

2011 INTERIM REPORT

Stock Code: 03328





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Financial Highlights

The major interim financial data and indicators of the Bank of Communications Co., Ltd. (the “**Bank**”) and its subsidiaries (the “**Group**”) for the six months ended 30 June 2011 (the “**Reporting Period**”) prepared under the International Financial Reporting Standards (“**IFRS**”) are as follows:

	<i>(in millions of RMB, unless otherwise stated)</i>		
	As at 30 June 2011	As at 31 December 2010	Increase/ (decrease) (%)
Total assets	4,347,717	3,951,593	10.02
Includes: loans and advances to customers	2,433,056	2,236,927	8.77
Total liabilities	4,099,307	3,727,936	9.96
Includes: due to customers	3,157,975	2,867,847	10.12
Shareholders' equity (excluding non-controlling interests)	247,542	222,773	11.12
Net assets per share (excluding non-controlling interests, in RMB yuan)	4.40	3.96	11.11
	January to June 2011	January to June 2010	Increase/ (decrease) (%)
Net interest income	49,288	39,896	23.54
Profit before tax	33,992	26,151	29.98
Net profit (excluding non-controlling interests)	26,396	20,357	29.67
Basic earnings per share (RMB) (excluding non-controlling interests, in RMB yuan)	0.43	0.36	19.44
	As at 30 June 2011 (%)	As at 31 December 2010 (%)	Change (percentage point)
Return on average total assets ¹	1.27	1.08	0.19
Return on average shareholders' equity ²	22.45	20.20	2.25
Cost-to-income ratio ³	27.30	32.11	(4.81)
Impaired loans ratio ⁴	0.98	1.12	(0.14)
Provision coverage of impaired loans ⁵	213.89	185.84	28.05
Core capital adequacy ratio	9.41	9.37	0.04
Capital adequacy ratio	12.20	12.36	(0.16)

Notes:

1. 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.
2. Calculated by dividing annualised net profit (excluding non-controlling interests) of the Reporting Period by the average of shareholders' equity (excluding non-controlling interests) at the beginning and the end of the Reporting Period.
3. Refers to certain operating expenses as a percentage of certain net operating income.
4. Calculated by dividing the outstanding balance of impaired loans by the outstanding balance of loans and advances to customers before impairment allowances at the end of the Reporting Period.
5. Calculated by dividing the outstanding balance of impairment allowances by the outstanding balance of impaired loans at the end of the Reporting Period.

Corporate Information

LEGAL NAME

交通銀行股份有限公司

Bank of Communications Co., Ltd.

LEGAL REPRESENTATIVE

Hu Huaibang

SECRETARY TO THE BOARD

Du Jianglong

AUTHORISED REPRESENTATIVES IN ACCORDANCE WITH THE “LISTING RULES”

Qian Wenhui

Du Jianglong

COMPANY ADDRESS AND INVESTOR CONTACT

No. 188 Yin Cheng Zhong Road
Pudong New District, Shanghai, PRC
Postal Code: 200120
Tel: 86-21-58766688
Fax: 86-21-58798398
E-mail: investor@bankcomm.com
Website: www.bankcomm.com

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

NEWSPAPERS AND WEBSITES FOR INFORMATION DISCLOSURE

A shares: China Securities Journal,
Shanghai Securities News,
Securities Times
Website of the Shanghai Stock Exchange
<http://www.sse.com.cn>
H shares: HKExnews website of The Stock Exchange
of Hong Kong Limited
<http://www.hkexnews.hk>

PLACES WHERE THE INTERIM REPORT CAN BE OBTAINED:

Head Office of the Bank and principal business locations

AUDITORS

PRC: Deloitte Touche Tohmatsu CPA Ltd.
International: Deloitte Touche Tohmatsu

HONG KONG LEGAL ADVISER

DLA Piper

PRC LEGAL ADVISOR

King & Wood

SHARE REGISTRARS AND TRANSFER OFFICE

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 share: Place of Listing:
Shanghai Stock Exchange
Stock Name: Bank of Communications
Stock Code: 601328
H share: Place of Listing:
The Stock Exchange of Hong Kong Limited
Stock Name: BANKCOMM
Stock Code: 03328

Management Discussion and Analysis

(1) GROUP OPERATION OVERVIEW

In the first half of 2011, commercial banks faced an increasingly complex market environment. The world's overall economy was widely perceived to be on the track of gradual recovery, but the process has been volatile. The recovery of the major developed economies remained stagnant. The economy of China showed stable growth through effective macroeconomic policies. However, the current complex market conditions indicate that China still faces great challenges on how to balance the economic growth, structural adjustment and inflation management.

Faced with the increasing uncertainties in today's economy and financial market, the Group achieved good operating results and at the same time showed flexibility in responding to changes in the market by innovative management, transformation of its development model and enhancement of competitive advantages. At the end of the Reporting Period, the Group's total assets increased by 10.02% from the beginning of the year to RMB4,347,717 million. Net profits increased by 29.67% as compared with the corresponding period in the prior year to RMB26,396 million. Annualised average return on assets and annualised average return on shareholders' equity was 1.27% and 22.45% respectively, representing an increase of 0.19 and 2.25 percentage points respectively. Net interest spread and net interest margin increased by 9 basis points and 11 basis points respectively, as compared with the corresponding period in the prior year, to 2.45% and 2.54% respectively. The impaired loans ratio decreased by 0.14 percentage point to 0.98% as compared with the beginning of the year while the provision coverage ratio increased by 28.05 percentage points as compared with the beginning of the year to 213.89%. The Group's capital adequacy ratio and core capital adequacy ratio reached 12.20% and 9.41%, respectively, which are in compliance with regulations.

The Group once again made into the list of Fortune 500 Companies. Based on the operating income, the Group ranked No. 397, leaping forward by 43 from prior year level. In addition, the Group ranked No. 35 in terms of tier-one capital among the global top 1000 banks, moving 14 positions forward as compared with prior year. The Group also ranked No. 24 in terms of profit before tax by The Banker magazine, and No. 96 on the ranking of Forbes Global Enterprises 2000.

(2) BUSINESS REVIEW

Business Development — Steady Advancement

The Group proactively responded to dual challenges of national policy adjustments and market changes during the first half of 2011. Seizing new development opportunities, the Group accelerated its pace in business expansion, and achieved a comprehensive and balanced development. At the end of the Reporting Period, the Group's total assets increased by 10.02% from the beginning of the year to RMB4,347,717 million, while the credit portfolio showed a steady and balanced growth, with total outstanding balance of loans and advances to customer (before impairment allowances, same applies hereinafter unless otherwise stated) increased by 8.77% from the beginning of the year to RMB2,433,056 million. Customer deposits increased by 10.12% from the beginning of the year to RMB3,157,975 million and domestic assets-under-management (AUM) balance for individual customers increased by 9.99% from the beginning of the year to RMB1,449,148 million. During the Reporting Period, the financial market business has developed rapidly. The Bank had a total transaction volume reaching RMB5,856.8 billion

Management Discussion and Analysis (Continued)

in the interbank market, increased by 19% as compared with the corresponding period in the prior year. As for the interbank foreign exchange market, total transaction volume amounted to USD262.1 billion, ranking No. 3 among all market makers. Total transaction volume in the proprietary gold trading business increased by 57% as compared with the corresponding period in the prior year to 188.9 tons. In addition, the Bank was granted the gold import and export agency business qualification by the People's Bank of China. Net income from sales of precious metals increased by 62% as compared with the corresponding period in the prior year to RMB186 million. The Bank is one of the pioneering banks selected as a market maker for foreign exchange swap and forward transactions and a trading member of Renminbi to foreign exchange options in the interbank market. It ranked No. 4 among its peers as its accumulated volume of cross-border interbank receipts and payments amounted to RMB64,686 million, and the total offshore assets increased by 138.38% from the beginning of the year to USD5,342 million.

Operating Results: Good Performance

Benefiting from the continuous improvement of its business development capabilities, the Group had good operating results with significant increase in profitability. During the Reporting Period, the Group's net profits increased by 29.67% to RMB26,396 million.

On the one hand, the profit growth has been driven by net interest income growth resulting from increases in interest-bearing assets and the widening interest spread. During the Reporting Period, the Group's average interest-bearing assets increased by 18.19% or RMB596,707 million as compared with the corresponding period of the prior year. With the multiple increments in benchmark interest rates for deposits and loans by the People's Bank of China and the Bank's pricing management, net interest spread and net interest margin increased by 9 basis points and 11 basis points respectively, as compared with the corresponding period in the prior year to 2.45% and 2.54%. During the Reporting Period, the net interest income increased by 23.54% as compared with the corresponding period in the prior year to RMB49,288 million. On the other hand, the Bank was also successful in its business transformation front, with rapid increase in its fee-based business. Net fee and commission income increased by 40.97% as compared with the corresponding period of the prior year to RMB10,044 million, with the ratio of fee and commission income to net operating income increased by 1.77 percentage points to 16.15% as compared with the corresponding period in the prior year. Due to the continuous development of various investment banking services, the Group's income from investment banking activities increased by 74.93% as compared with the corresponding period in the prior year to RMB3,119 million. The Bank was also awarded "the Best Bank in Bond Underwriting" for three consecutive years. Because of the continuous effort in the growth in credit card business, total amount of issued credit cards increased by 2.8 million from the beginning of the year to 19.41 million, with accumulated spending volume increased by 52.6% to RMB152.6 billion. Annual fee and commission income generated from the bank card business increased by 32.33% as compared with the corresponding period in the prior year to RMB3,111 million. The Group dedicated itself towards better cost management and improved operating efficiency. Along with the rapid increase in net operating income. During the Reporting Period, although the Group's operating cost increased by 20.86% as compared with the corresponding period in the prior year to RMB16,650 million, the result was 4.66 percentage points lower than the increase in net operating income. The cost-to-income ratio also decreased by 1.05 percentage points as compared with the corresponding period in the prior year to 27.30%.

Management Discussion and Analysis (Continued)

Lending Structure: Continuous Optimisation

With an accelerated pace in economic transformation undertaken by the Chinese Government, the Group actively adapted to the macroeconomic policies and regulatory requirements. In particular, it enhanced the Group's credit policy framework and management process of the credit business, and made further progression in the optimisation of the lending structure. On the one hand, the Group made special efforts in growing its retail loan business and optimizing its loan customer structure. At the end of the Reporting Period, the increase in Renminbi loans to domestic individuals and small enterprise customers accounted for 57% of the total increase in loans, and the total loan balance made to individuals increased by 12.11% from the beginning of the year to RMB468,538 million, which is 3.34 percentage points higher than the increase rate of loans and advances to customers. The ratio of individual loan outstanding balance to total loan outstanding balance increased by 0.58 percentage point from the beginning of the year to 19.26%. On the other hand, the Group seized the opportunity of the current transformation stage of the economy and made further adjustment to its lending structure. Management made improvements to the Group's credit policies on industries, covering not only the majority of existing participated industries, but also areas with strong potential growth, especially the strategic emerging industries. The Group also implemented a special two-way quantitative management system, with a total increase of 9.62% in loans made to encouraged sectors of power generation, port and sea transportation. Meanwhile, the Group reduced total loans of RMB3.46 billion from the beginning of the year made to the highly polluting, energy-intensive sectors and sectors with redundant capacity, such as steel and cement. The Group also took measures on real estate loans such as using name-list management and balance control.

Risk Control: Comprehensive Enhancement

Since 2011, the complex macroeconomic situation causes higher requirements to commercial banks to improve their risk management. The Group continued to enhance its risk management framework, policies and procedures, by standardising the operating and decision-making process of the Enterprise Risk Management Committee at the Head Office and its subordinate institutions and completing the establishment of Enterprise Risk Management Committee at branch level. The Group also fully implemented new regulations on loans and enhanced its dynamic compliance monitoring. The Group made special emphasis on the development of long-term post-loan management system, including the improvement of post-loan management tools such as the site visit reports and the use of fund monitoring report. To actively prevent potential risks arising from changes in the external environment, the Group performs special reviews on lending to key industries and customers on a timely basis. During the Reporting Period, the Group effectively reduced loan with potential risks by RMB24.47 billion, 48.9% of which represents lending to real estate sector. This also effectively reduced the Group's non-performing loan portfolio by RMB4,354 million, 65.04% of which are settled in cash. The Group introduced new market risk management policies and limitation of maximum exposure. The Group also formulated cross-border and cross-industry risk management plans, and strengthened the country risk management system. In addition, the Group streamlined its process on the detection and management of operational risk events, carried out the risk identification and self-evaluation procedures, and enhanced the Bank's capability on special resolution and internal control monitoring, as well as the daily monitoring on fraud warning activities.

Management Discussion and Analysis (Continued)

The enhancement of enterprise risk management led to the continuing improvement in the quality of the Group's assets. At the end of the Reporting Period, the impaired loan balance decreased by RMB1,053 million or 4.21% from the beginning of the year to RMB23,935 million, while the impaired loan ratio declined by 0.14 percentage point to 0.98%. The provision coverage ratio increased by 28.05 percentage points from the beginning of the year to 213.89%.

Wealth Management: Customer-oriented Approach

The Group adhered to the "Customer-Oriented" principle, striving to diversify and differentiate products and services, providing a full range of wealth management programs, improving customer base, and optimising customer structure.

With regards to corporate wealth management business, the Group successfully held the "China Excellent Entrepreneurs Wealth Management Summit", building a new platform for communications between banks and enterprises. The Group also provided market information from a new perspective to its customers through the publication of BOCOM Wealth Management Prosperity Index. In addition, the Group initiated "BOCOM-HSBC 1+1 Global Financial Services" program, supporting customers to develop overseas markets together with HSBC. The Group endeavoured to promote supply chain financial service with innovative products and processes. The Bank established 38 financial network service teams for the supply chain of the automobile industry. During the Reporting Period, the number of corporate clients increased by approximately 61,400, with a total increase of 26.24% for mid-to-high-end corporate customers and the number of "Win to Fortune" cash management customers increased by 31.46% as compared with the corresponding period in the prior year.

With regards to individual wealth management business, the Group achieved new breakthroughs in product innovation. The Group launched pension service schemes, such as the annuity card and remuneration package plan, and exclusive products like "OTO e-loan" for high-end customers. Furthermore, the Group started the pilot project of "OTO services for small enterprises", providing an one-stop financial service to OTO customers for both personal financial matters and business needs. Several promotional activities were organised such as the OTO Wealth Expo, OTO 5th Anniversary and the Special Experience Season for OTO customers. Our Hong Kong Branch also commenced its private banking service operation from both the domestic and foreign sides. At the end of the Reporting Period, the number of private banking clients and OTO clients increased by 16.29% and 17.84% respectively from the beginning of the year.

Management Innovation: High Effectiveness

The Group persistently and successfully promoted management innovation, with the aim to enhance its capabilities in bank management and customer services. Innovative efforts were made in several areas, such as the operating system, products and technology, framework, processes and service management.

Management Discussion and Analysis (Continued)

The Group established a platform to monitor innovations throughout the whole process that includes the collection of creative ideas, business assessment, integration of needs, project development and the post-project review. The Group also optimised its business processes and introduced the top 10 codes of conduct that are most critical to attain customer satisfaction. The Group also developed key performance indicators and implementation plans for the “Five First’s” in counter services, which is very effective in efficiency improvement of customer service. In addition, the Group optimised electronic service channels for account opening, corporate finance, mobile financing, online banking, and the OTO exclusive services. The Group also introduced innovative electronic banking, with online features that allow for account opening, account management, investment management, financing payment and online payment. Moreover, new options such as the OTO Express, family housekeeper, mobile banking financial director channel, mobile banking securities trading, one-button online payment options have been introduced, expanding the use of “e-Mobile BOCOM” on smart mobile phones and tablet computers. The Group also modified its process in issuing bank bills, self-service card-issuance, self-service bills application for corporate customers and the self-service receipt printing. Furthermore, the Group actively promoted the centralization of the clearing and settlement processes of the bills, and successfully centralised processing of bank card application, bank card making and account opening.

Channel Structure: Efficient Coordination

The Group continuously perfected its “3-in-1” customer service network, which integrate the inter-dependent, comprehensive and three-dimensional customer service channels of banking outlets, e-banking and account managers. With regards to outlets, the Bank accelerated the construction of its global service network and continued to promote the process in universal banking platform buildup, with the establishment of the Universal Committee and the International Development Committee and to effectively promote synergy of the service channels. The Bank initiated the founding of the Bank of Tibet as a strategic investor, and established the Shihezi BOCOM Rural Bank. The Ho Chi Minh City Branch officially commenced its operation and the San Francisco Branch received the approval of operation from the Federal Reserve Bank of the United States. The United Kingdom subsidiary was officially granted a banking license in July 2011. The Sydney branch is in the final stage of its application. With regards to electronic banking, the Bank has invested heavily in self-service outlets and self-service equipments, with 1,321 new self-service machines put into service during the Reporting Period. Furthermore, the Bank enriched the features of automated machines, introduced new innovative banking solutions, such as the self-service card-issuing machines, self-service bill-issuing machines, self-pass and mobile banking and etc. The Bank has also made its first online marketing attempt to further expand its marketing channels, and promoted company image. During the Reporting Period, total self-service banking transactions reached RMB402,856 million, representing an increase of 32.41% as compared with the corresponding period in the prior year. The usage ratio of electronic banking also increased 7.39 percentage points from the beginning of the year to 64.56%. The Bank strived to improve the service quality and capability of the account managers, through optimising their performance measurement and motivation practices, and implementing a new online performance appraisal system, which ultimately enhanced the evaluation tools to support the Bank’s performance management system.

Management Discussion and Analysis (Continued)

(3) FINANCIAL STATEMENT ANALYSIS

1. Income Statement Analysis

(1) Profit before tax

During the Reporting Period, the Group's profit before tax increased by RMB7,841 million or 29.98% as compared with the corresponding period in the prior year to RMB33,992 million. Profit before tax was derived mainly from net interest income, and net fee and commission income.

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

	<i>(in millions of RMB)</i>	
	For the six months ended 30 June	
	2011	2010
Net interest income	49,288	39,896
Net fee and commission income	10,044	7,125
Impairment losses on loans and advances to customers	(5,807)	(5,272)
Profit before tax	33,992	26,151

(2) Net interest income

During the Reporting Period, the Group's net interest income reached RMB49,288 million, representing an increase of RMB9,392 million as compared with the corresponding period in the prior year. This accounted for 79.27% of the Group's net operating income and was the most significant component of the Group's operating income.

Management Discussion and Analysis (Continued)

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-bearing assets and interest-bearing liabilities during the periods indicated:

	For the six months ended 30 June 2011			For the six months ended 30 June 2010		
	Average balance	Interest income/ (expense)	Annualised average yield/(cost) ratio (%)	Average balance	Interest income/ (expense)	Annualised average yield/(cost) ratio (%)
<i>(in millions of RMB unless otherwise stated)</i>						
ASSETS						
Balances with central banks	567,694	4,342	1.53	432,198	3,209	1.48
Due from other banks and financial institutions	195,740	3,329	3.40	209,774	1,871	1.78
Loans and advances to customers and receivables	2,362,704	67,555	5.72	1,959,888	49,246	5.03
Includes: Corporate loans and receivables	1,864,326	53,145	5.70	1,513,821	38,809	5.13
Individual loans	412,443	12,068	5.85	315,791	8,525	5.40
Discounted bills	85,935	2,342	5.45	130,276	1,912	2.94
Investment securities	798,886	12,858	3.22	740,045	11,507	3.11
Total interest-bearing assets	3,877,476 ³	87,137 ³	4.49	3,280,769 ³	65,343 ³	3.98
Total non-interest-bearing assets	178,228			150,383		
TOTAL ASSETS	4,055,704³			3,431,152³		
LIABILITIES AND SHAREHOLDER'S EQUITY						
Due to customers	2,876,281	23,262	1.62	2,443,005	16,178	1.32
Includes: Corporate deposits	1,946,872	16,416	1.69	1,615,307	10,488	1.30
Individual deposits	929,409	6,846	1.47	827,698	5,690	1.37
Due to other banks and financial institutions	814,133	14,480	3.56	697,540	8,734	2.50
Debt securities issued and others	65,095	1,054	3.24	59,865	1,025	3.42
Total interest-bearing liabilities	3,707,961 ³	37,849 ³	2.04	3,139,274 ³	25,447 ³	1.62
Shareholders' equity and total non-interest-bearing liabilities	347,743			291,878		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,055,704³			3,431,152³		
Net interest income		49,288			39,896	
Net interest spread¹			2.45³			2.36³
Net interest margin²			2.54³			2.43³
Net interest spread¹			2.53⁴			2.43⁴
Net interest margin²			2.61⁴			2.50⁴

Management Discussion and Analysis (Continued)

Notes:

1. This ratio represents the difference between the average annualised yield on total interest-bearing assets and the annualised average cost of total interest-bearing liabilities;
2. This ratio represents the annualised net interest income to total average interest-bearing assets;
3. This eliminates the impact of wealth management products;
4. This eliminates the impact of wealth management products and takes into account the tax exemption on the interest income from investments in government bonds.

During the Reporting Period, the Group achieved a steady increase by a small margin in its interest spread. Net interest spread and net interest margin increased by 9 and 11 basis points as compared with the corresponding period in prior year to 2.45% and 2.54% respectively, and increased by 6 and 8 basis points respectively, from the prior year's annualised basis. The overall increases in net interest spread and net interest margin were mainly due to the following reasons:

- (1) Since the fourth quarter of 2010, the People's Bank of China has raised the benchmark deposit and lending rates several times which caused increases in interest rates during the Reporting Period.
- (2) Significant increase in pricing capabilities. During the Reporting Period, the proportion of new RMB loans above benchmark interest rates increased by over 20 percentage points as compared with prior year to 53.2%.
- (3) Further optimisation of asset and liability structure. With regards to assets, the proportion of average loans and advances to customers and receivable balances (after impairment allowances) to the average total interest-bearing asset balances increased by 1.19 percentage points to 60.93% as compared with the corresponding period in the prior year.

Management Discussion and Analysis (Continued)

The table below shows the impact 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-bearing assets and interest-bearing liabilities during the periods indicated.

	<i>(in millions of RMB)</i>		
	Comparison between January to June 2011 and January to June 2010 Increase/(decrease) due to		
	Balance	Interest rate	Net increase/ (decrease)
Interest-bearing assets			
Balances with central banks	1,003	130	1,133
Due from other banks and financial institutions	(125)	1,583	1,458
Loans and advances to customers and receivables	10,131	8,178	18,309
Investment securities	915	436	1,351
Changes in interest income	11,924	10,327	22,251
Interest-bearing liabilities			
Due to customers	2,860	4,224	7,084
Due to other banks and financial institutions	1,457	4,289	5,746
Debt securities issued and others	89	(60)	29
Changes in interest expense	4,406	8,453	12,859
Changes in net interest income	7,518	1,874	9,392

During the Reporting Period, the Group's net interest income increased by RMB9,392 million as compared with the corresponding period in the prior year, in which changes in the average balances of interest-bearing assets and interest-bearing liabilities caused the net interest income to increase by RMB7,518 million, while changes in average return and average cost rates caused the net interest income to increase by RMB1,874 million.

(i) Interest income

During the Reporting Period, the Group's net interest income increased by RMB22,251 million or 33.80% as compared with the corresponding period in the prior year to RMB88,084 million.

a) *Interest income from loans and advances to customers and receivables*

Interest income from loans and advances to customers and receivables contributed most of the Group's interest income. During the Reporting Period, interest income from loans and advances to customers and receivables increased by RMB18,309 million or 37.18% as compared with the corresponding period in the prior year to RMB67,555 million, which was largely due to the increase in loans and advances to customers and receivables, as well as the average lending rates.

