– Foreign exchange contracts	2,010	1,031
– Interest rate contracts	1,069	1,339
	3,079	2,370

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

#### Notional amounts of derivative financial instruments by original currency

	30 June 2010	31 December 2009
RMB	328,355	260,649
US Dollars	255,284	202,292
HK Dollars	32,215	19,811
Others	29,900	27,608
<b>Total</b>	<b>645,754</b>	<b>510,360</b>

### 19 LOANS AND ADVANCES TO CUSTOMERS

#### (a) Loans and advances to customers

	30 June 2010	31 December 2009
Loans and advances to customers	2,070,568	1,839,314
Less: collective impairment allowances	(27,127)	(22,778)
Less: individual impairment allowances	(13,701)	(14,998)
	2,029,740	1,801,538

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 19 LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

	Six months ended 30 June			
	2010		2009	
	Collectively assessed	Individually impaired	Collectively assessed	Individually impaired
<b>Balance at beginning of period</b>	22,778	14,998	13,431	16,383
Impairment allowances for loans	4,369	4,480	2,888	4,042
Reversal of impairment allowances for loans	—	(3,502)	—	(2,401)
Net impairment allowances for loans charged to statement of comprehensive income	4,369	978	2,888	1,641
Unwind of discount on allowances	—	(287)	—	(312)
Loans written off during the period as uncollectible	—	(1,985)	—	(2,036)
Exchange difference	(20)	(3)	17	1
<b>Balance at end of the period</b>	27,127	13,701	16,336	15,677

	Six months ended 30 June			
	2010		2009	
	Corporate	Individual	Corporate	Individual
<b>Balance at beginning of period</b>	32,812	4,964	26,341	3,473
Impairment allowances for loans	7,657	1,192	5,983	947
Reversal of impairment allowances for loans	(3,162)	(340)	(2,121)	(280)
Net impairment allowances for loans charged to statement of comprehensive income	4,495	852	3,862	667
Unwind of discount on allowances	(258)	(29)	(260)	(52)
Loans written off during the period as uncollectible	(1,281)	(704)	(2,020)	(16)
Exchange difference	(20)	(3)	16	2
<b>Balance at end of the period</b>	35,748	5,080	27,939	4,074

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

(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 2010		31 December 2009	
	Impaired Loans	Specific Provision	Impaired Loans	Specific Provision
Corporate	22,872	(12,257)	21,869	(13,027)
Individual	2,461	(1,444)	3,140	(1,971)
	25,333	(13,701)	25,009	(14,998)

	30 June 2010	31 December 2009
Individually impaired loans to loans and advances to customers (percentage)	1.22%	1.36%

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

	30 June 2010		31 December 2009	
		%		%
Domestic regions				
— Jiangsu	265,909	13	241,030	12
— Beijing	233,446	11	201,128	11
— Shanghai	214,944	10	197,012	11
— Guangdong	174,599	8	157,044	8
— Zhejiang	168,357	8	152,968	8
— Shandong	92,715	5	85,074	5
— Sichuan	73,926	4	66,955	4
— Hubei	71,609	3	64,817	4
— Henan	71,458	3	65,584	4
— Tianjin	53,186	3	46,278	2
— Anhui	52,619	3	47,395	3
— Others	458,344	22	413,268	23
Domestic regions total	1,931,112	93	1,738,553	95
Hong Kong and overseas countries	139,456	7	100,761	5
Gross amount of loans and advances before allowance for impairment	2,070,568	100	1,839,314	100

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



## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

(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 2010		31 December 2009	
		%		%
<b>Corporate loans</b>				
Manufacturing				
– Petroleum and chemical	85,876	4	73,062	4
– Electronics	25,040	1	23,992	1
– Steel smelting and processing	43,936	2	40,109	2
– Machinery	87,675	4	76,532	4
– Textile	24,257	1	24,163	1
– Other manufacturing	147,843	7	140,836	8
Transportation	277,001	13	226,757	12
Wholesale and retail	191,496	9	145,278	8
Utilities	190,167	9	183,704	10
Real estate	156,720	8	129,325	7
Electricity	115,221	6	119,824	7
Services	102,963	5	81,699	4
Construction	65,966	3	55,387	3
Energy and Mining	32,664	2	31,230	2
Financial institutions	22,617	1	22,853	1
Recreation and entertainment	20,582	1	19,485	1
Accommodation and catering	13,378	1	13,163	1
IT and telecommunication service	9,893	1	8,213	—
Others	14,069	1	11,192	1
Discounted bills	71,155	3	101,872	6
<b>Total corporate loans</b>	<b>1,698,519</b>	<b>82</b>	<b>1,528,676</b>	<b>83</b>
Mortgage loans	242,971	12	198,695	11
Credit card advance	32,269	2	30,693	2
Medium-term and long-term working capital loans	30,443	1	27,573	2
Short-term working capital loans	25,970	1	21,482	1
Car loans	5,641	—	4,894	—
Others	34,755	2	27,301	1
<b>Total individual loans</b>	<b>372,049</b>	<b>18</b>	<b>310,638</b>	<b>17</b>
<b>Gross amount of loans and advances before allowance for impairment</b>	<b>2,070,568</b>	<b>100</b>	<b>1,839,314</b>	<b>100</b>

The economic sector risk concentration analysis for loans and advances to customers is based on the type of industry of the borrowers.

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

(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 2010	31 December 2009
<b>Domestic</b>		
Corporate entities		
State owned entities	564,412	502,787
Collective owned entities	7,668	8,768
Private unlimited companies	91,509	79,766
Private limited companies	531,501	461,671
Joint stock companies	134,198	130,738
Foreign invested enterprises	145,771	135,537
Other domestic entities	29,875	22,548
	1,504,934	1,341,815
Individuals	355,039	294,866
	1,859,973	1,636,681
<b>Hong Kong and Overseas</b>		
Corporate entities	122,430	84,989
Individuals	17,010	15,772
	139,440	100,761
Discounted bills	71,155	101,872
	2,070,568	1,839,314
Gross amount of loans and advances before allowance for impairment	2,070,568	1,839,314

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 20 INVESTMENT SECURITIES

	30 June 2010	31 December 2009
<b>Securities – loans and receivables</b>		
Debt securities – at amortised cost		
– Unlisted	80,061	107,604
<b>Loans &amp; receivables securities, net</b>	<b>80,061</b>	<b>107,604</b>
<b>Securities – available-for-sale</b>		
Debt securities – at fair value		
– Listed in Hong Kong	593	821
– Listed outside Hong Kong	14,806	14,514
– Unlisted	134,349	114,442
<b>Debt securities, net</b>	<b>149,748</b>	<b>129,777</b>
Equity securities – at fair value		
– Listed in Hong Kong	375	515
– Listed outside Hong Kong	1,051	1,100
– Unlisted	853	702
<b>Equity securities, net</b>	<b>2,279</b>	<b>2,317</b>
<b>Securities – available-for-sale total, net</b>	<b>152,027</b>	<b>132,094</b>
<b>Include: Market value of listed securities – available-for-sale</b>	<b>16,825</b>	<b>16,950</b>

Debt securities at fair value of RMB14,244 million (2009: RMB18,188 million) were pledged to third parties under repurchase agreements.

