交通銀行
BANK OF COMMUNICATIONS

YOUR WEALTH MANAGEMENT BANK

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

2012 INTERIM REPORT

Stock Code: 03328

Contents

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 2012 (the "Reporting Period") prepared under the International Financial Reporting Standards ("IFRSs") are as follows:

			(in millions of RMB unless otherwise stated)
	As at 30 June 2012	As at 31 December 2011	Increase/ (decrease) (%)
Total assets	**5,152,208**	4,611,177	11.73
Include: loans and advances to customers	**2,805,920**	2,561,750	9.53
Total liabilities	**4,853,154**	4,338,389	11.87
Include: customer deposits	**3,592,312**	3,283,232	9.41
Shareholders' equity (excluding non-controlling interests)	**298,029**	271,802	9.65
Net assets per share (excluding non-controlling interests, in RMB yuan)	**4.82**	4.39	9.79
	January to June 2012	January to June 2011	Increase/ (decrease) (%)
Net interest income	**58,394**	49,576	17.79
Profit before tax	**40,168**	33,992	18.17
Net profit (excluding non-controlling interests)	**31,088**	26,396	17.78
Earnings per share (excluding non-controlling interests, in RMB yuan)	**0.50**	0.43	16.28
	As at 30 June 2012 (%)	As at 31 December 2011 (%)	Change (percentage point)
Return on average assets[1]	**1.28**	1.19	0.09
Return on average shareholders' equity[2]	**21.82**	20.52	1.30
Cost-to-income ratio[3]	**25.61**	30.19	(4.58)
Impaired loans ratio[4]	**0.82**	0.86	(0.04)
Provision coverage of impaired loans[5]	**273.53**	256.37	17.16
Core capital adequacy ratio	**9.58**	9.27	0.31
Capital adequacy ratio	**12.57**	12.44	0.13

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 percentage of certain operating expenses and 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

COMPANY SECRETARY

Du Jianglong

AUTHORISED REPRESENTATIVES

Qian Wenhui
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NEWSPAPERS AND WEBSITES FOR INFORMATION DISCLOSURE

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

PLACES WHERE THE INTERIM REPORT ARE AVAILABLE

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 UK LLP

PRC LEGAL ADVISER

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, the PRC
H shares:	Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Hong Kong

LISTING INFORMATION

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

Management Discussion and Analysis

(1) GROUP OPERATION REVIEW

Despite the continuing global economic downturn, China's economy achieved steady growth while working towards achieving predetermined target of macro-control in 2012. However, there were still multiple challenges, such as maintaining a good balance among steady economic growth, inflation control and structure transformation. The banking operation environment in China was also becoming more and more complex. From the global economic perspective, the impact of the global financial crisis was yet disseminated, especially with the continuous negative effect on real economy brought by the European sovereign debt crisis. From the domestic economic perspective, as a result of the complex and ever-changing global economy and the domestic macroeconomic control, China experienced the economic slowdown and the accelerated downstream in price index. In the first half of 2012, China's GDP growth rate was 7.8% as compared with the corresponding period in prior year. In which, the GDP growth rate of the second quarter was 7.6%, hitting its record low since the second quarter of 2009. To tackle the economic downturn, the People's Bank of China ("PBOC") has lowered the reserve ratio three times and has cut deposit and lending benchmark interest rates twice since the end of 2011. As a result, the interest rate marketisation of China is further accelerated, thus creating stronger market competition.

In 2012, the Group responded flexibly to the ever-changing external environment, actively carried out strategic transformation, and further enhanced its market competitiveness, while achieving favourable results. At the end of the Reporting Period, the Group's total assets increased by 11.73% from the beginning of the year to RMB5,152.208 billion. Customer deposits increased by 9.41% from the beginning of the year to RMB3,592.312 billion. Total outstanding balance of loans and advances to customers (before impairment allowances, same applies hereinafter unless otherwise stated) increased by 9.53% from the beginning of the year to RMB2,805.920 billion. Net profits increased by 17.78% as compared with the corresponding period in prior year to RMB31.088 billion. Annualised average return on assets and annualised average return on shareholders' equity were 1.28% and 21.82% respectively, representing an increase of 0.09 and 1.30 percentage points respectively as compared with prior year. Net interest spread and net interest margin increased by 1 and 6 basis points, as compared with the corresponding period in prior year, to 2.47% and 2.61% respectively. The impaired loans ratio decreased by 0.04 percentage point to 0.82% as compared with the beginning of the year, while the provision coverage of impaired loans increased by 17.16 percentage points as compared with the beginning of the year to 273.53%. The Group's capital adequacy ratio and core capital adequacy ratio were 12.57% and 9.58% respectively, which are in compliance with the relevant regulations.

The Group made into the list of FORTUNE 500 for four consecutive years. In terms of operating income, the Group ranked No. 326, leaping forward by 72 positions from prior year. In addition, the Group ranked No. 30 among the global top 1000 banks in terms of Tier-1 Capital by The Banker magazine, moving 5 positions forward as compared with the prior year.

(2) BUSINESS REVIEW

Continuing growth in business scale

The Group continued to closely monitor and proactively respond to the complex market environment, as it focused on balancing the comprehensive development of various business lines and increasing its business scale. At the end of the Reporting Period, the Group's total assets exceeded RMB5,000 billion, increased by 11.73% from the beginning of the year to RMB5,152.208 billion. Customer deposits increased by 9.41% from the beginning of the year to RMB3,592.312 billion. Domestic branches' assets-under-management (AUM) balance for individual customers increased by 8.43% from the beginning of the year to RMB1,632.124 billion. Total outstanding balance of loans and advances to customers increased by 9.53% from the beginning of the year to RMB2,805.920 billion. Furthermore, at the end of the Reporting Period, the Group was awarded the "Best Market Maker in the Interbank Bond Market" as its trade volume in the domestic interbank RMB market and the foreign exchange market amounted to RMB11.47 trillion and USD239.39 billion respectively for the period. Among domestic banks, the Group ranked the top in terms of off-shore assets, representing an increase of 76.70% from the beginning of the year to USD11.431 billion, exceeding USD10 billion for the first time. The Group's asset custody business size exceeded RMB1,000 billion.

Steady improvements in operating efficiency

Benefiting from the continuous improvement of development of various business lines, the Group achieved significant increase in operating performance. During the Reporting Period, the Group's net profit increased by 17.78% to RMB31.088 billion as compared with the corresponding period in prior year.

From the prospective of the reasons for profit growth, on one hand, the profit growth has been driven by net interest income growth resulting from the increasing asset scale. During the Reporting Period, the Group's net interest income increased by 17.79% as compared with the corresponding period in prior year to RMB58.394 billion. On the other hand, the Bank enjoyed progressive development in operating efficiency in its fee-based business through strategic transformation. During the Reporting Period, the Group's net fee and commission income increased by 12.36% as compared with the corresponding period in prior year to RMB10.962 billion. Looking at the structure of fee and commission income, guarantee and commitment and bank card business were the main driving forces in the growth of fee and commission income. During the Reporting Period, guarantee and commitment fee income and bank card fee income, increased by 42.24% and 28.66% as compared with the corresponding period in prior year to RMB1.805 billion and RMB3.641 billion respectively.

While promoting the growth in net operating income, the Group dedicated itself to improve cost management and control, and further improved operating efficiency. During the Reporting Period, the Group's operating cost increased by 10.84% as compared with the corresponding period in prior year to RMB18.455 billion, but the growth rate was 8.14 percentage points lower than the increase in net operating income. The cost-to-income ratio also decreased by 1.69 percentage points as compared with the corresponding period in prior year to 25.61%.

Continuing optimisation in credit structure

Under the circumstance of slowing economic growth and complex market environment, the Group continued to optimise its credit structure to enhance quality of its business growth.

Firstly, the Group continued to optimise its customer structure and to facilitate the development of the loan business to retail small enterprises and individual customers. At the end of the Reporting Period, the loan balance to retail small enterprises increased by 16.86% to RMB175.302 billion from the beginning of the year, while the loan balance to individual customers increased by 5.95% to RMB539.596 billion from the beginning of the year.

Secondly, the Group further adjusted the industry structure for loans through its credit policy characterised as "3-increase – 3-decrease". During the Reporting Period, the number of industries covered by the credit disbursement guidelines increased from 45 to 50. The coverage ratio of the Group's credit assets under its credit policy increased from 90% to 98%. The Group's new loans were primarily made to sectors of energy, consumer consumption, high-end machinery manufacturing industries such as equipment manufacturing and agriculture. The increment of loans to these sectors accounted for more than 40% of total increase in loans and advances to customers in domestic market. During the Reporting Period, the loans to real estate decreased by 0.18 percentage point to 6.01% from the beginning of the year.

Acceleration in promoting the "BoCom Strategy"

Adhering to its business philosophy of "One BoCom, One Customer", the Group actively promoted interactive development in cross-border and cross-industry business and accelerated the implementation of its "BoCom Strategy" — becoming a first class listed universal banking group focusing on international expansion and specialising in wealth management.

In the international front, the overseas business scale and profitability experienced further growth, while its international financial service capability achieved steady improvement. At the end of the Reporting Period, total assets of overseas branches reached RMB403.753 billion, representing an increase of 21.65% from the beginning of the year. Net profits contributed by overseas branches increased by 45.97% as compared with the corresponding period in prior year to a total of RMB1.505 billion. With enriched product services, cross-border RMB business achieved outstanding performance. The Group further expanded its product scope with new products launched such as entrusted foreign exchange, agreement payment and agreement financing services. Its banking services were extended to cross-border investment and financing, agency settlement and interbank deposit. The Group's support to overseas institutions also increased. During the Reporting Period, the Group successfully injected additional operating fund of RMB200 million into its Frankfurt branch. It was the first time for a Chinese financial institution to complete the capital injection in RMB into overseas branch. The Group improved its ability of product innovation, launched a series of service plans for cross-border and interbank import factoring services, diversified foreign exchange financing business products and introduced trading models for foreign exchange forward contracts.

In the comprehensiveness front, the Group made notable progress in its business management with synergies across multiple business lines gradually revealing. At the end of the Reporting Period, total assets of the Group's controlled subsidiaries (excluding the UK subsidiary) reached RMB81.450 billion, increasing by 30.62% from the beginning of the year. Total net profits of these subsidiaries decreased by 12.55% as compared with the corresponding period in prior year to RMB425 million. During the Reporting Period, Bank of Communications Financial Leasing CO., Ltd successfully conducted the first leasing case related to culture industry and the overall rate of return for BoCom Schroder's partial stock fund was among the highest in the industry.

In the wealth management front, the Group took advantage of its international and comprehensive platform, strived to provide comprehensive financial services to its customers, actively building its brand image of "Bank of Communications, Your Wealth Management Bank". In the corporate business front, the Group actively promoted the development of medium-sized customers, introducing the service brand of "Win to Fortune — Kunpeng Program" to its medium-sized customers. The Group accelerated the pace of service innovation, introducing centralised government procurement, insurance bond program and other innovative and integrated service programs. The Group also established the industry-chain financial business model of "One Branch Serving the Whole Country", effectively connecting the settlement and financing services needs from the upstream and downstream industry players. During the Reporting Period, the number of corporate customers increased by 17.72% as compared with the corresponding period in prior year, of which, the number of Win to Fortune customers increased by 8.05% as compared with the corresponding period in prior year. With respect to individual business, the Group enhanced its customer service segmentation strategy, optimised its financial product design and actively expanded its high-quality customer base; vigorously expanded its "Jiayitong" product settlement type customers; strengthened perfection on service management and further enhanced customer experience, with the total number of individual customers increasing by 5.10% from the beginning of the year. The effective customer accounts of private banking, standard OTO, standard wealth management and wage payment services increased by 14.42%, 15.03%, 18.08% and 10.67% respectively from the beginning of the year. The number of "Jiayitong" contracted customers increased by 129.57% to 263.9 thousand from the beginning of the year. Total number of credit cards issued increased by 1.95 million to 24.18 million from the beginning of the year.

Overall improvement in enterprise risk management

In facing the complex macro-economic situation and growing business management pressure, the Group adhered to its sound and prudent management principle and implement measures to the risk management system. Furthermore, the Group released the "Plan of Risk Management 2012–2015" and established the risk appetite management system, thus gradually improved the decision-making system for the Group's risk management committee. From the perspective of credit risk management and control, firstly, the Group focused on its key business areas and unexpected risks, and carried out industry-wide investigation and full watch-list management; implemented total volume control and watch-list monitoring on loans made to real estate industry and financing platforms; and continuously monitored and analysed the suspicious customers for private lending activities. Secondly, the Group fine-tuned its credit risk management process to lay a solid foundation for future development of its credit business. The

Group also carried out the five category loan classification review to enhance its post-loan management. Furthermore, the Group expanded the application of the three tools for operational risk, with increased focus on risk control of business process; continuously carried out cross-industry and cross-border risk management procedures, and developed a system that consist of risk indicators, periodic assessment and limit management for country risk; facilitated the implementation of the New Basel Capital Accord in an orderly manner and deepened the application of risk measurement in the Group's daily operation.

At the end of the Reporting Period, the rate of the Group's impaired loans decreased by 0.04 percentage point to 0.82% while its provision coverage ratio increased by 17.16 percentage points to 273.53% from the beginning of the year.