Management Discussion and Analysis (Continued)

b) *Interest income from investment securities*

During the Reporting Period, interest income from investment securities increased by RMB1,351 million or 11.74% as compared with the corresponding period in the prior year to RMB12,858 million. The Group constantly strengthened its forward-looking research function, managed to seize favorable investment opportunities and optimised its investment structure. This, in turn, helped to maintain the return on investment securities at a relatively high level of 3.22%.

c) *Interest income from balances with central banks*

Balances with central banks mainly include balances in statutory reserves and in excess statutory reserves. During the Reporting Period, due to the increase in average balances with central banks by RMB135,496 million or 31.35%, interest income from balances with central banks reached RMB4,342 million, representing an increase of RMB1,133 million as compared with the corresponding period in the prior year. The growth of the statutory reserve was primarily caused by two factors: increase in customer deposits, and multiple upward revisions of the statutory reserve ratio set by the People's Bank of China during the second half of year 2010.

d) *Interest income from other banks and financial institutions*

Total interest income from due from other banks and financial institutions increased by RMB1,458 million to RMB3,329 million in the current period. This was mainly driven by the gradual increases in interest rates. Meanwhile, the average interest rate in respect of interest income from other banks and financial institutions increased by 162 basis points as compared with the corresponding period in the prior year.

(ii) Interest expense

During the Reporting Period, the Group's interest expense increased by RMB12,859 million or 49.58% as compared with the corresponding period in the prior year to RMB38,796 million.

a) *Interest expense due to customers*

Customer deposits are the Group's main source of funding. During the Reporting Period, interest expense on customer deposits increased by RMB7,084 million, or 43.79% as compared with the corresponding period in prior year to RMB23,262 million. This accounted for 59.96% of total interest expense. The increase in interest expense on customer deposits was due to the increase in the scale of customer deposits and the multiple increases in benchmark deposit interest rates by the People's Bank of China since the fourth quarter of 2010.

Management Discussion and Analysis (Continued)

b) *Interest expense due to other banks and financial institutions*

During the Reporting Period, interest expense on amounts due to other banks and financial institutions increased by RMB5,746 million or 65.79% as compared to the corresponding period in the prior year to RMB14,480 million. This was due to a 16.71% increase in average balance of amounts due to other banks and financial institutions as compared with the corresponding period in the prior year. At the same time, the average cost of funding increased by 106 basis points as compared with the corresponding period in the prior year due to the increase in interest rates in the domestic money market.

c) *Interest expense from debt securities issued and others*

During the Reporting Period, interest expense from debt securities issued and other interest expense increased by RMB29 million as compared with the corresponding period in the prior year to RMB1,054 million. The average cost of funding had decreased from 3.42% to 3.24% in the current period.

(3) Net fee and commission income

Net fee and commission income is a major component of the Group's net operating income. During the Reporting Period, the Group continuously accelerated the transformation of its profit-making model, promoted the development, quality and efficiency of fee-based business, and moved towards a business model with diversified revenue streams and optimised revenue structure. During the Reporting Period, the Group's net fee and commission income increased by RMB2,919 million or 40.97% as compared with the corresponding period in the prior year to RMB10,044 million, representing 16.15% of net operating income and an increase of 1.77 percentage points as compared with the corresponding period in the prior year. The investment banking services, bank card businesses, settlement and agent services have been the main growth areas for the Group's fee-based business.

Management Discussion and Analysis (Continued)

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

	<i>(in millions of RMB)</i>	
	For the six months ended	
	30 June	
	2011	2010
Investment banking income	3,119	1,783
Fee income on settlement and agent services	2,062	1,633
Bank card related fee income	3,111	2,351
Guarantee and commitment fee income	820	616
Commission income on custodian service	398	336
Commission income on sales of investment funds	286	323
Funds management fee income	302	386
Other fee and commission income	1,245	882
Total fee and commission income	11,343	8,310
Less: Fee and commission expense	(1,299)	(1,185)
Net fee and commission income	10,044	7,125

Investment banking income increased by RMB1,336 million or 74.93% as compared with the corresponding period in the prior year to RMB3,119 million. The increase was mainly due to the relatively rapid growth in the various types of investment banking services.

Fee income on settlement and agent services increased by RMB429 million or 26.27% as compared with the corresponding period in the prior year to RMB2,062 million.

Bank card related fee income increased by RMB760 million or 32.33% as compared with the corresponding period in the prior year to RMB3,111 million. The increase was mainly due to the increases in card issuance and spending volume, as well as higher transaction volume at self-service machines.

Guarantee and commitment fee income increased by RMB204 million or 33.12% as compared with the corresponding period in the prior year to RMB820 million. The increase was mainly due to increased non-financing related guarantee and loan commitment businesses.

Commission income on custodian services increased by RMB62 million as compared with the corresponding period in the prior year to RMB398 million. The increase was mainly due to the increase in the amounts of assets held in custody.

Management Discussion and Analysis (Continued)

Commission income on sales of investment funds and fund management fee income decreased by RMB37 million and RMB84 million respectively as compared with the corresponding period in the prior year to RMB286 million and RMB302 million respectively. This decrease was mainly due to the decrease in fund sales and fund management scale as a result of the downturn in the capital market.

(4) *Operating costs*

The Group continued to strengthen its cost management system, with enhancement of operational efficiency. During the Reporting Period, the Group's operating costs increased by RMB2,874 million or 20.86% as compared with the corresponding period in the prior year to RMB16,650 million. The increase in operating cost was lower than the increase in net operating income. The cost-to-income ratio was 27.30%, representing a decrease of 1.05 percentage points as compared with the corresponding period in the prior year.

(5) *Impairment losses on loans and advances to customers*

During the Reporting Period, the Group's impairment losses on loans and advances to customers increased by RMB535 million as compared with the corresponding period in the prior year to RMB5,807 million. During the Reporting Period, the credit cost ratio decreased by 0.03 percentage point as compared with the corresponding period in the prior year to 0.48%.

(6) *Income tax*

During the Reporting Period, the Group's income tax expense increased by RMB1,821 million or 31.82% as compared with the corresponding period in the prior year to RMB7,544 million. The actual tax rate was 22.19%, which was lower than the statutory tax rate of 25%. This was due to tax exemption pursuant to relevant tax provisions on interest income from government bonds held by the Group.

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

	<i>(in millions of RMB)</i>	
	For the six months ended	
	30 June	
	2011	2010
Current tax expense	7,372	5,690
Deferred tax expense	172	33

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 increased by RMB396,124 million or 10.02% from the beginning of the year to RMB4,347,717 million.

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

	<i>(in millions of RMB unless otherwise stated)</i>			
	30 June 2011		31 December 2010	
	Balance	Proportion (%)	Balance	Proportion (%)
Loans and advances to customers	2,381,861	54.78	2,190,490	55.43
Investment securities	813,237	18.70	809,820	20.49
Cash and balances with central banks	657,510	15.12	586,554	14.84
Due from other banks and financial institutions	374,555	8.61	262,976	6.65
Total assets	4,347,717		3,951,593	

a) Loans and advances to customers

During the Reporting Period, the Group exercised sound control on its credit disbursements by balancing the volume, direction and momentum of its lending activity, thereby achieving steady growth in loan balances. At the end of the Reporting Period, the Group's total outstanding loans and advances balance to customers increased by RMB196,129 million or 8.77% from the beginning of the year to RMB2,433,056 million, of which domestic Renminbi loans increased by RMB149,785 million or 7.49%.

Loan concentration by industries

During the Reporting Period, the Group vigorously supported the upgrading of industrial structure and the development of economy in China, as well as continued to optimise the Group's business structure.

Management Discussion and Analysis (Continued)

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

	30 June 2011		31 December 2010	
	Balance	Proportion (%)	Balance	Proportion (%)
Mining	46,443	1.91	40,223	1.80
Manufacturing				
– Petroleum and chemical	106,797	4.39	93,525	4.18
– Electronics	50,157	2.06	44,993	2.01
– Steel	44,006	1.81	45,568	2.04
– Machinery	81,881	3.37	68,911	3.08
– Textile and clothing	32,714	1.34	29,560	1.32
– Other manufacturing	177,363	7.29	155,663	6.96
Electricity, gas and water production and supply	144,299	5.93	138,707	6.20
Construction	77,087	3.17	68,337	3.05
Transportation, storage and postal service	316,829	13.02	307,422	13.74
Telecommunication, IT service and software	9,131	0.38	9,618	0.43
Wholesale and retail	267,325	10.99	214,588	9.59
Accommodation and catering	18,867	0.78	15,746	0.70
Financial institutions	25,611	1.05	37,108	1.66
Real estate	150,276	6.18	142,868	6.39
Services	151,666	6.23	131,496	5.88
Water conservancy, environmental and other public services	158,012	6.49	163,992	7.33
Education	31,902	1.31	30,192	1.35
Others	27,283	1.11	23,411	1.06
Discounted bills	46,869	1.93	57,074	2.55
Total corporate loans	1,964,518	80.74	1,819,002	81.32
Mortgage loans	297,298	12.22	268,240	11.99
Credit card advances	51,374	2.11	43,561	1.95
Medium-term and long-term working capital loans	47,602	1.96	31,616	1.41
Short-term working capital loans	39,259	1.61	28,740	1.28
Car loans	6,688	0.27	6,607	0.30
Others	26,317	1.09	39,161	1.75
Total individual loans	468,538	19.26	417,925	18.68
Gross amount of loans and advances to customers before impairment allowance	2,433,056	100.00	2,236,927	100.00

Management Discussion and Analysis (Continued)

At the end of the Reporting Period, the Group's corporate outstanding loan balance increased by RMB145,516 million or 8.00% from the beginning of the year to RMB1,964,518 million. The top four industries were manufacturing, transportation, storage and postal service, wholesale and retail, and water conservancy, environmental and other public services, which collectively accounted for 62.87% of total corporate loans.

At the end of the Reporting Period, individual outstanding loan balance increased by RMB50,613 million or 12.11% from the beginning of the year to RMB468,538 million. The proportion of individual loans as a percentage of total loans and advances to customers increased by 0.58 percentage point from the end of the prior year to 19.26%.

Loan concentration by borrowers

At the end of the Reporting Period, the Group's largest loan to a single borrower accounted for 2.68% of the Group's net capital base and loans made to the top 10 borrowers accounted for 19.64% of the Group's net capital base which meets the regulatory requirements.

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

		<i>(in millions of RMB unless otherwise stated)</i>	
		30 June 2011	
		Outstanding	Percentage of
		loan balance	total loans and
Type of industry			advances
			(%)
Customer A	Real estate	8,600	0.35
Customer B	Transportation, storage and postal service	7,474	0.31
Customer C	Transportation, storage and postal service	7,080	0.29
Customer D	Transportation, storage and postal service	6,890	0.28
Customer E	Transportation, storage and postal service	6,326	0.26
Customer F	Services	5,730	0.24
Customer G	Transportation, storage and postal service	5,603	0.23
Customer H	Water conservancy, environmental and other public services	5,270	0.22
Customer I	Transportation, storage and postal service	5,010	0.21
Customer J	Electricity, gas and water production and supply	5,000	0.20
Total of top 10 customers		62,983	2.59

Management Discussion and Analysis (Continued)

Loan concentration by geographical locations

The Group's credit customers are mainly concentrated in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta. At the end of the Reporting Period, loans and advances to customers in these three regions accounted for 32.26%, 22.32% and 8.03% of the Group's total outstanding loans and advances respectively, increasing from the beginning of the year by 10.69%, 3.37%, and 6.57% respectively.

Loan quality

The Group continuously improved the quality of its loans. At the end of the Reporting Period, the impaired loans ratio decreased by 0.14 percentage point from the beginning of the year to 0.98%. The Group's risk mitigation capability was further enhanced as the provision coverage of impaired loans increased by 28.05 percentage points to 213.89%.

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

	<i>(in millions of RMB unless otherwise stated)</i>	
	30 June 2011	31 December 2010
Individually assessed impaired loans	23,935	24,988
Loans overdue by more than 90 days	15,875	16,297
Individually assessed impaired loans to loans and advances to customers (%)	0.98	1.12

Loan customer structure

At the end of the Reporting Period, based on the result of the internal ratings-based assessment, loans and advances to corporate customers with credit ratings of class 1 to class 8 at domestic branches decreased by 0.15 percentage point from the beginning of the year to 91.95% of total loans and advances to customers; Loans and advances to corporate customers of class 9 to class 12 increased by 0.72 percentage point from the beginning of the year to 5.78% of total loans and advances to customers; Loans to corporate customers of class 13 to class 15 decreased by 0.15 percentage point from the beginning of the year to 1.21% of total loans and advances to customers.

b) Investment securities

At the end of the Reporting Period, the Group's outstanding balance of investment securities increased by RMB3,417 million or 0.42% from the beginning of the year to RMB813,237 million. Due to effective investment allocation and continuous optimisation of its investment structure, returns on investment securities reached a satisfactory level of 3.22%.

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 financial asset classification and by different types of issuers as of the dates indicated:

— By financial assets classification:

	<i>(in millions of RMB unless otherwise stated)</i>			
	30 June 2011		31 December 2010	
	Balance	Proportion (%)	Balance	Proportion (%)
Financial assets at fair value through profit or loss	41,596	5.11	41,312	5.10
Investment securities				
— loans and receivables	18,364	2.26	42,617	5.26
Investment securities				
— available-for-sale	196,498	24.16	162,170	20.03
Investment securities				
— held-to-maturity	556,779	68.47	563,721	69.61
Total	813,237	100.00	809,820	100.00

— By type of issuers:

	<i>(in millions of RMB unless otherwise stated)</i>			
	30 June 2011		31 December 2010	
	Balance	Proportion (%)	Balance	Proportion (%)
Central governments and central banks	298,473	36.70	309,198	38.18
Public sector entities	16,553	2.04	17,131	2.11
Banks and other financial institutions	293,851	36.13	266,805	32.95
Corporate entities	204,360	25.13	216,686	26.76
Total	813,237	100.00	809,820	100.00

Management Discussion and Analysis (Continued)

(2) Liabilities

At the end of the Reporting Period, the Group's total liabilities increased by RMB371,371 million or 9.96% from the beginning of the year to RMB4,099,307 million.

Customer deposits

Customer deposits is the main source of funding for the Group. At the end of the Reporting Period, the Group's customer deposit balance increased by RMB290,128 million or 10.12% from the beginning of the year to RMB3,157,975 million. With respect to the Group customer structure, the proportion of corporate deposits increased by 0.62 percentage point from the beginning of the year to 68.79%. The proportion of individual deposits to total deposits decreased by 0.55 percentage point from the beginning of the year to 31.05%. As for deposit terms, the proportion of demand deposits to total deposits decreased by 1.28 percentage points from the beginning of the year to 49.28% of total deposits, while the proportion of time deposits increased by 1.35 percentage points from the beginning of the year to 50.56%.

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

	<i>(in millions of RMB)</i>	
	30 June 2011	31 December 2010
Corporate deposits	2,172,254	1,954,936
Includes: Corporate demand deposits	1,145,020	1,064,528
Corporate time deposits	1,027,234	890,408
Individual deposits	980,584	906,301
Includes: Individual demand deposits	411,304	385,449
Individual time deposits	569,280	520,852

Management Discussion and Analysis (Continued)

3. Segmental Analysis

(a) Operating results by geographical segments

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

	<i>(in millions of RMB)</i>			
	For the six months ended 30 June			
	2011		2010	
	Profit before tax	Total income ¹	Profit before tax	Total income ¹
Northern China ²	2,467	18,034	2,404	13,829
North Eastern China ³	1,246	5,216	712	3,790
Eastern China ⁴	11,934	38,269	9,818	28,742
Central and Southern China ⁵	7,304	18,636	5,422	13,957
Western China ⁶	3,361	8,076	2,384	6,040
Overseas ⁷	1,315	3,679	902	2,369
Head Office	6,365	23,396	4,509	19,178
Eliminations		(13,034)		(11,247)
Total⁸	33,992	102,272	26,151	76,658

Notes:

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

Management Discussion and Analysis (Continued)

(b) Deposits and loans and advances by geographical segments

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

	30 June 2011		31 December 2010	
	Deposit Balance	Loans and advances balance	Deposit balance	Loans and advances balance
Northern China	570,945	429,832	549,157	422,830
North Eastern China	219,237	121,283	199,400	110,034
Eastern China ^{Note}	1,246,402	960,765	1,108,096	880,314
Central and Southern China	645,957	453,839	587,970	424,785
Western China	299,455	223,624	267,576	206,079
Overseas	174,704	184,642	125,187	147,128
Head Office	1,275	59,071	30,461	45,757
Total	3,157,975	2,433,056	2,867,847	2,236,927

Note: Excluding Head Office.

(c) Operating results by business segments

The Group's four main business segments are: corporate banking, retail banking, treasury operations and other businesses. The corporate banking segment is the primary source of income for the Group, and accounted for 66.92% of the Group's total net interest income.

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

	For the six months ended 30 June 2011				Total
	Corporate banking	Retail banking	Treasury operations	Other businesses	
Net interest income/(expenses) from external customers	28,127	5,121	15,926	114	49,288
Net interest income/(expenses) from internal customers	4,858	5,145	(10,003)	—	—
Net interest income	32,985	10,266	5,923	114	49,288

Management Discussion and Analysis (Continued)

(4) RISK MANAGEMENT

In the first half year of 2011, the Bank maintained its “positive, stable and balanced” risk appetite. To further improve the bank-wide risk management system, the Bank optimised the organisational structure, strengthened the coordination of departments, created new tools and methodologies, and improved management efficiency. As such, the potential risks are well-controlled, and the asset quality has remained stable.

1) Risk Management Framework

The Board of Directors of the Bank (the “Board”) has the ultimate responsibility and decision-making authority for the Group’s risk management. The Board monitors and controls the bank-wide risk management matters through its Risk Management Committee. An Enterprise Risk Management Committee was established by senior management, is responsible for the bank-wide risk management practice, which includes regular risk assessments and review of the risk management effectiveness. Three special risk committees have been established under the Enterprise Risk Management Committee. They are the Credit Risk Management Committee, Market and Liquidity Risk Management Committee, Operational Risk Management and Anti-money Laundering Management Committee. Two business review committees have also been established: the Loan Review Committee and the High-risk Asset Review Committee. The relationship between the Enterprise Risk Management Committee and other committees is clearly defined as leadership and execution, as well as guidance and reporting. The responsibility of carrying out the overall risk management practices is divided among the Bank’s President, Executive Vice President and the Chief Risk Officer. Following the risk strategy of full coverage of the business operation, the Bank refined the structure and responsibilities of the so called “1+3+2” risk management system, and aimed to build a system that is strong, comprehensive, standardised, well-coordinated and efficient. During the Reporting Period, the Bank took advantage of the platform offered by the “1+3+2” risk management system and established a mechanism that includes the communication and coordination among departments, the discussion and decision-making process of significant events, and the execution and implementation of important tasks.

The Bank has established a fairly good execution system and reporting line for its risk management. The establishment of a risk management unit, which organizes and coordinates the entire Bank’s risk management practice and provides consolidated reporting, has helped to consolidate the Bank’s risk management capabilities. Through the vertical reporting lines, the Risk Management Committee mobilises the subordinate departments at all organisation levels, in order to implement the Bank’s risk management strategy. By formalising its “large middle office and small middle office” and the dual reporting mechanisms, the Bank has established a risk management system that consists of four lines of defense and a risk matrix structure.

Management Discussion and Analysis (Continued)

2) Credit Risk Management

The various departments of the Bank, such as the Corporate Business Department, Retail Credit Management Department, Credit Administration Department, Credit Approval Centre, Risk Management Department, Credit Card Centre and Asset Custody Department, collectively form the main functional departments responsible for the Bank's credit risk management. They are also responsible for formalising the business activities of the Bank's corporate and retail lending, including lending direction, credit assessment, credit approval, loan disbursements, post-loan monitoring and non-performing loans management.

a) Risk classification procedures and methodology

The Bank has implemented a classification system that categorises loans according to their inherent risk as pass, special-mention, substandard, doubtful and loss with the last three categories regarded as non-performing loans in accordance with the "Guidelines on Loan Risk Rating" issued by the CBRC. For corporate credit assets, the Bank has relied on the core regulatory definition as a basis to assess internal ratings and its individually assessed impairment allowances. This has enabled the Bank to define stringent risk characteristics and quantification in greater details, and standardise the dimension of this five category classification systems. This has also helped to ensure sufficient consideration is given to the various factors affecting credit asset quality and also guaranteed prudent practice in risk classification. For retail credit assets (including credit cards), the Bank has uniformly adopted a five category system based on the aging of overdue credit assets and type of guarantee provided.

To further enhance the fine-grained management of its credit asset, the Bank has adopted the internal ratings-based approach recommended by the New Basel Capital Accord and established a standard classification based on the probability of default (PD). This has enabled the Bank to develop a more detailed internal credit risk assessment process for internal ratings of corporation, small enterprise, individual and credit card customers and the related lending portfolio.

b) Risk management and control policies

In line with the national economic transformation during the 12th Five-Year Plan development period, the Bank made revision to credit policies and diligently implemented on its lending portfolio restructuring by industries and by geographical areas. The Bank ensured that the growth rate of loans in the agricultural sector, rural areas and farmers, small enterprises and the mid-western region of the country will not fall behind the average growth in the loan portfolio, while maintaining the dominant positions of lending made to industries of transportation, infrastructure construction, advanced manufacturing, and energy and electricity within the Bank.

Management Discussion and Analysis (Continued)

The quality of assets improved steadily, with achievements made in the development of more precise measures on lending to key areas and the stronger risk management capabilities on both the potential and existing risk exposures. The Bank focused on improving its daily practice on post-loan management through the enhancement of the various post-loan management tools, such as the site visit report and the fund use monitoring report. The Bank fully implemented the supervisory regulations requirements on repayments of medium and long-term loans, with the Head Office taking direct control of key branches. As a result, the ratio of entrusted payment increased significantly. The Bank worked actively to manage the potential risk exposures arising from external changes, through stronger risk identification and prevention measures covering emergent events and key business areas.

The Bank enhanced its management on specialised market and operational retail business, through the new policies on requirements of credit assess and annual review on institutional customers who provide financial guarantee services and the continuous optimisation on post-loan credit management on retail lending. As such, the asset quality on individual loans continued to improve. The Bank also recognises the importance of building a professional team of experts responsible for the specialised underwriting of retail loans by introducing an accreditation system that includes a qualification test for retail lending professionals.

The Bank utilises an independent Credit Card Centre responsible for the operation and management of its credit card business. Under the theme of risk mitigation and control, the Bank's Credit Card aims to strike a balance between risk and return, while focusing on the profitability of its asset portfolio. During the Reporting Period, the Center closely monitored and controlled its risk through numerous practice and innovation efforts, as well as the systematisation and automation of the risk monitoring process and the enhanced precision in data collection and analysis. This effectively improved the quality and presentation of the supporting data and charts and promoted efficiency in risk management.

The Bank made special efforts in the recovery of non-performing assets and doubtful projects, by focusing on key branches and key projects, and through its "watch list" monitoring system. With cash settlement as the preferred recovery method, the Bank took full use of other means, which include loan restructuring, taking possession of collaterals and loan write-offs. The Bank further improved its collection practice for retail lending, by building a centralised, information-based and standardised risk-resolving platform in Head Office. As such, the Bank effectively enhanced its credit risk management capabilities, by taking early actions on potential risks through risk prevention and mitigation measures.

Management Discussion and Analysis (Continued)

c) Asset quality and migration status

As at 30 June 2011, the breakdown of the Group's five-loan categories as stipulated by the Chinese banking regulatory authorities is as follows:

Categories	30 June 2011		31 December 2010		Increase or decrease (percentage points)
	Balance	Proportion (%)	Balance	Proportion (%)	
Pass	2,347,466	96.49	2,149,629	96.10	0.39
Special mention	61,655	2.53	62,310	2.78	(0.25)
Total performing loan balance	2,409,121	99.02	2,211,939	98.88	0.14
Substandard	10,150	0.41	10,592	0.47	(0.06)
Doubtful	9,511	0.39	9,930	0.45	(0.06)
Loss	4,274	0.18	4,466	0.20	(0.02)
Total non-performing loan balance	23,935	0.98	24,988	1.12	(0.14)
Total	2,433,056	100.00	2,236,927	100.00	

As at 30 June 2011, the Group's loan migration rates in accordance with guidelines stipulated by the Chinese banking regulatory authorities are as follows:

Loan migration rate (%)	First half of 2011	2010	2009
Pass	1.11	1.60	1.96
Special mention	2.79	35.69	24.22
Substandard	11.38	45.93	36.46
Doubtful	8.15	30.11	5.46

3) Market Risk Management

The Bank successfully implemented a centralised control framework for its market risk management. The Asset Liability Management Department takes the lead in the Bank's market risk management, while business units such as Financial Markets Department and domestic and overseas branches are the execution units of the Bank's market risk management policies. The Risk Management Department and the Audit Department are responsible for the independent verification of the market risk assessment models and management system, as well as the internal audit of the Bank.