	30 June 2010	31 December 2009
<b>Securities – held-to-maturity</b>		
Debt securities – at amortized cost		
– Listed outside Hong Kong	142,498	150,313
– Unlisted	410,554	358,866
<b>Held-to-maturity securities, net</b>	<b>553,052</b>	<b>509,179</b>
<b>Include: Market value of listed Held-to-maturity securities</b>	<b>146,960</b>	<b>153,729</b>

The Group holds bonds issued by the PBOC as at 30 June 2010 amounting to RMB55,930 million (2009: RMB61,337 million). The related interest rates on such bonds for the period ended 30 June 2010 ranged between 2.68%-4.56% (2009: 3.02%-4.56%).

Gains less losses arising from investment securities comprise:

	Six months ended 30 June	
	2010	2009
Gains less losses arising from de-recognition of investment securities	161	531

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 20 INVESTMENT SECURITIES (Continued)

The movement in investment securities may be summarized as follows:

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
<b>Before provision</b>				
Balance at 1 January 2010	107,604	133,502	509,179	750,285
Additions	44,911	77,148	88,248	210,307
Disposals (sale or redemption)	(72,453)	(57,146)	(44,349)	(173,948)
Gains from changes in fair value	—	547	—	547
Exchange differences	(1)	(595)	(26)	(622)
<b>At 30 June 2010</b>	<b>80,061</b>	<b>153,456</b>	<b>553,052</b>	<b>786,569</b>
<b>Provision for impairment loss</b>				
Balance at 1 January 2010	—	(1,408)	—	(1,408)
Provision for impairment	—	(78)	—	(78)
Amounts recovered during the period	—	—	—	—
Amounts written off during the period as uncollectible	—	26	—	26
Exchange differences	—	31	—	31
<b>At 30 June 2010</b>	<b>—</b>	<b>(1,429)</b>	<b>—</b>	<b>(1,429)</b>
<b>Net book value At 30 June 2010</b>	<b>80,061</b>	<b>152,027</b>	<b>553,052</b>	<b>785,140</b>

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
<b>Before provision</b>				
Balance at 1 January 2009	90,974	143,678	367,883	602,535
Additions	108,530	280,914	286,426	675,870
Disposals (sale or redemption)	(91,900)	(290,828)	(145,165)	(527,893)
Gains from changes in fair value	—	(1,052)	—	(1,052)
Exchange differences	—	790	35	825
At 31 December 2009	107,604	133,502	509,179	750,285
<b>Provision for impairment loss</b>				
Balance at 1 January 2009	(71)	(1,668)	(5)	(1,744)
Provision for impairment	—	(80)	—	(80)
Amounts recovered during the year	3	229	5	237
Amounts transferred out during the year	45	—	—	45
Amounts written off during the year as uncollectible	23	110	—	133
Exchange differences	—	1	—	1
At 31 December 2009	—	(1,408)	—	(1,408)
<b>Net book value At 31 December 2009</b>	<b>107,604</b>	<b>132,094</b>	<b>509,179</b>	<b>748,877</b>

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

(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 2010	31 December 2009
<b>Securities – loans and receivables</b>		
– Central governments and central banks	27,662	55,347
– Public sector entities	–	–
– Banks and other financial institutions	2,511	2,212
– Corporate entities	49,888	50,045
	80,061	107,604
<b>Securities – available-for-sale</b>		
– Central governments and central banks	35,812	15,674
– Public sector entities	386	862
– Banks and other financial institutions	53,097	56,225
– Corporate entities	62,732	59,333
	152,027	132,094
<b>Securities – held-to-maturity</b>		
– Central governments and central banks	250,599	226,633
– Public sector entities	8,192	8,191
– Banks and other financial institutions	185,897	179,787
– Corporate entities	108,364	94,568
	553,052	509,179

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

	30 June 2010	31 December 2009
<b>Available-for-sale, at fair value</b>		
– Unlisted	538	479

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 2010	31 December 2009
Up to 3 months	–	70
3 to 12 months	404	137
1 to 5 years	134	272
	538	479

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 21 PROPERTY AND EQUIPMENT

	Land and Buildings	Construction in Progress	Equipment	Motor Vehicles	Property Improvement	Total
<b>Cost</b>						
At 1 January 2010	23,086	6,150	13,263	574	1,602	44,675
Additions	37	1,619	418	26	115	2,215
Disposals	(190)	(2)	(282)	(13)	(33)	(520)
Transfers	1,048	(1,447)	—	—	399	—
At 30 June 2010	23,981	6,320	13,399	587	2,083	46,370
<b>Accumulated depreciation</b>						
At 1 January 2010	(5,046)	—	(8,917)	(393)	(441)	(14,797)
Charge for the period	(397)	—	(932)	(29)	(127)	(1,485)
Disposals	55	—	254	13	30	352
At 30 June 2010	(5,388)	—	(9,595)	(409)	(538)	(15,930)
<b>Net book value</b>						
At 30 June 2010	18,593	6,320	3,804	178	1,545	30,440

	Land and Buildings	Construction in Progress	Equipment	Motor Vehicles	Property Improvement	Total
<b>Cost</b>						
At 1 January 2009 (Before restatement)	24,670	5,467	7,277	304	1,892	39,610
Changes of accounting policy	(2,860)	185	5,000	253	(657)	1,921
At 1 January 2009 (Restated)	21,810	5,652	12,277	557	1,235	41,531
Additions	235	2,098	2,044	55	247	4,679
Disposals	(251)	(14)	(1,058)	(38)	(177)	(1,538)
Transfers	1,292	(1,586)	—	—	297	3
At 31 December 2009	23,086	6,150	13,263	574	1,602	44,675
<b>Accumulated depreciation</b>						
At 1 January 2009 (Before restatement)	—	—	(3,248)	(56)	(1,027)	(4,331)
Changes of accounting policy	(4,302)	—	(4,855)	(317)	670	(8,804)
At 1 January 2009 (Restated)	(4,302)	—	(8,103)	(373)	(357)	(13,135)
Charge for the period	(913)	—	(1,711)	(55)	(201)	(2,880)
Disposals	169	—	897	35	117	1,218
At 31 December 2009	(5,046)	—	(8,917)	(393)	(441)	(14,797)
<b>Net book value</b>						
At 31 December 2009	18,040	6,150	4,346	181	1,161	29,878

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 21 PROPERTY AND EQUIPMENT (Continued)

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

	30 June 2010	31 December 2009
Net book value of land and buildings of Hong Kong Branch	205	212

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

	30 June 2010	31 December 2009
<b>Held in Hong Kong</b>		
on long-term lease (over 50 years)	192	198
on medium-term lease (10–50 years)	13	14
on short-term lease (less than 10 years)	—	—
	205	212
<b>Held outside Hong Kong</b>		
on long-term lease (over 50 years)	86	21
on medium-term lease (10–50 years)	17,033	16,558
on short-term lease (less than 10 years)	1,269	1,249
	18,388	17,828
	18,593	18,040