Broaden the "Trinity" network construction

While putting a huge effort in promoting its business development and improving asset quality, the Group actively explored new model of channel management. As a result, a layout of the "Trinity" network system that included branch network, electronic banking and customer manager was further developed.

With respect to branch network, the Group undertook a number of initiatives, including pushing forward on building integrated service capabilities, promoting the matrix reform at the provincial branch level, expediting the pace of process reengineering and improving institutional evaluation system. At the end of the first half of the year, Bank of Tibet Co., Ltd. which was invested by the Group, was successfully opened for business, 124 branch outlets started the integrated service refurbishment and 12 new branches commenced their operation. The branch coverage ratio of cities at prefecture level increased by 3 percentage points to 55%.

With respect to electronic banking, the Group vigorously expanded its electronic banking channels by speeding up the installation of self-service devices, improving e-commerce construction and making steady progress in customer service. At the end of the first half of the year, the number of the self-service banking outlets exceeded 10,000, amounting to 10,734. Total transactions conducted through self-service banking outlets increased by 20.32% to RMB484.7 billion as compared with the corresponding period in prior year. Electronic banking diversion rate increased by 4.18 percentage points to 70.62% from the beginning of the year. A total of 53 banks have either joined or signed contracts to participate in the extended service network between banks, which connected nearly 6,000 outlets. Transaction volume and frequency of mobile banking increased by 232.48% and 353.70% respectively, as compared with the corresponding period in prior year, which are at the forefront in the industry.

With respect to customer manager, the Group strengthened the building of customer manager team by creating a professional matrix service team structure, as well as laying a foundation for "wealth management" talent, optimised the performance measurement and incentive model and improved the related assessment tools. The Group broadened its customer-oriented sales model with the emphasis of "precision marketing" and "financial planning".

(3) FINANCIAL STATEMENT ANALYSIS

1. Analysis on major income statement items

(1) Profit before tax

During the Reporting Period, the Group's profit before tax increased by RMB6.176 billion or 18.17% as compared with the corresponding period in prior year to RMB40.168 billion. Profit before tax was derived mainly from net interest income, net fee and commission income.

The table below illustrates selected items which make up the Group's profit before tax for the periods indicated:

	(in millions of RMB)	
	For the six months ended 30 June	
	2012	2011
Net interest income	**58,394**	49,576
Net fee and commission income	**10,962**	9,756
Impairment losses on loans and advances to customers	**(7,136)**	(5,807)
Profit before tax	**40,168**	33,992

(2) Net interest income

During the Reporting Period, the Group's net interest income increased by RMB8.818 billion as compared with the corresponding period in prior year to RMB58.394 billion. This accounted for 78.93% of the Group's net operating income and was a major component of the Group's income.

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

(in millions of RMB unless otherwise stated)

	For the six month ended 30 June 2012			For the six month ended 30 June 2011		
	Average balance	Interest income/ (expense)	Annualised average yield/(cost) ratio (%)	Average balance	Interest income/ (expense)	Annualised average yield/(cost) ratio (%)
Assets						
Balances with central banks	**701,887**	**5,461**	**1.56**	567,694	4,342	1.53
Due from banks and other financial institutions	**331,505**	**6,129**	**3.70**	195,740	3,329	3.40
Loans and advances to customers and receivables	**2,724,197**	**91,911**	**6.75**	2,369,304	67,843	5.73
Of which: Corporate loans and receivables	**2,096,278**	**69,824**	**6.66**	1,864,326	53,145	5.70
Personal loans	**481,277**	**17,081**	**7.10**	419,043	12,356	5.90
Discount bills	**146,642**	**5,006**	**6.83**	85,935	2,342	5.45
Investment securities	**799,912**	**14,702**	**3.68**	798,886	12,858	3.22
Total interest-bearing assets	**4,481,849** [3]	**116,698** [3]	**5.21**	3,884,076 [3]	87,425 [3]	4.50
Total non-interest-bearing assets	**187,577**			171,628		
TOTAL ASSETS	**4,669,426** [3]			4,055,704 [3]		
Liabilities and Shareholders' Equity						
Due to customers	**3,179,543**	**34,510**	**2.17**	2,876,281	23,262	1.62
Of which: Corporate deposits	**2,185,143**	**24,065**	**2.20**	1,946,872	16,416	1.69
Personal deposits	**994,400**	**10,445**	**2.10**	929,409	6,846	1.47
Due to banks and other financial institutions	**1,058,354**	**23,494**	**4.44**	814,133	14,480	3.56
Debts issued and others	**91,832**	**1,805**	**3.93**	65,095	1,054	3.24
Total interest-bearing liabilities	**4,254,077** [3]	**58,304** [3]	**2.74**	3,707,961 [3]	37,849 [3]	2.04
Shareholders' equity and non-interest-bearing liabilities	**415,349**			347,743		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**4,669,426** [3]			4,055,704 [3]		
Net interest income		**58,394**			49,576	
Net interest spread[1]			**2.47** [3]			2.46 [3]
Net interest margin[2]			**2.61** [3]			2.55 [3]
Net interest spread[1]			**2.53** [4]			2.53 [4]
Net interest margin[2]			**2.67** [4]			2.61 [4]

Notes:

1. This represents the difference between the annualised average yield on total average interest-bearing assets and the annualised average cost of total average 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 in its net interest margin and thus its net interest income increased significantly. The Group's net interest spread and net interest margin increased by 1 and 6 basis points as compared with the corresponding period in prior year to 2.47% and 2.61% respectively. The reasons that the gap between net interest spread and net interest margin was widened were: (1) the continuing impact of increase in interest rates of last round; (2) the Group has further improved its pricing capability; (3) the Group has optimised its asset-liability structure.

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

(in millions of RMB)

	Comparison between January to June 2012 and January to June 2011 Increase/(decrease) due to		
	Balance	Interest rate	Net increase/ (decrease)
Interest-bearing assets			
Balances with central banks	1,027	92	1,119
Due from banks and other financial institutions	2,308	492	2,800
Loans and advances to customers and receivables	10,168	13,900	24,068
Investment securities	17	1,827	1,844
Changes in interest income	13,520	16,311	29,831
Interest-bearing liabilities			
Customer deposits	2,456	8,792	11,248
Due to banks and other financial institutions	4,347	4,667	9,014
Debt issued and others	433	318	751
Changes in interest expense	7,236	13,777	21,013
Changes in net interest income	6,284	2,534	8,818

During the Reporting Period, the Group's net interest income increased by RMB8.818 billion as compared with the corresponding period in prior year, of which the increase of RMB6.284 billion was due to changes in the average balances of interest-bearing assets and interest-bearing liabilities, while the increase of RMB2.534 billion was due to changes in the average rate of return and average cost ratio.

① **Interest income**

During the Reporting Period, the Group's gross interest income increased by RMB29.831 billion or 33.76% as compared with the corresponding period in prior year to RMB118.203 billion.

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

Interest income from loans and advances to customers and receivables contributed the most to the Group's interest income. During the Reporting Period, interest income from loans and advances to customers and receivables increased by RMB24.068 billion or 35.48% as compared with the corresponding period in prior year to RMB91.911 billion, largely due to the increase in loans and advances to customers and receivables, as well as the average lending rates.

B. *Interest income from investment securities*

During the Reporting Period, interest income from investment securities increased by RMB1.844 billion or 14.34% as compared with the corresponding period in prior year to RMB14.702 billion. The Group managed to seize favourable opportunities for investments, strengthened its prospective study and optimised its investment structure. This, in turn, helped to maintain the return on investment securities at a relatively high level of 3.68%.

C. *Interest income from balances with central banks*

Balances with central banks mainly included balances in statutory reserves and in excess statutory reserves. During the Reporting Period, due to the increase in average balances with central banks by RMB134.193 billion or 23.64%, interest income from balances with central banks reached RMB5.461 billion, representing an increase of RMB1.119 billion as compared with the corresponding period in prior year. The growth of the statutory reserve was primarily caused by two factors: (1) increase in customer deposits; (2) the continuing impact of increase in statutory reserve ratio of last round.

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

Total interest income from balances due from banks and other financial institutions increased by RMB2.800 billion or 84.11% as compared with the corresponding period in prior year to RMB6.129 billion. This was mainly driven by the increase of trading volume in the interbank market, the average outstanding balance of which increased by 69.36% as compared with the corresponding period in prior year.

② **Interest expense**

During the Reporting Period, the Group's interest expense increased by RMB21.013 billion or 54.16% as compared with the corresponding period in prior year to RMB59.809 billion.

A. *Interest expense on balances due to customers*

Customer deposits were the Group's main source of funding. During the Reporting Period, interest expense on customer deposits increased by RMB11.248 billion, or 48.35% as compared with the corresponding period in prior year to RMB34.510 billion. This accounted for 57.70% of total interest expense. The increase in interest expense on customer deposits was firstly due to the increase in the scale of customer deposits and secondly due to the increasing average cost of customer deposits during the Reporting Period as compared with the corresponding period in prior year as a result of the continuing impact of increase in interest rates of last round.

B. *Interest expense on balances due to banks and other financial institutions*

During the Reporting Period, interest expense on balances due to banks and other financial institutions increased by RMB9.014 billion or 62.25% as compared with the corresponding period in prior year to RMB23.494 billion. This was mainly due to an increase of 30.00% in average balances due to banks and other financial institutions as compared with the corresponding period in prior year. At the same time, the average cost ratio due to banks and other financial institutions increased as compared with the corresponding period in prior year due to the relative high market interest rate and liquidity squeeze.

C. *Interest expense on debts issued and others*

During the Reporting Period, interest expense on debts issued and other interest-bearing liabilities increased by RMB0.751 billion as compared with the corresponding period in prior year to RMB1.805 billion. The average cost of funding increased from 3.24% in the corresponding period in prior year to 3.93%.

(3) Net fee and commission income

Net fee and commission income was a major component of the Group's net operating income. During the Reporting Period, the Group continuously improved the quality and efficiency of its fee-based business, accelerated the transformation of its profit-making model and moved towards a business model with diversified revenue streams. During the Reporting Period, the Group's net fee and commission income increased by RMB1.206 billion or 12.36% as compared with the corresponding period in prior year to RMB10.962 billion. Guarantee and commitment, bank card and management service have been the main growth areas of the Group's fee-based business.

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

	(in millions of RMB)	
	For the six months ended 30 June	
	2012	2011
Settlement service	**1,013**	959
Bank card	**3,641**	2,830
Investment banking	**3,412**	3,546
Guarantee and commitment	**1,805**	1,269
Management service	**1,616**	1,395
Agency service	**764**	912
Others	**210**	144
Total fee and commission income	**12,461**	11,055
Less: Fee and commission expense	**(1,499)**	(1,299)
Net fee and commission income	**10,962**	9,756

Fee income on settlement service increased by RMB0.054 billion or 5.63% as compared with the corresponding period in prior year to RMB1.013 billion. The increase was mainly due to the increase in trading volume.

Fee income on bank card increased by RMB0.811 billion or 28.66% as compared with the corresponding period in prior year to RMB3.641 billion. The increase was mainly due to the increase in card issuance and the related spending as well as higher transaction volume at self-service devices.

Fee income on investment banking decreased by RMB0.134 billion or 3.78% as compared with the corresponding period in prior year to RMB3.412 billion. The decrease was mainly due to the decrease in the Group's consulting services income as compared with the corresponding period in prior year.

Fee income on guarantee and commitment increased by RMB0.536 billion or 42.24% as compared with the corresponding period in prior year to RMB1.805 billion. The increase was mainly due to the increase in acceptance bills and letters of credit and other off-balance sheet businesses.

Fee income on management service increased by RMB0.221 billion or 15.84% as compared with the corresponding period in prior year to RMB1.616 billion. This was mainly driven by the increase in commission income from custodian services and loan syndication.

Fee income on agency service decreased by RMB0.148 billion or 16.23% as compared with the corresponding period in prior year to RMB0.764 billion. The decrease was mainly due to the low volume in fund commission fee caused by the poor stock market, as compared with the corresponding period in prior year.

(4) Operating costs

The Group continuously strengthened its cost management. During the Reporting Period, the Group's operating cost increased by RMB1.805 billion or 10.84% as compared with the corresponding period in prior year to RMB18.455 billion, 8.14 percentage points lower than the increase in net operating income. The cost-to-income ratio decreased by 1.69 percentage points as compared with the corresponding period in prior year to 25.61%, representing further enhancement of operating efficiency.

(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 RMB1.329 billion as compared with the corresponding period in prior year to RMB7.136 billion. The increase was comprised of (1) an increase in collectively assessed allowances by RMB0.640 billion as compared with the corresponding period in prior year to RMB6.110 billion; (2) an increase in individually assessed allowances by RMB0.689 billion as compared with the corresponding period in prior year to RMB1.026 billion. During the Reporting Period, credit-to-cost ratio increased by 0.03 percentage point as compared with the corresponding period in prior year to 0.51%.

(6) Income tax

During the Reporting Period, the Group's income tax expense increased by RMB1.484 billion or 19.67% as compared with the corresponding period in prior year to RMB9.028 billion. The effective tax rate was 22.48%, which was lower than the statutory tax rate of 25%, was due to the tax exemption of interest income from government bonds held by the Group pursuant to the relevant tax provisions.