Management Discussion and Analysis (Continued)

During the Reporting Period, the Bank continued to develop its market risk management system, through restructuring its market risk management framework, consolidating the risk management for both the trading and banking book, and scientifically integrating resources. With the consideration of the Bank's existing risk management operation and the regulatory trend on more prudent practices, the Bank further clarified the management model of small and large middle offices, as well as the reporting lines and the roles and responsibilities of the treasury business line and risk management functions within the operational framework. The Bank was able to effectively strengthen its operational process, market risk management and internal control system through appropriate addition or amendment to its existing system and operational procedures, revision of governance structure, and the use of new risk measurement tools.

a) Market risk management for trading book

The Bank adopts the historical stimulation method on the value-at-risk (VaR) model in assessing and monitoring the interest rate risk and foreign currency risk of the trading book.

During the Reporting Period, in line with its market risk management strategy and for the first time, the Bank was able to quantify its risk appetite by developing a full set of indicators on market risk capital and VaR limits, according to its risk appetite and scale of business operation. The middle offices both at the Head Office level and within the business departments are responsible for the independent monitoring of risk limits. When the risk indicators approach limits, the Bank normally takes the actions of modifying the term, currency and the composition of assets and liabilities, to effectively reduce the exposures on interest rate and currency risks to a level that is acceptable to the Bank.

b) Market risk management for banking book

During the Reporting Period, the Bank made further improvements to the monitoring system on interest rate risk for the banking book. With the goal of maximising its risk returns, the Bank performs the periodic monitoring procedures over the re-pricing gap for interest rate sensitive assets and liabilities through gap analysis, and effectively narrows such gap by adjusting its loan pricing strategy and the allocation of its fixed and floating assets.

Management Discussion and Analysis (Continued)

c) Market risk analysis**a. Interest rate risk and sensitivity analysis**

The Group's asset/liability re-pricing date or maturity date (whichever is earlier) as at 30 June 2011 is as follows:

	<i>(in millions of RMB)</i>						
	Due within 1 month	Due between 1 month and 3 months	Due between 3 months and 1 year	Due between 1 year and 5 years	Due after 5 years	Non- interest bearing	Total
Total assets	2,117,243	410,598	1,155,868	364,036	196,391	103,581	4,347,717
Total liabilities	(2,433,013)	(398,130)	(774,630)	(357,481)	(30,741)	(105,312)	(4,099,307)
Net exposure	(315,770)	12,468	381,238	6,555	165,650	(1,731)	248,410

The table below shows the sensitivity of net interest income and other comprehensive income after a 100 basis points movement in interest rate based on the structure of assets and liabilities for the dates indicated :

	<i>(in millions of RMB)</i>		<i>(in millions of RMB)</i>	
	30 June 2011		31 December 2010	
	Expected changes in net interest income	Changes in other comprehensive income	Expected changes in net interest income	Changes in other comprehensive income
Increase yield rate by 100 basis points	10,492	(2,755)	8,258	(2,400)
Decrease yield rate by 100 basis points	(10,492)	2,937	(8,258)	2,553

Management Discussion and Analysis (Continued)

b. Foreign currency risk and sensitivity analysis

As at 30 June 2011, the Group's foreign currency risk exposure is as follows:

	<i>(in millions of RMB)</i>				Total
	RMB	USD converted to RMB	HKD converted to RMB	Other currencies converted to RMB	
Total assets	3,959,266	282,204	72,014	34,233	4,347,717
Total liabilities	(3,746,816)	(193,191)	(112,863)	(46,437)	(4,099,307)
Net exposure	212,450	89,013	(40,849)	(12,204)	248,410

The table below shows the impact of the Group's net interest income and other comprehensive income after a 5% movement in exchange rates among Renminbi and other foreign currencies based on the structure of assets and liabilities as at 30 June 2011:

	30 June 2011		<i>(in millions of RMB)</i>	
	Expected changes in net profit/ (losses)	Changes in other comprehensive income	31 December 2010 Expected changes in net profit/ (losses)	Changes in other comprehensive income
RMB appreciation by 5%	(1,346)	(497)	(896)	(560)
RMB depreciation by 5%	1,349	497	1,329	560

4) Liquidity Risk Management

The objective of the Bank's liquidity risk management is to ensure that the Group has sufficient funds to meet its asset growth targets and obligations on maturity to repay due liabilities. The key measures undertaken by the Bank to manage its liquidity risk include increasing core deposit-to-debt ratio, keeping a stable liabilities structure, and utilising indicators and limits to monitor and manage the entire Bank's liquidity position. The Bank has taken a centralised approach in managing its bank-wide liquidity position, and maintains an appropriate level of reserve balance with the People's Bank of China, interbank balances and highly liquid debt investments. It also plays an active role in the interbank, money and bond markets in order to maintain its financing abilities in the market place. The Bank also monitors of its asset maturity structure and adopts a multi-level approach to mitigate liquidity risk.

During the Reporting Period, the Bank maintained tight control over its lending volume and investing activities in debt securities and notes. The Bank also further expanded its deposit business,

Management Discussion and Analysis (Continued)

maintaining relationships with other financial institutions through pricing method and exploring new financing channels, thereby maintaining the Renminbi liquidity. With respect to foreign currency liquidity, the Bank took tighter control on the scale of foreign currency lending and raised the lending rates to ease the demand for foreign currency loans. The Bank strictly adhered to its principle of lending based on deposits received and its approval policies on new loans. In addition, the Bank also strengthened the attraction of foreign currency deposits and interbank deposits, and improved its planning based on the judgments on the exchange rate movements, as well as the demand for foreign currency settlement and foreign currency loans.

As at 30 June 2011, the Bank's key liquidity ratios computed based on the guidelines as stipulated by the Chinese banking regulatory authorities were as follows:

	At 30 June 2011	At 31 December 2010
Key Regulatory Indicators (%)		
Liquidity ratio (including domestic and foreign currencies)	35.69	32.23
Loan-to-deposit ratio (including domestic and foreign currencies)	70.61	72.10

As at 30 June 2011, the distribution of the Group's non-derivative financial assets and non-derivative financial liabilities according to their original contracts and maturity, and without being discounted, were as follows:

	<i>(in millions of RMB)</i>								
	Overdue	Undated	On demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Non-derivative financial assets	23,360	539,910	172,725	410,679	363,966	1,099,902	1,358,386	1,131,078	5,100,006
Non-derivative financial liabilities	-	(38)	(1,763,129)	(532,493)	(400,470)	(807,735)	(575,779)	(63,989)	(4,143,633)
Net position	23,360	539,872	(1,590,404)	(121,814)	(36,504)	292,167	782,607	1,067,089	956,373

5) Operational Risk Management

Based on the completion of various operational risk management projects in 2010, the Bank effectively integrated the various operational risk management methodologies and tools into its practical business operations. The Bank further improved its operational risk event collection procedures, as well as analysis and correction plans on significant operational risks identified, to ensure full implementation of operational risk management into its daily business operation.

The Bank made several revisions to its operational risk management policies and procedures with regards to the identification and scope of risk events, collection process, assessment and the corrective follow-up procedures.

Management Discussion and Analysis (Continued)

The Bank focused on building the loan disbursement centre, by drafting the related policies and procedure manual on its operation. The Bank performed review and gap analysis on the process and procedures of the loan disbursement centre by using the methodologies and tools of operational risk management and business procedure analysis, and effectively identified the key risk areas and made further improvements. As such, the enhancement efforts made by the Bank in the internal control and risk prevention measures surrounding loan disbursement effectively ensured the steady development of the Bank's credit business.

The Bank was also involved in the operational risk management research project led by the CBRC and completed the paper — “Research on Quantitative Approach of Operational Risk Management”.

6) Anti-Money Laundering (“AML”)

In order to improve its AML information system, particularly on large and suspicious transactions reporting and enhance its quality and efficiency, as well as alleviate the pressure of frontline staff on handling these transactions, the Bank centralised the bank-wide AML data processing at the Head Office's financial service centre. In addition, the Bank continued to move forward the development of phase 4 of the AML IT system, with the addition of 28 new features, and amendment to 7 data calculation methods and the completion of its AML risk assessment project.

The Bank endeavours to carry out its self-assessment on AML risk, and provide proper supervision and guidance to its branches. With the customer identification problem being resolved, the Bank undertook risk investigations on individual accounts. In addition, the Bank further expanded the scope of self-assessment and incorporated the result of assessment into the daily control activities, making such self-assessment a useful tool for the management of AML risk.

(5) STRATEGIC COOPERATION WITH HSBC

Since 2011, while the global economy continued to experience a slow recovery, the Chinese economy has kept with its steady and rapid development. The Bank has leveraged on this development momentum by further promoting its comprehensive strategic partnership with overseas strategic partner HSBC and made great achievements.

Seamless communication between the top management: Since 2011, the Chairmen and Presidents of both banks have been holding regular informal meetings to communicate closely. A communication mechanism between the management of both banks has been established, with regular meetings being held for timely review of cooperative results, broadening areas of cooperation and resolving issues encountered.

Management Discussion and Analysis (Continued)

Exchange of technical expertise: Based on the three-year technical cooperation and exchange agreement, which was renewed on 18 August 2010, both banks have continued to abide by the principle on mutual exchange of resources and abilities through three directions — exchange of technical experts, staff training and secondment programs in promoting the effectiveness of two-way communication and sharing of experience.

— Exchange of expertise:

By the end of June 2011, HSBC has stationed a total of 23 experts at 12 departments of the Bank to provide guidance. These departments include: Credit Management Department, Audit Department, Risk Management Department, Budget & Finance Department, Personal Finance Service Department, and etc. Many of these experts from HSBC also participated in the 15 strategic development projects within the Bank, including the process enhancement, internal ratings-based methodology, enterprise risk management and the data centralisation projects, etc.

— Staff training:

In 2010, the Bank and HSBC commenced a new round of secondment programs whereby senior management personnel from various business lines were seconded to HSBC. The Bank aims to send provincial Branch Presidents and relevant Head Office personnel from their respective business units, including retail banking, corporate banking, risk management, international banking, finance and accounting and IT, for training over a three-year period. The new exchange plan emphasises on the business line specific training contents, promotes the effective two-way communication, and expands training deepness. By the end of June 2011, the Bank has sent a total of 64 senior management personnel from provincial branches and the Head Office departments, including retail banking, corporate banking and risk management departments, to participate in the new round of secondments. HSBC has organised 42 seminars, totalling 71 days of training courses for over 2,455 employees of the Bank.

— Staff exchange programs:

At the end of June 2011, the Bank has organised internship programs for 179 employees from departments such as the corporate banking, retail banking, asset custodian business, asset protection and the global markets departments to HSBC offices in Hong Kong and Singapore. These programs allowed employees to have a closer look at the advanced operation and management model of HSBC as a world-class bank.

— Bilateral cooperation:

The Bank has conducted 73 seminars for 854 HSBC employees and arranged for working exchanges for 62 members from HSBC's Asia-Pacific region at the end of June 2011. In addition, it has also sent out 3 experts to provide consultation and support to HSBC and to share the Bank's experience in the domestic banking sector.

Management Discussion and Analysis (Continued)

Further exploration and expansion of business cooperations: Both banks have taken full advantage of each other by mutual exchange of resources, especially in key business areas such as:

- The development of credit card operations jointly managed by the two banks has gained much momentum. Total credit card issuance at the end of June 2011 exceeded 19.41 million, an increase of 2.80 million from the beginning of the year, and the accumulated consumer spending from January to June 2011 reached RMB152.6 billion, representing an increase of 52.6% as compared with the corresponding period of the prior year.
- For the international banking business, the Bank and HSBC cooperated largely on businesses including foreign exchange treasury transactions, foreign currency remittance, L/C notification, trade financing, foreign currency settlement and the treasury business of overseas-branches. Both banks actively seized the opportunities arising from the improvement of China's position in the global economy and the globalisation of domestic enterprises, and strived to provide better global financing and cash management services to customers by leveraging the strong customer base and vast network of the Bank, along with HSBC's expertise in international business.
- For the corporate banking, both banks continued to serve reputable multinational corporations. Both banks worked closely together on syndicated loan projects through joint marketing to key customers on exploring rural financing, IPO and bond underwriting. The second phase of the computer server integration project has been completed, and the third-party account enquiry function has gone online. The stable operation of the new IT system and the successful piloting projects created a good foundation for stronger service capabilities on global cash management when serving multinational companies.
- For the custodian business, both banks have deepened their cooperation and communication, taking advantage of the accelerated development and globalisation of China's capital market. In recent years, cooperation in custodian business has progressed smoothly, mainly in the areas of international bond fund, QFII, QDII, mutual fund, insurance assets, enterprise annuity and Renminbi financial products.

(6) OUTLOOK

Looking into the next half of 2011, while facing the profound changes in economy, monetary policies, regulatory and market environments in China, the Group will make further steps to enhance its competitiveness and risk management function. It will continue to improve its operating results and management capabilities through innovations in both management and product offerings, with primary focus on the following aspects: 1) performing in-depth study on the economic and financial market of China, implementing the Chinese Government's macro-economic policies and expanding its efforts in the growth and stable development of the Group; 2) refining and implementing the customer development strategy which will aid in the growth of a solid customer base and further improving the customer structure; 3) promoting and building a unique and well-positioned wealth management system that offers comprehensive services to customers; 4) strengthening the Group's capabilities in sustainable development by intensifying reform efforts and the enhancement of its fee-based business; 5) optimising the resource allocation, improving the operational efficiency and maintaining a stable cost-to-income ratio.

Changes in Share Capital and Shareholdings of Substantial Shareholders

(1) CHANGES IN SHARE CAPITAL

As at 30 June 2011, the Bank had a total of 438,889 shareholders with 394,717 shareholders holding A shares while 44,172 shareholders holding H shares.

	1 January 2011		Changes (+/-) during the Reporting Period					30 June 2011	
	Number of shares	Percentage (%)	Issue of new shares	Bonus shares	Shares transferred from the surplus reserve	Others	Sub-total	Number of shares	Percentage (%)
1. Shares subject to sales restrictions									
1. State-owned shares	-	-	-	-	-	-	-	-	-
2. Shares held by state-owned entities	-	-	-	-	-	-	-	-	-
3. Shares held by other domestic investors	-	-	-	-	-	-	-	-	-
Includes:									
Shares held by domestic non-state-owned legal persons	-	-	-	-	-	-	-	-	-
Shares held by domestic natural persons	-	-	-	-	-	-	-	-	-
4. Shares held by foreign investors									
Includes:									
Shares held by foreign legal persons	-	-	-	-	-	-	-	-	-
Shares held by foreign natural persons	-	-	-	-	-	-	-	-	-
2. Shares not subject to sales restrictions									
1. Renminbi ordinary shares	29,735,503,042	52.85	-	-	-	-	-	29,735,503,042	52.85
2. Domestically listed foreign shares	-	-	-	-	-	-	-	-	-
3. Overseas listed foreign shares	26,524,138,356	47.15	-	-	-	-	-	26,524,138,356	47.15
4. Others	-	-	-	-	-	-	-	-	-
3. Total	56,259,641,398	100.00	-	-	-	-	-	56,259,641,398	100.00

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

(2) SHAREHOLDINGS OF THE TOP 10 SHAREHOLDERS AND OF THE TOP 10 SHAREHOLDERS NOT SUBJECT TO SALES RESTRICTIONS (ACCORDING TO THE BANK'S REGISTER OF MEMBERS MAINTAINED AT ITS SHARE REGISTRAR)

1. Shareholdings of the top 10 shareholders

No.	Name of shareholders	Nature of shareholder	Number of shares held	Shareholding percentage (%)	Number of shares pledged or frozen ¹
1	Ministry of Finance of the People's Republic of China	State	14,921,230,045	26.52	Nil
2	HKSCC Nominees Limited ²	Foreign-owned	12,324,534,459	21.91	
3	The Hongkong and Shanghai Banking Corporation Limited ³	Foreign-owned	10,482,252,967	18.63	Nil
4	Capital Airports Holding (Group) Company	State-owned	1,133,264,625	2.01	
5	Yingda International Holdings Corporation Limited	State-owned	519,161,972	0.92	
6	Yunnan Hongta Group Company Limited	State-owned	398,806,176	0.71	
7	Sinopec Finance Company Limited	State-owned	341,282,485	0.61	
8	Shanghai Haiyan Investment Management Co., Ltd	State-owned	335,077,253	0.60	
9	Aviation Industry Corporation of China	State-owned	282,434,940	0.50	
10	Daqing Petroleum Administration Bureau	State-owned	268,123,786	0.48	

Notes:

1. Unless otherwise stated, the Bank is not aware of any circumstances where shares held by the above shareholders have been in pledged or frozen, nor of the existence of any connected relationship between the above shareholders.
2. The aggregate number of shares held by the nominee, HKSCC Nominees Limited, represents the total number of H shares held by all institutional and individual investors who maintain an account with it as at 30 June 2011. (same applies hereinafter)
3. According to the Bank's register of members kept by Computershare Hong Kong Investor Services Limited, the Hongkong and Shanghai Banking Corporation Limited ("**HSBC**") held 10,482,252,967 H shares of the Bank as at 30 June 2011. In addition, according to the disclosure of interests forms filed with The Stock Exchange of Hong Kong Limited ("**Hong Kong Stock Exchange**") by HSBC Holdings plc, HSBC beneficially held 10,716,204,617 H shares of the Bank as at 30 June 2011, representing 19.05% of the Bank's total share capital. (For details, please refer to "4. 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"). (same applies hereinafter)

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

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

No.	Name of shareholders	Number of shares held	Shareholding percentage (%)	Class of shares
1	Ministry of Finance of the People's Republic of China	14,921,230,045	26.52	A and H shares
2	HKSCC Nominees Limited	12,324,534,459	21.91	H shares
3	The Hongkong and Shanghai Banking Corporation Limited	10,482,252,967	18.63	H shares
4	Capital Airports Holding (Group) Company	1,133,264,625	2.01	A shares
5	Yingda International Holdings Corporation Limited	519,161,972	0.92	A shares
6	Yunnan Hongta Group Company Limited	398,806,176	0.71	A shares
7	Sinopec Finance Company Limited	341,282,485	0.61	A shares
8	Shanghai Haiyan Investment Management Co., Ltd	335,077,253	0.60	A shares
9	Aviation Industry Corporation of China	282,434,940	0.50	A shares
10	Daqing Petroleum Administration Bureau	268,123,786	0.48	A shares
Details of 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. SHAREHOLDINGS OF THE TOP 10 SHAREHOLDERS SUBJECT TO SALES RESTRICTIONS AND THE DETAILS OF RESTRICTIONS

As at 30 June 2011, there was no shareholder of the Bank whose shares were subject to sales restrictions.

4. 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 2011, to the knowledge of the Bank's directors, supervisors and chief executive, the substantial shareholders and other persons (other than the directors, supervisors and chief executive of the Bank) who had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the Hong Kong Securities and Future Ordinance ("SFO") are as follows:

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

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

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

Notes:

- Long positions held other than through equity derivatives.
- According to the information provided by the National Council for Social Security Fund, the National Council for Social Security Fund held 6,388,888,889 H shares of the Bank as at 30 June 2011, representing 11.36% of total share capital of the Bank and all these shares were held through HKSCC Nominees Limited.
- HSBC holds 62.14% equity interest in Hang Seng Bank Limited. Pursuant to the SFO, HSBC is deemed to hold interest in the Bank's H shares (referred to as "**H Share**" in this section) held by Hang Seng Bank Limited; Hang Seng Bank Limited is deemed to hold interest in the 41,377,660 H Shares held by its wholly-owned subsidiaries. Such 41,377,660 H Shares represent the aggregate of the 41,216,098 H Shares directly held by Hang Seng Bank Trustee International Limited and 161,562 H Shares directly held by Hang Seng Bank (Trustee) Limited.
- HSBC is wholly-owned by HSBC Asia Holdings BV and HSBC Asia Holdings BV is, in turn wholly-owned by HSBC Asia Holdings (UK) Limited which is wholly-owned by HSBC Holdings BV. Furthermore, HSBC Holdings BV is 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 hold interest in the 10,757,582,277 H Shares where HSBC owned.
- HSBC Trustee (C.I.) Limited holds 50,000 H Shares. HSBC Trustee (C.I.) Limited is wholly-owned by HSBC Private Bank (C.I.) Limited, which is wholly-owned by HSBC Private Banking Holdings (Suisse) SA. Furthermore, HSBC Private Banking Holdings (Suisse) SA is wholly-owned by HSBC Europe (Netherlands) BV, whose 94.90% of shares are 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 hold interest in the 50,000 H shares held by HSBC Trustee (C.I.) Limited.
- HSBC Finance (Netherlands) and HSBC Bank plc are wholly-owned by HSBC Holdings plc. Pursuant to Note 3, 4 and 5 and the SFO, HSBC Holdings plc is deemed to be interested in the 10,757,582,277 H Shares in which HSBC has an interest and the 50,000 H Shares in which HSBC Bank plc has an interest.

Except as disclosed above, no person or corporation was recorded in the register of members required to be kept under Section 336 of the SFO as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO as at 30 June 2011.

Directors, Supervisors, Senior Management and Staff

(1) MEMBERS OF THE BOARD

Name	Position	Name	Position
Hu Huaibang	Chairman and Executive Director	Fung Yuen Mei, Anita	Non-executive Director
Niu Ximing	Vice Chairman, Executive Director and President	Lei Jun	Non-executive Director
Qian Wenhui	Executive Director and Executive Vice President	Li Ka-cheung, Eric	Independent Non-executive Director
Wang Bin	Executive Director and Executive Vice President	Gu Mingchao	Independent Non-executive Director
Zhang Jixiang	Non-executive Director	Wang Weiqiang	Independent Non-executive Director
Hu Huating	Non-executive Director	Peter Hugh Nolan	Independent Non-executive Director
Wong Tung Shun, Peter	Non-executive Director	Chen Zhiwu	Independent Non-executive Director

(2) MEMBERS OF THE SUPERVISORY COMMITTEE

Name	Position	Name	Position
Hua Qingshan	Chairman	Li Jin	Supervisor
Jiang Yunbao	External Supervisor	Yan Hong	Supervisor
Jiang Zuqi	External Supervisor	Liu Sha	Employee Representative Supervisor
Gu Huizhong	Supervisor	Chen Qing	Employee Representative Supervisor
Guo Yu	Supervisor	Shuai Shi	Employee Representative Supervisor
Yang Fajia	Supervisor	Du Yarong	Employee Representative Supervisor
Chu Hongjun	Supervisor		

(3) MEMBERS OF SENIOR MANAGEMENT

Name	Position	Name	Position
Niu Ximing	President	Hou Weidong	Executive Vice President and Chief Information Officer
Qian Wenhui	Executive Vice President	Dicky Peter Yip	Executive Vice President
Wang Bin	Executive Vice President	Yang Dongping	Chief Risk Officer
Yu Yali	Executive Vice President and Chief Financial Officer	Du Jianglong	Secretary to the Board
Shou Meisheng	Commissioner of Discipline Inspection	Zhu Hexin	Chief Corporate Banking Officer

Directors, Supervisors, Senior Management and Staff (Continued)

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

Name	Position	Number of shares held at the beginning of the year	Increase in shareholdings during the Reporting Period	Decrease in shareholdings during the Reporting Period	Number of shares held at the end of the Reporting Period	Reason for changes in shareholdings
Yang Dongping	Chief Risk Officer	86,200	—	—	86,200	—

As at 30 June 2011, 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 was 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 was required to be entered in the register of members pursuant to section 352 of the SFO, or which was required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Listing Rules**"), to be notified to the Bank and the Hong Kong Stock Exchange.