### 22 OTHER ASSETS

	30 June 2010	31 December 2009
Interest receivable	13,447	12,887
Settlement accounts	14,388	2,924
Other receivables	2,376	2,643
Less: impairment allowance	(844)	(1,044)
Land use rights (a)	727	746
Foreclosed assets	507	711
Leasehold improvement	535	613
Intangible assets	359	405
Prepaid rental expenses	225	233
Goodwill	322	200
Investment property (b)	136	124
Finance lease receivables (c)	20,937	14,204
Less: impairment allowance	(220)	(152)
Prepayment for finance leased assets	985	848
Others	976	760
	54,856	36,102

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 22 OTHER ASSETS (Continued)

- (a) Land use rights are analyzed based on the remaining terms of the leases as follows:

	30 June 2010	31 December 2009
Held outside Hong Kong		
on medium-term lease (10–50 years)	616	619
on short-term lease (less than 10 years)	111	127
	727	746

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

	30 June 2010	31 December 2009
Held in Hong Kong		
on long-term lease (over 50 years)	54	49
on medium-term lease (10–50 years)	82	75
	136	124

- (c) The “finance lease receivables” is as follows:

	30 June 2010	31 December 2009
Minimum finance lease receivables		
No later than 1 year	6,061	4,516
Later than 1 year and no later than 5 years	13,361	10,259
Later than 5 years	5,138	1,455
	24,560	16,230
Gross investment in finance leases	24,560	16,230
Unearned finance income	(3,623)	(2,026)
Net investment in finance leases	20,937	14,204
The net investment in finance leases is analyzed as follows:		
No later than 1 year	5,194	3,935
Later than 1 year and no later than 5 years	11,342	9,020
Later than 5 years	4,401	1,249
	20,937	14,204
The allowance for uncollectible finance lease receivables	(220)	(152)
Net finance lease receivables	20,717	14,052

### 23 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	30 June 2010	31 December 2009
Loans from PBOC	65	11
Deposits from other banks	152,907	74,681
Deposits from other financial institutions	409,694	471,158
Loans from other banks and financial institutions	89,917	85,729
Securities sold under repurchase agreements	12,227	17,430
Credit assets sold under repurchase agreements	2,804	4,163
	667,614	653,172



## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 24 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2010	31 December 2009
Derivative financial instruments (Note 18)	4,086	2,907
Short position of securities held for trading	1	113
Debt securities in issue	7,078	6,355
	11,165	9,375

Debt securities in issue are:

	30 June 2010		31 December 2009	
	Amount	Interest rate per Annum	Amount	Interest rate per Annum
USD floating rate Certificate of deposit (maturing in Aug. 2010)	258	3-mth LIBOR+0.70%	260	3-mth LIBOR+0.70%
USD floating rate Certificate of deposit (maturing in 22 Apr. 2010)	—	3-mth LIBOR+0.30%	1,024	3-mth LIBOR+0.30%
HKD floating rate Certificate of deposit (maturing in 6 Aug. 2010)	235	3-mth HIBOR+0.20%	238	3-mth HIBOR+0.20%
HKD floating rate Certificate of deposit (maturing in 12 Aug. 2010)	200	3-mth HIBOR+0.24%	203	3-mth HIBOR+0.24%
USD floating rate Certificate of deposit (maturing in 8 Sep. 2010)	542	3-mth LIBOR+0.30%	547	3-mth LIBOR+0.30%
USD floating rate Certificate of deposit (maturing in 21 Dec. 2011)	299	3-mth LIBOR+0.50%	301	3-mth LIBOR+0.50%
USD floating rate Certificate of deposit (maturing in 21 Dec. 2012)	272	3-mth LIBOR+0.55%	274	3-mth LIBOR+0.55%
USD floating rate Certificate of deposit (maturing in 23 Dec. 2011)	509	3-mth LIBOR+0.43%	513	3-mth LIBOR+0.43%
USD floating rate Certificate of deposit (maturing in 28 Dec. 2011)	339	3-mth LIBOR+0.43%	342	3-mth LIBOR+0.43%
HKD floating rate Certificate of deposit (maturing in 05 Mar. 2012)	240	3-mth HIBOR+0.37%	—	—
USD fixed rate Certificate of deposit (maturing in 30 Dec. 2013)	264	2.7%	—	—
HKD floating rate Certificate of deposit (maturing in 23 Mar. 2012)	236	3-mth HIBOR+0.41%	—	—
HKD fixed rate Certificate of deposit (maturing in 26 Apr. 2013)	344	2%	—	—
USD floating rate Certificate of deposit (maturing in 29 Apr. 2011)	339	3-mth LIBOR+0.4%	—	—
HKD floating rate Certificate of deposit (maturing in 05 May 2012)	262	3-mth HIBOR+0.43%	—	—
Others (amount below RMB200 million)	2,739		2,653	
<b>Total</b>	<b>7,078</b>		<b>6,355</b>	

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 25 DUE TO CUSTOMERS

	30 June 2010	31 December 2009
Corporate current deposits	991,074	865,097
Corporate time deposits	840,919	693,745
Individual current deposits	341,858	313,835
Individual time deposits	524,608	492,355
Other deposits	4,472	7,023
	2,702,931	2,372,055
Including:		
Pledged deposits held as collateral	288,248	235,060

### 26 OTHER LIABILITIES

	30 June 2010	31 December 2009
Interest payable	28,238	25,156
Settlement accounts	29,116	13,660
Transferred loan liabilities	1,971	2,157
Dividends payable	110	67
Staff benefits payable	3,975	4,744
Business and other tax payable	1,897	1,807
Provision for unsettled obligation	181	202
Provision for outstanding litigation	451	451
Deposits received for finance leases	924	800
Insurance reserve	1,087	32
Others	5,131	4,273
	73,081	53,349

### 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 2010 (For period ended 30 June 2009: 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 period ended 30 June 2009: 16.5%) for transactions in Hong Kong.

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

	Six months ended 30 June	
	2010	2009 Restated
Balance at beginning of the period	5,786	4,131
Debit to income tax	(33)	(244)
Available-for-sale securities — fair value remeasurement	(83)	151
Balance at end of the period	5,670	4,038

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 27 DEFERRED INCOME TAXES (Continued)

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

	30 June 2010	31 December 2009
<b>Deferred income tax liabilities</b>		
Available-for-sale securities	(439)	(354)
Other temporary differences	(1,200)	(989)
	(1,639)	(1,343)
<b>Deferred income tax assets</b>		
Impairment allowances for loans	5,174	5,092
Impairment allowances for investments	355	327
Impairment of other assets	435	518
Unpaid salaries and bonuses	607	721
Retirement sub-pension payable	142	143
Outstanding litigation and compensation	158	163
Available-for-sale securities	5	3
Other temporary differences	433	162
	7,309	7,129
<b>Net deferred income tax assets</b>	<b>5,670</b>	<b>5,786</b>

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

	30 June 2010	31 December 2009
Deferred income tax assets	5,704	5,821
Deferred income tax liabilities	(34)	(35)

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

	Six months ended 30 June	
	2010	2009 Restated
Impairment allowances for loans:		
Additional impairment allowances for loans	482	643
Utilization	(400)	(367)
Sub-total	82	276
Impairment allowances for investments	28	(61)
Impairment of other assets	(83)	(3)
Outstanding litigation and compensation	(5)	(6)
Unpaid salaries and bonuses	(114)	(147)
Sub-pension insurance payables	(1)	(2)
Other temporary differences	60	(301)
	(33)	(244)

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 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 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 the reporting date, the maturity dates of which approximate to the terms of the Group's obligations. Actuarial gains and losses, changes in actuarial assumptions and amendments to pension plan are charged or credited to the statement of comprehensive income as they occur. 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.