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

	(in millions of RMB)	
	For the six months ended 30 June	
	2012	2011
Current tax	**11,771**	7,372
Deferred tax	**(2,743)**	172

2. Analysis on major balance sheet items

(1) Assets

At the end of the Reporting Period, the Group's total assets was RMB5,152.208 billion, representing an increase of RMB541.031 billion or 11.73% from the beginning of the year.

The table below illustrates 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:

	(in millions of RMB unless otherwise stated)			
	30 June 2012		31 December 2011	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Loans and advances to customers	**2,743,356**	**53.25**	2,505,385	54.33
Investment securities	**831,709**	**16.14**	799,946	17.35
Cash and balances with central banks	**758,030**	**14.71**	736,999	15.98
Due from banks and other financial institutions	**658,323**	**12.78**	443,240	9.61
Total assets	**5,152,208**		4,611,177	

① **Loans and advances to customers**

During the Reporting Period, the Group reasonably controlled the volume, direction and pace of credit disbursements policy, which brought balanced and steady increase in loans. At the end of the Reporting Period, the Group's total loans and advances to customers increased by RMB244.170 billion or 9.53% from the beginning of the year to RMB2,805.920 billion, among which the increase in RMB loans from domestic branches amounted to RMB155.074 billion or 6.81% from the beginning of the year.

Loans concentration by industry

During the Reporting Period, the Group actively supported the upgrading of industrial structure and the development of real economy, as well as vigorously promoted the optimisation of its own business structure.

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

(in millions of RMB unless otherwise stated)

	30 June 2012		31 December 2011	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Mining	**66,004**	**2.35**	51,040	1.99
Manufacturing				
— Petroleum and chemical	**107,566**	**3.83**	103,193	4.03
— Electronics	**48,802**	**1.74**	52,532	2.05
— Steel, smelting and processing	**44,773**	**1.60**	42,547	1.66
— Machinery	**100,445**	**3.58**	89,785	3.50
— Textile and clothing	**37,234**	**1.33**	34,996	1.37
— Other manufacturing	**211,461**	**7.54**	188,906	7.37
Electricity, gas and water production and supply	**143,034**	**5.10**	141,316	5.52
Construction	**95,260**	**3.39**	80,621	3.15
Transportation, storage and postal service	**342,731**	**12.21**	329,566	12.86
Telecommunications, IT services and software	**9,235**	**0.33**	10,195	0.40
Wholesale and retail	**366,105**	**13.05**	290,874	11.35
Accommodation and catering	**22,230**	**0.79**	21,009	0.82
Financial services	**19,664**	**0.70**	22,995	0.90
Real estate	**168,517**	**6.01**	158,688	6.19
Services	**176,531**	**6.29**	160,039	6.25
Water conservancy, environmental and other public utilities	**146,828**	**5.23**	151,161	5.90
Education, science, culture and public health	**36,456**	**1.30**	32,647	1.27
Others	**46,686**	**1.66**	40,136	1.58
Discounted bills	**76,762**	**2.74**	50,197	1.96
Total corporate loans	**2,266,324**	**80.77**	2,052,443	80.12
Mortgage loans	**325,741**	**11.61**	312,897	12.21
Credit card advances	**92,292**	**3.29**	74,194	2.90
Medium-term and long-term working capital loans	**53,471**	**1.91**	51,060	1.99
Short-term working capital loans	**33,882**	**1.21**	37,495	1.46
Car loans	**4,503**	**0.16**	5,632	0.22
Others	**29,707**	**1.05**	28,029	1.10
Total personal loans	**539,596**	**19.23**	509,307	19.88
Gross amount of loans and advances to customers before impairment allowance	**2,805,920**	**100.00**	2,561,750	100.00

At the end of the Reporting Period, the Group's corporate loans increased by RMB213.881 billion or 10.42% from the beginning of the year to RMB2,266.324 billion. In which, the four industries, where loans were concentrated in were of manufacturing, wholesale and retail, transportation, storage and postal service, and services, which collectively accounted for 63.35% of total corporate loans.

At the end of the Reporting Period, the Group's personal loans increased by RMB30.289 billion or 5.95% from the beginning of the year to RMB539.596 billion. The proportion of personal loans as a percentage to total loans and advances to customers decreased by 0.65 percentage point from the beginning of the year to 19.23%.

Loan concentration by borrowers

At the end of the Reporting Period, lending to the largest single customer of the Group accounted for 1.93% of the Group's net capital; total loans made to the top 10 customers accounted for 16.47% of the Group's net capital, which are in compliance with the regulatory requirements.

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

(in millions of RMB unless otherwise stated)

		As at 30 June 2012	
	Type of industry	**Loan balance**	**Percentage of total loans and advances (%)**
Customer A	Transportation, storage and postal service	7,372	0.27
Customer B	Transportation, storage and postal service	7,317	0.26
Customer C	Manufacturing	6,568	0.23
Customer D	Transportation, storage and postal service	6,461	0.23
Customer E	Transportation, storage and postal service	6,326	0.23
Customer F	Others	6,286	0.22
Customer G	Real estate	6,000	0.21
Customer H	Services	5,730	0.20
Customer I	Transportation, storage and postal service	5,591	0.20
Customer J	Transportation, storage and postal service	5,285	0.19
Total		**62,936**	**2.24**

Loan concentration by geographical locations

The Group's credit customers are mainly concentrated in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta. At the end of the Reporting Period, loans and advances to customers in these three regions accounted for 33.22%, 21.21% and 7.81% of the Group's total loans, increased by 12.22%, 4.59% and 5.88% respectively from the beginning of the year.

Loan quality

The Group continuously improved the quality of its loans. At the end of the Reporting Period, the impaired loans ratio dropped by 0.04 percentage point from the beginning of the year to 0.82%. The provision coverage ratio of impaired loans increased by 17.16 percentage points from the beginning of the year to 273.53%, representing further strengthening of its risk prevention capacity.

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

(in millions of RMB unless otherwise stated)		
	30 June 2012	31 December 2011
Impaired loans	**22,873**	21,986
Loans overdue by more than 90 days	**16,769**	15,228
Percentage of impaired loans to gross amount of loans and advances to customers (%)	**0.82**	0.86

Loan customer structure

At the end of the Reporting Period, based on the Bank's internal rating system, loans and advances to corporate customers of domestic branches of class 1 to class 8, accounted for 92.39% of total loans and advances to corporate customers and decreased by 0.85 percentage point from the beginning of the year; loans and advances to corporate customers of class 9 to class 12 accounted for 4.43% and decreased by 0.05 percentage point from the beginning of the year; loans and advances to corporate customers of class 13 to class 15 accounted for 1.02% and increased by 0.03 percentage point from the beginning of the year.

② **Investment securities**

At the end of the Reporting Period, the Group's investment securities increased by RMB31.763 billion or 3.97% from the beginning of the year to RMB831.709 billion. Return on investment securities reached a relatively satisfactory level of 3.68%, profiting from the reasonable allocation and continuous optimisation of investment structure.

Distribution of the Group's investment securities

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

— By financial asset classification

(in millions of RMB unless otherwise stated)

	30 June 2012		31 December 2011	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Financial assets at fair value through profit or loss	**37,687**	**4.53**	42,837	5.35
Investment securities — loans and receivables	**27,353**	**3.29**	28,256	3.53
Investment securities — available-for-sale	**208,153**	**25.03**	184,092	23.01
Investment securities — held-to-maturity	**558,516**	**67.15**	544,761	68.11
Total	**831,709**	**100.00**	799,946	100.00

— By type of issuers

(in millions of RMB unless otherwise stated)

	30 June 2012		31 December 2011	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Governments and central banks	**294,291**	**35.39**	288,692	36.09
Public sector entities	**13,181**	**1.58**	14,504	1.81
Banks and other financial institutions	**342,736**	**41.21**	290,583	36.33
Corporate entities	**181,501**	**21.82**	206,167	25.77
Total	**831,709**	**100.00**	799,946	100.00

(2) Liabilities

At the end of the Reporting Period, the Group's total liabilities increased by RMB514.765 billion or 11.87% from the beginning of the year to RMB4,853.154 billion. Customer deposits increased by RMB309.080 billion from the beginning of the year. This accounted for 74.02% of total liabilities, representing a decrease of 1.66 percentage points from the beginning of the year. Balances due to banks and other financial institutions increased by RMB195.798 billion and accounted for 21.64% of total liabilities, which was 1.94 percentage points higher than the beginning of the year.

Customer deposits

Customer deposits were the main source of funding for the Group. At the end of the Reporting Period, the Group's customer deposit balance increased by RMB309.080 billion or 9.41% from the beginning of the year to RMB3,592.312 billion. With respect to the Group's customer structure, the proportion of corporate deposits decreased by 0.71 percentage point from the beginning of the year to 67.77%. The proportion of individual deposits to total deposits increased by 0.71 percentage point from the beginning of the year to 32.10%. With respect to deposit terms, the proportion of demand deposits to total deposits decreased by 3.36 percentage points from the beginning of the year to 45.58%, while the proportion of time deposits increased by 3.36 percentage points from the beginning of the year to 54.29%.

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

(in millions of RMB)

	30 June 2012	31 December 2011
Corporate deposits	**2,434,479**	2,248,317
Include: Corporate demand deposits	**1,187,800**	1,184,123
Corporate time deposits	**1,246,679**	1,064,194
Individual deposits	**1,153,184**	1,030,605
Include: Individual demand deposits	**449,636**	422,487
Individual time deposits	**703,548**	608,118

3. Analysis on major statement of cash flows items

At the end of the Reporting Period, the Group's cash and cash equivalents increased by RMB161.806 billion from the beginning of the year to RMB371.441 billion.

The net cash inflows from operating activities increased by RMB185.932 billion as compared with the corresponding period in prior year to RMB196.352 billion, which was mainly due to the net cash inflow of amounts due to banks and other financial institutions.

The net cash outflows from investing activities increased by RMB30.994 billion as compared with the corresponding period in prior year to RMB24.882 billion, which was mainly due to the increase in net cash outflows resulted from the investment securities.

The net cash outflows from financing activities increased by RMB8.526 billion as compared with the corresponding period in prior year to RMB9.512 billion, which was mainly due to the repayment of principle and interest on issued bonds.

4. Segment analysis

(1) Operating results by geographical segments

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

				(in millions of RMB)
	For the six months ended 30 June			
	2012		2011	
	Profit before tax	**Total income[1]**	Profit before tax	Total income[1]
Northern China[2]	**6,059**	**38,797**	4,779	29,759
North-eastern China[3]	**1,369**	**9,837**	1,342	7,789
Eastern China[4]	**13,433**	**73,840**	11,988	55,896
Central and Southern China[5]	**7,420**	**36,416**	6,779	26,746
Western China[6]	**3,067**	**16,176**	2,934	11,965
Overseas[7]	**1,734**	**5,548**	1,315	3,679
Head office	**7,086**	**40,927**	4,855	28,819
Eliminations	**–**	**(86,254)**	–	(62,381)
Total[8]	**40,168**	**135,287**	33,992	102,272

Notes:

1. Includes interest income, fee and commission income, dividend income, net gains/(losses) from trading activities, net gains/(losses) arising from de-recognition of investment securities, insurance business income, net investment gains/(losses) of an associate 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 Hong Kong Branch, New York Branch, Singapore Branch, Seoul Branch, Tokyo Branch, Frankfurt Branch, Macau Branch, Ho Chi Minh City Branch, San Francisco Branch, Sydney Branch, Taipei Branch, Bank of Communications (UK) Co., Ltd. and other overseas subsidiaries (same applies hereinafter).
8. Includes minority interest income.

(2) Deposits and loans and advances by geographical segments

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

				(in millions of RMB)
	30 June 2012		31 December 2011	
	Deposits balance	**Loans and advances balance**	Deposits balance	Loans and advances balance
Northern China	**631,677**	**467,613**	615,680	449,585
North-eastern China	**234,291**	**141,379**	217,617	129,009
Eastern China[Note]	**1,398,475**	**1,096,088**	1,280,206	1,002,609
Central and Southern China	**762,928**	**511,160**	679,097	479,278
Western China	**359,354**	**259,311**	316,843	238,853
Overseas	**204,113**	**228,206**	172,409	186,445
Head office	**1,474**	**102,163**	1,380	75,971
Total	**3,592,312**	**2,805,920**	3,283,232	2,561,750

Note: Excluding head office.

(3) 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 was the primary source of income for the Group, and accounted for 64.49% of the Group's net interest income.

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

					(in millions of RMB)
	For the six months ended 30 June 2012				
	Corporate banking	**Retail banking**	**Treasury operations**	**Other businesses**	**Total**
Net interest income	**37,657**	**11,902**	**8,614**	**221**	**58,394**
— Net interest income/(expenses) from external customers	**31,832**	**6,498**	**19,843**	**221**	**58,394**
— Net interest income/(expenses) from internal customers	**5,825**	**5,404**	**(11,229)**	**–**	**–**

(4) RISK MANAGEMENT

In the first half of 2012, leveraging on the successful experience of "mid-term plan guiding the development of risk management", the Bank formulated the "Plan of Risk Management 2012–2015". Through the integration of internal management improvement, external regulatory requirements and the implementation of New Basel Capital Accord, the Bank devised an overall plan for the future development of risk management. The board of directors of the Bank (the "Board") further defined the risk appetite of the Bank and set the Bank's risk attitude as "stability, balance, compliance and innovation". During the Reporting Period, under the guidance of overall planning and risk attitude, the Bank firmly uphold the "steady development, increase efficiency" risk control, and achieved to "facilitate transformation, seize the chance of reform" by way of high efficient risk management, so as to realise the long term system establishment and core risk management and control which carried equal weight and created a win-win situation.