(5) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

On 4 April 2011, Mr. Chen Qingtai resigned as Independent Non-executive Director, member of the Audit Committee and of the Human Resources and Remuneration Committee of the Board, after serving for a consecutive period of 6 years.

On 27 April 2011, Mr. Ji Guoqiang resigned as Non-executive Director, member of the Risk Management Committee and of the Social Responsibility Committee of the Board due to job-redesignation.

On 29 April 2011, Mr. Qian Hongyi resigned as Non-executive Director and member of the Audit Committee of the Board due to reaching the retirement age.

On 30 May 2011, pursuant to the resolutions passed at of the Fifth Meeting of the Sixth Session of the Supervisory Committee, Mr. Jiang Yunbao was appointed as External Supervisor where Ms. Zheng Li ceased to be External Supervisor of the Bank.

On 28 June 2011, pursuant to the resolutions passed at of the 2010 Annual General Meeting, Ms. Du Yuemei, Mr. Ma Qiang and Mr. Bu Zhaogang were appointed as Non-executive Directors of the Bank. In addition, Mr. Choi Yiu-kwan was appointed as Independent Non-executive Director. The qualifications of the above are subject to the approval of the China Banking Regulatory Commission ("**CBRC**").

Directors, Supervisors, Senior Management and Staff (Continued)

(6) STAFF AND HUMAN RESOURCE MANAGEMENT

a) Number of staff

As at the end of June 2011, the Bank had a total of 86,683 employees, representing an increase of 1.63% compared with the beginning of the year. Of which, 85,070 employees are based domestically, representing an increase of 1.56% compared with the beginning of the year. Total number of local employees in overseas branches was 1,613.

Among the domestic employees, 622 employees hold advanced senior professional and technical qualifications (accounting for approximately 0.73% of domestic employees), 16,599 employees hold intermediate professional and technical qualifications (accounting for approximately 19.51% of domestic employees), and 19,669 employees hold entry-level professional and technical qualifications (accounting for approximately 23.12% of domestic employees).

The average age of the Bank's domestic employees was 33.5 years old, with 40,637 employees under the age of 30 (accounting for approximately 47.77% of domestic employees), 24,766 employees between the age of 30 and 40 (accounting for approximately 29.11% of domestic employees), 14,841 employees between the age of 40 and 50 (accounting for approximately 17.45% of domestic employees), and 4,826 employees above the age of 50 (accounting for approximately 5.67% of domestic employees).

Among the domestic employees, 4,550 employees possess postgraduate or higher academic degrees (accounting for approximately 5.35% of domestic employees), 46,512 employees possess undergraduate degrees (accounting for approximately 54.67% of domestic employees), 27,270 employees possess college degrees (accounting for approximately 32.06% of domestic employees), and 6,738 employees possess junior college diploma or lower qualifications (accounting for approximately 7.92% of domestic employees).

b) Human Resource Management

In support of its development strategy of "seeking international expansion and universal banking while focusing on wealth management business", the Bank promotes the reform of organisation structure and position system, with special efforts made to strengthen the linkages between the two, which tie to the Bank's strategic goal ultimately. In particular, it actively promotes the development of its electronic banking business and explores new management models for its vast banking outlets. To facilitate the rapid development of private banking business, the Bank actively engages in the research of the operating mechanism and management architecture of private banking. To keep the restructuring pace of the Bank, management made further enhancement in its staffing policies, which enabled the stronger linkage between personnel increment and operating efficiency, as well as business transformation of the Bank, and thus increasing employee productivity. It has also developed multi-strata employee career development plans and strengthened training programs to enhance the professional capabilities and responsibility awareness of employees.

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

Corporate Governance

The Bank abided strictly with the relevant laws and regulations, such as the Company Law, the Securities Law and the Commercial Banking Law, and continued to improve its corporate governance while taking into consideration of its current circumstances. All of these efforts were made for the safeguard of the rights and interests of domestic and foreign shareholders and other stakeholders.

The Board confirmed that the Bank has fully complied with the principles and provisions stipulated in Appendix 14 of the Listing Rules – the Code on Corporate Governance Practices (the “Code”) during the Reporting Period, and has also followed most of the best recommended practices as set out in the Code.

(1) GENERAL MEETINGS

During the Reporting Period, the Bank held 2010 Annual General Meeting and the following nine resolutions were approved:

- the report of the Board of Bank of Communications Co., Ltd. for the year 2010;
- the report of the Supervisory Committee of Bank of Communications Co., Ltd. for the year 2010;
- the audited accounts of Bank of Communications Co., Ltd. for the year 2010;
- the fixed assets investment plan of Bank of Communications Co., Ltd. for the year 2011;
- the appointment of auditors for the year 2011;
- the renewal of the interbank transactions master agreement with HSBC;
- the appointment of Ms. Du Yuemei, Mr. Ma Qiang and Mr. Bu Zhaogang as non-executive directors, and the appointment of Mr. Choi Yiu-kwan as independent non-executive director;
- the remuneration plan for directors and supervisors of Bank of Communications Co., Ltd. for the year 2010; and
- the profit distribution plan of Bank of Communications Co., Ltd. for the year 2010.

In addition, the Bank convened its 2011 First Extraordinary General Meeting, and the resolution on the RMB denominated bond issuance in Hong Kong was approved.

(2) BOARD MEETINGS

During the Reporting Period, the Board held three meetings and considered and approved 29 resolutions, while the special committees under the Board held eleven meetings and considered and approved 27 resolutions or reports. All directors have diligently attended all the meetings of the Board and special committees, and duly executed their duties and responsibilities to ensure an effective board decision-making capability is achieved.

During the Reporting Period, the Board has diligently exercised its duties and approved resolutions at the general meetings. The annual development plan for the year 2011 to 2015, which was approved by the Board, clearly set out the new development goals and responsibilities of the Bank. The 5-year plan is of great importance for the Bank to achieve its development goals in becoming a leading global banking group by seizing opportunities in the next five years, during which period, the financial market in China will thrive. Meanwhile, the Board is also committed in discharging its capital management responsibilities, with a proposed plan of RMB denominated bond issuance with total amount not exceeding RMB 20 billion in Hong Kong which was approved in a general meeting.

Corporate Governance (Continued)

In compliance with the requirements of the relevant laws and regulations, the Board continued to strengthen the comprehensive risk management system, by approving various new risk management policies, such as the market risk management policy, as well as the liquidity risk measures, and the market risk limits for year 2011. In addition, for the purpose of improving the supervision and monitoring of internal controls, the Board formulated the Implementation Guidelines for Standards on Internal Controls and approved the Annual Self-Assessment Report on Internal Controls for year 2010, which has been disclosed to investors and the general public.

(3) MEETINGS OF SUPERVISORY COMMITTEE

During the Reporting Period, the Supervisory Committee held three meetings and approved the following resolutions:

- periodic reports;
- the audited accounts;
- the profit distribution plan;
- the report of the Supervisory Committee for the year 2010;
- suggestions of the Supervisory Committee regarding the performance of duties of the Board and senior management for the year 2010;
- the evaluation results on performance of duties of the directors of the Bank for the year 2010;
- the interim measures of the implementation rules of the Bank on the directors' performance assessment;
- the self-assessment report on internal controls of the Bank for the year 2010;
- the corporate social responsibilities report of the Bank for the year 2010;
- the self-assessment report on performance of duties of the Supervisory Committee for the year 2010;
- the appointment of Mr. Jiang Yunbao as the external Supervisor of the sixth session of the Supervisory Committee;
- the working plans of the Supervisory Committee and other special committees for the year 2011.

According to the new requirements of the CBRC, the Supervisory Committee is held responsible for reporting to the regulatory body on the performance evaluation of directors and senior management, especially on the performance of duties for departed directors. According to its plan, the Supervisory Committee listened to the reports made by senior management on the implementation of consolidation processes, and performed survey study on the integrated global development of the Bank, with two reports issued — the “opinions on strengthening the management of overseas branches” and the “opinions on the integration of the Bank’s operations”.

All supervisors have diligently attended all the meetings of the Supervisory Committee and special committees, and were present at the meetings of the Board and special committees. The supervisors have duly executed their duties and responsibilities in safeguarding the interests of shareholders and enhancing the effective management of the Bank.

Corporate Governance (Continued)

(4) SENIOR MANAGEMENT

The Bank's senior management comprises of nine members, including the President, Executive Vice-Presidents, Commissioner of Discipline Inspection, Chief Financial Officer, Chief Information Officer, Chief Risk Officer and Chief Corporate Banking Officer. The Bank's senior management adheres to the relevant laws and regulations, the Bank's articles of association and authorization from the Board, in executing the board resolutions and managing day-to-day operations.

(5) INTERNAL CONTROL

During the Reporting Period, pursuant to the Bank's annual development plan, management continued to enhance its internal control system in accordance with "Standards on Enterprise Internal Controls". In responding to the rapid changes in the global and domestic financial markets, a series of internal control measures were introduced by the Bank. In the first half year of 2011, the Bank's internal control system was operating reliably and steadily. The main characteristics and objectives of the Bank's internal controls are described as follows:

- a. Strengthening the asset and liability management: Firstly, the Bank aimed at steady growth in deposit taking business by adjusting the Bank's internal funds transfer pricing and customer structure. Secondly, the Bank clearly defined the "balance between lending and deposit taking" as business development principle and implemented a comprehensive management on its lending business by setting limits on both the loan-to-deposit ratio and loan balance, in order to control the total volume and pace of its lending practice. Thirdly, the Bank improved its pricing management, by enhancing its approval policies and pricing for certain banking products, as well as optimizing the RMB pricing model for both the corporate and retail/small business lending.
- b. Continuous improvement on enterprise-wide risk management: Firstly, at the Head Office level, the Bank improved the operating and decision-making process of the Enterprise Risk Management Committee, Credit Risk Management Committee, Market and Liquidity Risk Management Committee, Operational Risk Management and Anti-money Laundering Committee, and the business review committees, including the Loan Review Credit Committee and the High-Risk Assets Review Committee, as well as the "1+3+2" risk management framework. At the branch level, we established the Enterprise Risk Management Committees, responsible for all risk related decision-makings of the branches. Secondly, the Bank identified a number of key credit risk management projects and focused on the adjustment of the portfolio structure. It further enhanced the control of lending to high risk industries and streamlined the key credit process. In addition, the bank management strengthened the underwriting and approval control of refinancing, as well as the term management and classification of loans. The Bank also incorporated the bond investment on the banking book into its bank-wide standardized credit risk management system. Thirdly, the Bank streamlined the operational risk management processes through the enhancement of adverse events reporting system, quarterly operational risk identification and assessment; and the corrective action plans for high risk areas. Fourthly, the Bank made adjustments to its market risk management structure and methodology, and introduced new market risk management policies and risk limit management methodologies, following the strategy of maintaining a healthy balance of the effectiveness, quality

Corporate Governance (Continued)

and scale of the Bank's business. In addition, the Bank established a market risk management information system that covers all funding transactions of Head Office and the Hong Kong Branch. Fifthly, for effective risk management at the cross-border, cross-industry and cross-country levels, the Bank adopted a series of country risk management policies, made improvement on the rules and policies on consolidation, in addition to the exploration on country risk assessment, limit management and risk provision methods.

- c. Strengthening the management of branches and subsidiaries: Firstly, the Bank revised the management procedures for domestic branches, encouraged standardisation and comprehensive supervision by level, as well as introduced of a new business model that integrates three key parties - "business outlet + electronic banking + customer manager". Secondly, in order to improve service quality of newly established branches, the Bank developed policies and procedures on setting up new branches, which provide detailed guidelines on the operation, management, establishment procedures and assessment standards on the proper commencement of new branches. According to the newly developed performance measurement on branch comprehensive competitiveness, bank management adopted an approach that based on the "quarterly operating results ranking" and "annual comprehensive assessment" to evaluate the business results of new branches. Thirdly, through the issuance of "Interim Measures of Management on Rural Banks", the Bank clarified on the development direction, governance and the management of its rural bank subsidiaries.
- d. Strengthening credit management: Firstly, the Bank made further acceleration in the upgrading of lending structure, with increases in lending to small enterprises and individual consumers and the proportion of lending to mid and western China. On the other side, lending to local government funding platforms (LGFPs), real estate development, and high-polluting, energy-intensive and over-capacity sectors was reduced. The Bank has been strongly focused on gaining large corporate customers, as well as medium-to-large and small-to-medium sized enterprise customers, and increasing the proportion of loans to small and medium enterprises. In addition, priority has been placed on the development of short-term financing and trade financing services. The Bank also adopted a strategy on maintaining a reasonable proportion of bills and strictly control the lending of long-term loans. Secondly, the Bank made further improvement on the credit policy framework and management practice. Credit policies on lending to 45 industries and 136 sub-sectors have been established, covering over 90% of all industries. In addition, a set of 295 performance indicators have been developed at branch level, with the purpose of facilitating the monthly monitoring and quarterly evaluations. Another focus was on the implementation of the "dual quantitative management" and limit management on the eight industries with high-polluting, energy-intensive and over-capacity sectors, as well as the promotion measures on the five encouraged industries. Thirdly, management has adopted a strategy of tight control on the new underwritings of LGFPs loans and a steady reduction of the existing LGFPs portfolio, with a strong emphasis on the identification of the actual borrower and the repayment ability assessment of the project itself. The Bank developed a "watch-list" of LGFPs for closer monitoring, and performed the portfolio assessment based on future cash flow as a core factor. Management strived to reduce the existing LGFPs lending balance through credit transformation, loan restructuring and exit strategy. Fourthly, the Bank streamlined

Corporate Governance (Continued)

- the underwriting process on loans to small-to-medium sized customers both within and over the authorization limit of branch management. Moreover, the Bank has been promoting the use of an electronic transmission system, piloting the transferring of credit applications and other documents electronically to encourage paperless approval processes and ultimately improve the efficiency levels.
- e. Strengthening financial accounting, operational management, and information technology: Firstly, the Bank focused on revising its existing centralised purchasing policies and procedures, standardising the Head Office's tendering process, as well as improving the "Centralised Purchasing Management Information System". Secondly, the "Physical Asset Management Information System" has been upgraded to further improve the budget management, facility and equipment management, property management and the data analysis functions. Thirdly, the Bank also made improvement to key business processes, which includes the completion of the first optimisation phase of core credit granting system, the reduction on the volume of credit granting transactions, the optimisation on bills discounting, and the centralised signing and exchange procedures. Moreover, the Bank expedited the centralised processing for all back-office operations, as well as the management of bank card business. Fourthly, the bank management enhanced the international business regulations, integrated the various trade financing products, including inward documentary, import collection financing, import outward remittance, outward documentary, forfeiting, export collection financing and export invoice financing, and developed new management policies on international banking business. Fifthly, the Bank was focused on building the new generation information system for better group management – the "531 Project", with good progress made in several areas.
- f. Strengthening the regulatory compliance and human resource management: Firstly, the Bank improved the compliance review system, by developing detailed guidelines, building management platform at Head Office for the administration of all related policies and procedures, and integrating the functions of new policy issuance, inquiry and periodic updates. Secondly, the Bank actively raised the awareness on compliance among employees through training such as the "Compliance Education Year", e-learning courses and the related tests. Thirdly, in responding to the changing business environment and development needs, the Bank progressively revised its policies, rules and regulations on misconduct or misbehavior of employees. Fourthly, a series of anti-fraud activities are carried out by the Bank, including optimising the anti-fraud system functions and operational rules. Lastly, the Bank also focused on resolving the risk cases identified and investigating other risk exposures, to build stronger internal controls.
- g. Implementation of the "Standards on Internal Controls for Enterprises": In accordance with the requirements for domestic listed banks, the Bank formulated the implementation plan of the regulation "Standards on Internal Controls for Enterprises", which clarified the objectives of the bank-wide internal controls, and the related assessment process and external audit for 2011 and the future periods. In the first half of 2011, the Bank reviewed its discrepancies on internal controls on 25 business modules, and relevant departments are in the process of making corrective actions in responding to control weaknesses identified. Meanwhile, management has initiated the self-assessment process for the various business modules.

Corporate Governance (Continued)

(6) INVESTOR RELATIONS

The market valuation for the Bank's share has remained consistently low during the Reporting Period. Due to numerous factors, such as the uncertainty in macro-economic situation, tight monetary policy and the increasing regulatory scrutiny, the Bank's investor relations management continues to be a key focus. The investor relations team strives to maintain close communication and interaction with investors, to facilitate better understanding of the Bank's operations and recognition of the Bank's long-term investment value.

During the Reporting Period, the investor relations team maintained close communication with investors through numerous channels – results press conferences, road shows, investor forums, investors and analysts' visits, investor hotlines and the designated investor mailbox, etc. These communications allowed investors and analysts to gain better understanding of the growth strategy, operation and the latest development of the Bank. Also through these communications, management gained better trust from investors on recognizing the long-term investment value of the Bank. On a regular basis, the investor relations team collects and summarises certain market information, including the hot topics and the recommendations on the Bank's business operation raised by investors and analysts, and submits to the Bank's management, to fulfill its role as the "communication bridge" between the market and the Bank.

As at the end of June 2011, the Bank held two results press conferences and organised one international road show. It also participated in seven domestic and overseas investor forums and hosted visits by investors and analysts of more than 50 times. Through these activities, the Bank managed to communicate with over 500 domestic and overseas investors and analysts from well-known financial institutions.

Corporate Social Responsibilities

During the Reporting Period, in light of the rapid changes in the international and domestic economic environment, the Bank continued to actively fulfill its corporate responsibilities towards the economy, environment and society.

(1) ECONOMIC RESPONSIBILITIES

The Bank adopts a policy of supporting a stable and rapid development of national economy and continuous improvement of people's living standards 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 commercial bank in supporting the national macro-economic policies.

- a) The Bank earnestly executed the government's macro-economic policies and the policies on lending control. During the Reporting Period, the Bank increased its loan disbursement by RMB140 billion, of which, lending to small business and individual customers accounted for more than half of the total increase. New loan disbursements were primarily directed to industries recommended by the national policies and in line with the characteristics of the economy. Total loans made to the top five encouraged industries, which include electric power, coal mining, port and shipping, machinery and the new generation of information technology, increased by 9.62% from the beginning of the year, which is higher than the average growth rate of loans of the Bank. Loans made to the eight constrained industries, such as steel and cement, showed a decrease of RMB3.46 billion or 3.49% as compared with the beginning of the year.
- b) The Bank actively supported the state's initiative on 1) maintaining economic growth, 2) retaining employment, and 3) enhancing public well-being, through financial support to small enterprises as a significant mean to fulfill its corporate social responsibilities. As at the end of Reporting Period, the Bank provided credit authorisation to 35,571 small enterprise customers, representing an increase of 24.90% as compared with the beginning of the year. Total credits granted to these customers reached RMB187.1 billion, representing an increase of 47.03% as compared with the beginning of the year. Total loan balances with these customers at the period end amounted to RMB119.7 billion, representing an increase of 38.67% as compared with the beginning of the year, which is several times of the average growth rate of total bank loans.

During the Reporting Period, the Bank continued to undertake various measures to support the development of small enterprises. Firstly, management continuously improved the administration of policies and procedures, by issuing the "Credit Manual on Retail Lending to Small Enterprises". Secondly, the Bank set up an IT system platform, which allowed for better online services such as e-loan, enhancement on performance and credit management, and improvement of its efficiency and service quality to small enterprise customers. Thirdly, the Bank placed strong emphasis on service innovation through introducing other financing products, such as commodity financing, accounts receivable finance and supply chain finance products. For example, the Bank launched the product "Zhi Rong Tong", catering small enterprise customers in the IT industry.

Corporate Social Responsibilities (Continued)

- c) The Bank actively responded to the national strategy on helping “agriculture, rural communities and farmers” from the perspective of promoting national economic development and maintaining stability of the society. As at 30 June 2011, total agriculture-related loans reached RMB364.43 billion, an increase of approximately 16% comparing with the beginning of the year, which has a faster rate than the average growth rate of loans of the Bank.

During the Reporting Period, the Bank continued to serve leading agriculture enterprises, including both the upstream suppliers and the downstream clients in the product supply chain. It also acted as the custodian agent in managing public finance of special agricultural fund. The management timely released the “BOCOM Interim Measures on Management of Lending to New Rural Construction” during the period. The Bank continued to set up new outlets in rural areas, with 13 new sub-branches opened up at county level and a total number of 225 county level branches in operation at the end of the Reporting Period. With the official opening of Xinjiang Aksu Shihezi BOCOM Rural Bank at the beginning of the year, the Bank is working towards establishing another rural bank in Laoshan, Qingdao.

- d) The Bank recognizes the financial needs of the ordinary Chinese people, especially in low-income housing. At the end of the Reporting Period, total loans made to support the construction of low-income housing reached an ending balance of RMB21.9 billion, an increase of 20% comparing with the beginning of the year, which was well above the average growth rate of loans. The Bank’s lending to this particular area covers all forms of low-income housing supported by the government, including economically affordable housing, public rental housing, low rent housing, capped-price housing and the rebuilding of shanty areas. Some of the branches also set up outlet operations within the office of local housing provident fund, and developed working relationship with local low-income housing authorities and housing administration bureaus, and further improved the capabilities in services supporting this sector.

The Bank strictly abides the national policies on differentiated credit grading for mortgage loans, which favor the financing needs of self-occupied home buyers. During the Reporting Period, first home buyers comprised 90% of total increase in mortgage loans. Through a comprehensive series of education loan products, the Bank now can offer a full range of services in personal education loans, to support all kinds of financial needs of customers in obtaining further education. During the Reporting Period, the Bank launched new online consumer financing products for car buyers, and allowed customers to purchase cars using credit cards by timely approval on the increase of credit limit. The Bank effectively improved its service capabilities on auto-financing by making direct payments to car dealers on behalf of customers. Meanwhile, through their effective service channels, many branches provided various “livelihood” financial service products to local customers. Their efforts have been well-received by the local communities.

Corporate Social Responsibilities (Continued)

(2) ENVIRONMENTAL RESPONSIBILITIES

Since 2008, the Bank has actively responded to the State's initiative of energy conservation, emission reduction and environment protection and continued its efforts with the "Green Credit" project. The Bank has also utilised financial instruments and credit leverage to promote environmental protection, and carried out extensive resource saving activities to minimize the adverse impact on the environment. The branches have actively participated in the various environmental protection initiatives, including forestation and other charitable activities.

- a) During the Reporting Period, the Bank continued with the development of the "Green Credit" management policies and procedures. Based on the State's energy conservation and emission reduction policy, the Bank issued the "Green Credit Classification and Guidance" which clearly defines the green credit classification standards based on environmental protection, energy conservation and other specific requirements. The guidance helps the Bank in better identifying and categorising "Green Customers". With reference to national environmental protection, energy conservation, production safety standards and quotas, the Bank published the "2011 Green Credit Policy and Guidance", which sets out the green credit policies and procedures for all industries under the "Guidance of Industry Lending of BOCOM in 2011". Another publication of the Bank, "Opinions on Deepening the Development of the Green Credit Project" aims to promote the implementation of the "Green Credit" project at branch levels, from the perspective of sound organization, credit resource allocation, product innovation, product branding, performance assessment and management.
- b) At the end of the Reporting Period, the Bank completed the "Green Credit Classification" project, covering 100% of its clients and loan balances. Customers in the "Green" category accounted for 99.08% of the Bank's total credit customers and 99.57% of the related total loan portfolio, representing an increase of 0.25 percentage point and 0.09 percentage point, respectively from the beginning of the year. Customers in the "Yellow" category accounted for 0.89% of the Bank's total credit customers and 0.40% of the related total loan portfolio, representing a decrease of 0.21 percentage point and 0.09 percentage point, respectively from the beginning of the year. Customers in the "Red" category accounted for only 0.03% of the Bank's total credit customers and 0.03% of the related total loan portfolio, representing a decrease of 0.4 percentage point and nil, respectively, from the end of the prior year.
- c) During the Reporting Period, the Bank actively supported the so called "Green Industry" with primary focus on areas of new energy resources, energy-saving technology and ecological conservation. At present, the Bank has disbursed a loan of RMB2.4 billion to the "Ten Million Kilowatt Wind Power" project in Jiuquan, Gansu Province. To promote the innovative low-carbon financial products, the Bank issued the "Guidelines on Lending to Support Clean Development System" to enhance its "Green Finance" through standardized operational procedures.