Employees who retire after 1 January 2009 can voluntarily participate in an Annuity Plan. The Bank contributes to the Annuity Plan based on certain percentage of the employees' gross salary and recognised in the statement of comprehensive income as incurred.

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	
	2010	2009
Expenses incurred for retirement benefit plans	500	418
Expenses/(gains) incurred for supplementary retirement benefits	13	(1)
Expenses incurred for corporate annuity plan	123	—
Total	636	417

	30 June 2010	31 December 2009
Statement of financial position obligations for:		
— Pension benefits	567	572

	Six months ended 30 June	
	2010	2009
Statement of comprehensive income charge for:		
— Pension benefits	13	(1)

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 28 RETIREMENT BENEFIT OBLIGATIONS (Continued)

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

	30 June 2010	31 December 2009
Present value of unsettled obligations	567	572
Unrecognised actuarial losses	—	—
Unrecognised past service cost	—	—
Liability in the statement of financial position	567	572

Movements in the defined obligation over the period are as follows:

	Six months ended 30 June	
	2010	2009
Beginning of the period	572	636
Retirement benefit paid	(18)	(19)
Current service cost	—	—
Interest cost	11	11
Net actuarial losses/(gains)	2	(12)
Past service cost	—	—
End of the period	567	616

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

	Six months ended 30 June	
	2010	2009
Current service cost	—	—
Interest cost	11	11
Net actuarial losses/(gains) recognised during the period	2	(12)
Past service cost	—	—
Total, included in staff costs	13	(1)

The principal actuarial assumptions used are as follows:

	30 June 2010	31 December 2009
Discount rate	3.88%	4.08%
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 translate into an average life expectancy in years of a pensioner retiring at age 60 for male and 55 for female:

	30 June 2010	31 December 2009
Male	22.20	22.20
Female	29.52	29.52

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 29 DEBTS ISSUED

	30 June 2010	31 December 2009
Fixed rate subordinated debt — 2022 (a)	16,000	16,000
Fixed rate subordinated debt — 2017 (a)	9,000	9,000
Fixed rate debt (b)	3,000	3,000
Fixed rate subordinated debt — 2019 (c)	11,500	11,500
Fixed rate subordinated debt — 2024 (c)	13,500	13,500
	53,000	53,000

- (a) The Group issued subordinated notes amounting to RMB25 billion between March 6 and March 8, 2007 in the inter-bank market of the PRC:

The first type of subordinated notes, which was in the principal amount of RMB16 billion with a maturity of 15 years, has a fixed coupon rate of 4.13% for the first ten years, paid annually. The Group has an option to redeem these notes at face value on 8 March 2017. If the Group does not exercise this redemption option, these notes will bear interest at a fixed rate of interest of the original coupon rate plus 3% for the remaining five years.

The second type of subordinated notes, which was in the principal amount of RMB9 billion with a maturity of 10 years, bears interest at a rate of 3.73% for the first five years, paid annually. The Group has an option to redeem these notes at face value on 8 March 2012. If the Group does not exercise this redemption option, these notes will bear interest at a fixed rate of interest of the original coupon rate plus 3% for the remaining five years.

- (b) On 29 July 2008, the Group issued a RMB3 billion term debt, which has maturity of two years and bears interest at the annual rate of 3.25%, in Hong Kong.

- (c) The Group issued subordinated notes amounting to RMB25 billion between 1 July and 3 July 2009 in the inter-bank market of the PRC:

The first type of subordinated notes, which was in the principal amount of RMB11.5 billion with a maturity of 10 years, bears interest at a rate of 3.28% for the first five years, paid annually. The Group has an option to redeem these notes at face value on 3 July 2014. If the Group does not exercise this redemption option, these notes will bear interest at a fixed rate of interest of the original coupon rate plus 3% for the remaining five years.

The second type of subordinated notes, which was in the principal amount of RMB13.5 billion with a maturity of 15 years, bears interest at a rate of 4.00% for the first ten years, paid annually. The Group has an option to redeem these notes at face value on 3 July 2019. If the Group does not exercise this redemption option, these notes will bear interest at a fixed rate of interest of the original coupon rate plus 3% for the remaining five years.

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 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 2010	48,994	48,994	44,404	93,398
Issue of shares <sup>(1)</sup>	3,806	3,806	13,319	17,125
Issuance cost	—	—	(125)	(125)
Acquisition of non-controlling Interest	—	—	(29)	(29)
At 30 June 2010	52,800	52,800	57,569	110,369

1: On 22 June 2010, a total of 3,806 million Renminbi ordinary shares ('A shares') were subscribed by various third parties at a price of RMB4.50 per share with a total consideration of RMB17.125 billion. The excess over par value of RMB13.194 billion was included in capital surplus after the issuance cost of RMB125 million was netted off against capital surplus.

On 16 July 2010, the Group completed the rights issue of 3,459,670,220 H shares on the basis of 1.5 H rights shares for every 10 existing H shares according to the H share issuance announcement and rights issue prospectus. The face value of the shares was 1.00 RMB per H right share and the offering price was HK\$5.14 per H right shares payable in full on acceptance.

The shareholding structures of the Group as at 30 June 2010 are as follow:

	Number of shares (in millions)	Approximated percentage of the Bank's issued share capital
Domestic Shares in issue	29,736	56.32%
H shares offered under the Global Offering and converted from Domestic Shares	23,064	43.68%
Total number of shares	52,800	100.00%

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

- (a) share premium arising from the issue of shares at prices in excess of their par value;
- (b) donations received from shareholders; and
- (c) 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.

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 30 SHARE CAPITAL AND CAPITAL SURPLUS (Continued)

As at 30 June 2010 the Group's capital surplus is listed as follow:

	As at 1 January 2010	Addition	Disposal	As at 30 June 2010
Share premium	43,761	13,194	—	56,955
Property revaluation gain designated by MOF	472	—	—	472
Donation of non-cash assets	145	—	—	145
Acquisition of non-controlling interest	—	—	(29)	(29)
Others	26	—	—	26
Total	44,404	13,194	(29)	57,569

### 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 General Meeting.

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 this reserve represents 50% of the share capital of the Bank.