1. Risk preference

The Bank strictly adhered to its "stability, balance, compliance and innovation" risk appetite. With its strong corporate culture emphasising compliance and constraints from external regulation and internal policies, the Bank managed its key business risks effectively and rationally, while actively supporting management innovation. Following its stable and balanced risk management philosophy, the Bank pushed forward its risk management standard to a level of international mature market through maintaining a dynamic balance between risk and return and the balance among business scale, quality and return. The Bank also strengthened its market position as the fifth largest domestic bank through its risk management enhancement, which effectively supported the Bank's development in growth and business scale.

Based on the above risk appetite, the Bank defined its risk tolerance in 4 dimensions — return, capital, quality and assessment, set risk limit for each individual risk, and performed regular monitoring on its overall risk status.

2. Risk management framework

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 underlying risk management committee. The senior management also established its own enterprise risk management committee. The committee is dedicated to implement the Board's risk management strategy, to standardise management process, optimise the working system, and perform evaluations on the effectiveness of risk management function in an all-around way. Three special risk management subcommittees have been established under the enterprise risk management committee. They are the credit risk management committee, market and liquidity risk management committee, and operational risk management and anti-money laundering committee. Two business review committees, namely the loan credit review committee and the high-risk assets review committee have also been established. These sub-committees which is called "1+3+2" risk management committee system, operates under the supervision of the enterprise risk management committee. All the branches and subsidiaries followed the head office to establish risk management framework. The mechanism of "leading and execution, guiding and reporting" has been established between risk management committee and other committees, and committees between the head office and branches, forming the integrated and coordinated risk management system to ensure the execution of the risk management requirements. The chairman of the Board is responsible for risk prevention, the president is responsible for risk management, the chief supervisor is responsible for risk supervision, and the vice presidents and the chief risk officer share different roles in the various aspects of enterprise risk management.

The Bank has established an enterprise risk management execution system of “large and small middle offices” and dual reporting lines. The setup of a risk management unit is to organise and coordinate the entire Bank’s risk management undertakings and to report collectively, which consolidate the Bank’s risk management capabilities. Small middle offices took the lead to implement the detailed risk management strategy in order to meet the relevant risk management requirements. Through the establishment of its reporting system of dual lines and the cooperation among large and small middle offices, the Bank has established various solid risk defense lines.

3. Credit risk management

The credit risk of the Bank is mainly arising from its credit, treasury and international businesses.

Departments such as the corporate business department, retail credit department, credit management department and segment credit approval centre, credit risk management department, asset custody department and credit card centre, collectively form the main functional departments that are responsible for the Group’s credit risk management. These functional departments are responsible for credit granting guiding, investigation and reporting of credit granting, credit examination and approval, loan disbursement, post-loan monitoring and non-performing loans management in order to standardise the management of corporate and retail financing.

(1) Risk classification procedures and methodology

According to the regulatory requirements as stipulated in the “Guidelines on Risk-Based Loan Classification” issued by the China Banking Regulatory Commission (“CBRC”) and the inherent risk of its loans, the Bank implemented a five credit category system that includes pass, special mention, sub-standard, doubtful and loss, of which, the latter three categories, namely sub-standard, doubtful and loss are regarded as non-performing loan categories, which is based on the judgment on the possibility of repayment on principle and interest in a timely manner. For corporate credit assets, the Bank has relied on the core regulatory definition as a basis and its internal assessment and individual allowances as references to define risk attributes and measurement standards of the five categories in greater detail. The Bank also ensures that sufficient consideration is given to the various factors affecting the quality of credit assets and prudent practices are carried out 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 status and type of guarantees provided.

To further enhance the level of details of its credit risk management, the Bank has adopted advanced internal ratings-based approach under the New Basel Capital Accord, and established a standard of classification based on the probability of default (PD) and Loss Given Default (LGD). This has enabled the Bank to develop a more detailed internal credit risk assessment process covering domestic operations.

(2) Risk management and control polices

During the Reporting Period, the Bank took various measures to promote the optimisation of credit structure; adjusted credit strategies in infrastructure area, and seized the development opportunities in the area of energy, advanced manufacturing and consumer consumption. The Bank provided strong support to key areas of trade finance and supply chain finance through increasing lending to productive services industry, and on the other hand, placing lending control on real estate sector, as well as industries categorised as “high pollution, high energy consumption and overcapacity”.

The Bank maintained high quality in its assets, with enhancement to the details of credit risk management capabilities. During the Reporting Period, the Bank standardised the management of corporate credit business and reinforced the execution of credit policies. The Bank continuously strengthened its risk investigation in key areas such as local government financing platforms, real estate sector and private financing, as well as risks associated with emergency events, aiming at accurate identification and effective prevention and control of these potential risks.

During the Reporting Period, the Bank continuously enhanced its post-loan monitoring on retail lending and optimised its related monitoring system, with centralised post-loan review practice well implemented, especially focusing on the retail lending for steel trading industry.

The independent credit card centre is fully responsible for the operation and management of the Bank’s credit card business. During the Reporting Period, the Bank made further improvements to its internal policies and processes, with its research project on developing the real-time monitoring system against trading frauds launched.

With respect to credit authorisation for financial institutions, the Bank adopted a centralised practice of review and approval, with appropriate limit management by the head office. Therefore, a completed credit granting system for financial institutions that includes limit management is established at the Bank.

During the Reporting Period, the Bank actively explored new ideas and policies to recover non-performing assets and mitigate potential risks. The Bank effectively enhanced its collection and recovery of overdue and non-performing individual loans through on-site supervision of key branches and close monitoring of key projects, and with improved watch-list management. Furthermore, the Bank introduced the concept of value management on non-performing assets, and actively conducted studies on key processes such as enhanced management on overdue-interest, recovery of written-off assets and the complete process management on non-performing loans to improve the feasibility plan with value contributions.

(3) *Asset quality and migration status*

As at 30 June 2012, the breakdown of the Group's five loan categories as stipulated by the Chinese banking regulatory authorities is as follows:

(in millions of RMB unless otherwise stated)

	As at 30 June 2012		As at 31 December 2011		As at 31 December 2010	
Categories	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Pass	**2,711,401**	**96.63**	2,481,585	96.87	2,149,629	96.10
Special mention	**71,646**	**2.55**	58,179	2.27	62,310	2.78
Total performing loan balance	**2,783,047**	**99.18**	2,539,764	99.14	2,211,939	98.88
Sub-standard	**10,326**	**0.37**	9,042	0.35	10,592	0.47
Doubtful	**8,120**	**0.29**	8,450	0.33	9,930	0.45
Loss	**4,427**	**0.16**	4,494	0.18	4,466	0.20
Total non-performing loan balance	**22,873**	**0.82**	21,986	0.86	24,988	1.12
Total	**2,805,920**	**100.00**	2,561,750	100.00	2,236,927	100.00

As at 30 June 2012, the Group's loan migration rates computed in accordance with guidance stipulated by the Chinese banking regulatory authorities are as follows:

Loan migration rates (%)	January to June 2012	2011	2010
Pass	**1.45**	1.66	1.60
Special mention	**4.64**	8.34	35.69
Sub-standard	**14.12**	47.86	45.93
Doubtful	**8.40**	24.15	30.11

4. Market risk management

The main market risks faced by the Bank include interest rate risk and exchange rate risk (including gold).

The Bank 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.

The Bank established a management model of small and large middle offices, clarified duties and responsibilities, created sound processes with policies, and equipped with completed system tools. With regard to the interest rate and exchange rate risks of trading book, the Bank established an effective limit management system by implementing Value at Risk (VaR). With regard to the interest rate risk of the banking book, the Bank conducted its monitoring activities via gap analysis and net interest income simulations. In addition, through adequate pricing management and asset allocation, the Bank strived to maximise its rate of return while keeping its risks under control.

(1) Risk management and control policies

During the Reporting Period, the Bank was committed to improve the information system of market risk management and strengthened the monitoring of market risk indicators, as well as enhancing the overall risk management capabilities. The Bank (1) completed the trial test of system upgrade of the market risk management, and added new analysis functions namely composition VaR, marginal VaR and incremental VaR; (2) published the "Introduction of Market Risk Management" handbook and submitted it to the Board, supervisory committee and the senior management for review; (3) conducted stress testing on the Bank's ability to tolerate market fluctuations based on the current position; (4) improved the data management of treasury businesses for overseas branches, completed the centralised valuation services for treasury activities of Macau and Taipei branches, and incorporated the market risk information of other oversea branches into the bank-wide market risk management information system; and (5) pushed forward on the selection of a new generation treasury system that integrated the front, middle and back offices.

(2) Market risk analysis

① Interest rate risk and sensitivity analysis

As at 30 June 2012, the Group's assets and liabilities re-pricing date or maturity date (whichever is earlier) is as follows:

(in millions of RMB)

	Due in 1 month	Due between 1 months to 3 months	Due between 3 months to 1 year	Due between 1 year to 5 years	More than 5 years	Non-interest bearing	Total
Total assets	2,615,149	572,575	1,225,871	382,949	223,623	132,041	5,152,208
Total liabilities	(2,896,262)	(587,274)	(889,900)	(319,984)	(41,545)	(118,189)	(4,853,154)
Net exposure	(281,113)	(14,699)	335,971	62,965	182,078	13,852	299,054

The table below illustrates 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 as at the dates indicated:

(in millions of RMB)

	As at 30 June 2012		As at 31 December 2011	
	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	**10,679**	**(2,929)**	10,788	(3,017)
Decrease yield rate by 100 basis points	**(10,679)**	**3,144**	(10,788)	3,252

② **Foreign currency risk and sensitivity analysis**

As at 30 June 2012, the Group's foreign currency risk exposure is as follows:

(in millions of RMB)

	RMB	**US dollar (equivalent to RMB)**	**HK dollar (equivalent to RMB)**	**Others (equivalent to RMB)**	**Total**
Total assets	**4,630,853**	**385,730**	**100,376**	**35,249**	**5,152,208**
Total liabilities	**(4,353,287)**	**(333,616)**	**(131,234)**	**(35,017)**	**(4,853,154)**
Net exposure	**277,566**	**52,114**	**(30,858)**	**232**	**299,054**

The table below illustrates the impact of the Group's net profit and other comprehensive income after a 5% movement in RMB against all currencies based on the structure of assets and liabilities as at the dates indicated:

(in millions of RMB)

	As at 30 June 2012		As at 31 December 2011	
	Expected changes in net (loss)/ profit	**Changes in other comprehensive income**	Expected changes in net (loss)/ profit	Changes in other comprehensive income
RMB appreciate 5%	**(809)**	**(394)**	(458)	(376)
RMB depreciate 5%	**786**	**394**	458	376

5. Liquidity risk management

The objective of liquidity risk management is to have sufficient cash to meet the needs of asset growth and repayment of debt upon maturity regardless whether the Group is operating under normal business conditions or under stress. The key measures undertook by the Bank to manage its liquidity risk include: (1) increasing the proportion of core deposits in liabilities and maintaining stable liability structure; (2) monitoring and managing the bank-wide liquidity positions through a series of indicators and limitations; (3) applying centralised management to monitor the liquidity position of the Bank; (4) maintaining an appropriate level of liquid fund such as surplus reserve with the PBOC, overnight interbank dealings and highly liquid debt investments; at the same time, retaining a strong financing capability in the market place by active participation in the open, money and bond markets; and (5) building a reasonable maturity structure of assets and to reduce liquidity risk through multi-level liquidity combination.

During the Reporting Period, in response to the macroeconomic environment of gradually easing monetary policy and declining interest rates, the Bank took the following measures to actively control its liquidity risk: (1) continued to stabilise the liability sources, optimised the deposit management and improved the performance management to build a solid customer base; (2) strengthened the analysis and forecast of market trend and business structure of the Bank, optimised the cash flows forecasting process, and made appropriate plan in advance for non-credit funding on the premise of adequate liquidity, to effectively improve the efficiency of surplus capital; (3) reduced appropriately the FTP of medium to long-term non-credit fund and increased the FTP of short-term non-credit funds, encouraged the related operating unit to extend the investment period and lock into higher yields and maintained the capital operation scale at certain level in order to enhance the operational effectiveness of the Bank's fund; and (4) with adequate control of foreign currency lending and reasonable setup of foreign currency asset structure, the Bank adhered to its principle of lending activities depending on deposits, and the approval policies of funding source for foreign currency loans and internal lending from head office to branches. The Bank effectively achieved a balance between the development of foreign exchange business and liquidity risk management.