Corporate Social Responsibilities (Continued)

- d) The Bank is working towards its goal of becoming a low-carbon bank. Management has carried out numerous initiatives, such as cutting office waste and postage cost, supporting of electronic banking services, emphasizing on cost efficiency, educating our staff in promotion of green working environment and living habits, and striving to minimize adverse impacts on the environment from self-operating activities.

(3) SOCIAL RESPONSIBILITIES

The Bank closely adheres to its principles of “continuous self-refinement and growing together with the society, with the pursuit of harmony and integrity as a cornerstone”. While protecting the interests of our shareholders, customers and employees, the Bank continued to make contributions to charity, and supported the construction and development of a harmonious society. During the Reporting Period, the Bank was awarded “The Best Corporate Social Responsibility Program Award” by the China Banking Association.

- a) The “Towards Tomorrow — BOCOM Disabled Youth Scholarship Program”, funded by BOCOM with RMB100 million made good progress. During the Reporting Period, the Bank made charitable contribution in the amount of RMB10 million, and is in the process of distribution for the support of disabled student in the poverty region to complete his/her education, the training program of special-education teachers for deaf children in the ethnic region, and the establishment of “BOCOM Best Teacher Award”, etc.
- b) During the Reporting Period, the Bank entered its ninth year of fixed-point contribution toward the charity program in Tianzhu Tibetan Autonomous County, Gansu Province. New funding of RMB2 million was injected for the construction of 200 green houses for fruits and vegetables in Huazang Temple Town and Haxi Town, Tianzhu County. The project will, at its completion, improve the industrialization of fruits and vegetable production, increase rural employment and income levels of the local people, and protect the ecological environment in the region. By the end of the Reporting Period, total funding injected has reached RMB22 million. The project has significantly promoted the development of charity in the rural area.
- c) During the Reporting Period, there were 20 donation projects carried out by 18 domestic branches of the Bank, with total donations amounting to RMB4.265 million. The Tokyo Branch also made a special donation of 2 million Yen for the relief of recent earthquake disaster in Japan. There donation programs have covered the areas of disaster relief, specific charity donation, new rural development, building of orphanage schools and the Hope schools, and financial assistance to low income families.
- d) The Bank continued its efforts in delivering quality financial services in disaster-affected areas. The Sichuan branch formulated an action plan on “Credit Support on Further Development of the Wenchuan Earthquake Region”, to enable stronger lending support on even ground, especially on projects that contribute to the development of the region and the region with the most needs. Special emphasis was also made to industries with local advantages and specialty, as well as industries that can bring sustainable growth to the local economy. The Bank also made the full use of its product innovation to expand the financing channels and reduce the financing cost for customers in the disaster affected area.

Significant Events

(1) PROFIT DISTRIBUTION

a) Implementation of the profit distribution plan during the Reporting Period

The Bank's "2010 Final Profit Distribution Plan" was approved at the 2010 Annual General Meeting held on 28 June 2011. Based on the total share capital of 56,260 million shares as at 31 December 2010, a bonus share of 1 share for every 10 shares held and a cash final dividend of RMB0.20 (pre-tax) for every 10 shares held were approved, with final dividend distribution amounting to RMB6,751 million. The record date of bonus shares for the above dividend distribution was 18 July 2011. The ex-entitlement dates for H shares and A shares were 8 July 2011 and 19 July 2011, respectively. The listing dates of bonus H shares and bonus A shares were 8 August 2011 and 20 July 2011, respectively. The cash dividend was distributed on 18 August 2011.

b) Payment of interim dividend

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2011.

c) Cash dividend policy

In accordance with the Bank's articles of association, the Bank can distribute dividend in the form of either cash or stocks. The Bank's profit distribution policy emphasises the importance of ensuring reasonable investment return to investors, while maintaining continuity and stability of profit distribution policy. The Bank may distribute interim dividend. The Board has been authorized by the general meetings to proceed with its interim dividend distribution, unless otherwise approved by the general meetings. However, the interim dividend must not exceed 40 percent of distributable profits as reported in the interim income statement, unless otherwise indicated by laws and regulations.

The above rules are strictly enforced by the Bank.

Significant Events (Continued)

(2) SHAREHOLDINGS IN OTHER COMPANIES

a) Holdings of investment securities

(in RMB unless otherwise stated)

Stock code	Stock name	Initial investment cost	Percentage of shareholding in the company (%)	Book value at the end of the Reporting Period	Gains/Losses during the Reporting Period	Changes in owners' equity during the Reporting Period	Accounting items	Sources of shares
600068	Gezhouba	135,080,299.07	1.42	591,706,500.00	—	19,246,500.00	Investment securities – available for sale	Foreclosed assets
01231	NEWTON RES	244,224,375.36	4.19	244,224,375.36	—	—	Investment securities – available for sale	Equity investment
000979	Zhonghong Real Estate	12,494,400.00	1.95	146,381,760.00	—	(47,062,240.00)	Investment securities – available for sale	Foreclosed assets
00067	China Lumena New Materials Corp	118,529,066.48	0.78	115,216,142.26	45,381,787.14	(3,312,924.22)	Investment securities – available for sale	Equity investment
01798	DATANG RENEW	129,685,671.90	2.65	105,247,228.52	—	(11,787,679.16)	Investment securities – available for sale	Equity investment
00388	HKEx	2,154,911.61	0.07	105,192,103.62	4,086,506.15	(11,024,088.66)	Investment securities – available for sale	Equity investment
03377	Sino-Ocean Land	134,451,510.08	0.37	68,932,361.99	1,347,295.47	(17,718,452.71)	Financial asset at fair value whose change is included in gain/(loss) during the Reporting Period/investment securities – available for sale	Equity investment
01193	CHINA RESGAS	64,389,664.67	0.38	62,474,884.62	(284,818.03)	(1,570,344.35)	Financial asset at fair value whose change is included in gain/(loss) during the Reporting Period/investment securities-available for sale	Equity investment
01428	BRIGHT SMART	9,490,284.66	7.36	45,354,875.48	—	(6,338,255.15)	Investment securities – available for sale	Equity investment
02198	China Sanjiang Fine Chemicals Company Limited	29,745,179.18	1.85	43,568,143.04	28,718,839.39	(14,889,767.51)	Investment securities – available for sale	Equity investment
	Others	743,114,774.02		292,503,639.26	23,280,090.86	(91,117,413.88)		
	Total	1,623,360,137.03		1,820,802,014.15	102,529,700.98	(185,574,665.64)		

Notes:

- The table above sets out the investment securities in other listed companies held by the Group, that are classified as available-for-sale investment securities and financial assets measured at fair value through profit or loss during the Reporting Period.
- Gain/(loss) during the Reporting Period refers to the impact of such investments on the consolidated net profit.

Significant Events (Continued)

b) Holdings of shares of unlisted financial institutions

(in RMB unless otherwise stated)

Name of institution	Initial investment cost	Number of shares held	Percentage of shareholding in the company (%)	Book value at the end of the Reporting Period	Gains/losses during the Reporting Period	Changes in owners' equity during the Reporting Period	Accounting items	Source of shares
Jiangsu Changshu Rural Commercial Bank Co., Ltd.	489,500,000.00	101,340,337	10.00	489,500,000.00	12,667,542.13	—	Investment securities –available for sale	Equity investment
China Union Pay Co., Ltd.	146,250,000.00	112,500,000	3.90	146,250,000.00	—	—	Investment securities –available for sale	Equity investment
China National Aviation Fuel Group Finance Corporation	120,000,000.00	N/A	10.00	120,000,000.00	—	—	Investment securities –available for sale	Equity investment
Total	755,750,000.00			755,750,000.00	12,667,542.13	—		

Notes:

- The data shown in the table above are extracted from the Group's consolidated financial information.
- Gain/(loss) during the Reporting Period refers to the dividend income arising from equity investments held during the Reporting Period.

(c) Purchases and sales of shares of other listed companies

(in RMB unless otherwise stated)

	Number of shares held at the beginning of the Reporting Period	Number of shares bought/sold during the Reporting Period	Number of shares held at the end of Reporting Period	Fund utilised	Gains in the Reporting Period
Purchases	13,123,200	234,437,187	247,560,387	472,673,106.91	—
Sales	130,690,826	40,862,100	89,828,726	—	45,123,671.04

Note: All changes shown in the table above are results of purchases and sales of shares of other listed companies by subsidiaries controlled by the Bank, except for disposal of shares obtained as collateral for loans in the course of business.

Significant Events (Continued)

(3) MATERIAL LITIGATION AND ARBITRATION MATTERS

During the Reporting Period, there was no material litigation or arbitration matters that might have a significant impact on the operating activities of the Bank.

(4) SIGNIFICANT RELATED PARTY TRANSACTIONS

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

(5) AUDIT COMMITTEE

The Bank has established the Audit Committee in accordance with the requirements under the Listing Rules. The main responsibilities of the Audit Committee are 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 as well as efficiency and compliance of internal controls. According to the resolution of the 2010 Annual General Meeting and of the Sixth Meeting of the Sixth Session of the Board, the members of the Audit Committee were — Mr. Li Ka-cheung, Eric, Mr. Gu Mingchao, Mr. Choi Yiu-kwan, Ms. Du Yuemei and Mr. Bu Zhaogang. The qualifications of appointment of Mr. Choi Yiu-kwan, Ms. Du Yuemei and Mr. Bu Zhaogang are still subject to the approval of the CBRC. Mr. Li Ka-cheung, Eric, being an Independent Non-executive Director, serves as the Chairman of the Audit Committee. The Audit Committee and senior management reviewed the Bank's accounting policies and practices and discussed on issues relating to internal controls and financial reporting, which includes the review of the 2011 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 of the Listing Rules. The Bank made specific enquiries of all its directors and supervisors and all confirmed that they had complied with the required standards of the Model Code during the Reporting Period.

(8) COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES UNDER THE LISTING RULES

During the Reporting Period, the Bank has complied with the "Code on Corporate Governance Practices" as set out in Appendix 14 of the Listing Rules. Please refer to page 43 of "Corporate Governance" for more details.

List of Branches

(1) DOMESTIC BRANCHES

No	Branch Name	Address	Number of outlets	Number of employees
1	Beijing Branch	33 Jin Rong Street, Xi Cheng District, Beijing	110	4360
2	Tianjin Branch	35 Nanjing Road, He Xi District, Tianjin	71	1559
3	Hebei Provincial Branch	22 Zi Qiang Road, Shijiazhuang, Hebei Province	30	896
4	Tangshan Branch	103 East Xin Hua Avenue, Tangshan, Hebei Province	21	582
5	Qinhuangdao Branch	174 Wen Hua Road, Hai Gang District, Qinhuangdao, Hebei Province	22	462
6	Handan Branch	340 East Ren Min Road, Handan, Hebei Province	2	61
7	Baoding Branch	1868 Middle Dong Feng Road, Baoding, Hebei Province	1	37
8	Shanxi Provincial Branch	35 Jie Fang Road, Taiyuan, Shanxi Province	27	763
9	Jincheng Branch	878 Huang Hua Street, Jincheng, Shanxi Province	7	169
10	Linfen Branch	34 East Jie Fang Road, Linfen, Shanxi Province	1	47
11	Datong Branch	452 South Xin Jian Road, Datong, Shanxi Province	1	43
12	Inner Mongolia Autonomous Region Branch	110 West Da Xue Road, Sai Han District, Huhhot, Inner Mongolia Autonomous Region	3	243
13	Baotou Branch	24 Gang Tie Avenue, Qing Shan District, Baotou, Inner Mongolia Autonomous Region	9	250
14	Ordos Branch	Wan Bo Square, North Tian Jiao Bei Road, Dong Shen District, Erdos, Inner Mongolia Autonomous Region	2	33
15	Xilin Gol Branch	Tuan Jie Avenue Xi Duan, Xilinhot, Inner Mongolia Autonomous Region	1	43
16	Liaoning Provincial Branch	100, Shi Yi Wei Road, Shen He District, Shenyang, Liaoning Province	46	1159
17	Anshan Branch	38 Er Yi Jiu Road, Tie Dong District, Anshan, Liaoning Province	27	523
18	Fushun Branch	2 Xi Yi Road, Xin Fu District, Fushun, Liaoning Province	21	504
19	Dandong Branch	68 Jin Shan Avenue, Dandong, Liaoning Province	16	335
20	Jinzhou Branch	42 Yun Fei Street Er Duan, Jinzhou, Liaoning Province	19	376
21	Yingkou Branch	21 West Bo Hai Avenue, Yingkou, Liaoning Province	28	563
22	Liaoyang Branch	114 Xin Yun Avenue, Liaoyang, Liaoning Province	6	127
23	Dalian Branch	6 Zhong Shan Square, Zhongshan District, Dalian, Liaoning Province	48	1305
24	Jilin Provincial Branch	3515 Ren Min Avenue, Changchun, Jilin Province	36	1039
25	Jilin Branch	4 East Song Jiang Road, Jilin, Jilin Province	23	512
26	Yanbian Branch	172 Guang Ming Street, Yanji, Jilin Province	11	303
27	Heilongjiang Provincial Branch	428 You Yi Road, Dao Li District, Harbin, Heilongjiang Province	44	1118
28	Qiqihar Branch	199 Bu Kui Avenue, Jian Hua District, Qiqihar, Heilongjiang Province	20	404
29	Daqing Branch	2 Re Yuan Street, Dong Feng Road, Dong Feng Xin Cun, Daqing, Heilongjiang Province	23	627
30	Shanghai Branch	99 South Zhong Shan Road, Shanghai	120	4564
31	Jiangsu Provincial Branch	124 North Zhong Shan Road, Nanjing, Jiangsu Province	72	1809
32	Xuzhou Branch	56 South Zhong Shan Road, Xuzhou, Jiangsu Province	24	474
33	Lianyungang Branch	141 Middle Hai lian Road, Xin Pu District, Lianyungang, Jiangsu Province	20	374
34	Yangzhou Branch	2 North Wen He Road, Yangzhou, Jiangsu Province	21	433
35	Taizhou Branch	151 North Qing Nian Road, Taizhou, Jiangsu Province	15	304
36	Nantong Branch	27 Middle Ren Min Road, Nantong, Jiangsu Province	22	476
37	Zhenjiang Branch	229 Jie Fang Road, Zhenjiang, Jiangsu Province	23	501
38	Changzhou Branch	171 West Yan Ling Road, Changzhou, Jiangsu Province	35	704
39	Yancheng Branch	68 East Jian Jun Road, Yancheng, Jiangsu Province	4	135
40	Huaian Branch	126 East Huai Hai Road, Huaian, Jiangsu Province	1	56
41	Suqian Branch	139 Xi Hu Road, Suqian, Jiangsu Province	1	41

List of Branches (Continued)

No	Branch Name	Address	Number of outlets	Number of employees
42	Suzhou Branch	77 North Nan Yuan Road, Suzhou, Jiangsu Province	58	1288
43	Wuxi Branch	198 Middle Ren Min Road, Wuxi, Jiangsu Province	51	1284
44	Zhejiang Provincial Branch	1-39 Ju Yuan Road, Hangzhou, Zhejiang Province	42	1155
45	Wenzhou Branch	Jiao Hang Plaza, Che Zhan Da Dao, Wenzhou, Zhejiang Province	21	674
46	Jiaxing Branch	1086 East Zhong Shan Road, Jiaxing, Zhejiang Province	13	444
47	Huzhou Branch	299 Ren Min Road, Huzhou, Zhejiang Province	10	342
48	Shaoxing Branch	283 Middle Ren Min Road, Shaoxing, Zhejiang Province	34	833
49	Taizhou Branch	298 Dong Huan Avenue, Jiaojiang District, Zhejiang Province	6	215
50	Jinhua Branch	191 West Shuang Xi Road, Jinhua, Zhejiang Province	5	175
51	Quzhou Branch	17 Xin Qiao Street, Ke Cheng District, Quzhou, Zhejiang Province	1	44
52	Zhoushan Branch	177 North Huan Cheng Road, Zhoushan, Zhejiang Province	1	45
53	Ningbo Branch	55 East Zhong Shan Road, Ningbo, Zhejiang Province	40	1024
54	Anhui Provincial Branch	38 Hua Yuan Street, Hefei, Anhui Province	29	801
55	Wuhu Branch	BOCOM Tower, Bei Jing Xi Lu, Wuhu, Anhui Province	19	368
56	Bengbu Branch	88 Nan Shan Road, Bengbu, Anhui Province	19	326
57	Huainan Branch	95 Middle Chao Yang Road, Huainan, Anhui Province	17	299
58	Anqing Branch	99 Long Shan Road, Anqing, Anhui Province	13	298
59	Maanshan Branch	156 South Hu Dong Road, Maanshan, Anhui Province	4	112
60	Tongling Branch	990 Middle Chang Jiang Road, Tongling, Anhui Province	2	55
61	Liuan Branch	53 South Jie Fang Road, Liuan, Anhui Province	1	35
62	Chaohu Branch	Zong He Building, Li Jing International Community, West Jian Kang Road, Chaohu, Anhui Province	1	31
63	Chuzhou Branch	81 West Lang Ya Road, Chuzhou, Anhui Province	1	33
64	Fujian Provincial Branch	116 Hu Dong Road, Fuzhou, Fujian Province	26	724
65	Quanzhou Branch	550 Feng Ze Street, Quanzhou, Fujian Province	3	112
66	Putian Branch	99 East Dong Yuan Road, Zhen Hai Jie Dao, Li Cheng District, Putian, Fujian Province	1	34
67	Xiamen Branch	9 Middle Hu Bing Road, Xiamen, Fujian Province	19	456
68	Jiangxi Provincial Branch	199 Hui Zhan Road, Hong Gu Tan Xin District, Nanchang, Jiangxi Province	28	632
69	Jingdezhen Branch	1 Chang Nan Avenue, Jingdezhen, Jiangxi Province	12	204
70	Xinyu Branch	98 West Bei Hu Road, Xinyu, Jiangxi Province	10	184
71	Jiujiang Branch	139 Xun Yang Road, Jiujiang, Jiangxi Province	11	178
72	Ganzhou Branch	East Park, Nan Men Wen Hua Square, Zhang Gong District, Ganzhou, Jiangxi Province	1	34
73	Shandong Provincial Branch	98 Gong Qing Tuan Road, Jinan, Shandong Province	28	819
74	Zibo Branch	100 Jin Jing Avenue, Zhang Dian District, Zibo, Shandong Province	26	562
75	Weifang Branch	358 East Dong Feng Street, Weifang, Shandong Province	21	479
76	Yantai Branch	5 Da Ma Road, Yantai, Shandong Province	22	438
77	Weihai Branch	34 North Hai Bin Road, Weihai, Shandong Province	13	295
78	Jining Branch	36 Hong Xing Zhong Lu, Jining, Shandong Province	15	312
79	Taian Branch	55 Dong Yue Avenue, Taian, Shandong Province	12	254
80	Dongying Branch	213 Dong Er Road, Dongying, Shandong Province	1	41
81	Qingdao Branch	6 Zhong Shan Road, Qingdao, Shandong Province	58	1231
82	Henan Provincial Branch	11 Zheng Hua Road, Zhengzhou, Henan Province	63	1617
83	Luoyang Branch	226 Kai Yuan Avenue, Luoyang, Henan Province	17	449
84	Nanyang Branch	25 Zhong Zhou Road, Nanyang, Henan Province	2	75
85	Anyang Branch	1 You Yi Road, Anyang, Henan Province	2	67

List of Branches (Continued)

No	Branch Name	Address	Number of outlets	Number of employees
86	Jiaozuo Branch	1159 Ren Min Road, Jiaozuo, Henan Province	1	42
87	Pingdingshan Branch	895 Jian She Road, Pingdingshan, Henan Province	1	42
88	Hubei Provincial Branch	847 Jian She Avenue, Wuhan, Hubei Province	52	1426
89	Huangshi Branch	380 Yi Yang Road, Huangshi, Hubei Province	13	269
90	Yichang Branch	22 Sheng Li Si Road, Yicang, Hubei Province	10	241
91	Xiangyang Branch	Te 8 Yan Jiang Avenue, Fancheng District, Xiangyang, Hubei Province	2	59
92	Xianning Branch	18 Qian Shan Road, Xianning, Hubei Province	1	29
93	Jingmen Branch	106 Bai Yun Avenue, Jingmen, Hubei Province	1	32
94	Hunan Provincial Branch	37 Middle Shao Shan Road, Changsha, Hunan Province	33	852
95	Yueyang Branch	Yin Du Mansion, Nan Hu Avenue, Yueyang, Hunan Province	12	238
96	Changde Branch	1508 Ren Min Road, Changde, Hunan Province	2	66
97	Chenzhou Branch	17 West Ren Min Road, Chenzhou, Hunan Province	1	40
98	Hengyang Branch	9 Jie Fang Avenue, Hua Xin Kai Fa District, Hengyang, Hunan Province	1	36
99	Xiangtan Branch	39 He Dong Avenue, Xiangtan, Hunan Province	2	50
100	Guangdong Provincial Branch	123 South Jie Fang Road, Guangzhou, Guangdong Province	79	2019
101	Zhuhai Branch	1227 East Jiu Zhou Avenue, Ji Da District, Zhuhai Guangdong Province	21	566
102	Shantou Branch	83 Jin Sha Road, Shantou, Guangdong Province	28	624
103	Dongguan Branch	190 Qi Feng Road, Dongguan, Guangdong Province	9	231
104	Zhongshan Branch	30 South Yue Lai Road, Shi Qi District, Zhong shan, Guangdong Province	20	513
105	Foshan Branch	30 Ji Hua Wu Road, Chan Cheng District, Foshan, Guangdong Province	28	581
106	Jieyang Sub-branch	6 Bei Huan Cheng Road, Rong Cheng District, Jieyang, Guangdong Province	10	198
107	Huizhou Branch	8 West Jiang Bei Yun Shan Road, Hui Cheng District, Huizhou, Guangdong Province	4	140
108	Jiangmen Branch	18 Dong Hua Er Road, Jiangmen, Guangdong Province	3	88
109	Zhanjiang Branch	40 BOCOM Mansion, Middle Ren Min Avenue, Zhanjiang, Guangdong Province	1	40
110	Shenzhen Branch	2066 Middle Shen Nan Road, Shenzheng, Guangdong Province	48	1676
111	Guangxi Zhuang Autonomous Region Branch	228 East Ren Min Road, Nanning, Guangxi Zhuang Autonomous Region	36	800
112	Liuzhou Branch	32 Yue Jin Road, Liuzhou, Guangxi Zhuang Autonomous Region	23	463
113	Guilin Branch	8 Nan Huan Road, Guilin, Guangxi Zhuang Autonomous Region	16	378
114	Wuzhou Branch	47 Da Zhong Road, Wuzhou, Guangxi Zhuang Autonomous Region	7	180
115	Beihai Branch	25 Yun Nan Road, Beihai, Guangxi Zhuang Autonomous Region	4	138
116	Hainan Provincial Branch	45 Guo Mao Road, Haikou, Hainan Province	15	430
117	Sanya Branch	45 Block D, Chuang Ye Mansion, Xin Feng Road, Sanya, Hainan Province	2	58
118	Chongqing Branch	158 Zhong Shan San Road, Yu Zhong District, Chongqing	57	1308
119	Sichuan Provincial Branch	211 Xi Yu Long Street, Chengdu, Sichuan Province	75	1609
120	Zigong Branch	108 Wu Xing Street, Zi Liu Jing District, Zigong, Sichuan Province	8	155
121	Panzhuhua Branch	129 Bing Cao Gang Avenue, Panzhuhua, Sichuan Province	9	146

List of Branches (Continued)