Pursuant to the PRC banking regulations, the Bank is required to transfer a certain amount of its net income to the statutory general reserve through its profit appropriation. It is determined based on the degree of overall unidentified loss exposure, normally no lower than 1% of the ending balance of risk assets. The statutory general reserve is an integral part of equity interest but not subject to dividend distribution. Such statutory general reserve is recognised in the statement of financial position upon approval by the shareholders at the General Meeting. Regulatory reserve of the Hong Kong branch required by the 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 is recognised in the statement of financial position upon approval by the shareholders at the General Meeting.

On 30 March 2010, the Directors proposed the following profit appropriation, which is approved by the shareholders at the General Meeting on 20 April 2010:

	2009
Statutory reserve	2,956
Statutory general reserve	5,506
Discretionary reserve	15,285
	23,747



## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 32 DIVIDENDS

	Six months ended 30 June	
	2010	2009
Paid to shareholders of the Bank in the period	4,901	3,657

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:

- Making up cumulative losses from prior years, if any;
- Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under PRC accounting regulations;
- Allocations to statutory general reserve;
- Allocations to the discretionary revenue reserve fund if approved by the Bank's General Meeting. These funds form part of the shareholders' equity.

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

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

At 31 December 2009, the aggregate amount of distributable profit was RMB28,646 million (after interim profit distribution of RMB0.10 per share), being the distributable profit determined in accordance with PRC GAAP (2008: IFRS). On 30 March 2010, the directors proposed a cash dividend of RMB0.10 per share (2008: RMB0.10), amounting to RMB4,899 million (2008: RMB4,899 million), which was approved by shareholders on 20 April 2010.

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

### 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 has committed to extend to customers:

	30 June 2010	31 December 2009
Guarantees	208,927	177,357
Letters of credit	41,114	37,452
Acceptances	297,096	233,871
Other commitments with an original maturity of		
– Under 1 year	174,605	137,773
– 1 year and over	22,460	26,931
	744,202	613,384

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

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

#### Capital expenditure commitments

	30 June 2010	31 December 2009
Capital expenditure commitments for buildings	597	394

#### Operating lease commitments

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

	30 June 2010	31 December 2009
Not later than 1 year	1,219	1,086
Later than 1 year and not later than 5 years	3,121	2,738
Later than 5 years	1,107	1,118
	5,447	4,942

#### Commitments on security underwriting and bond acceptance

	30 June 2010	31 December 2009
Outstanding balance on security underwriting	50,387	49,317
Outstanding balance on bond acceptance (a)	25,556	23,622

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

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

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

#### Legal proceedings

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

	30 June 2010	31 December 2009
Outstanding claims	1,353	1,379
Provision for outstanding litigation	451	451

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

(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 2010	31 December 2009	30 June 2010	31 December 2009
Trading securities	243	19	231	—
Investment securities	13,899	18,722	11,999	17,430
Loans	2,804	4,163	2,804	4,471
	16,946	22,904	15,034	21,901

The Group accepts collateral that it is permitted to sell or repledge in connection with its reverse repurchase agreements. As at 30 June 2010, the fair value of such collateral accepted by the Group amounted to RMB3,100 million (2009: RMB700 million). As at 30 June 2010 and 31 December 2009, the Group didn't sell or re-pledge such collateral received. These transactions are conducted under standard and normal business terms.

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

	30 June 2010	31 December 2009
Financial guarantees and credit related commitments	213,678	195,763

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 credit related commitments.

### 36 OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD

Six months ended 30 June 2010	Before tax amount	Tax (expense) benefit	Net of tax amount
<b>Other comprehensive income</b>			
Available-for-sale securities	300	(83)	217
Changes in fair value taken to equity	547	(146)	401
Changes in fair value transferred to net profit	(247)	63	(184)
Translation difference on foreign operations	(181)	—	(181)
<b>Other comprehensive income for the period</b>	119	(83)	36
Six months ended 30 June 2009	Before tax amount	Tax (expense) benefit	Net of tax amount
<b>Other comprehensive loss</b>			
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	69	—	69
<b>Other comprehensive loss for the period</b>	(584)	151	(433)

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 37 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

#### (a) Analysis of changes in financing during the period

	Dividends	Share capital	Capital surplus	Non-controlling interest	Term debt (including interest payable)
At 1 January 2010	67	48,994	44,404	577	54,316
Non-controlling interest comprehensive income/					
Interest expense on debt issued	—	—	—	36	993
Accrual of dividends	4,952	—	—	(53)	—
Dividends paid to shareholders of the Bank/Payment of interest	(4,901)	—	—	—	(1,046)
Dividends paid to non-controlling interest	(8)	—	—	—	—
Capital contribution by non-controlling interest	—	—	—	186	—
Non-controlling interest in subsidiaries acquired	—	—	—	72	—
Acquisition of non-controlling interest in a subsidiary	—	—	(29)	(16)	—
A share rights issue	—	3,806	13,319	—	—
Issuance cost payable	—	—	(120)	—	—
Issuance cost paid	—	—	(5)	—	—
At 30 June 2010	110	52,800	57,569	802	54,263
At 1 January 2009	130	48,994	44,407	433	41,265
Non-controlling interest comprehensive income/					
Interest expense on debt issued	—	—	—	89	941
Dividends	4,899	—	—	—	—
Net cash outflow from financing	(3,657)	—	—	—	(1,045)
At 30 June 2009	1,372	48,994	44,407	522	41,161

#### (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 2010	31 December 2009
Cash and balances with central banks (Note 15)	97,766	100,461
Due from other banks and financial institutions (Note 16(a))	31,728	68,037
	129,494	168,498

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 38 BUSINESS COMBINATION

#### BoComm Life Insurance Company Limited

On 27 January 2010, the Bank acquired 51% interest of China Life-CMG Life Assurance Company Ltd. (the “Acquired Company”) by RMB196 million from China Life Insurance Company Limited. China Life-CMG Life Assurance Company Ltd. was an insurance company operating life insurance, health insurance and accident insurance business in Shanghai. After the business combination, the Acquired Company was renamed BoComm Life Insurance Company Limited.

The details of the fair value of the assets and liabilities acquired and goodwill arising as at 27 January 2010 are as follows:

	Fair value	Acquiree's carrying amount
Due from other banks and financial institutions	520	520
Investment securities — available-for-sale	543	543
Other assets	36	36
Insurance reserve	(788)	(788)
Other payables	(165)	(165)
Net assets	146	146
Fair value of net assets acquired (51%)	74	74
Goodwill	122	
Total purchase consideration paid by cash	196	
Less: cash and cash equivalents in subsidiary acquired	23	
Net Cash outflow on acquisition	173	

The goodwill is attributable to the significant synergies expected to arise after the Bank's acquisition. Fair value of assets and liabilities acquired were based on discounted cash flow models.

There was no provision required in connection with this acquisition.

On 9 February 2010, the Bank signed the agreement to acquire 11.5% interest of BoComm Life Insurance Company Limited by RMB44.6085 million from Colonial Mutual Life Assurance Society Limited. The transaction was completed on 11 June 2010. In the consolidated financial statements, the difference between acquisition price and the fair value of identifiable net assets was recognized in capital surplus.