As at 30 June 2012, the Bank's key liquidity ratios computed based on the guidelines as stipulated by the Chinese banking regulatory authorities are as follows:

Major regulatory indicators (%)	As at 30 June 2012	As at 31 December 2011
Liquidity ratio (including domestic and foreign currencies)	**44.18**	35.37
Loan-to-deposit ratio (including domestic and foreign currencies)	**71.85**	71.94

As at 30 June 2012, the distribution of the Group's non-derivative financial assets and non-derivative financial liabilities according to their original contracts and maturities, and without being discounted, was as follows:

(in millions of RMB)

	Overdue	On Demand	Up to 1 month	1–3 months	3 months–1 year	1–5 years	Over 5 years	Undated	Total
Non-derivative financial assets	25,846	217,029	703,367	474,230	1,200,440	1,454,548	1,209,665	644,509	5,929,634
Non-derivative financial liabilities	–	(1,845,540)	(642,709)	(602,113)	(965,204)	(875,668)	(62,592)	–	(4,993,826)
Net exposure	25,846	(1,628,511)	60,658	(127,883)	235,236	578,880	1,147,073	644,509	935,808

6. Operational risk management

The risk management department is responsible for the overall management of the operational risk of the Bank, as well as the establishment and continuous improvement in the related operational risk management system.

During the Reporting Period, the Bank leveraged on the management experience gained through practice and expanded the application of the three tools for its operational risk. Through adequate IT system, the Bank was able to collect operational risk events on a real-time basis and complete all reporting and approval online. The Bank developed detailed plans and implemented its bank-wide risk management procedures and self-assessment. The Bank also optimised and adjusted its risk indicator system, as well as strengthened the related management, particularly surrounding business process control. Furthermore, the Bank established and maintained a tracking record for new products and new businesses, for the purpose of following up on the operational risk control status. The Bank also started the advanced study to improve the quantification standards of its operational risk management.

During the Reporting Period, the Bank continued to strengthen the centralised management of its loan disbursement centre, optimised its disbursement process, improved the related operation manual, and designed different processes for loan disbursement to meet the needs of branches.

7. Anti-money laundering

During the Reporting Period, the Bank continued to carry out its anti-money laundering activities. The Bank designed an integrated solution plan for its anti-money laundering IT system, and improved its anti-money laundering data management. Through filtering and capturing suspicious anti-money laundering activities, the Bank actively reported to its regulatory authorities. As a result, the Bank was awarded by the PBOC for its excellent anti-money laundering program.

(5) STRATEGIC COOPERATION WITH HSBC

During the Reporting Period, the Bank continued to improve the strategic cooperation with The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), its international strategic investor. With the goal of forming a partnership characterised as complementary advantages, win-win, and mutually beneficial, the Bank achieved positive results.

Seamless communication among the top management. In the first half of 2012, senior management from both banks communicated and exchanged opinions on key areas of strategic cooperation through various approaches including informal meetings, and focused on timely evaluations or result of cooperation and develop cooperation areas and further explore the potential expansion of cooperative areas.

Exchange of technical expertise. Adhering to the principle of "mutual exchange of resources and expertise", both banks actively promoted all directions and comprehensive technical cooperation and exchange (TCE), with noticeable results achieved.

— Exchange of expertise:

By the end of June 2012, HSBC has stationed a total of 24 experts at 13 departments of the Bank to provide technical support. These departments include: credit management department, audit department, risk management department, budget and finance department, personal finance service department, and etc. Many of these experts from HSBC also participated in the 15 key strategic development projects, including the process enhancement, internal ratings based methodology, enterprise risk management and the data centralization projects, etc.

— Staff training:

According to the leadership training program established by both banks, the Bank sent 77 top management personnel from the head office, provincial branches, overseas branches and subsidiaries to the headquarter of HSBC in London to participate in 6 leadership building programs to enhance their strategic thinking and leadership capability from 2006 to 2009. Since 2010, the Bank and HSBC commenced a new round of secondment plan whereby senior management personnel from various business lines were seconded to HSBC. The in-depth 3-year exchange plan emphasises on business line specific trainings and strengthens effective two-way communication. The Bank has sent a total of 103 vice-presidents and general managers from provincial branches and the head office departments, including retail banking, corporate banking, risk management, international and finance departments to participate in the plan. From 2008 through 2012, the Bank selected a total of 122 management trainees from the head office to participate in a 1 month training program in HSBC.

By the end of June 2012, HSBC has organised 48 seminars, totaling 77.5 days of training courses for over 2,604 employees of the Bank.

— Staff exchange programs:

At the end of June 2012, the Bank has organised internships programs for 235 key 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. The program 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 78 seminars in finance and accounting, Basel Accords, corporate banking business, IT, auditing and anti-counterfeit bank note for 951 HSBC employees and arranged staff exchanges for 70 members from HSBC's Asia-Pacific region. In addition, the Bank sent 3 experts to provide consultation and support to HSBC by sharing their experience in the domestic banking market.

Further exploration and expansion of business cooperation. Both banks have taken full advantage of each other by mutual exchange of resources and deepened cooperation in key business areas.

— In corporate banking, through joint sales, both banks continued to work closely on serving reputable multinational corporations in areas of loan syndication, "green" credit and rural financing. The second phase of the server integration project of two banks have been completed, with the third-party account enquiry function went-live successfully. The stable operation of this new IT system created a good foundation for stronger service capabilities on cash management for multinational companies.

— In investment banking, both banks maintained close communication on equity financing, debt financing and asset securitisation. The two banks are also planning to extend their cooperation in areas of RMB bond issuance of foreign-funded enterprises in the domestic market, oversea acquisition by domestic entities, and securitisation of credit assets in the future, to take full benefits of each other's strength and to explore the great potential of these emerging business.

— In 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 RMB financial products.

— In international banking, the Bank and HSBC cooperated largely in areas such as foreign exchange treasury transactions, cross-border RMB business, letters of guarantees, L/C notification, foreign currency settlement and trade financing. Currently, all business cooperation is carrying out in a frequent and smooth manner.

— In serving the globalisation of domestic enterprises, both banks actively seized the opportunities arising from the improvement of China's position in the global economy, launched "1+1" key programs of global financial cooperation 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.

— The development of joint credit card operations of the two banks gained much momentum during the Reporting Period. Total credit cards issued by the end of June 2012 reached 24.18 million, representing an increase of 1.95 million from the beginning of the year.

In the future, both banks will make further improvements in their communication and coordination between each other, push forward the implementation of TCE program, and enhance the effectiveness of technical cooperation and exchange, to take the full benefits of their mutual exchange of resources and expertise. At the meantime, both banks will focus on the "1+1" global financial cooperation program, and reinforce their cooperation in corporate banking, investment banking, custodian business, international banking, credit cards and other areas. Combining diversified forms and broadened areas of cooperation together with successful experience gained, the two banks will be able to deepen their relationship in full aspects of business cooperation down the road.

(6) OUTLOOK

Looking into the next half of 2012, the financial markets around the world will continue to be impacted by the global financial crisis, with increasing risk of economic downturn. As uncertainties of economic growth escalating, major developed economies will continue to experience a slowdown in their economic recoveries. Although the economic development of China remains strong during the "Twelfth Five Year" in the long run, it will face a series of issues such as structural imbalance, and resource and environment constraints. In addition, higher regulatory standards and profound market changes brought additional pressure and challenges to commercial banks.

While paying close attention to the economic development trend, the Group will continue to follow its "BoCom Strategy" to further enhance its competitiveness and risk management capabilities, with its primary focus in the following aspects:

i. Rationally assess the changes of the economic and financial situation, implement the macroeconomic control policy, focus on the development of interest rate marketisation, promptly adjust the operational management strategy of the Group, so as to enhance the market competitiveness under the new environment in all directions;

ii. Move forward on the strategic transformation by increasing its efforts in organisation restructuring and management innovation and enhance the sustainable development capabilities by seizing opportunities of emerging markets;

iii. Strengthen its overall risk management capabilities, improve the risk management of refinement, enhance capital management and improve the operating efficiency of its capital; and

iv. Build a global image of wealth management bank through sound development in its wealth management business, adhering to its "customer-oriented" policy and enhancing its integrated and comprehensive service capabilities across its global network.

Changes in Share Capital and Shareholdings of Substantial Shareholders

(1) CHANGES IN SHARE CAPITAL

As at 30 June 2012, the Bank had a total of 419,432 shareholders with 375,921 shareholders holding A shares while 43,511 shareholders holding H shares.

	1 January 2012		Changes(+/-) during the Reporting Period					30 June 2012	
	Number of shares	Percentage (%)	Issue of new shares	Bonus shares	Shares transferred from the capital reserve	Others	Sub-total	Number of shares	Percentage (%)
1. Shares subject to sales restrictions	–	–	–	–	–	–	–	–	–
1. State-owned shares	–	–	–	–	–	–	–	–	–
2. Shares held by state-owned legal persons	–	–	–	–	–	–	–	–	–
3. Shares held by other domestic investors	–	–	–	–	–	–	–	–	–
Include:									
Shares held by domestic non-state-owned legal persons	–	–	–	–	–	–	–	–	–
Shares held by domestic natural persons	–	–	–	–	–	–	–	–	–
4. Shares held by foreign investors	–	–	–	–	–	–	–	–	–
Include:									
Shares held by foreign legal persons	–	–	–	–	–	–	–	–	–
Shares held by foreign natural persons	–	–	–	–	–	–	–	–	–
2. Shares not subject to sales restrictions	**61,885,605,538**	**100.00**	**–**	**–**	**–**	**–**	**–**	**61,885,605,538**	**100.00**
1. Renminbi ordinary shares	32,709,053,346	52.85	–	–	–	–	–	32,709,053,346	52.85
2. Domestically-listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas-listed foreign shares	29,176,552,192	47.15	–	–	–	–	–	29,176,552,192	47.15
4. Others	–	–	–	–	–	–	–	–	–
3. Total	**61,885,605,538**	**100.00**	**–**	**–**	**–**	**–**	**–**	**61,885,605,538**	**100.00**

(2) SHAREHOLDINGS OF THE TOP 10 SHAREHOLDERS AND THE TOP 10 SHAREHOLDERS NOT SUBJECT TO SALES RESTRICTIONS (ACCORDING TO THE BANK'S REGISTER OF MEMBERS MAINTAINED AT ITS SHARE REGISTRAR AS AT 30 JUNE 2012)

1. Shareholdings of the top 10 shareholders

No.	Name of shareholders	Nature of shareholders	Shareholding percentage (%)	Number of shares held	Number of shares held subject to sales restriction	Number of shares pledged or frozen[1]
1	Ministry of Finance of the People's Republic of China	State	26.52	16,413,353,049	–	Nil
2	HKSCC Nominees Limited[2]	Foreign legal person	21.93	13,574,536,198	–	Unknown
3	The Hongkong and Shanghai Banking Corporation Limited[3]	Foreign legal person	18.63	11,530,478,263	–	Nil
4	Capital Airports Holding Company	State-owned legal person	2.01	1,246,591,087	–	Unknown
5	Shandong Luneng Group Co., LTD.	State-owned legal person	0.92	571,078,169	–	Unknown
6	Yunnan Hongta Group Company Limited	State-owned legal person	0.71	438,686,794	–	Unknown
7	Sinopec Finance Company Limited	State-owned legal person	0.61	374,901,733	–	Unknown
8	Shanghai Haiyan Investment Management Co., Ltd	State-owned legal person	0.60	368,584,978	–	Unknown
9	Aviation Industry Corporation of China	State-owned legal person	0.50	310,678,434	–	Unknown
10	Daqing Petroleum Administration Bureau	State-owned legal person	0.48	294,936,165	–	Unknown

Notes:

1. Unless otherwise stated, the Bank is not aware of any circumstances where shares held by the above shareholders have been pledged or frozen, nor of the existence of any connected relations between the above shareholders.
2. The aggregate number of shares held by the nominee, HKSCC Nominees Limited, represents the total number of H shares of the Bank (the "H shares") held by all institutional and individual investors who maintained an account with it as at 30 June 2012. (same applies hereinafter)
3. According to the Bank's register of members kept by Computershare Hong Kong Investor Services Limited, HSBC held 11,530,478,263 H shares of the Bank as at 30 June 2012. In addition, 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" for details of the H shares that deemed to be beneficially owned by HSBC as at 30 June 2012 as disclosed in the disclosure of interests form filed with the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") by HSBC Holdings plc. (same applies hereinafter)

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	12,618,353,049	26.52	Renminbi ordinary shares
		3,795,000,000		Overseas-listed foreign shares
2	HKSCC Nominees Limited	13,574,536,198	21.93	Overseas-listed foreign shares
3	The Hongkong and Shanghai Banking Corporation Limited	11,530,478,263	18.63	Overseas-listed foreign shares
4	Capital Airports Holding Company	1,246,591,087	2.01	Renminbi ordinary shares
5	Shandong Luneng Group Co., LTD.	571,078,169	0.92	Renminbi ordinary shares
6	Yunnan Hongta Group Company Limited	438,686,794	0.71	Renminbi ordinary shares
7	Sinopec Finance Company Limited	374,901,733	0.61	Renminbi ordinary shares
8	Shanghai Haiyan Investment Management Co., Ltd	368,584,978	0.60	Renminbi ordinary shares
9	Aviation Industry Corporation of China	310,678,434	0.50	Renminbi ordinary shares
10	Daqing Petroleum Administration Bureau	294,936,165	0.48	Renminbi ordinary shares
Details of connected relations or acting in concert among the above shareholders:		(1) The Bank is not aware of any connected relations among the above shareholders not subject to sales restrictions or whether they are parties acting in concert as regulated in the Administration Procedures of the Takeover of Listed Companies. (2) The top 10 shareholders are the same as the top 10 shareholders not subject to sales restrictions, there is not any connected relations among the top 10 shareholders not subject to sales restrictions and the top 10 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 2012, there was no shareholder whose shares were subject to sales restrictions.