No	Branch Name	Address	Number of outlets	Number of employees
122	Deyang Branch	10 East Zhu Jiang Road, Deyang, Sichuan Province	1	44
123	Luzhou Branch	16 Section One, Jiu Cheng Avenue, Jiang Yang District, Luzou, Sichuan Province	1	41
124	Guizhou Provincial Branch	4 Sheng Fu Road, Guiyang, Guizhou Province	28	505
125	Zunyi Branch	108 Zhong Hua Road, Hong Hua Gang District, Zunyi, Guizhou Province	16	295
126	Yunnan Provincial Branch	67 Hu Guo Road, Kunming, Yunnan Province	31	869
127	Qujing Branch	At the Intersection of Qi Lin Nan Road and Wen Chang Street, Qujing, Yunnan Province	5	106
128	Yuxi Branch	61 Yu Xing Road, Hong Ta District, Yuxi, Yunnan Province	5	98
129	Chuxiong Branch	102 Bei Pu Road, Chuxiong, Yunnan Province	5	95
130	Dali Branch	281 Yun He Road, Dali, Yunnan Province	1	34
131	Shaanxi Provincial Branch	88 Xi Xin Street, Xian, Shaanxi Province	50	1031
132	Xianyang Branch	1 East An Ding Road, Xianyang, Shaanxi Province	2	64
133	Yulin Branch	132 Fu Shi Road, Yulin, Shaanxi Province	1	56
134	Gansu Provincial Branch	129 Qing Yang Road, Lanzhou, Gansu Province	27	624
135	Ningxia Hui Autonomous Region Branch	296 North Min Zu Street, Yinchuan, Ningxia Hui Autonomous Region	5	192
136	Xinjiang Uygur Autonomous Region Branch	16 Dong Feng Road, Urumqi, Xinjiang Hui Autonomous Region	27	668
137	Qinghai Provincial Branch	29 West Wu Si Road, Xining, Qinghai Province	1	80
138	Head Office	188 Yinchengzhong Road, Pu Dong New District, Shanghai	1	2260

(2) OVERSEAS OFFICE

No	Branch Name	Address	Number of outlets	Number of employees
1	Hong Kong Branch	20 Pedder Street, Central, Hong Kong	43	1415
2	New York Branch	One Exchange Plaza/55 Braodway, 31st & 32nd Floor New York, NY 10006-3008, U.S.A.	1	36
3	Tokyo Branch	Toranomon, No. 37 Mori BLDG. 9F 3-5-1, Toranomon Minalo-ku Tokyo, Japan	1	30
4	Singapore Branch	50 Raffles Place # 18-01 Singapore Land Tower, Singapore	1	25
5	Seoul Branch	6th Floor, Samsung Fire & Marine Bldg. #87, Euljiro 1-Ga, Jung-Gu, Seoul 100-782, Korea	1	24
6	Frankfurt Branch	Neue Mainzer Str. 75, 60311 Frankfurt am Main Germany	1	13
7	Macau Branch	Room 03-08, 16th Floor, AIA Tower No. 251A-301, Avenida Commercial De, Macau	1	34
8	Ho Chi Minh City Branch	17th floor, Vincom Center, No. 72 Le Thanh Ton Street, Ward Ben Nghe, District 1, Ho Chi Minh City, Vietnam	1	23
9	London Representative Office	1 Bartholomew Lane, London, U.K.	1	6
10	Sydney Representative Office	Level 27, 363 George Street, Sydney NSW 2000, Australia	1	7
11	Taipei Representative Office	E1, 46th Floor, No. 7, Section 5, XinYi Road, 110, Taipei, Taiwan	1	7

Independent Auditors' Report

Deloitte.
德勤

德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

**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 104, which comprises the condensed consolidated statement of financial position of Bank of Communications Co., Ltd. (the "Bank") and its subsidiaries (collectively referred to as the "Group") as of 30 June 2011 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and certain explanatory notes. The Rules Governing the Listing of Securities on 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 Standards ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standard Board. The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. 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". A review of interim financial information consists of making enquiries, 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 IAS 34 "Interim Financial Reporting".

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong
18 August 2011

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		Six months ended 30 June	
		2011	2010	2011	2010
Interest income		46,248	34,342	88,084	65,833
Interest expense		(20,695)	(13,476)	(38,796)	(25,937)
Net interest income	3	25,553	20,866	49,288	39,896
Fee and commission income	4	5,759	4,235	11,343	8,310
Fee and commission expense	5	(671)	(579)	(1,299)	(1,185)
Net fee and commission income		5,088	3,656	10,044	7,125
Dividend income	6	41	7	59	25
Net gains arising from trading activities	7	38	1	649	784
Net gains arising from de-recognition of investment securities	20	71	76	146	161
Insurance business income		216	102	320	313
Other operating income	8	823	837	1,671	1,232
Impairment losses on loans and advances to customers	9	(2,687)	(2,660)	(5,807)	(5,272)
Insurance business expense		(169)	(66)	(201)	(271)
Other operating expenses	10	(12,175)	(10,153)	(22,177)	(17,842)
Profit before tax		16,799	12,666	33,992	26,151
Income tax	13	(3,662)	(2,730)	(7,544)	(5,723)
Net profit		13,137	9,936	26,448	20,428
Other comprehensive income					
Available-for-sale ("AFS") financial assets					
Changes in fair value recorded in equity		(541)	(101)	(206)	401
Changes in fair value reclassified from equity to profit or loss		(82)	(86)	(157)	(184)
Translation differences on foreign operations		(86)	(144)	(158)	(181)
Other comprehensive (loss)/income for the period	35	(709)	(331)	(521)	36
Total comprehensive income for the period		12,428	9,605	25,927	20,464
Net profit attributable to:					
Shareholders of the Bank		13,116	9,906	26,396	20,357
Non-controlling interests		21	30	52	71
Total comprehensive income attribute to:					
Shareholders of the Bank		12,416	9,592	25,894	20,428
Non-controlling interests		12	13	33	36
Basic earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan) (Restated)	14	0.19	0.18	0.43	0.36

The accompanying notes presented on pages 67 to 104 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 2011	31 December 2010
ASSETS			
Cash and balances with central banks	15	657,510	586,554
Due from other banks and financial institutions	16	374,555	262,976
Financial assets at fair value through profit or loss	17	46,016	46,043
Loans and advances to customers	19	2,381,861	2,190,490
Investment securities — loans and receivables	20	18,364	42,617
Investment securities — available-for-sale	20	196,498	162,170
Investment securities — held-to-maturity (“HTM”)	20	556,779	563,721
Property and equipment	21	34,375	33,911
Deferred income tax assets	27	7,259	7,341
Other assets	22	74,500	55,770
Total assets		4,347,717	3,951,593
LIABILITIES			
Due to other banks and financial institutions	23	778,675	717,032
Financial liabilities at fair value through profit or loss	24	21,139	14,379
Due to customers	25	3,157,975	2,867,847
Other liabilities	26	84,665	71,997
Current tax liabilities		4,816	4,615
Deferred income tax liabilities	27	37	66
Debt securities issued	28	52,000	52,000
Total liabilities		4,099,307	3,727,936
EQUITY			
Capital and reserves attributable to the Bank’s shareholders			
Share capital	29	56,260	56,260
Capital surplus	29	69,465	69,465
Other reserves		88,705	67,107
Retained earnings		33,112	29,941
		247,542	222,773
Non-controlling Interests		868	884
Total equity		248,410	223,657
Total equity and liabilities		4,347,717	3,951,593

This unaudited condensed consolidated interim financial information was approved for issue by the Board of Directors on 62 to 104 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 104 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 29	Capital surplus Note 29	Other Reserves			Revaluation reserve for AFS securities	Translation reserve on foreign operations	Retained earnings* Note 30, 31	Non-controlling interests	Total
			Statutory reserve Note 30	Discretionary reserve Note 30	Statutory general reserve Note 30					
Balance at 1 January 2010	48,994	44,404	9,949	15,987	18,456	1,001	(989)	26,046	577	164,425
Net profit	—	—	—	—	—	—	—	20,357	71	20,428
Changes in fair value recorded in equity	—	—	—	—	—	423	—	—	(22)	401
Changes in fair value reclassified from equity to profit or loss	—	—	—	—	—	(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 interests	—	(29)	—	—	—	—	—	—	(16)	(45)
Capital increase in a subsidiary	—	—	—	—	—	—	—	—	113	113
Dividends paid and accrued	—	—	—	—	—	—	—	(4,899)	(53)	(4,952)
Transfer to reserve	—	—	—	15,285	5,506	—	—	(20,791)	—	—
A share rights issued	3,806	13,194	—	—	—	—	—	—	—	17,000
Balance at 30 June 2010	52,800	57,569	9,949	31,272	23,962	1,253	(1,170)	20,713	802	197,150
Balance at 1 January 2011	56,260	69,465	13,780	31,272	23,962	(589)	(1,318)	29,941	884	223,657
Net profit	—	—	—	—	—	—	—	26,396	52	26,448
Changes in fair value recorded in equity	—	—	—	—	—	(190)	—	—	(16)	(206)
Changes in fair value reclassified from equity to profit or loss	—	—	—	—	—	(154)	—	—	(3)	(157)
Translation difference on foreign operations	—	—	—	—	—	—	(158)	—	—	(158)
Total comprehensive income	—	—	—	—	—	(344)	(158)	26,396	33	25,927
Establishment of new subsidiaries	—	—	—	—	—	—	—	—	21	21
Dividends paid and accrued	—	—	—	—	—	—	—	(1,125)	(70)	(1,195)
Transfer to reserve	—	—	—	16,968	5,132	—	—	(22,100)	—	—
Balance at 30 June 2011	56,260	69,465	13,780	48,240	29,094	(933)	(1,476)	33,112	868	248,410

* Included RMB5,626 million as of 30 June 2011 to be distributed as stock dividend stipulated in Note 31.

The accompanying notes presented on pages 67 to 104 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	
	2011	2010
Cash flows from operating activities:		
Profit before tax:	33,992	26,151
Adjustments for:		
Impairment of loans and advances to customers	5,437	5,060
Impairment of finance lease receivables	118	68
(Reversal of)/provision for impairment of other receivables	(16)	6
Insurance contracts reserve	201	271
Impairment of investment securities	5	78
Depreciation of property and equipment	1,654	1,485
Amortization of deferred assets	228	195
Amortization of land use rights	15	17
Amortization of intangible assets	91	118
Interest income from investment securities	(12,858)	(11,507)
Net gains arising from de-recognition of investment securities	(146)	(161)
Net (gains)/losses on disposal of property and equipment	(65)	28
Increase in revaluation of investment property	(54)	(13)
Interest expense on debt securities issued	981	993
Dividend income	(59)	(25)
Operating cash flows before movements in operating assets and liabilities	29,524	22,764
Net increase in mandatory reserve deposits	(70,786)	(62,386)
Net increase in due from other banks and financial institutions	(96,345)	(76,870)
Net decrease/(increase) in financial assets at fair value through profit or loss	27	(15,729)
Net increase in loans and advances to customers	(196,743)	(233,239)
Net increase in other assets	(17,916)	(18,138)
Net increase in due to other banks and financial institutions	61,643	14,442
Net increase in financial liabilities at fair value through profit or loss	6,760	1,790
Net increase in due to customers	290,128	330,876
Net increase in other liabilities	10,928	18,364
Net increase in business tax payable	371	90
Income tax paid	(7,171)	(5,112)
Net cash generated/(used) in operating activities	10,420	(23,148)

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	
	2011	2010
Cash flows from investing activities:		
Acquisition of subsidiary, net of cash paid	—	(173)
Purchase of investment securities	(144,522)	(209,142)
Disposal or redemption of investment securities	140,418	173,840
Dividends received	59	25
Interest received from investment securities	12,298	11,541
Acquisition of intangible assets and deferred assets	(183)	(230)
Disposal of land use rights	—	2
Purchase and construction of property and equipment	(2,204)	(2,215)
Disposal of property and equipment	246	123
Net cash generated/(used) in investing activities	6,112	(26,229)
Cash flows from financing activities:		
Cash received from A share rights issued, net	—	17,125
Issuance cost paid for A share rights issued	—	(5)
Interest paid on debt securities issued	(997)	(1,046)
Dividends paid to shareholders of the Bank	—	(4,901)
Capital contribution by non-controlling interests	21	186
Acquisition of non-controlling interests	—	(45)
Dividends paid to non-controlling interests	(10)	(8)
Net cash (used)/generated in financing activities	(986)	11,306
Effect of exchange rate changes on cash and cash equivalents	(142)	(933)
Net increase/(decrease) in cash and cash equivalents	15,404	(39,004)
Cash and cash equivalents at the beginning of the period	156,899	168,498
Cash and cash equivalents at the end of the period (Note 36)	172,303	129,494
Supplementary Information		
Interest received	86,214	64,987
Interest paid	(36,844)	(22,855)

The accompanying notes presented on pages 67 to 104 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 2011

(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 137 city level and above branches in the PRC. In addition, the Bank has branches in Hong Kong, Macao, New York, Tokyo, Singapore, Seoul, Frankfurt and Hu Chi Minh City. The Bank's A shares are listed on Shanghai Stock Exchange and its H shares are listed on the Stock Exchange of Hong Kong Limited.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management, trustees, insurance, finance lease and other financial services.

On 30 March 2011, Bank of Communications Financial Leasing Co., Ltd., a subsidiary of the Bank, established two subsidiaries, namely Bankcomm Jinxiang (Shanghai) Aircraft Leasing Company and Bankcomm Hanyang (Shanghai) Shipping Leasing Company. The registered capital of each is RMB1 million, which is 100% owned by Bank of Communications Financial Leasing Co., Ltd. In May 2011, the Bank established a subsidiary, Shihezi Bocom Rural Bank Company Limited, with registered capital of RMB70 million. The Bank owns 70% of this subsidiary. In May 2011, Chiao Tung Developments Limited, a wholly-owned subsidiary of the Bank, established a subsidiary Jin Yan Ireland Co. Limited with registered capital of USD1,000. Chiao Tung Developments Limited owns 100% of this subsidiary.

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGMENTS

A Basis of preparation and accounting estimates and judgments

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 should be read in conjunction with the 2010 annual financial statements.

On 1 January 2011, the Group adopted the following amendments and interpretations, which were applicable for the Group's financial year beginning on 1 July 2010:

IFRSs (Amendments)	Improvements to IFRSs 2010
IFRIC 14 (Amendments)	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

Except for the above mentioned amendments and interpretations, the Group adopts accounting and measurement policies which are consistent with those applied in financial statements for the year ended 31 December 2010.

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

For the six months ended 30 June 2011

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

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGMENTS

*(Continued)*A Basis of preparation and accounting estimates and judgments *(Continued)*

New or revised standards that have been issued but not yet effective are as follows:

IFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets
IAS 19 (Revised 2011)	Employee Benefits
IAS 27 (Revised 2011)	Separate Financial Statements
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures

Except for the application of IFRS 9, the adoption of the above new or revised standards is not expected to have a material effect on the Group's operating results, financial position or comprehensive income.

The Group is considering the impact of IFRS 9 on the consolidated financial statements and the timing of its application.

B Subsidiary undertakings and goodwill

Subsidiaries are all entities over which the Group has control, that is having the power to govern the financial and operating policies, so as to obtain benefits from its activities generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are not consolidated from the date that control ceases.

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

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

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

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

For the six months ended 30 June 2011

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

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGMENTS

(Continued)

C Transactions with non-controlling interests

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

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

D Critical accounting estimates and judgments in applying accounting policies

The preparation of interim financial information 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 the 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 profit or loss, 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. The impairment loss for a loan and advance that is individually assessed for impairment is the difference between estimated discounted future cash flows and book value. When loans and advances are collectively assessed for impairment, 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 (e.g. discounted cash flow model). 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 tax*

The Group is subject to income tax in various jurisdictions; principally, in PRC and Hong Kong. Significant estimates are required in determining the provision for income tax. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated issues from tax audit based on estimates of whether additional taxes will be due. In particular, the deductibility of certain items in PRC 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 2011

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

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGMENTS

(Continued)

D Critical accounting estimates and judgments in applying accounting policies

(Continued)

4) **Held-to-maturity investments**

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 or reclassifying 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 investments**

The Group follows the guidance of IAS 39 to determine when an available-for-sale financial asset or held-to-maturity investment is impaired. The Group determines that an available-for-sale equity investment is impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires management 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.

Objective evidence of impairment for a debt investment exists when one or more events have occurred after the initial recognition of the available-for-sale debt investment and held-to-maturity debt investment that reduce the estimated future cash flows to be received on the debt investment. The Group recognises an impairment loss for the debt investment when there is objective evidence that the debt investment is impaired.

6) **Actuarial assumptions for insurance contracts reserve**

The determination of the liabilities under life and long-term insurance contracts is based on estimates of future benefit payments, premiums and relevant expenses made by the Group, and the margins. Assumptions about mortality rates, morbidity rates, lapse rates, discount rates and expenses assumption are made based on the most recent historical analysis and current and future economic conditions. The liability uncertainty arising from uncertain future benefit payments, premiums and relevant expenses, is reflected in the risk margin.

The residual margin relating to the life and long-term insurance contracts is amortised over the expected life of the contracts, based on the assumptions (mortality rates, morbidity rates, lapse rates, discount rates and expenses assumption) that are determined at inception of the contracts.

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

For the six months ended 30 June 2011

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

3 NET INTEREST INCOME

	Three months ended 30 June		Six months ended 30 June	
	2011	2010	2011	2010
Interest income				
Balances with central banks	2,243	1,670	4,342	3,209
Due from other banks and financial institutions	1,834	1,057	3,329	1,871
Loans and receivables	35,472	25,730	67,555	49,246
Investment in debt securities	6,699	5,885	12,858	11,507
	46,248	34,342	88,084	65,833
Interest expense				
Due to other banks and financial institutions	(7,972)	(4,704)	(14,480)	(8,734)
Due to customers	(12,200)	(8,259)	(23,262)	(16,178)
Debt securities issued	(493)	(499)	(981)	(993)
Certificate of deposits issued	(30)	(14)	(73)	(32)
	(20,695)	(13,476)	(38,796)	(25,937)
Net interest income	25,553	20,866	49,288	39,896

	Six months ended 30 June	
	2011	2010
Interest income on listed investments	3,849	2,569
Interest income on unlisted investments	9,009	8,938
Subtotal	12,858	11,507
Interest income accrued on impaired financial assets	370	287

4 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2011	2010
Investment banking income	3,119	1,783
Fee income on settlement and agent service	2,062	1,633
Bank card related fee income	3,111	2,351
Guarantee and commitment fee income	820	616
Commission income on custodian service	398	336
Commission income on sale of investment funds	286	323
Funds management fee income	302	386
Other fee and commission income	1,245	882
	11,343	8,310

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

For the six months ended 30 June 2011

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

4 FEE AND COMMISSION INCOME (Continued)

	Six months ended 30 June	
	2011	2010
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 through profit or loss	140	102
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	472	336

5 FEE AND COMMISSION EXPENSE

	Six months ended 30 June	
	2011	2010
Fee expense on settlement and agent service	178	186
Syndicated loan fee expense	38	44
Bank card related fee expense	977	748
Other fee and commission expense	106	207
	1,299	1,185

	Six months ended 30 June	
	2011	2010
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 through profit or loss	38	44

6 DIVIDEND INCOME

	Six months ended 30 June	
	2011	2010
Available-for-sale equity investments — unlisted	59	25

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

For the six months ended 30 June 2011

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

7 NET GAINS ARISING FROM TRADING ACTIVITIES

	Six months ended 30 June	
	2011	2010
Foreign exchange	539	699
Interest rate instruments	110	85
	649	784

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

Net income on interest rate instruments includes the gains or losses from securities held for trading, interest rate swaps, interest rate options and other interest rate derivatives.

Net gains arising from trading activities for the period ended 30 June 2011 include a loss of RMB80 million (2010: a loss of RMB37 million) in relation to fair value change of financial liabilities designated at fair value through profit and loss.

8 OTHER OPERATING INCOME

	Six months ended 30 June	
	2011	2010
Profit on sale of land use rights and buildings	74	9
Revaluation of investment property	54	13
Income from sales of franchised precious metal merchandise	1,338	1,049
Other miscellaneous income	205	161
	1,671	1,232

9 IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

	Three months ended 30 June		Six months ended 30 June	
	2011	2010	2011	2010
Loans and advances to customers (Note 19(b))				
— Collectively assessed losses	2,494	2,352	5,470	4,369
— Individually assessed losses	251	363	486	978
	2,745	2,715	5,956	5,347
Less: recovery of loans previously written off	(58)	(55)	(149)	(75)
	2,687	2,660	5,807	5,272

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

For the six months ended 30 June 2011

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

10 OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2011	2010
Staff costs (Note 11)	8,514	6,625
General and administrative expenses	3,604	3,278
Business tax and surcharges	4,158	3,011
Depreciation of property and equipment (Note 21)	1,654	1,485
Operating lease rental expenses	835	738
Supervision fee to regulator	121	205
Amortisation of intangible assets	91	118
Impairment of finance lease receivables	118	68
Impairment of investment securities (Note 20)	5	78
Professional fees	9	10
Amortisation of land use rights	15	17
Litigation expenses	33	—
(Reversal)/provision for impairment of other receivables	(16)	6
Others	3,036	2,203
	22,177	17,842

11 STAFF COSTS

	Six months ended 30 June	
	2011	2010
Salary and bonuses	6,146	4,738
Pension costs	701	636
Housing benefits and subsidies	431	303
Other social security and benefit costs	1,236	948
	8,514	6,625

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	
	2011	2010
Emoluments	4	4

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

In the first six months of 2011, RMB750,000 was accrued for independent non-executive directors' emolument (In the first six months of 2010: RMB750,000).

During the first six months of 2010 and 2011, no cash settled share appreciation rights ("SARs") were exercised.

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

For the six months ended 30 June 2011

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

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(Continued)

Movements in the number of SARs outstanding are as follows:

	Period ended 30 June 2011 Number of shares (In millions)	Year ended 31 December 2010 Number of shares (In millions)
Outstanding at beginning of the period/year	11	11
Granted	—	—
Outstanding at end of the period/year	11	11

13 INCOME TAX

	Three months ended 30 June		Six months ended 30 June	
	2011	2010	2011	2010
Current tax				
— PRC enterprise income tax	3,664	3,040	7,104	5,514
— Hong Kong profits tax	87	65	202	112
— Overseas taxation	41	36	66	64
Deferred income taxes (Note 27)	3,792 (130)	3,141 (411)	7,372 172	5,690 33
	3,662	2,730	7,544	5,723

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

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	
	2011	2010	2011	2010
Profit before tax	16,799	12,666	33,992	26,151
Tax calculated at a tax rate of 25%	4,200	3,167	8,498	6,538
Effect of different tax rates in other countries (or region)	(6)	(5)	(9)	4
Tax effect arising from income not subject to tax (1)	(595)	(446)	(1,073)	(871)
Tax effect of expenses that are not deductible for tax purposes (2)	63	14	128	52
Income tax expense	3,662	2,730	7,544	5,723

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

(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 regulations.

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

For the six months ended 30 June 2011

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

14 BASIC EARNINGS PER SHARE

Basic 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	
	2011	2010 (Restated)
Profit attributable to shareholders of the Bank	26,396	20,357
Weighted average number of ordinary shares in issue	61,886	56,377
Basic earnings per share (expressed in RMB per share)	0.43	0.36

The ordinary shares as of 30 June 2011 and 2010 were adjusted by taking into the consideration of stock dividends declared in Note 31.

15 CASH AND BALANCES WITH CENTRAL BANKS

	30 June 2011	31 December 2010
Cash	12,995	13,298
Balances with central banks other than mandatory reserve deposits	107,571	107,098
Included in cash and cash equivalents (Note 36(b))	120,566	120,396
Mandatory reserve deposits	536,944	466,158
	657,510	586,554

The Group is required to place mandatory reserve deposits with central banks. The mandatory reserve deposits are calculated based on the eligible deposits from customers. Mandatory reserve deposits with central banks are not available for use by the Group in its day to day operations.