On 21 June 2010, BoComm Life Insurance Company Limited increased its share capital by RMB300 million. The Bank contributed RMB187.5 million which accounted for 62.5% of the increased capital.

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 39 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

As at 30 June 2010, The MOF holds 14,471 million shares of the bank which represents 27.41% of total share capital of the Bank. 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, outstanding balances at the period end, and related income for the period are as follows:

##### Treasury bonds

	Six months ended 30 June	
	2010	2009
Purchase from MOF during the period	24,810	49,054
Redemption to MOF during the period	(22,941)	(19,311)
Interest income	3,324	2,943

	30 June 2010	31 December 2009
Outstanding balance of treasury bonds at beginning of the period	197,976	173,825
Outstanding balance of treasury bonds at end of the period	218,287	197,976
Period range of the bonds	9 months–30 years	3 months–30 years
Interest rate range of the bonds	0.89%–6.34%	0.89%–6.34%

##### Deposits

	30 June 2010	31 December 2009
Time Deposits	24,950	16,340
Period range of the deposits	3 months–6 months	3 months–12 months
Interest rate range of the deposits	2.92%–4.2%	1.98%–2.16%

##### Interest expense

	Six months ended 30 June	
	2010	2009
Interest expense	262	55

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 39 RELATED PARTY TRANSACTIONS (Continued)

#### (b) Transactions with National Council for Social Security Fund

The Group enters into banking transactions with National Council for Social Security Fund in the normal course of business. The main business is deposits, which are carried out under commercial terms and at market rates.

The volumes of related party transactions, outstanding balances at the period end, and related expenses for the period are as follows:

##### *Due to customers*

	Six months ended 30 June	
	2010	2009
Outstanding balance at beginning of the period	13,350	13,033
Deposited during the period	902	28,565
Repaid during the period	(1,219)	(23,170)
Outstanding balance at end of the period	13,033	18,428
Interest expense	354	364

#### (c) Transactions with The Hong Kong and Shanghai Banking Corporation Limited

As at 30 June 2010, The Hong Kong and Shanghai Banking Corporation Limited ('HSBC') holds 9,115 million shares of the bank which represents 17.26% of total share capital of the Bank. Transactions between the Group and HSBC are mainly banking transactions under commercial terms and at market rates. Details of transaction volumes since the above share acquisition are set out below:

##### (i) *Due from HSBC*

	Six months ended 30 June	
	2010	2009
Outstanding at beginning of the period	238	799
Granted during the period	333,629	138,580
Repaid during the period	(333,025)	(137,524)
Outstanding at end of the period	842	1,855
Interest income	10	16

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 39 RELATED PARTY TRANSACTIONS (Continued)

#### (c) Transactions with The Hong Kong and Shanghai Banking Corporation Limited

(Continued)

##### (ii) Due to HSBC

	Six months ended 30 June	
	2010	2009
Outstanding at beginning of the period	3,214	389
Deposited during the period	51,496	30,447
Repaid during the period	(47,052)	(28,188)
Outstanding at end of the period	7,658	2,648
Interest expense	14	7

##### (iii) Investment securities issued by HSBC

	Six months ended 30 June	
	2010	2009
Interest income	9	4

	30 June 2010	31 December 2009
Outstanding balance	2,054	1,088

##### (iv) Unsettled derivative transactions

	30 June 2010	31 December 2009
Unsettled derivative transactions notional amount	48,380	34,775
Fair value	(48)	(68)



## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 39 RELATED PARTY TRANSACTIONS (Continued)

#### (d) 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. The volumes of related party transactions during each of the period ended 30 June 2010 and 2009, outstanding balances at the reporting date are as follows:

##### (i) Loans

	Six months ended 30 June	
	2010	2009
Outstanding at beginning of the period	126	187
Granted during the period	71	19
Repaid during the period	—	(2)
Outstanding at end of the period	197	204

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

##### (ii) Deposits

	Six months ended 30 June	
	2010	2009
Outstanding at beginning of the period	109	39
Deposited during the period	79	188
Repaid during the period	(18)	(40)
Outstanding at end of the period	170	187

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 40 SEGMENTAL ANALYSIS

The Group's senior management reviewed the Group's operation by the particular economic areas in which the Group's branches and subsidiaries provide products or services. The Group's operating segments are decided upon location of the assets, as the Group's branches mainly serve local customers.

The reportable operating segments derive their revenue primarily from the commercial banking services provided to customers and 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, Shannxi, 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.

	Head Office	Northern China	North-eastern China	Eastern China	Central & Southern China	Western China	Overseas	Eliminations	Group Total
<b>Six months ended 30 June 2010</b>									
External income	18,450	11,107	2,884	25,170	11,529	5,243	2,275	—	76,658
Inter-segment income	728	2,722	906	3,572	2,428	797	94	(11,247)	—
<b>Total income</b>	<b>19,178</b>	<b>13,829</b>	<b>3,790</b>	<b>28,742</b>	<b>13,957</b>	<b>6,040</b>	<b>2,369</b>	<b>(11,247)</b>	<b>76,658</b>
<b>Net profit</b>	<b>4,206</b>	<b>1,790</b>	<b>527</b>	<b>7,303</b>	<b>4,032</b>	<b>1,779</b>	<b>791</b>	<b>—</b>	<b>20,428</b>

	Head Office	Northern China	North-eastern China	Eastern China	Central & Southern China	Western China	Overseas	Eliminations	Group Total
<b>Six months ended 30 June 2009</b>									
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)	—
<b>Total income</b>	<b>16,296</b>	<b>12,661</b>	<b>3,386</b>	<b>23,189</b>	<b>11,153</b>	<b>4,477</b>	<b>2,378</b>	<b>(9,805)</b>	<b>63,735</b>
<b>Net profit (Restated)</b>	<b>4,301</b>	<b>2,485</b>	<b>331</b>	<b>4,937</b>	<b>1,701</b>	<b>1,115</b>	<b>835</b>	<b>—</b>	<b>15,705</b>

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 41 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. The Group also grants entrusted loans on behalf of third-party lenders, which are not included in the financial statements.