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

As at 30 June 2012, to the knowledge of the directors, supervisors and chief executive of the Bank, the substantial shareholders and other persons (other than the directors, supervisors and chief executive of the Bank) who had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the Hong Kong Securities and Futures Ordinance (the "SFO") were as follows:

Name of substantial shareholders	Capacity	Number of A shares	Nature of interest[1]	Approximate percentage of total issued A shares (%)	Approximate percentage of total issued shares (%)
Ministry of Finance of the People's Republic of China	Beneficial owner	12,618,353,049[2]	Long position	38.58	20.39

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	7,027,777,777[3]	Long position	24.09	11.36
Ministry of Finance of the People's Republic of China	Beneficial owner	3,795,000,000[2]	Long position	13.01	6.13

Name of substantial shareholders	Capacity	Number of H shares	Nature of interest[1]	Approximate percentage of enlarged issued H shares (%)[4]	Approximate percentage of enlarged total issued shares (%)[4]
The Hongkong and Shanghai Banking Corporation Limited	Beneficial owner	14,135,636,613[5]	Long position	40.37	19.03
	Interest of controlled corporations[6]	2,674,232	Long position	0.01	0.004
	Total:	14,138,310,845		40.38	19.04
HSBC Finance (Netherlands)	Interest of controlled corporations[7]	14,138,310,845	Long position	40.38	19.04
HSBC Bank plc	Beneficial owner	9,012,000	Long position	0.03	0.01
	Interest of controlled corporations[8]	63,250	Long position	0.0002	0.0001
	Total:	9,075,250		0.03	0.01
HSBC Holdings plc	Interest of controlled corporations[9]	14,147,386,095	Long position	40.41	19.05

Notes:

1. Long positions held other than through equity derivatives.
2. According to the information provided by the Ministry of Finance of the People's Republic of China (the "MOF"), as at 30 June 2012, the MOF held 3,795,000,000 H shares and 12,618,353,049 A shares of the Bank (the "A shares"), representing 6.13% and 20.39% of the total share capital of the Bank, respectively.
3. According to the information provided by the National Council for Social Security Fund (the "SSF"), as at 30 June 2012, SSF held 7,027,777,777 H shares, representing 11.36% of the total share capital of the Bank and all these shares were registered under the name of HKSCC Nominees Limited.
4. The proposal in relation to the non-public issuance of new A shares and new H shares has been considered and approved at the 2012 first extraordinary general meeting of the Bank. After obtaining all relevant approvals, the aforesaid issuance has been completed by 24 August 2012 and the issued share capital of the Bank has also been enlarged. For details, please refer to "Significant Events (2) "Major fund raising activities" of this report.
5. As disclosed in the Bank's 2011 Annual Report, as at 31 December 2011, HSBC beneficially owned 11,779,697,178 H shares, representing 19.03% of the total share capital of the Bank. According to the proposal in relation to the non-public issuance of new A shares and new H shares. On 15 March 2012, the Bank and HSBC signed a subscription agreement whereby HSBC will subscribe in cash for 2,355,939,435 new H shares and was deemed to be interested in such new H shares. HSBC had filed the disclosure of interest form for such interests. As at 30 June 2012, the issuance of such new A shares and new H shares had not been completed.

   By 24 August 2012, the Bank completed the non-public issuance of new A shares and new H shares. Immediately after the completion of such issuance, HSBC beneficially owned 14,135,636,613 H shares, representing 40.37% and 19.03% of the enlarged H shares in issue and enlarged total shares in issue of the Bank, respectively.
6. HSBC holds 62.14% equity interest in Hang Seng Bank Limited. Pursuant to the SFO, HSBC is deemed to be interested in the Bank's H shares held by Hang Seng Bank Limited.

   Hang Seng Bank Limited is deemed to be interested in the 2,674,232 H shares held by its wholly-owned subsidiaries. Such 2,674,232 H shares represent the aggregate of the 2,581,887 H shares directly held by Hang Seng Bank Trustee International Limited and 92,345 H shares directly held by Hang Seng Bank (Trustee) Limited.
7. 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, each of HSBC Asia Holdings BV, HSBC Asia Holdings (UK) Limited, HSBC Holdings BV and HSBC Finance (Netherlands) is deemed to be interested in the 14,138,310,845 H shares held by HSBC.
8. HSBC Trustee (C.I.) Limited holds 63,250 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, which is in turn owned as to 94.90% by HSBC Bank plc. Pursuant to the SFO, each of HSBC Private Bank (C.I.) Limited, HSBC Private Banking Holdings (Suisse) SA, HSBC Europe (Netherlands) BV and HSBC Bank plc is deemed to be interested in the 63,250 H shares held by HSBC Trustee (C.I.) Limited.
9. Both HSBC Finance (Netherlands) and HSBC Bank plc are wholly owned by HSBC Holdings plc. Pursuant to Notes 5, 6, 7, and 8 and the SFO, HSBC Holdings plc is deemed to be interested in the 14,138,310,845 H shares held by HSBC and the 9,075,250 H shares held by HSBC Bank plc.

Save as disclosed above, on 30 June 2012, no person (excluding the directors, supervisors and chief executive of the Bank) 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.

Directors, Supervisors, Senior Management and Staff

(1) MEMBERS OF THE BOARD

Name	Position	Name	Position
Hu Huaibang	Chairman and executive director	Ma Qiang	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
Yu Yali	Executive director, executive vice president and chief financial officer	Gu Mingchao	Independent non-executive director
Zhang Jixiang	Non-executive director	Wang Weiqiang	Independent non-executive director
Hu Huating	Non-executive director	Peter Nolan	Independent non-executive director
Du Yuemei	Non-executive director	Chen Zhiwu	Independent non-executive director
Wong Tung Shun, Peter	Non-executive director	Choi Yiu Kwan	Independent non-executive director
Fung Yuen Mei, Anita	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	Zhu Hexin	Chief corporate banking officer
Yu Yali	Executive vice president and chief financial officer	Yang Dongping	Chief risk officer
Shou Meisheng	Commissioner of discipline inspection	Du Jianglong	Secretary to the Board

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

Name	Position	Class of shares	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
Zhang Jixiang	Non-executive director	A shares	37,180	800	–	37,980	Purchased from secondary market
Yang Dongping	Chief risk officer	A shares	94,820	–	–	94,820	–

Save as disclosed above, as at 30 June 2012, 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

1. On 23 March 2012, Mr. Wang Bin resigned as executive director and executive vice president of the Bank due to reassignment of work.

2. At the 2011 annual general meeting of the Bank held on 28 June 2012, Ms. Yu Yali was appointed as an executive director of the Bank and Mr. Jiang Yunbao was appointed as an external supervisor of the Bank. The qualification of Ms. Yu Yali as a director of the Bank was approved by CBRC on 27 August 2012.

(6) STAFF AND HUMAN RESOURCE MANAGEMENT

1. Number of staff

At the end of June 2012, the Bank had a total of 93,642 employees, representing an increase of 3.87% from the beginning of the year. Of which, 91,910 employees are based domestically, representing an increase of 3.88% from the beginning of the year. Total number of local employees in overseas branches was 1,732.

Among the Bank's domestic employees, 618 employees hold advanced senior professional and technical qualifications (accounting for approximately 0.67% of total domestic employees), 16,837 employees hold intermediate level professional and technical qualifications (accounting for approximately 18.32% of total domestic employees), and 18,763 employees hold entry-level professional and technical qualifications (accounting for approximately 20.41% of total domestic employees).

Among the Bank's domestic employees, 45,531 employees were under the age of 30 (accounting for approximately 49.54% of total domestic employees), 24,785 employees between the age of 30 and 40 (accounting for approximately 26.97% of total domestic employees), 16,620 employees between the age of 40 and 50 (accounting for approximately 18.08% of total domestic employees), and 4,974 employees above the age of 50 (accounting for approximately 5.41% of total domestic employees).

Among the Bank's domestic employees, 5,471 employees possess postgraduate or higher academic degrees (accounting for approximately 5.95% of total domestic employees), 53,105 employees possess undergraduate degrees (accounting for approximately 57.78% of total domestic employees), 27,775 employees possess college diploma (accounting for approximately 30.22% of domestic employees), and 5,559 employees possess secondary vocational school certificates or lower qualifications (accounting for approximately 6.05% of total domestic employees).

2. Human resource management

In support of the development strategy "BoCom Strategy", the Bank promoted the reform of its organisation structure and position system, and created stronger ties between its reform undertaking and its strategic goals. The Bank also carried out its operational organization restructuring and service integration reform of its network branches; implemented the staff development plan in depth and facilitated the training of professional team to support its future business growth; established a sound management system for its sales and marketing personnel and improved the related staffing, training, performance evaluation and incentives; made further improvements in staffing policies in line with its transformations of business and organization, and enhanced the linkage between staffing increase and its operation efficiency and reform of business in order to improve the efficiency of human capital; developed career development plans for employees at all levels, with intensified training programs to enhance the employees' professional competence and sense of responsibility.

The Bank continued to implement its unique remuneration framework and human capital management system that follow the principle of "remuneration is determined with reference to job positions, responsibilities and employee capabilities, and is reflective of market value in the labour market". At the same time, the Bank maintained a good balance between performance incentives and shared development, emphasising risk constraints and stable and healthy management. The Bank also cared about its employees' well being and future protection. On top of the statutory social insurance and as allowed by policies and funding, the Bank also provided other welfares that were operated and managed centrally by the Bank, such as the complementary annuity plan, convalescence leave and physical examination, etc.

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 of the PRC, and continued to improve its corporate governance while taking into consideration of its current circumstances. All of these efforts were made to safeguard 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 "Corporate Governance Code" (the "Code") and the "Code on Corporate Governance Practices" which was in force before 1 April 2012 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 the 2011 annual general meeting and nine resolutions were approved, including but not limited to the "Work Report of the Board 2011", the "Report of the Supervisory Committee 2011", and the "Remuneration Plan for Directors and Supervisors 2011".

In addition, the Bank convened its 2012 first extraordinary general meeting, and ten resolutions were approved, including but not limited to "The Resolutions on the Non-Public Issuance of A shares and H shares", "Revision of the Plan of Capital Management 2010-1014", and "The Profit Distribution Plan for 2011".

(2) BOARD MEETINGS

During the Reporting Period, the Board held six meetings and approved 44 resolutions, while the special committees under the Board held fifteen meetings and approved 51 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 being achieved.

The Board further enhanced the effectiveness of its corporate governance. Firstly, the Board improved its corporate governance mechanism. The working practice of the related special committees was revised in accordance with its practical needs and the Code issued by the Hong Kong Stock Exchange, as well as clarifying that the strategy committee of the Board is responsible for corporate governance of the Bank. Secondly, to strengthen its decision-making and leadership capabilities, the Board organised special discussion session at the beginning of the year, whereby the senior management reported on the operation development of the Bank in 2011, as well as its work plan and budget for 2012. Thirdly, the Board expanded the scope of information services for directors, by enlarging the scope of coverage and increasing the frequency of issuance for the "Directors' Working Practice", which was changed from a quarterly publication to a monthly one, in order to provide sufficient support to the Board in their daily operation.

The Board actively carried out the function of capital management. Firstly, having revised the five-year capital management plan and adjusted the management target of capital adequacy ratio according to the latest supervision standards, the Board aimed to exert the capital's power of constraint and facilitation in the Bank's operational development. Secondly, in order to increase its capital base, to implement the "BoCom Strategy" and to meet the needs of business development, the Board drafted a non-public issuance plan for both A shares and H shares. With the vast support of the shareholders of the Bank, the plan was passed with the majority of votes in the general meeting. The Board will facilitate the implementation of the non-public issuance plan as approved by the shareholders of the Bank. As at 24 August 2012, the non-public issuance was completed and has raised a total of RMB56.577 billion. After deducting the relevant charges for such issuance, the fund raised were all used for making up the core capital of the Bank.

The Board also enhanced its decision-making function in risk management. Firstly, the Board strengthened the comprehensive risk management and control system of the Bank. Based on the previous successful experience of the 2 phases of risk management planning, the Board approved the "Risk Management Plan 2012-2015", which focused on the complete implementation of the risk management system, and is also used as a guide for the Bank's risk management activities during "12th Five-Year" period. Secondly, the Board focused its effort in meeting the requirements of the New Basel Capital Accord during the Reporting Period by providing guidance to the senior management in taking corrective actions according to the assessment results of CBRC's on-site review. With the approval of "Policies on Risk Appetite" and the amendment and improvement of "Policies on Risk Measurement", the Board aimed to become one of the first batch of banks that meet the requirements of the New Basel Capital Accord. Thirdly, the Board fully implemented the "Internal Control Standards for Enterprises" and the related regulatory guidances during the Reporting Period. In addition, the Board developed the "Implementation Plan of Internal Control Standards 2012" and carried out the implementation activities in an orderly manner.