	30 June 2011	31 December 2010
Mandatory reserve rate for deposits denominated in RMB	21.50%	19.00%
Mandatory reserve rate for deposits denominated in foreign currencies	5.00%	5.00%

16 DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

	30 June 2011	31 December 2010
Placement with other banks and financial institutions	52,737	37,223
<i>Included in cash and cash equivalents (Note 36(b))</i>	<i>51,737</i>	<i>36,503</i>
Securities purchased under resale agreement	134,822	84,319
Loans purchased under resale agreement	92,934	61,824
Loans and advances to other banks	59,747	58,725
Loans to other financial institutions	34,315	20,885
	374,555	262,976

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

For the six months ended 30 June 2011

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

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2011	31 December 2010
Derivative financial instruments (Note 18)	4,420	4,731
Government bonds		
– Listed in Hong Kong	772	755
– Listed outside Hong Kong	1,441	1,865
– Unlisted	5,808	4,909
Other debt securities		
– Listed in Hong Kong	2,244	2,269
– Listed outside Hong Kong	4,119	3,959
– Unlisted – corporate entities	18,561	17,632
– Unlisted – public sector	101	1,371
– Unlisted – banking sector	8,318	8,385
Equity securities		
– Listed in Hong Kong	231	166
– Listed outside Hong Kong	1	1
	46,016	46,043

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

	30 June 2011	31 December 2010
Securities – Financial assets at fair value through profit or loss		
– Central governments and central banks	8,021	7,529
– Public sector entities	1,693	2,961
– Banks and other financial institutions	11,875	11,818
– Corporate entities	20,007	19,004
	41,596	41,312

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 PRC.

As at 30 June 2011, RMB688 million trading securities of the Group were pledged to third parties and stock exchanges under repurchase agreements and short-selling arrangements (2010: RMB9 million).

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

For the six months ended 30 June 2011

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

18 DERIVATIVE FINANCIAL INSTRUMENTS

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

	Contract/notional Amount	Fair values Assets	Liabilities
As at 30 June 2011			
Foreign exchange contracts	617,829	2,963	(3,087)
Interest rate contracts	301,276	1,457	(2,084)
Total amount of derivative instruments recognised	919,105	4,420	(5,171)
As at 31 December 2010			
Foreign exchange contracts	549,996	3,450	(3,397)
Interest rate contracts	235,596	1,281	(1,753)
Total amount of derivative instruments recognised	785,592	4,731	(5,150)

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

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. Related risks are regularly monitored and controlled by management.

Credit risk weighted amounts

	30 June 2011	31 December 2010
Derivatives		
— Foreign exchange contracts	4,115	3,158
— Interest rate contracts	415	508
	4,530	3,666

Notional amounts of derivative financial instruments by original currency

	30 June 2011	31 December 2010
RMB	477,362	386,299
US Dollars	361,094	326,146
HK Dollars	53,401	40,076
Others	27,248	33,071
Total	919,105	785,592

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

For the six months ended 30 June 2011

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

19 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

	30 June 2011	31 December 2010
Loans and advances to customers	2,433,056	2,236,927
Less: collective impairment allowances	(37,255)	(31,833)
Less: individual impairment allowances	(13,940)	(14,604)
	2,381,861	2,190,490

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

	Six months ended 30 June			
	2011		2010	
	Collectively assessed	Individually assessed	Collectively assessed	Individually assessed
Balance at beginning of period	31,833	14,604	22,778	14,998
Impairment allowances for loans	5,470	2,719	4,369	4,480
Reversal of impairment allowances for loans	—	(2,233)	—	(3,502)
Net impairment allowances for loans charged to profit or loss	5,470	486	4,369	978
Unwind of discount on allowances	—	(370)	—	(287)
Loans written off during the periods as uncollectible	—	(763)	—	(1,985)
Exchange difference	(48)	(17)	(20)	(3)
Balance at end of the period	37,255	13,940	27,127	13,701

	Six months ended 30 June			
	2011		2010	
	Corporate	Retail	Corporate	Retail
Balance at beginning of period	40,833	5,604	32,812	4,964
Impairment allowances for loans	7,204	985	7,657	1,192
Reversal of impairment allowances for loans	(1,997)	(236)	(3,162)	(340)
Net impairment allowances for loans charged to profit or loss	5,207	749	4,495	852
Unwind of discount on allowances	(354)	(16)	(258)	(29)
Loans written off during the periods as uncollectible	(540)	(223)	(1,281)	(704)
Exchange difference	(62)	(3)	(20)	(3)
Balance at end of the period	45,084	6,111	35,748	5,080

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

For the six months ended 30 June 2011

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

19 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Individually assessed loans with impairment

	30 June 2011		31 December 2010	
	Impaired loans	Impaired allowance for individually assessed loans	Impaired loans	Impaired allowance for individually assessed loans
Corporate	21,404	(12,393)	22,507	(13,079)
Individuals	2,531	(1,547)	2,481	(1,525)
	23,935	(13,940)	24,988	(14,604)
			30 June 2011	31 December 2010
Individually assessed impaired loans to loans and advances to customers			0.98%	1.12%

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

	30 June 2011		31 December 2010	
		%		%
PRC domestic regions				
– Jiangsu	301,525	12.39	280,703	12.55
– Beijing	261,106	10.73	265,844	11.88
– Shanghai	264,875	10.89	235,981	10.55
– Guangdong	195,385	8.03	183,342	8.20
– Zhejiang	190,625	7.83	178,264	7.97
– Shandong	107,048	4.40	98,335	4.40
– Hubei	81,781	3.36	77,042	3.44
– Henan	80,505	3.31	75,392	3.37
– Others	765,564	31.47	694,896	31.06
PRC domestic regions total	2,248,414	92.41	2,089,799	93.42
Hong Kong and overseas regions	184,642	7.59	147,128	6.58
Gross amount of loans and advances before allowance for impairment	2,433,056	100.00	2,236,927	100.00

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 2011

(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 2011	%	31 December 2010	%
Corporate loans				
Mining	46,443	1.91	40,223	1.80
Manufacturing				
– Petroleum and chemical	106,797	4.39	93,525	4.18
– Electronics	50,157	2.06	44,993	2.01
– Steel	44,006	1.81	45,568	2.04
– Machinery	81,881	3.37	68,911	3.08
– Textile and clothing	32,714	1.34	29,560	1.32
– Other manufacturing	177,363	7.29	155,663	6.96
Electricity, gas and water production and supply	144,299	5.93	138,707	6.20
Construction	77,087	3.17	68,337	3.05
Transportation, storage and postal service	316,829	13.02	307,422	13.74
Telecommunication, IT service and software	9,131	0.38	9,618	0.43
Wholesale and retail	267,325	10.99	214,588	9.59
Accommodation and catering	18,867	0.78	15,746	0.70
Financial institutions	25,611	1.05	37,108	1.66
Real estate	150,276	6.18	142,868	6.39
Services	151,666	6.23	131,496	5.88
Water conservancy, environmental and other public services	158,012	6.49	163,992	7.33
Education	31,902	1.31	30,192	1.35
Others	27,283	1.11	23,411	1.06
Discounted bills	46,869	1.93	57,074	2.55
Total corporate loans	1,964,518	80.74	1,819,002	81.32
Individual loans				
Mortgage loans	297,298	12.22	268,240	11.99
Credit card advance	51,374	2.11	43,561	1.95
Medium-term and long-term working capital loans	47,602	1.96	31,616	1.41
Short-term working capital loans	39,259	1.61	28,740	1.28
Car loans	6,688	0.27	6,607	0.30
Others	26,317	1.09	39,161	1.75
Total individual loans	468,538	19.26	417,925	18.68
Gross amount of loans and advances before allowance for impairment	2,433,056	100.00	2,236,927	100.00

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

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

For the six months ended 30 June 2011

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

19 LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

	30 June 2011	31 December 2010
Domestic		
Corporate		
State owned entities	589,736	602,646
Collective owned entities	8,698	8,240
Private unlimited companies	122,295	105,219
Private limited companies	665,068	588,915
Joint stock companies	163,648	144,844
Foreign invested enterprises	153,752	132,616
Other domestic entities	49,757	49,692
Discounted bills	45,818	56,891
	1,798,772	1,689,063
Individuals	449,642	400,736
	2,248,414	2,089,799
Hong Kong and Overseas		
Corporate entities	165,746	129,939
Individuals	18,896	17,189
	184,642	147,128
Gross amount of loans and advances before allowance for impairment	2,433,056	2,236,927

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

For the six months ended 30 June 2011

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

20 INVESTMENT SECURITIES

	30 June 2011	31 December 2010
Securities – loans and receivables		
Debt securities – at amortised cost		
– Unlisted	18,364	42,617
Loans and receivables securities	18,364	42,617
Securities – available-for-sale		
Debt securities – at fair value		
– Listed in Hong Kong	982	649
– Listed outside Hong Kong	41,497	27,104
– Unlisted	150,529	130,789
Debt securities, net	193,008	158,542
Equity securities – at fair value		
– Listed in Hong Kong	868	1,108
– Listed outside Hong Kong	1,470	1,502
– Unlisted	1,152	1,018
Equity securities, net	3,490	3,628
Securities – available-for-sale total, net	196,498	162,170
Include: Market value of listed securities – available-for-sale	44,817	30,363

Debt securities at fair value of RMB52,172 million (2010: RMB16,900 million) were pledged to third parties under repurchase agreements.

	30 June 2011	31 December 2010
Securities – held-to-maturity		
Debt securities – at amortised cost		
– Listed in Hong Kong	–	174
– Listed outside Hong Kong	219,448	223,017
– Unlisted	337,331	340,530
Held-to-maturity investments	556,779	563,721
Include: Market value of listed held-to-maturity investments	218,795	222,505

The Group holds bonds issued by the PBOC as at 30 June 2011 amounting to RMB20,965 million (2010: RMB37,023 million). The related interest rates on such bonds for the period ended 30 June 2011 ranged between 2.65% – 4.56% (2010: 2.65% – 4.56%).

Net gains arising from de-recognition of investment securities comprise of:

	Six months ended 30 June	
	2011	2010
Net gains arising from de-recognition of investment securities	146	161

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

For the six months ended 30 June 2011

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

20 INVESTMENT SECURITIES (Continued)

The movements in investment securities are summarised as follows:

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Cost/Fair value				
Balance at 1 January 2011	42,617	163,650	563,721	769,988
Additions	3,641	76,668	64,213	144,522
Disposals (disposal, redemption and write-off)	(27,891)	(41,602)	(71,093)	(140,586)
Losses from changes in fair value	—	(274)	—	(274)
Exchange differences	(3)	(581)	(62)	(646)
At 30 June 2011	18,364	197,861	556,779	773,004
Provision for impairment loss				
Balance at 1 January 2011	—	(1,480)	—	(1,480)
Provision for impairment	—	(5)	—	(5)
Amounts written off during the period as uncollectible	—	106	—	106
Exchange differences	—	16	—	16
At 30 June 2011	—	(1,363)	—	(1,363)
Net				
At 30 June 2011	18,364	196,498	556,779	771,641

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Cost/Fair value				
Balance at 1 January 2010	107,604	133,502	509,179	750,285
Additions	47,484	152,468	159,549	359,501
Disposals (disposal, redemption and write-off)	(112,467)	(119,786)	(104,939)	(337,192)
Losses from changes in fair value	—	(1,515)	—	(1,515)
Exchange differences	(4)	(1,019)	(68)	(1,091)
At 31 December 2010	42,617	163,650	563,721	769,988
Provision for impairment loss				
Balance at 1 January 2010	—	(1,408)	—	(1,408)
Provision for impairment	—	(150)	—	(150)
Amounts written off during the year as uncollectible	—	36	—	36
Exchange differences	—	42	—	42
At 31 December 2010	—	(1,480)	—	(1,480)
Net				
At 31 December 2010	42,617	162,170	563,721	768,508

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

For the six months ended 30 June 2011

(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 2011	31 December 2010
Securities – loans and receivables		
– Central governments and central banks	2,689	3,109
– Banks and other financial institutions	3,104	3,107
– Corporate entities	12,571	36,401
	18,364	42,617
Securities – available for sale		
– Central governments and central banks	45,818	45,620
– Public sector entities	3,949	2,085
– Banks and other financial institutions	94,180	71,817
– Corporate entities	52,551	42,648
	196,498	162,170
Securities – held-to-maturity		
– Central governments and central banks	241,945	252,940
– Public sector entities	10,911	12,085
– Banks and other financial institutions	184,692	180,063
– Corporate entities	119,231	118,633
	556,779	563,721

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

	30 June 2011	31 December 2010
Available-for-sale, at fair value		
– Unlisted	354	528

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

	30 June 2011	31 December 2010
Up to 3 months	—	—
3 to 12 months	226	397
1 to 5 years	128	131
	354	528

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

For the six months ended 30 June 2011

(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
Cost						
At 1 January 2011	25,189	8,076	14,455	586	2,468	50,774
Additions	203	1,512	453	55	93	2,316
Disposals	(227)	(6)	(278)	(22)	(17)	(550)
Transfers in/out	2,974	(3,353)	—	—	379	—
At 30 June 2011	28,139	6,229	14,630	619	2,923	52,540
Accumulated depreciation						
At 1 January 2011	(6,032)	—	(9,936)	(395)	(500)	(16,863)
Charge for the period	(468)	—	(987)	(29)	(170)	(1,654)
Disposals	123	—	212	17	—	352
At 30 June 2011	(6,377)	—	(10,711)	(407)	(670)	(18,165)
Net book value						
At 30 June 2011	21,762	6,229	3,919	212	2,253	34,375

	Land and Buildings	Construction in Progress	Equipment	Motor Vehicles	Property Improvement	Total
Cost						
At 1 January 2010	23,086	6,150	13,263	574	1,602	44,675
Additions	582	4,658	2,141	66	249	7,696
Disposals	(296)	(3)	(949)	(54)	(295)	(1,597)
Transfers in/out	1,817	(2,729)	—	—	912	—
At 31 December 2010	25,189	8,076	14,455	586	2,468	50,774
Accumulated depreciation						
At 1 January 2010	(5,046)	—	(8,917)	(393)	(441)	(14,797)
Charge for the year	(1,083)	—	(1,924)	(53)	(247)	(3,307)
Disposals	97	—	907	51	188	1,243
Transferred-in from newly acquired subsidiaries	—	—	(2)	—	—	(2)
At 31 December 2010	(6,032)	—	(9,936)	(395)	(500)	(16,863)
Net book value						
At 31 December 2010	19,157	8,076	4,519	191	1,968	33,911

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

For the six months ended 30 June 2011

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

	30 June 2011	31 December 2010
Held in Hong Kong		
on long-term lease (over 50 years)	176	184
on medium-term lease (10-50 years)	12	12
on short-term lease (less than 10 years)	—	—
	188	196
Held outside Hong Kong		
on long-term lease (over 50 years)	22	23
on medium-term lease (10-50 years)	20,161	17,664
on short-term lease (less than 10 years)	1,391	1,274
	21,574	18,961
	21,762	19,157

22 OTHER ASSETS

	30 June 2011	31 December 2010
Interest receivable	16,649	15,149
Settlement accounts	10,071	5,616
Other receivables	1,928	1,815
Less: impairment allowance	(662)	(743)
Land use rights (a)	570	693
Foreclosed assets	293	262
Leasehold improvement	559	647
Intangible assets	519	528
Rental deposits	231	222
Goodwill	322	322
Investment property (b)	193	141
Finance lease receivables (c)	42,647	30,303
Less: impairment allowance	(445)	(327)
Others	1,625	1,142
	74,500	55,770

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

For the six months ended 30 June 2011

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

22 OTHER ASSETS (Continued)

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

	30 June 2011	31 December 2010
Held outside Hong Kong		
on medium-term lease (10-50 years)	558	602
on short-term lease (less than 10 years)	12	91
	570	693

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

	30 June 2011	31 December 2010
Held in Hong Kong		
on long-term lease (over 50 years)	71	56
on medium-term lease (10-50 years)	122	85
	193	141

- (c) The finance lease receivables are as follows:

	30 June 2011	31 December 2010
Minimum finance lease receivables		
No later than 1 year	12,912	8,422
Later than 1 year and no later than 5 years	25,778	18,657
Later than 5 years	11,832	8,817
	50,522	35,896
Gross investment in finance leases	50,522	35,896
Unearned finance income	(7,875)	(5,593)
Net investment in finance leases	42,647	30,303
The net investment in finance leases is analysed as follows:		
No later than 1 year	11,208	7,279
Later than 1 year and no later than 5 years	21,168	15,413
Later than 5 years	10,271	7,611
	42,647	30,303
The allowance for uncollectible finance lease receivables	(445)	(327)
Net finance lease receivables	42,202	29,976

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

For the six months ended 30 June 2011

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

23 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

	30 June 2011	31 December 2010
Loans from PBOC	—	20
Deposits from other banks	215,415	198,721
Deposits from other financial institutions	380,700	401,544
Loans from other banks and financial institutions	129,639	98,251
Securities sold under repurchase agreements	50,681	15,231
Credit assets sold under repurchase agreements and others	2,240	3,265
	778,675	717,032

24 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2011	31 December 2010
Derivative financial instruments (Note 18)	5,171	5,150
Short position of securities held for trading	84	1
Debt securities in issue	15,884	9,228
	21,139	14,379

25 DUE TO CUSTOMERS

	30 June 2011	31 December 2010
Corporate demand deposits	1,145,020	1,064,528
Corporate time deposits	1,027,234	890,408
Individual demand deposits	411,304	385,449
Individual time deposits	569,280	520,852
Other deposits	5,137	6,610
	3,157,975	2,867,847
Including:		
Pledged deposits held as collateral	357,344	279,443

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

For the six months ended 30 June 2011

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

26 OTHER LIABILITIES

	30 June 2011	31 December 2010
Interest payable	34,667	32,715
Settlement accounts	28,220	20,166
Staff compensation payable	5,359	6,269
Business and other tax payable	2,665	2,294
Insurance contracts reserve	1,607	1,414
Deposits received for finance leases	1,797	1,204
Provision for outstanding litigation(a)	510	477
Provision for unsettled obligation(a)	152	158
Dividends payable	1,249	64
Others	8,439	7,236
	84,665	71,997

(a) The movements in the provision for outstanding litigation and unsettled obligation are as follows:

	Balances at 31 December 2010	Amounts accrued during the period	Amounts reversed during the period	Balances at 30 June 2011
Provision for outstanding litigation	477	155	(122)	510
Provision for unsettled obligation	158	—	(6)	152
Total	635	155	(128)	662

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 2011 (for period ended 30 June 2010: 25%) for transactions in PRC. 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 2010: 16.5%) for transactions in Hong Kong.

The movements in the deferred income tax account are as follows:

	Six months ended 30 June	
	2011	2010
Balance at beginning of the period	7,275	5,786
Charge to profit or loss	(172)	(33)
Available-for-sale financial assets — fair value remeasurement	119	(83)
Balance at end of the period	7,222	5,670

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

For the six months ended 30 June 2011

(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 2011	31 December 2010
Deferred income tax liabilities		
Available-for-sale financial assets	(91)	(143)
Other temporary differences	(2,020)	(1,601)
	(2,111)	(1,744)
Deferred income tax assets		
Impairment allowances for loans	6,494	6,216
Impairment allowances for investments	329	359
Impairment allowances for other assets	266	386
Unpaid salaries and bonuses	833	1,101
Retirement supplementary pension payable	143	148
Outstanding litigation and unsettled obligation	166	159
Available-for-sale financial assets	404	311
Other temporary differences	698	339
	9,333	9,019
Net deferred income tax assets	7,222	7,275

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

	30 June 2011	31 December 2010
Deferred income tax assets	7,259	7,341
Deferred income tax liabilities	(37)	(66)

The deferred tax charge to profit or loss comprises the following temporary differences:

	Six months ended 30 June	
	2011	2010
Impairment allowances for loans:		
Additional impairment allowances for loans	(1,048)	(482)
Prior year impairment allowances which are approved to be deductible in current period	770	400
Sub-total	(278)	(82)
Impairment allowances for investments	30	(28)
Impairment of other assets	120	83
Outstanding litigation and unsettled obligation	(7)	5
Unpaid salaries and bonuses	268	114
Retirement supplementary pension payable	5	1
Other temporary differences	34	(60)
	172	33

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

For the six months ended 30 June 2011

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28 DEBT SECURITIES ISSUED

	30 June 2011	31 December 2010
Fixed rate subordinated debt — 2022(a)	16,000	16,000
Fixed rate subordinated debt — 2017(a)	9,000	9,000
Fixed rate debt(b)	2,000	2,000
Fixed rate subordinated debt — 2019(c)	11,500	11,500
Fixed rate subordinated debt — 2024(c)	13,500	13,500
	52,000	52,000

- (a) The Group issued subordinated notes amounting to RMB25 billion on 6 March 2007 in the PRC inter-bank market:

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 27 July 2010, Bank of Communications Financial Leasing Co., Ltd, a subsidiary of the Group issued a RMB2 billion term debt in the inter-bank market of the PRC, which has a maturity of three years and bears interest at the annual rate of 3.15%.

- (c) The Group issued subordinated notes amounting to RMB25 billion on 1 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% 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.

29 SHARE CAPITAL AND CAPITAL SURPLUS

	Number of shares (in millions)	Ordinary shares of RMB 1 each (RMB million)	Capital surplus (RMB million)	Total (RMB million)
At 1 January 2011	56,260	56,260	69,465	125,725
At 30 June 2011	56,260	56,260	69,465	125,725

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

For the six months ended 30 June 2011

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

29 SHARE CAPITAL AND CAPITAL SURPLUS (Continued)

The shareholding structure of the Group as at 31 December 2010 and 30 June 2011 is as follows:

	Number of shares (in millions)	Approximated percentage of the Bank's issued share capital
Renminbi ordinary shares (A shares)	29,736	52.85%
Overseas listed foreign shares (H shares)	26,524	47.15%
Total number of shares	56,260	100.00%

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 utilised to offset prior years' accumulated losses, for the issue of bonus shares or for increasing paid-up capital as approved by the Shareholders. There are no changes during the period.

As at 30 June 2011 the Group's capital surplus is listed as follow:

Share premium	68,851
Property revaluation gain designated by MOF	472
Donation of non-cash assets	145
Acquisition of non-controlling interests	(29)
Others	26
Total	69,465

30 RESERVES AND RETAINED EARNINGS

Pursuant to the relevant 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 resolutions to be passed at the Annual General Meeting.

Pursuant to the relevant 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 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 relevant PRC legislation, after the statutory reserve has been transferred from the net distributable profit of the Bank, discretionary reserve is recognised upon approval by the shareholders at the Annual General Meeting.

On 28 June 2011, the shareholders at the 2010 Annual General Meeting approved the following profit appropriation of 2010:

Statutory reserve	3,831
Statutory general reserve	5,132
Discretionary reserve	16,968
	25,931

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

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31 DIVIDENDS

	Six months ended 30 June	
	2011	2010
Paid to shareholders of the Bank in the period	—	4,901

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 the relevant PRC accounting standards;
- Allocations to statutory general reserve;
- Allocations to the discretionary revenue reserve fund if approved by the Annual General Meeting. These funds form part of the shareholders' equity.

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

On 30 March 2011, the Directors proposed and the shareholders at the Annual General Meeting on 28 June 2011 approved, the Bank transferred a total of RMB5,132 million to the statutory general reserve. A profit appropriation was also approved as follows: (i) a ten-for-one stock dividend, amounting to RMB5,626 million, (ii) cash dividend of RMB0.20 (before tax) per every 10 shares, amounting to RMB1,125 million, and (iii) a transfer of RMB16,968 million to discretionary reserve. The registration date for the above stock and cash dividends is 18 July 2011. The actual distribution date is 18 August 2011.

As at 30 June 2011, the retained earnings of the Group include statutory and discretionary reserves provided by its subsidiaries of RMB214 million (2010: RMB214 million), and statutory general reserve (consisting of statutory general reserve and trust compensation reserve) provided by its subsidiaries of RMB208 million (2010: RMB188 million).