	As at 30 June 2010	As at 31 December 2009
Investment custody accounts	556,780	623,158
Wealth Management	75,658	46,348
Entrusted loans	115,428	117,312

### 42 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.

	On Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Total
<b>As at 30 June 2010</b>								
<b>Assets</b>								
Cash and balances with central banks	494,687	—	—	—	—	—	—	494,687
Due from other banks and financial institutions	18,390	136,189	69,910	37,887	440	900	13	263,729
Financial assets at fair value through profit or loss	—	981	883	10,331	27,227	5,561	—	44,983
Loans and advances to customers	—	131,136	200,260	650,373	589,850	446,434	11,687	2,029,740
Investment securities								
— loans and receivables	—	6,006	27,137	32,856	11,687	2,375	—	80,061
— available-for-sale	—	15,276	14,810	31,744	65,349	24,848	—	152,027
— held-to-maturity	—	9,633	8,971	76,282	302,203	155,963	—	553,052
Other assets, including deferred income tax assets	16,394	14,845	1,183	5,363	15,947	37,181	87	91,000
<b>Total assets</b>	529,471	314,066	323,154	844,836	1,012,703	673,262	11,787	3,709,279
<b>Liabilities</b>								
Due to other banks and financial institution	(186,817)	(101,702)	(27,464)	(82,859)	(232,822)	(35,950)	—	(667,614)
Financial liabilities at fair value through profit or loss	—	(486)	(2,034)	(1,778)	(6,215)	(652)	—	(11,165)
Due to customers	(1,339,574)	(413,586)	(273,095)	(553,688)	(122,988)	—	—	(2,702,931)
Other liabilities, including deferred tax liabilities	(37,364)	(1,989)	(29,395)	(5,720)	(24,061)	(31,890)	—	(130,419)
<b>Total liabilities</b>	(1,563,755)	(517,763)	(331,988)	(644,045)	(386,086)	(68,492)	—	(3,512,129)
<b>Net liquidity gap</b>	(1,034,284)	(203,697)	(8,834)	200,791	626,617	604,770	11,787	197,150

## Notes to the Unaudited Condensed Consolidated Interim Financial Information (Continued)

For the six months ended 30 June 2010

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

### 42 LIQUIDITY RISK (Continued)

	On Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Total
<b>As at 31 December 2009</b>								
<b>Assets</b>								
Cash and balances								
with central banks	434,996	—	—	—	—	—	—	434,996
Due from other banks and financial institutions	28,411	98,013	27,095	69,139	—	—	13	222,671
Financial assets at fair value through profit or loss	—	691	1,339	3,574	18,829	4,821	—	29,254
Loans and advances to customers	—	104,985	207,754	568,784	534,841	371,827	13,347	1,801,538
Investment securities								
— loans and receivables	—	10,575	19,512	64,940	10,502	2,075	—	107,604
— available-for-sale	—	2,125	3,926	42,662	61,983	21,398	—	132,094
— held-to-maturity	—	4,918	11,574	62,091	280,853	149,743	—	509,179
Other assets, including deferred income tax assets	2,845	14,018	1,272	5,430	13,178	33,786	1,272	71,801
<b>Total assets</b>	<b>466,252</b>	<b>235,325</b>	<b>272,472</b>	<b>816,620</b>	<b>920,186</b>	<b>583,650</b>	<b>14,632</b>	<b>3,309,137</b>
<b>Liabilities</b>								
Due to other banks and financial institution	(275,051)	(83,591)	(100,000)	(83,860)	(108,270)	(2,400)	—	(653,172)
Financial liabilities at fair value through profit or loss	—	(105)	(191)	(3,920)	(4,315)	(844)	—	(9,375)
Due to customers	(1,156,980)	(369,548)	(254,380)	(479,933)	(111,214)	—	—	(2,372,055)
Other liabilities, including deferred tax liabilities	(21,702)	(176)	(26,113)	(7,683)	(22,433)	(32,003)	—	(110,110)
<b>Total liabilities</b>	<b>(1,453,733)</b>	<b>(453,420)</b>	<b>(380,684)</b>	<b>(575,396)</b>	<b>(246,232)</b>	<b>(35,247)</b>	<b>—</b>	<b>(3,144,712)</b>
<b>Net liquidity gap</b>	<b>(987,481)</b>	<b>(218,095)</b>	<b>(108,212)</b>	<b>241,224</b>	<b>673,954</b>	<b>548,403</b>	<b>14,632</b>	<b>164,425</b>

### 43 RECLASSIFICATION OF COMPARATIVE FIGURES

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

### 44 SUBSEQUENT EVENTS

On 16 July 2010, the Group completed the rights issue of H shares on the basis of 1.5 H rights shares for every 10 existing H shares. Please refer to Note 30 for the detailed information.

# Supplementary Unaudited Financial Information

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

Capital Adequacy Ratios	110
Liquidity Ratios	111
Currency Concentrations	111
Cross-border Claims	112
Overdue and Rescheduled Assets	113
Segmental Information of Loans	114
Loans and Advances to Customers	115

## Supplementary Unaudited Financial Information (Continued)

(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 summarizes the composition of regulatory capital and the ratios of the Group that submitted to the Regulators as at 30 June 2010 and 31 December 2009:

	30 June 2010	31 December 2009
Core capital:		
Paid up ordinary share capital	52,800	48,994
Capital surplus	50,668	37,374
Reserves	42,586	42,486
Retained earnings	46,260	25,057
Non-controlling interest	641	578
	192,955	154,489
Supplementary capital:		
Impairment allowances for impaired assets and regulatory reserves	20,747	24,005
Subordinated term debt	50,000	50,000
Others	3,984	3,818
	74,731	77,823
Gross value of supplementary capital	74,731	77,823
Eligible value of supplementary capital	74,731	77,823
Total capital base before deductions	267,686	232,312
Deductions:		
Goodwill	(200)	(200)
Unconsolidated investments in financial institutions	(1,011)	(727)
Investments in enterprises	(377)	(422)
Subordinated debts issued by other banks	(4,530)	(4,530)
	(6,118)	(5,879)
Total capital base after deductions	261,568	226,433
Risk-weighted assets:		
On-statement risk-weighted assets	1,896,728	1,653,589
Off-statement risk-weighted assets	213,677	195,763
Total risk-weighted assets	2,110,405	1,849,352
Market risk capital	3,096	3,014
Capital adequacy ratio	12.17%	12.00%
Core capital adequacy ratio	8.94%	8.15%

## Supplementary Unaudited Financial Information (Continued)

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

### 2 LIQUIDITY RATIOS

The capital adequacy ratio that the Bank submitted to the Regulators is calculated in accordance with the formula promulgated by CBRC.

	30 June 2010	31 December 2009
Liquidity ratios:	28.90%	27.83%

### 3 CURRENCY CONCENTRATIONS

As at 30 June 2010	US Dollars	HK Dollars	Others	Total
Spot assets	207,444	64,086	28,356	299,886
Spot liabilities	(160,396)	(83,211)	(34,798)	(278,405)
Forward purchases	197,249	26,534	25,275	249,058
Forward sales	(219,853)	(10,014)	(20,449)	(250,316)
Net long/(short) position	24,444	(2,605)	(1,616)	20,223
Net structural position	5,435	4,100	1,192	10,727
As at 31 December 2009	US Dollars	HK Dollars	Others	Total
Spot assets	166,295	75,253	29,500	271,048
Spot liabilities	(138,891)	(79,626)	(30,557)	(249,074)
Forward purchases	168,778	17,043	22,131	207,952
Forward sales	(176,634)	(15,474)	(16,809)	(208,917)
Net long/(short) position	19,548	(2,804)	4,265	21,009
Net structural position	5,465	4,053	1,312	10,830

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 fixed assets and premises, net of depreciation charges;
- Capital and statutory reserves of overseas branches;
- Investments in overseas subsidiaries and related companies; and
- Loan capital.

## Supplementary Unaudited Financial Information (Continued)

(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 country 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.