The Board made further improvements in its management policies of insider and insider information. The Board also approved the "Policy on Insider Registration Management" according to the regulatory requirements of the China Securities Regulatory Commission and the Shanghai Stock Exchange Listing Rules, which has clarified the definition and scope of insider information and insider, together with the roles and responsibilities of insider information management. During the process of drafting the refinancing plan and periodic reports, the Board took special measures to limit the number of personnel who has access to the insider information, strictly followed registration policies, and effectively prevented the risk of insider information leakage.

(3) SUPERVISORY COMMITTEE

During the Reporting Period, the Bank's supervisory committee held two meetings and approved the periodic reports, financial budget report, profit distribution plan, the "Report of the Supervisory Committee 2011", the "Suggestions of the Supervisory Committee on the Performance of Duties by the Board and Senior Management 2011", the "Self-Assessment Report on Internal Controls 2011", the "Corporate Social Responsibility Report 2011", the "Self-Assessment Report on Performance of Duties of the Supervisory Committee 2011", and the working plans of the supervisory committee and other special committees for 2012, etc.. In line with the regulatory requirements, the supervisory committee carried out the evaluation on performance of directors and senior management, and reported to regulatory authorities. Self-evaluation was also carried out by the supervisory committee. According to its working plans, the senior management delivered a report on the risk management of fraudulent cases and wealth management business to the supervisory committee. The supervisory committee, in turn, provided its suggestions and recommendations to the management to facilitate the Bank's strategic transformation and its unique development path.

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 management capabilities of the Bank.

(4) SENIOR MANAGEMENT

The Bank's senior management is comprised of the president, the executive vice president, the commissioner of discipline inspection, the chief financial officer, the chief information officer, the chief risk officer and the corporate business director. The Bank's senior management has complied with the relevant laws and regulations, the Bank's articles of association and authorization from the Board, in executing the Board resolutions and managing daily operations.

(5) INTERNAL CONTROL

During the first half of 2012, the Bank's internal control system operated reliably and steadily.

a) Promoted business segments and the building up of organisation. The Bank adjusted the composition of business segments at the head office to facilitate its development of strategic transformation. Additionally, the Bank improved the management approach of its branch network, continued to move forward in its establishment of new provincial branches, and carried out the reforms of branches in matrix management and the establishment of comprehensive branch network.

b) Improved its risk management system. The Bank formulated the Risk Management Plan 2012-2015 to provide guidance on the design and position of its risk management development; improved the operation mechanism of risk management committee under senior management; established the risk appetite and management system, and performed the monitoring of risk indicators and periodic evaluations; carried out real-time monitoring on operational risk events according to the unified internal credit ratings of both corporate and retail customers, standardised the management of countries' risk information, and formulated its policies on management of reputation risk to enhance the management of various single risks.

c) Reinforced the assets and liabilities and capital management. The Bank established the deposit indicator system with the daily average balance as its core; implemented its credit business plan, adhering to the principles of making plans at the beginning of the year, assigning monthly target, performing settlement in the following month, and limiting its lending scale based on deposit level; conducted research on market-based interest rate reform and developed corresponding strategies; strengthened the liquidity management of overseas branches by developing customised indicator system of asset and liability management for each individual branch and incorporating into the overall branch performance evaluation; formulated and released the "Service List of Bank of Communications" to assist in better management of fee-based services; applied the risk measurement results of New Basel Capital Accord in performance evaluation for domestic branches, and improved the economic capital management to maximise its effect in capital constraints.

d) Strengthened credit management. The Bank continued to improve its credit policy and released the credit distribution guidelines covering 50 industries; adjusted its credit structure based on its objectives of "3-increase-3-decrease" and "3-ins-3-outs"; maintained strong and healthy development in its credit business through effective measures such as industry-wide investigation, watch-list management and centralised approval of new credit granting for key areas and industries such as real estate, local government financing platforms, photovoltaic manufacturing, shipbuilding and shipping, export-oriented and international trading companies.

e) Strengthened the management of personal financing, intermediary business and international business. The Bank laid a solid foundation for the internal management of personal financing business with the improvement in the management structure of deposits for the whole Bank; standardised financial advisory and consulting services for institutional customers and insurance agency business, and strengthened the risk management of intermediary business; improved the management of innovative products of international business and introduced more than 20 policies and procedures such as guidance for cross-border RMB business, risk prevention for letters of credit, and foreign currency capital etc.

f) Improved the operational and IT management. The Bank adjusted the operating structure at branch level, by closing down the accounting and settlement department and its subsidiary units and consolidating the new operational management department and business processing centre; developed "Policies and Procedures on Businesses Conducted by the Financial Services Centre" to improve the management of service centres; promoted the reform of business processes, by expediting the process re-engineering of front-office and the construction of the document centre for international businesses; continued to move forward on the 531 Construction Project to establish a new anti-virus system.

(6) INVESTOR RELATIONS

Under the complex business environment, coupled with economic slowdown and accelerated market-based reform of interest rate, the valuation of the banking sector has been decreasing since the beginning of this year. Facing the pressure and challenges, the Bank focused on its goal of maximising shareholders' value, and strived to maintain close communication with investors, to facilitate better understanding and recognition of the Bank's investment value.

During the Reporting Period, the investor relations team, made up of senior management, department heads, key employees from business lines, together with staff from investor relations department, maintained close communication with investors to promote the Bank's development strategy, its unique business characters and its long-term investment value, through various communication channels such as result release press conference for analysts, non-deal roadshows, investors forum, investors and analysts' visits, investors hotline and emails. At the same time, 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, which effectively created a two-way communication between the Bank and the market.

In the first half year of 2012, the Bank held two result release press conferences and organised one non-deal roadshow. It also participated in five domestic and overseas investor forums and hosted regular visits by investors and analysts of nearly 50 times. Through these activities, the Bank managed to communicate with more than 600 investors and analysts from both domestic and overseas well-known investment banks and other financial institutions.

Corporate Social Responsibilities

Facing global and domestic financial markets with profound changes, the Bank remained committed to its declaration of "Continuous Self-Refinement and Growing Together with the Society, with the Pursuit of Harmony and Integrity as a Cornerstone", fulfilled its corporate responsibility in the area of economy, environment and society, and contributed to building a harmonious society. During the Reporting Period, the Bank won the Intergrated Corporate Social Responsibility Award from the China Banking Association for the first time, and was also awarded by PBOC, CBRC and China Banking Association for its efforts in different areas of responsibilities such as green finance, retail small enterprises, indemnificatory housing construction and anti-money laundering.

(1) ECONOMIC RESPONSIBILITY

The Bank earnestly executed the government's macro-control policies, and played an important role to support the steady but rather rapid development of the national economy. At the same time, it supported the sectors that are closely related to social development of China, such as retail small enterprises and indemnificatory housing construction, which demonstrated the Bank's strong commitment in fulfilling its corporate social responsibilities.

1. The Bank continued to improve the coverage and rationality of its credit policies. The number of sectors to be supported by the Bank has increased to 50, covering 98% of the Bank's lending portfolio. Under this credit policies, the Bank actively executed and supported the real economy and the needs for economic structural transformation in China. During the Reporting Period, total lending increase to advance manufacturing and modern agriculture sectors of energy exploration, consumer consumption and hi-tech equipment, which accounted for more than 40% of the Bank's total corporate lending increment. The lending business to sectors of agriculture sector, rural areas and farmers enjoyed a steady development, maintaining a positive growth under tightened credit scale control.

2. To further support the retail small enterprises, the Bank allocated RMB83.3 billion for lending in the area. At the end of the Reporting Period, the outstanding balance for retail small enterprises reached RMB175.302 billion, evidencing an increase of 16.86% as compared with the last year, and was significantly higher than the average growth rate of the total credit portfolio. The number of retail small enterprises to which the Bank has supported increased by 13.4% as compared with the last year to 47,600. While providing lending support to retail small enterprises through innovation in operating model and customised financing solutions, the Bank also attached great importance to key sectors such as the science and technology and cultural, through lending increases and business innovation. In the agriculture sector, rural areas and farmers sector, through cooperation with local governments and industry leaders, the Bank provided financing services to retail small enterprises by batches. In the sector of science and technology, through working with local governments and external institutions, the Bank actively explored the appropriate lending services for retail small enterprises, catering their special characters of low asset, rapid growth and emphasising on innovation. In the culture sector, the Bank introduced the "2+3+4" financing model with intellectual properties used as collateral.

3. The Bank is concerned about key industries that affect people's daily life the most, with increased lending support to sectors of housing, healthcare and education. At the end of the Reporting Period, total lending to sectors of science and technological innovation, education, public hygiene and culture and sport increased to RMB3.675 billion, RMB12.83 billion, RMB8.418 billion and RMB9.446 billion respectively as compared with the previous year. Lending to social housing reached RMB26.57 billion, representing an increase higher than the average growth rate of total lending of the Bank. There were more than 100 hospitals joining "Yin Wei An Kang" project, which was a comprehensive financial services product provided for the healthcare industry.

(2) ENVIRONMENTAL RESPONSIBILITY

The Bank made further progress in its "Green Credit" project, and further improved its management system. The proportion of number of "green customers" and the relative outstanding balance increased steadily with a further decrease in the proportion of credit portfolio in the industry of high pollution, high energy consumption and overcapacity. At the same time, the Bank took various measures to reduce the negative impact on the environment from its operation. The local branches and sub-branches were actively involved in forestation and other environmental protection activities.

1. The Bank released the "Notice on expanding Green Credit Business and promoting the Project Construction". The Bank expanded the scope of "Green Credit" with safety and healthcare included in the requirement of the project management of "Green Credit". The coverage now included specific requirements arising from energy consumption, pollution, land, healthcare, safety, resettlement, ecological protection, climate change and other environmental and social issues. These environmental requirements were incorporated into all credit processes, including application acceptance, customer selection, loan disbursement management, credit authorisation and approval, and post-loan management. The Bank made amendments to "Bank of Communications 'Green Credit' Category Operation Manual", redefining 7 core indicators for the categories, revising the criteria of categories and incorporating the elements of safety and healthcare. The Bank developed its "Bank of Communications 'Green Credit' Policy Guidelines for 2012", with detailed polices of Industry "Green Credit" covering 50 industries including environmental protection, safety and healthcare. The release of the guidelines helped the Bank improve its detailed management of the lending portfolio according to the special needs of these industries.

2. The proportion of outstanding environmental-friendly customers continued to increase. At the end of the Reporting Period, the proportion of green customers and the related outstanding loan balances increased by 0.12 percentage point and 0.10 percentage point to 99.40% and 99.82% respectively as compared with the last year. The outstanding loan balance made to green customers, characterised as supporting low-carbon economy, environmental protection and comprehensive utilisation of energy, increased to RMB136.3 billion, evidencing a double-digit growth as compared with the last year. Total lending made to industries of high pollution, high energy consumption and overcapacity decreased by 0.27 percentage point to RMB2.45 billion during the Reporting Period, as a result of the optimisation of the credit structure and the encouragement of transfer of loan to trade finance products with strong liquidity.

(3) SOCIAL RESPONSIBILITY

While maintaining strong business growth and excellent financial return for investors, the Bank confirmed to carry out policies in customer service, staff development and social contribution, demonstrating its concerns about the stakeholders' interest.

1. Provided better, quicker and more standardised services. The Bank achieved good results in its service improvement with reduced complaints and increased customer satisfaction. The Bank continued to enlarge the function of mobile banking and online banking, introduced the first domestic credit card application terminal and other innovative products, with the diversion rate of electronic banking increased by 4.18 percentage points to 70.62%. During the Reporting Period, a total of 12 branches were set up, and 124 outlets offering comprehensive services started their pilot operation; the number of counties covered by the Bank's outlet services increased to 129; the coverage of the top 100 counties in the country increased to 82%; Bank of Tibet Co., Ltd., in which the Bank has 20% stake, commenced business successfully; Taipei branch obtained its business license. All of these improvements brought great convenience to the Bank's customers. In meeting the requirements of CBRC, the Bank carried out rectification measures for operational issues noted, "Focusing on Standardisation of Credit Business and Reasonableness of Service Fee Charged". Through specific measures such as setting up project teams, improving the existing policies, optimising IT system, revising and amending the list of service fees charged and implementing "Four Public Disclosure", strengthening the training programs and accepting the external supervision, the Bank made noticeable progress in the standardisation of its fee-based services.

2. Cared for and grew with its employees. The Bank made further improvements in the mechanism of sharing prosperity, to make sure that employees are benefited from the achievements of reform and development of the Bank. The Bank made certain enhancement in the career development plan and created a platform to provide services for employees, through which, it organised on-site training for staff members with attendance of close to 170 thousand, remote trainings with attendance of 160 thousand, selective courses with attendance of more than 6 thousand and overseas training with attendance of 138. In caring of our employees' well being and keep our employees to work happily, the Bank developed the "Temporary Guidelines on Mutual Supports Between Staff" and its implementing rules, to bring timely relief to staff when facing difficulties from critical illnesses, children's education and poverty. During the Reporting Period, the Bank provided financial support of nearly RMB3.7582 million to 989 staff. To protect staff's mental health according to "Harmony in Heart, Make New Steps", the Bank established 22 new "Communication Channels" to provide psychological support to employees. In addition, recreational activities such as photography exhibition, badminton games and others cultural and sports events were organised to enrich the lives of employees.