32 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 2011	31 December 2010
Letters of guarantee	218,558	198,573
Letters of credit	50,105	51,224
Acceptances	427,588	346,646
Other commitments with an original maturity of		
— Under 1 year	252,815	210,037
— 1 year and over	24,674	32,018
	973,740	838,498

Capital expenditure commitments

	30 June 2011	31 December 2010
Capital expenditure commitments for buildings	2,972	2,846

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

For the six months ended 30 June 2011

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

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

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments on buildings and equipments under non-cancellable operating leases terms are as follows:

	30 June 2011	31 December 2010
Within 1 year	1,301	1,291
Beyond 1 year but not more than 5 years	3,108	3,010
More than 5 years	1,067	981
	5,476	5,282

Commitments on security underwriting and bond acceptance

	30 June 2011	31 December 2010
Outstanding balance on security underwriting	18,350	56,810
Outstanding balance on bond acceptance (a)	24,489	27,094

- (a) The Bank is entrusted by the MOF to underwrite certain Certificates Type Treasury Bonds. The investors of Certificates Type Treasury Bonds have early redemption right while the Bank has the obligation to buy back those Certificates Type Treasury Bonds. The redemption price is the principal value of the Certificates Type 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 Type Treasury Bonds on a back-to-back basis but will pay interest and principal at maturity.

Legal proceedings

The total outstanding claims against the Group (defendant) by a number of third parties at end of the period/year are summarised as follows:

	30 June 2011	31 December 2010
Outstanding claims	1,420	1,384
Provision for outstanding litigation	510	477

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

For the six months ended 30 June 2011

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

33 COLLATERALS

Assets pledged are mainly collaterals under repurchase agreements with other banks and financial institutions and deposits for memberships of stock and future exchange.

	Pledged Assets		Related Liabilities	
	30 June 2011	31 December 2010	30 June 2011	31 December 2010
Trading securities	688	9	674	1
Investment securities	51,661	17,037	50,091	15,231
Loans and others	2,240	3,265	2,240	3,265
	54,589	20,311	53,005	18,497

The Group accepts collaterals, under reverse repurchase agreements, are permitted for sale or re-pledge. As at 30 June 2011, the fair value of such collaterals amounted to RMB860 million (2010: RMB1,023 million). All pledges are conducted under standard and normal business terms. As at 30 June 2011 and 31 December 2010, the Group did not sell or re-pledge any collaterals received.

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

	30 June 2011	31 December 2010
Credit risk weighted amount of financial guarantees and credit related commitments	268,915	257,157

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.

35 OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD

	Six months ended 30 June 2011		
	Before tax amount	Tax (expense) benefit	Net of tax amount
Other comprehensive loss			
Available-for-sale financial assets	(482)	119	(363)
Changes in fair value recorded in equity	(274)	68	(206)
Changes in fair value reclassified from equity to profit or loss	(208)	51	(157)
Translation difference on foreign operations	(158)	—	(158)
Other comprehensive loss for the period	(640)	119	(521)

	Six months ended 30 June 2010		
	Before tax amount	Tax (expense) benefit	Net of tax amount
Other comprehensive income			
Available-for-sale financial assets	300	(83)	217
Changes in fair value recorded in equity	547	(146)	401
Changes in fair value reclassified from equity to profit or loss	(247)	63	(184)
Translation difference on foreign operations	(181)	—	(181)
Other comprehensive income for the period	119	(83)	36

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

For the six months ended 30 June 2011

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

36 NOTES TO CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(a) Analysis of changes in financing activities during the periods

	Dividends	Share capital	Capital surplus	Non-controlling interests	Term debt (including interest payable)
At 1 January 2011	64	56,260	69,465	884	53,294
Non-controlling interests' comprehensive income	—	—	—	33	—
Interest expense on debt securities issued	—	—	—	—	981
Accrued dividends to shareholders of the Bank	1,125	—	—	—	—
Payment of interests	—	—	—	—	(997)
Dividends paid to non-controlling interests	—	—	—	(10)	—
Accrued dividends to non-controlling interests	60	—	—	(60)	—
Capital contribution by non-controlling interests	—	—	—	21	—
At 30 June 2011	1,249	56,260	69,465	868	53,278
At 1 January 2010	67	48,994	44,404	577	54,316
Non-controlling interests' comprehensive income	—	—	—	36	—
Interest expense on debt securities issued	—	—	—	—	993
Accrual of dividends	4,952	—	—	(53)	—
Dividends paid to shareholders of the Bank	(4,901)	—	—	—	—
Payment of interests	—	—	—	—	(1,046)
Dividends paid to non-controlling interests	(8)	—	—	—	—
Capital contribution by non-controlling interests	—	—	—	186	—
Non-controlling interests generated in business combination	—	—	—	72	—
Acquisition of non-controlling interests	—	—	(29)	(16)	—
Cash received from A share rights issued	—	3,806	13,319	—	—
Issuance cost payable for A share rights issued	—	—	(120)	—	—
Issuance cost paid for A share rights issued	—	—	(5)	—	—
At 30 June 2010	110	52,800	57,569	802	54,263

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

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

	30 June 2011	31 December 2010
Cash and balances with central banks (Note 15)	120,566	120,396
Due from other banks and financial institutions (Note 16)	51,737	36,503
	172,303	156,899

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

For the six months ended 30 June 2011

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

37 RELATED PARTY TRANSACTIONS

(a) Transactions with the MOF

As at 30 June 2011, the MOF holds 14,921 million shares of the Bank which represents 26.52% of total share capital of the Bank. The Group enters into banking transactions with the MOF under normal course of business and they mainly include the purchase and redemption of investment securities issued by the MOF and the deposits from the MOF. The volumes and outstanding balances of the related party transactions at the period end, and related income and expenses for the period are summarised as follows:

(i) Treasury bonds

	Six months ended 30 June	
	2011	2010
Purchase from MOF during the period	30,830	24,810
Redemption to MOF during the period	(31,568)	(22,941)
Interest income	4,167	3,324

	30 June 2011	31 December 2010
	Outstanding balance of treasury bonds at beginning of the period	230,309
Outstanding balance of treasury bonds at end of the period	233,805	230,309
Period range of the bonds	3 months–30 years	3 months–30 years
Interest rate range of the bonds	1.55%–6.34%	1.44%–6.34%

(ii) Deposits

	30 June 2011	31 December 2010
	Time Deposits	30,960
Period range of the deposits	6 months–12months	6 months–9 months
Interest rate range of the deposits	4.00%–6.23%	1.98%–4.20%

(iii) Interest paid

	Six months ended 30 June	
	2011	2010
Interest paid	607	262

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

For the six months ended 30 June 2011

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

37 RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with National Council for Social Security Fund

As at 30 June 2011, National Council for Social Security Fund holds 6,389 million shares of the Bank which represents 11.36% of total share capital of the Bank. The Group enters into transactions with National Council for Social Security Fund under normal course of business and they mainly include deposits which are carried out under normal commercial terms and paid at market rates.

The volumes and outstanding balances at the period end, and related interest expenses for the period are summarised as follows:

Deposits

	Six months ended 30 June	
	2011	2010
Outstanding balance at beginning of the period	25,033	13,350
Deposited during the period	3,868	902
Repaid during the period	(368)	(1,219)
Outstanding balance at end of the period	28,533	13,033
Interest expense	665	354

(c) Transactions with The Hongkong and Shanghai Banking Corporation Limited

As at 30 June 2011, The Hongkong and Shanghai Banking Corporation Limited ("HSBC") holds 10,482 million shares of the Bank which represents 18.63% of total share capital of the Bank. Transactions between the Group and HSBC are carried out under normal commercial terms and paid at market rates. Details of transaction volumes and outstanding balances are summarised below:

(i) **Due from HSBC**

	Six months ended 30 June	
	2011	2010
Outstanding at beginning of the period	402	238
Granted during the period	302,254	333,629
Repaid during the period	(302,120)	(333,025)
Outstanding at end of the period	536	842
Interest income	8	10

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

For the six months ended 30 June 2011

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

37 RELATED PARTY TRANSACTIONS (Continued)

(c) Transactions with The Hongkong and Shanghai Banking Corporation Limited

(Continued)

(ii) Due to HSBC

	Six months ended 30 June	
	2011	2010
Outstanding at beginning of the period	10,368	3,214
Deposited during the period	29,242	51,496
Repaid during the period	(28,093)	(47,052)
Outstanding at end of the period	11,517	7,658
Interest expense	16	14

(iii) Investment securities issued by HSBC

	Six months ended 30 June	
	2011	2010
Interest income	27	9

	30 June 2011	31 December 2010
Outstanding balance	2,498	2,482

(iv) Derivative transactions

	30 June 2011	31 December 2010
Notional amount of derivative transactions	34,328	45,196
Fair value of derivative transactions	(297)	(222)

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

For the six months ended 30 June 2011

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

37 RELATED PARTY TRANSACTIONS (Continued)

(d) Transactions with directors and senior management

The Group enters into transactions with directors and senior management under the normal course of business and they mainly include loans and deposits, which are carried out under normal commercial terms and paid at market rates. The volumes during and outstanding balances at the six months ended 30 June 2010 and 2011 are summarised as follows:

(i) Loans

	Six months ended 30 June	
	2011	2010
Outstanding at beginning of the period	2	126
Granted during the period	—	71
Repaid during the period	—	—
Outstanding at end of the period	2	197

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

(ii) Deposits

	Six months ended 30 June	
	2011	2010 (Restated)
Outstanding at beginning of the period	6	5
Deposited during the period	4	3
Repaid during the period	(4)	(3)
Outstanding at end of the period	6	5

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

For the six months ended 30 June 2011

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

38 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, and Inner Mongolia;
- (ii) North Eastern China — Including the following provinces: Liaoning, Jilin, and 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, and Hainan;
- (v) Western China — Including the following provinces: Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang;
- (vi) Head Office;
- (vii) Overseas — Including overseas subsidiaries and the following branches: Hong Kong, New York, Singapore, Seoul, Tokyo, Frankfurt, Macao and Hu Chi Minh City.

	Head Office	Northern China	North Eastern China	Eastern China	Central & Southern China	Western China	Overseas	Eliminations	Group Total
Six months ended 30 June 2011									
External income	22,189	15,130	4,242	34,054	16,000	7,177	3,480	—	102,272
Inter-segment income	1,207	2,904	974	4,215	2,636	899	199	(13,034)	—
Total income	23,396	18,034	5,216	38,269	18,636	8,076	3,679	(13,034)	102,272
Profit before tax	6,365	2,467	1,246	11,934	7,304	3,361	1,315	—	33,992

	Head Office	Northern China	North Eastern China	Eastern China	Central & Southern China	Western China	Overseas	Eliminations	Group Total
Six months ended 30 June 2010									
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)	—
Total income	19,178	13,829	3,790	28,742	13,957	6,040	2,369	(11,247)	76,658
Profit before tax	4,509	2,404	712	9,818	5,422	2,384	902	—	26,151

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

For the six months ended 30 June 2011

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

39 FIDUCIARY ACTIVITIES

The Group provides custody and trustee services to third parties. Those assets held under fiduciary management are not included in the condensed consolidated interim financial information. The Group also grants entrusted loans on behalf of third-party lenders, which are not included in the condensed consolidated interim financial information.

	30 June 2011	31 December 2010
Investment custody accounts	771,080	705,754
Wealth management	172,816	107,062
Entrusted loans	178,477	124,254

40 LIQUIDITY RISK

The tables 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	Undated	Total
As at 30 June 2011									
Assets									
Cash and balances with central banks	120,566	—	—	—	—	—	—	536,944	657,510
Due from other banks and financial institutions	41,492	228,988	52,763	50,460	840	—	12	—	374,555
Financial assets at fair value through profit or loss	—	1,509	3,593	11,584	24,080	5,018	—	232	46,016
Loans and advances to customers	—	149,282	230,830	783,517	619,685	588,281	10,266	—	2,381,861
Investment securities									
— loans and receivables	—	20	290	6,810	8,124	3,120	—	—	18,364
— available-for-sale	—	11,702	13,499	36,577	91,100	40,130	—	3,490	196,498
— held-to-maturity	—	6,924	15,807	87,299	283,737	163,012	—	—	556,779
Other assets, including deferred income tax assets	11,887	7,186	9,378	11,670	21,789	10,280	283	43,661	116,134
Total assets	173,945	405,611	326,160	987,917	1,049,355	809,841	10,561	584,327	4,347,717
Liabilities									
Due to other banks and financial institutions	(153,731)	(138,677)	(54,713)	(95,055)	(308,707)	(27,792)	—	—	(778,675)
Financial liabilities at fair value through profit or loss	(84)	(1,052)	(1,710)	(7,279)	(10,511)	(503)	—	—	(21,139)
Due to customers	(1,574,967)	(386,031)	(337,361)	(669,551)	(189,343)	(722)	—	—	(3,157,975)
Other liabilities, including deferred income tax liabilities	(38,792)	(6,617)	(9,133)	(29,874)	(24,879)	(32,148)	—	(75)	(141,518)
Total liabilities	(1,767,574)	(532,377)	(402,917)	(801,759)	(533,440)	(61,165)	—	(75)	(4,099,307)
Net liquidity gap	(1,593,629)	(126,766)	(76,757)	186,158	515,915	748,676	10,561	584,252	248,410

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

For the six months ended 30 June 2011

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

40 LIQUIDITY RISK (Continued)

	On Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2010									
Assets									
Cash and balances									
with central banks	120,396	—	—	—	—	—	—	466,158	586,554
Due from other banks and financial institutions	20,965	174,617	32,149	34,593	640	—	12	—	262,976
Financial assets at fair value through profit or loss	—	1,492	2,506	13,029	23,766	5,083	—	167	46,043
Loans and advances to customers	—	144,879	221,852	685,487	609,464	519,955	8,853	—	2,190,490
Investment securities									
— loans and receivables	—	4,210	7,112	16,674	11,645	2,976	—	—	42,617
— available-for-sale	—	6,325	9,638	39,293	73,673	29,613	—	3,628	162,170
— held-to-maturity	—	11,460	18,565	69,556	305,703	158,437	—	—	563,721
Other assets, including deferred income tax assets	5,773	4,189	7,878	11,743	16,213	7,651	273	43,302	97,022
Total assets	147,134	347,172	299,700	870,375	1,041,104	723,715	9,138	513,255	3,951,593
Liabilities									
Due to other banks and financial institutions	(207,271)	(83,404)	(54,835)	(73,905)	(248,742)	(48,875)	—	—	(717,032)
Financial liabilities at fair value through profit or loss	(1)	(667)	(1,167)	(6,094)	(5,909)	(541)	—	—	(14,379)
Due to customers	(1,464,798)	(390,483)	(283,667)	(576,360)	(149,038)	(3,501)	—	—	(2,867,847)
Other liabilities, including deferred income tax liabilities	(30,583)	(5,367)	(9,792)	(17,828)	(33,023)	(32,005)	—	(80)	(128,678)
Total liabilities	(1,702,653)	(479,921)	(349,461)	(674,187)	(436,712)	(84,922)	—	(80)	(3,727,936)
Net liquidity gap	(1,555,519)	(132,749)	(49,761)	196,188	604,392	638,793	9,138	513,175	223,657

41 RECLASSIFICATION OF COMPARATIVE FIGURES

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

42 SUBSEQUENT EVENTS

As at 18 August 2011, the Group has completed the distribution procedures for year 2010 stock dividends. The number of shares issued is increased to 61,886 million shares. These shares are now tradable on the stock exchanges.

Supplementary Unaudited Financial Information

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

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1 CAPITAL ADEQUACY RATIOS

The capital adequacy ratios that the Group submitted to the Regulators are calculated in accordance with the formula promulgated by CBRC. The table below summarises the composition of regulatory capital and the ratios of the Group that submitted to the Regulators as at 30 June 2011 and 31 December 2010:

	30 June 2011	31 December 2010
Core capital:		
Paid up ordinary share capital	56,260	56,260
Capital surplus	61,095	63,393
Statutory, discretionary and statutory general reserves	66,330	66,304
Retained earnings	63,864	40,613
Non-controlling interests	722	726
	248,271	227,296
Supplementary capital:		
General allowance of impaired loans	24,598	22,505
Subordinated term debt	50,000	50,000
Other supplementary capital	3,902	4,808
Gross value of supplementary capital	78,500	77,313
Eligible value of supplementary capital	78,500	77,313
Total capital base before deductions	326,771	304,609
Deductions:		
Goodwill	(200)	(200)
Equity investments in financial institutions which are not consolidated	(978)	(964)
Equity investments in enterprises	(340)	(362)
Subordinated debts issued by other banks	(4,530)	(4,530)
	(6,048)	(6,056)
Total capital base after deductions	320,723	298,553
Risk-weighted assets:		
On-statement risk-weighted assets	2,320,242	2,113,491
Off-statement risk-weighted assets	268,915	257,157
Total risk-weighted assets	2,589,157	2,370,648
Market risk capital	3,188	3,649
Capital adequacy ratios	12.20%	12.36%
Core capital adequacy ratios	9.41%	9.37%

Supplementary Unaudited Financial Information (Continued)

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

2 LIQUIDITY RATIOS

The liquidity ratios that the Bank submitted to the Regulators are calculated in accordance with the formula promulgated by CBRC.

	30 June 2011	31 December 2010
Liquidity ratios:	35.69%	32.23%

3 CURRENCY CONCENTRATIONS

30 June 2011	US Dollars	HK Dollars	Others	Total
Spot assets	280,490	68,273	34,061	382,824
Spot liabilities	(191,437)	(113,041)	(46,667)	(351,145)
Forward purchases	291,550	42,746	15,971	350,267
Forward sales	(310,038)	(12,514)	(22,756)	(345,308)
Net option position	38	—	(22)	16
Net long/(short) position	70,603	(14,536)	(19,413)	36,654
Net structural position	3,159	3,962	71	7,192
31 December 2010	US Dollars	HK Dollars	Others	Total
Spot assets	229,761	57,784	27,550	315,095
Spot liabilities	(159,136)	(86,586)	(34,022)	(279,744)
Forward purchases	245,324	34,291	25,266	304,881
Forward sales	(271,705)	(8,277)	(19,734)	(299,716)
Net option position	(6,723)	—	—	(6,723)
Net long/(short) position	37,521	(2,788)	(940)	33,793
Net structural position	5,288	3,979	1,241	10,508

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

	Bank and other financial institutions	Public sector entities	Others	Total
As at 30 June 2011				
Asia Pacific excluding Mainland China	24,245	3,603	78,540	106,388
— of which attributed to Hong Kong	5,939	2,558	64,383	72,880
North and South America	14,678	979	6,854	22,511
Africa	421	—	—	421
Europe	17,455	1,173	5,638	24,266
	56,799	5,755	91,032	153,586

	Bank and other financial institutions	Public sector entities	Others	Total
As at 31 December 2010				
Asia Pacific excluding Mainland China	22,011	5,267	55,021	82,299
— of which attributed to Hong Kong	5,198	2,817	44,494	52,509
North and South America	12,426	366	7,685	20,477
Africa	524	—	—	524
Europe	17,846	1,178	2,471	21,495
	52,807	6,811	65,177	124,795

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 2011	31 December 2010
Gross advances to customers which have been overdue for:		
– within 3 months	6,086	4,614
– between 3 and 6 months	1,802	1,344
– between 6 and 12 months	1,667	2,030
– over 12 months	12,406	12,923
	21,961	20,911
Percentage:		
– within 3 months	0.25%	0.20%
– between 3 and 6 months	0.07%	0.06%
– between 6 and 12 months	0.07%	0.09%
– over 12 months	0.51%	0.58%
	0.90%	0.93%
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	12	12
	12	12
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 2011, there are trade bills which have been overdue for:

	30 June 2011
– within 3 months	–
– between 3 and 6 months	–
– between 6 and 12 months	–
– over 12 months	126
	126

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 2011	31 December 2010
Total rescheduled loans and advances to customers	3,924	2,479
<i>Including: rescheduled loans and advances to customers overdue above 3 months</i>	1,332	753
Percentage of rescheduled loans and advances to customers overdue above 3 months in total loans	0.05%	0.03%

6 SEGMENTAL INFORMATION OF LOANS

(a) Impaired loans by geographical area

	30 June 2011		31 December 2010	
	Impaired loans	Individually assessed provision	Impaired loans	Individually assessed provision
Domestic regions				
– Northern China	3,888	(2,262)	3,860	(2,371)
– North Eastern China	1,881	(1,243)	2,572	(1,602)
– Eastern China	7,055	(4,575)	7,663	(5,067)
– Central & Southern China	9,122	(4,530)	8,390	(4,015)
– Western China	1,661	(1,079)	2,175	(1,288)
	23,607	(13,689)	24,660	(14,343)
Hong Kong, Macao and overseas countries	328	(251)	328	(261)
	23,935	(13,940)	24,988	(14,604)

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

	30 June 2011			31 December 2010		
	Overdue loans	Individually assessed provision	Collective assessed provision	Overdue loans	Individually assessed provision	Collective assessed provision
Domestic regions						
– Northern China	4,312	(2,185)	(9)	3,890	(2,171)	(14)
– North Eastern China	2,040	(1,144)	(7)	2,466	(1,438)	(6)
– Eastern China	7,908	(4,272)	(30)	7,421	(4,395)	(25)
– Central & Southern China	5,287	(2,855)	(25)	4,636	(2,446)	(22)
– Western China	1,836	(916)	(9)	1,952	(1,051)	(6)
	21,383	(11,372)	(80)	20,365	(11,501)	(73)
Hong Kong, Macao and overseas countries	578	(242)	(1)	546	(190)	(1)
	21,961	(11,614)	(81)	20,911	(11,691)	(74)
Fair value of collaterals	10,025			11,013		

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 2011			31 December 2010		
		%	Amount covered by collaterals		%	Amount covered by collaterals
<i>Hong Kong:</i>						
Corporate loans						
Manufacturing						
– Petroleum and chemical	6,384	5.19	—	1,686	1.69	—
– Electronics	1,853	1.51	21	1,835	1.84	13
– Textile and clothing	400	0.33	18	403	0.40	57
– Other manufacturing	3,926	3.19	187	3,913	3.93	210
Electricity, gas and water production and supply	416	0.34	—	170	0.17	—
Construction	5,155	4.19	492	5,194	5.21	496
Transportation, storage and postal service	9,057	7.37	2,159	5,554	5.58	1,721
Telecommunication, IT service and software	1,070	0.87	—	1,109	1.11	—
Wholesale and retail	43,450	35.34	13,410	34,739	34.87	1,670
Accommodation and catering	337	0.27	83	817	0.82	556
Financial institutions	10,445	8.50	936	8,561	8.59	805
Real estate	9,294	7.56	7,917	10,227	10.27	7,710
Services	4,868	3.96	—	2,918	2.93	—
Education	2	0.00	—	2	0.00	—
Others	7,699	6.27	518	5,503	5.54	520
Corporate loans total	104,356	84.89	25,741	82,631	82.95	13,758
Individual loans						
Mortgage loans	9,573	7.79	9,557	11,266	11.31	10,665
Short-term working capital loans	97	0.08	84	93	0.09	87
Credit card advances	94	0.08	—	137	0.14	—
Others	8,814	7.16	6,494	5,493	5.51	6,341
Total individual loans	18,578	15.11	16,135	16,989	17.05	17,093
Gross amount of loans and advances before allowance for impairment	122,934	100.00	41,876	99,620	100.00	30,851
<i>Outside Hong Kong:</i>	2,310,122			2,137,307		

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 34% as the period ended 30 June 2011 (2010: 44%).

(b) Provision on loans and advances by loan usage

	30 June 2011		31 December 2010	
	Impaired loans	Individually assessed provision	Impaired loans	Individually assessed provision
Corporate	21,404	(12,393)	22,507	(13,079)
Individuals	2,531	(1,547)	2,481	(1,525)
	23,935	(13,940)	24,988	(14,604)
Fair value of collateral	8,619	Not applicable	9,174	Not applicable

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

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

	Six months ended 30 June					
	2011			2010		
	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	5,207	(540)	(149)	4,495	(1,281)	(73)
Individuals	749	(223)	—	852	(704)	(2)
	5,956	(763)	(149)	5,347	(1,985)	(75)



YOUR WEALTH MANAGEMENT BANK

Bank of Communications Co., Ltd.

No. 188, Yin Cheng Zhong Lu, Shanghai P.R. China

www.bankcomm.com