	Bank and other financial institutions	Public sector entities	Others	Total
<b>As at 30 June 2010</b>				
Asia Pacific excluding Mainland China	25,975	3,728	43,957	73,660
— of which attributed to Hong Kong	8,089	2,607	33,470	44,166
North and South America	12,731	277	8,434	21,442
Africa	540	—	—	540
Europe	17,012	1,017	2,356	20,385
	56,258	5,022	54,747	116,027

	Bank and other financial institutions	Public sector entities	Others	Total
<b>As at 31 December 2009</b>				
Asia Pacific excluding Mainland China	38,216	4,802	44,948	87,966
— of which attributed to Hong Kong	19,976	2,578	36,390	58,944
North and South America	12,609	275	11,424	24,308
Africa	596	—	—	596
Europe	25,542	1,216	916	27,674
	76,963	6,293	57,288	140,544



## Supplementary Unaudited Financial Information (Continued)

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

### 5 OVERDUE AND RESCHEDULED ASSETS

#### (a) Gross amount of overdue loans

	30 June 2010	31 December 2009
Gross advances to customers which have been overdue for:		
– within 3 months	5,359	4,753
– between 3 and 6 months	1,469	2,605
– between 6 and 12 months	2,235	3,910
– over 12 months	14,084	14,675
	23,147	25,943
Percentage:		
– within 3 months	0.26%	0.26%
– between 3 and 6 months	0.07%	0.14%
– between 6 and 12 months	0.11%	0.21%
– over 12 months	0.68%	0.80%
	1.12%	1.41%
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	13	13
	13	13
Percentage:		
– within 3 months	–	–
– between 3 and 6 months	–	–
– between 6 and 12 months	–	–
– over 12 months	0.01%	0.01%
	0.01%	0.01%

\* Included in the gross overdue advances to customers as at 30 June 2010, there are trade bills which have been overdue for:

	30 June 2010
– within 3 months	1
– between 3 and 6 months	–
– between 6 and 12 months	–
– over 12 months	178
	179

## Supplementary Unaudited Financial Information (Continued)

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

### 5 OVERDUE AND RESCHEDULED ASSETS (Continued)

#### (b) Overdue and rescheduled loans

	30 June 2010	31 December 2009
Total rescheduled loans and advances to customers	3,804	3,396
Including: rescheduled loans and advances to customers overdue above 3 months	1,584	1,951
Percentage of rescheduled loans and advances to customers overdue above 3 months in total loans	0.08%	0.11%

### 6 SEGMENTAL INFORMATION OF LOANS

#### (a) Impaired loans by geographical area

	30 June 2010		31 December 2009	
	Impaired loan	Specific provision	Impaired loan	Specific provision
Domestic regions				
– Northern China	4,059	(2,140)	3,692	(2,325)
– North-eastern China	2,961	(1,660)	2,711	(1,718)
– Eastern China	8,623	(4,868)	8,888	(5,274)
– Central & Southern China	6,874	(3,408)	6,800	(3,764)
– Western China	2,431	(1,354)	2,383	(1,562)
Hong Kong, Macao and overseas countries	24,948	(13,430)	24,474	(14,643)
	385	(271)	535	(355)
	25,333	(13,701)	25,009	(14,998)

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

	30 June 2010			31 December 2009		
	Overdue loan	Specific provision	Collective provision	Overdue loan	Specific provision	Collective provision
Domestic regions						
– Northern China	4,069	(1,955)	(10)	4,822	(2,218)	(20)
– North-eastern China	2,599	(1,432)	(6)	2,746	(1,474)	(2)
– Eastern China	7,959	(4,124)	(22)	8,914	(4,566)	(10)
– Central & Southern China	5,116	(2,389)	(28)	5,861	(2,716)	(4)
– Western China	2,504	(1,229)	(5)	2,775	(1,376)	(8)
Hong Kong, Macao and overseas countries	22,247	(11,129)	(71)	25,118	(12,350)	(44)
	900	(257)	(3)	825	(191)	(11)
	23,147	(11,386)	(74)	25,943	(12,541)	(55)
Fair value of collateral	15,601			16,057		

## Supplementary Unaudited Financial Information (Continued)

(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 2010			31 December 2009		
		%	Amount covered by collaterals		%	Amount covered by collaterals
<i>HK:</i>						
Corporate loans						
Manufacturing						
– Petroleum and chemical	4,327	5	82	2,261	3	53
– Electronics	1,018	1	28	574	1	32
– Steel smelting and processing	–	–	–	–	–	–
– Machinery	430	–	–	432	1	–
– Textile	368	–	80	160	–	70
– Other manufacturing	3,179	3	137	2,787	4	127
Wholesale and retail	31,413	33	1,397	10,842	17	1,146
Financial institutions	10,603	11	863	9,422	14	496
Real estate	10,552	11	8,810	9,536	15	7,832
Construction	5,300	6	757	4,881	8	1,145
Transportation	4,994	5	946	3,830	6	689
Energy and mining	519	1	–	146	–	–
IT and telecommunication service	518	1	–	245	–	–
Services	447	–	447	450	1	450
Accommodation and catering	327	–	69	300	–	44
Electricity	174	–	–	515	1	–
Utilities	142	–	–	144	–	–
Recreation and entertainment	2	–	–	–	–	–
Others	6,242	7	187	4,626	7	319
Discounted bills	16	–	–	–	–	–
Corporate loans total	80,571	84	13,803	51,151	78	12,403
Mortgage loans	9,471	10	9,466	9,517	15	9,511
Short-term working capital loans	100	–	80	107	–	79
Credit card advances	79	–	–	154	–	–
Medium-term and long-term working capital loans	–	–	–	–	–	–
Car loans	–	–	–	–	–	–
Loans secured by deposits	–	–	–	–	–	–
Others	5,207	6	5,134	4,656	7	4,569
Individual loans total	14,857	16	14,680	14,434	22	14,159
Gross amount of loans and advances before allowance for impairment	95,428	100	28,483	65,585	100	26,562
<i>Outside HK:</i>	1,975,140			1,773,729		

## Supplementary Unaudited Financial Information (Continued)

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

### 7 LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

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 44% as the period ended 30 June 2010(2009: 39%).

#### (b) Provision on loans and advances by loan usage

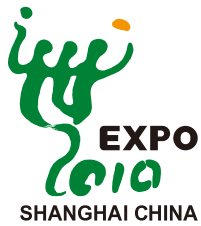
	30 June 2010		31 December 2009	
	Individually assessed provision	Specific provision	Individually assessed provision	Specific provision
Corporate	22,872	(12,257)	21,869	(13,027)
Individual	2,461	(1,444)	3,140	(1,971)
	25,333	(13,701)	25,009	(14,998)
<b>Fair value of collateral</b>	7,485	N/A	7,372	N/A

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:

	2010			2009		
	New provisions	Loans written off as uncollectible	Recoveries of advances written off in previous years	New provisions	Loans written off as uncollectible	Recoveries of advances written off in previous years
Corporate	4,495	(1,281)	(73)	3,862	(2,020)	(11)
Individual	852	(704)	(2)	667	(16)	—
	5,347	(1,985)	(75)	4,529	(2,036)	(11)





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