3. Devoted to charity and public welfare events. During the Reporting Period, the Bank made charitable contributions totaling RMB16.227 million to the embarkment of the charitable events for the disabled, poverty alleviation and education. The program "Gateway to Tomorrow: Education Grant for Disabled Youth by Bank of Communications" was in its fourth year, with RMB8 million contributed to help poor or disabled high school and university students, subsidised training programs for special education teachers and award 200 excellent special education teachers and 35 disabled college students through "Motivational scholarship". The charity program with special focus in Tian Zhu, the Zangzu Autonomous County in Gansu province, entered into its tenth year, with a total amount of RMB2 million invested in the construction of 200 high quality green houses, relieving the financial pressure of the locals. 17 donation projects were carried out smoothly by 13 domestic branches of the Bank. The Bank also sponsored the Snooker Master Tournament in Shanghai and Shanghai Summer Music Festival in pursuit of cultural prosperity, as well as organised charitable auctions. It is through these activities, the Bank effectively promoted its concept of public charity.

(1) PROFIT DISTRIBUTION

1. Implementation of the profit distribution plan during the Reporting Period

The proposal in relation to the distribution of the 2011 final dividend of the Bank was considered and approved at the 2012 first extraordinary general meeting of the Bank held on 9 May 2012. Based on the total share capital of 61.886 billion shares as at 31 December 2011, a cash final dividend of RMB0.10 (tax inclusive) was paid for each share held, totaling RMB6.189 billion. The record date of the above dividend distribution was 30 May 2012 and the payment date of the cash dividend was 18 June 2012.

2. Payment of interim dividend and proposal of share transfer from capital reserve

The Board does not recommend the payment of interim dividend or share transfer from capital reserve for the six months ended 30 June 2012.

3. Implementation of the Bank's cash dividend distribution policy during the Reporting Period

In accordance with the articles of association of the Bank, 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 authorised by the general meeting to approve interim dividend distribution plan, unless otherwise decided by the general meetings. However, the amount of the interim dividend shall not exceed 40 percent of distributable profits as reported in the interim income statement of the Bank, unless otherwise specified by the laws and regulations.

The above rules were strictly complied with by the Bank.

(2) MAJOR FUND RAISING ACTIVITIES

In order to satisfy the needs of the Bank to achieve sustainable and stable business development, to better serve the real economy and to meet the increasingly stringent regulatory requirements, on 15 March 2012, the Board approved the proposal in relation to the non-public issuance of new A shares and new H shares, pursuant to which the Bank shall issue (i) 6,541,810,669 new A shares at a subscription price of RMB4.55 per A share; and (ii) a total of 5,835,310,438 new H shares at the price of HKD5.63 per H share.

The above proposal in relation to the non-public issuance of new A shares and new H shares, the connected transactions concerning the proposed subscription of new A shares and/or new H shares by relevant connected persons of the Bank (including the MOF, HSBC and SSF) and other related resolutions have been considered and approved by the shareholders at the extraordinary general meeting of the Bank held on 9 May 2012.

After obtaining all necessary PRC governmental and regulatory approvals and consents, the Bank completed the above non-public issuance of new A shares and new H shares on 24 August 2012. After completion of such issuance, the total issued share capital of the Bank increased to 74,262,726,645 shares, including 39,250,864,015 A shares and 35,011,862,630 H shares. For detailed information, please refer to the relevant announcements published by the Bank in China Securities Journal, Shanghai Securities News, Securities Times and on the website of the Shanghai Stock Exchange (www.sse.com.cn) on 25 August 2012 and 27 August 2012, and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) on 24 August 2012 and 26 August 2012.

(3) SHAREHOLDINGS IN OTHER COMPANIES

1. Holdings of shares issued by other listed companies

(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	Source of shares
600068	Gezhouba	135,080,299.07	1.42	322,255,500.00	–	(73,038,000.00)	Investment securities – available-for-sale	Foreclosed assets
01231	NEWTON RES	227,212,850.07	3.98	49,982,618.59	(177,230,231.48)	105,932,743.89	Investment securities – available-for-sale	Equity investment
000979	Zhonghong Gufen	12,494,400.00	1.23	92,114,090.00	–	(22,702,870.00)	Investment securities – available-for-sale	Foreclosed assets
01798	DATANG RENEW	126,982,721.52	2.65	58,271,163.65	(68,711,557.87)	52,257,321.34	Investment securities – available-for-sale	Equity investment
03377	SINO-OCEAN LAND	84,049,088.29	0.35	63,870,636.54	–	4,210,878.10	Investment securities – available-for-sale	Equity investment
00067	LUMENA NEWMAT	116,058,645.65	0.79	46,495,544.37	(69,563,101.27)	64,188,129.43	Investment securities – available-for-sale	Equity investment
01193	CHINA RES GAS	34,515,267.19	0.18	40,480,476.20	–	6,913,840.64	Investment securities – available-for-sale	Equity investment
600757	Changjiang Chuanmei	22,397,258.16	0.31	21,296,814.84	–	(7,573,639.32)	Investment securities – available-for-sale	Foreclosed assets
01428	BRIGHT SMART	9,292,485.11	7.32	25,667,919.27	–	2,920,941.03	Investment securities – available-for-sale	Equity investment
V	Visa Inc.	6,293,086.19	–	17,880,710.40	–	2,974,152.40	Investment securities – available-for-sale	Equity investment
	Others	190,306,734.34	–	78,052,452.22	(49,946,580.25)	35,025,125.57		
	Total	**964,682,835.59**		**816,367,926.08**	**(365,451,470.87)**	**171,108,623.08**		

Notes:

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

2. Holdings of shares issued by unlisted financial institutions

(in RMB unless otherwise stated)

Name of institution	Initial investment cost	Number of shares held	Percentage shareholding 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	–	–	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	3,937,500.00	–	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
Bank of Tibet Co., Ltd.	300,000,000.00	300,000,000	20.00	298,592,062.69	103,468.45	–	Investment in an associate	Equity investment
Shaanxi Coal and Chemical Industry Group Finance Corporation	100,000,000.00	N/A	10.00	100,000,000.00	–	–	Investment securities – available-for-sale	Equity investment
Total	**1,155,750,000.00**			**1,154,342,062.69**	**4,040,968.45**	**–**		

3. 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 the Reporting Period	Fund utilised	Gains
Purchases	351,426	790,840	1,142,266	7,134,311.36	–
Sales	23,384,642	(5,593,163)	17,791,479	–	1,963,670.13

Note: All changes in the shareholding as 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.

(4) MATERIAL LITIGATION AND ARBITRATION MATTERS

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

(5) SIGNIFICANT RELATED PARTY TRANSACTIONS

During the Reporting Period, the Bank did not enter into any significant related party transactions.

(6) AUDIT COMMITTEE

The Bank has established an audit committee in accordance with the requirements of 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. The members of the audit committee are — Mr. Li Ka-cheung, Eric, Mr. Gu Mingchao, Mr. Choi Yiu-kwan and Ms. Du Yuemei. 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 Interim Results.

(7) 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.

(8) COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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

(9) COMPLIANCE WITH THE CODE UNDER THE LISTING RULES OF THE HONG KONG STOCK EXCHANGE

During the Reporting Period, the Bank has complied with the code provisions in the Code and the "Code on Corporate Governance Practices" which was in force before 1 April 2012 as set out in Appendix 14 of the Listing Rules.

List of Branches

(1) DOMESTIC BRANCHES

Name	Address	The Number of Outlets	Number of employees
Head office	188 Yin Cheng Zhong Road, Pudong New District, Shanghai	1	2464
Beijing Branch	22 Jin Rong Street, Xicheng District, Beijing	114	4621
Tianjin Branch	35 Nanjing Road, He Xi District, Tianjin	72	1634
Hebei Provincial Branch	22 Zi Qiang Road, Shijiazhuang	78	2178
Shanxi Provincial Branch	35 Jie Fang Road, Taiyuan	40	1221
Inner Mongolia Autonomous Region Branch	110 West Da Xue Street, Sai Han District, Huhhot	18	681
Liaoning Provincial Branch	100 Shi Yi Wei Road, Shen He District, Shenyang	159	3618
Dalian Branch	6 Zhong Shan Square, Zhong Shan District, Dalian	48	1298
Jilin Provincial Branch	3515 Ren Min Avenue, Changchun	70	1855
Heilongjiang Provincial Branch	428 You Yi Road, Dao Li District, Harbin	88	2222
Shanghai Branch	99 South Zhong Shan Road, Shanghai	124	4793
Jiangsu Provincial Branch	124 North Zhong Shan Road, Nanjing	232	5581
Suzhou Branch	77 North Nan Yuan Road, Suzhou	56	1375
Wuxi Branch	198 Middle Ren Min Road, Wuxi	51	1354
Zhejiang Provincial Branch	1–39 Ju Yuan Road, Hangzhou	139	4162
Ningbo Branch	55 East Zhong Shan Road, Ningbo	40	1067
Anhui Provincial Branch	38 Hua Yuan Street, Hefei	106	2506
Fujian Provincial Branch	116 Hu Dong Road, Fuzhou	34	1008
Xiamen Branch	9 Hu Bin Zhong Road, Xiamen	19	451
Jiangxi Provincial Branch	199 Huizhan Road, Honggutan, Nanchang	55	1311
Shandong Provincial Branch	98 Gong Qing Tuan Road, Jinan	132	3375
Qingdao Branch	6 Zhong Shan Road, Qingdao	54	1287
Henan Provincial Branch	11 Zheng Hua Road, Zhengzhou	84	2542
Hubei Provincial Branch	A Ruitong Square, 847 Jianshe Avenue, Wuhan	82	2214
Hunan Provincial Branch	37 Middle Shao Shan Road, Changsha	54	1392
Guangdong Provincial Branch	123 South Jie Fang Road, Guangzhou	206	5290
Shenzhen Branch	2066 Middle Shen Nan Road, Shenzhen	50	1788
Guangxi Zhuang Autonomous Region Branch	228 East Ren Min Road, Nanning, Guangxi Zhuang Autonomous Region	79	1960
Hainan Provincial Branch	45 Guo Mao Road, Haikou, Hainan Province	17	517
Chongqing Municipal Branch	158 Zhongshan San Road, Yu Zhong District, Chongqing	54	1367
Sichuan Provincial Branch	211 Xi Yu Long Street, Chengdu	92	2141
Guizhou Provincial Branch	4 Sheng Fu Road, Guiyang	45	867
Yunnan Provincial Branch	67 Hu Guo Road, Kunming	48	1262
Shanxi Provincial Branch	88 Xi Xin Street, New City District, Xian	56	1232
Gansu Provincial Branch	129 Qing Yang Road, Lanzhou	28	688
Ningxia Hui Autonomous Region Branch	296 North Minzu road, Yinchuan	5	221
Xinjiang Uygur Autonomous Region Branch	16 Dong Feng Road, Urumqi	29	746
Qinghai Provincial Branch	29 West Wusi Road, Xining	2	106

(2) OVERSEAS BRANCHES

No.	Name	Address	The Number of Outlets	Number of employees
1	Hong Kong Branch	20 Pedder Street, Central, Hong Kong	43	1473
2	New York Branch	One Exchange Plaza/55 Broadway, 31st & 32nd Floor New York, NY 10006-3008,U.S.A.	1	41
3	Tokyo Branch	Toranomon, No. 37 Mori BLDG. 9F 3-5-1, Toranomon Minato-ku Tokyo, Japan	1	31
4	Singapore Branch	50 Raffles Place #18-01 Singapore Land Tower, Singapore	1	28
5	Seoul Branch	6th Floor, Samsung Fire & Marine Bldg.#87, Euljiro 1-Ga, Jung-Gu,Seoul 100-782, Korea	1	26
6	Frankfurt Branch	Neue Mainzer Strasse 75, 60311 Frankfurt am Main, Germany	1	16
7	Macau Branch	16F, AIA Tower, No. 251A–301, Avenida Commercial De Macau	1	34
8	Ho Chi Minh City Branch	17th floor, Vincom Center, 72 Le Thanh Ton, Dist.1, HCMC,VN	1	25
9	Bocom UK Ltd.	4th Floor, 1 Bartholomew Lane, London, EC2N2AX UK	1	16
10	Sydney Branch	Level 27, 363 George Street, Sydney NSW 2000 Australia	1	19
11	Taipei Branch	A Wing, 29th Floor, No. 7, Section 5, Xinyi Road, 110, Taipei (101 Tower), Xinyi District, Taiwan	1	13
12	San Francisco Branch	575 MARKET STREET, 38th FLOOR,SAN FRANCISCO, CA 94105 U.S.A.	1	10

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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 condensed consolidated financial statements of Bank of Communications Co., Ltd. (the "Bank") and its subsidiaries (collectively referred to as the "Group") set out on pages 58 to 100, which comprises the condensed consolidated statement of financial position as of 30 June 2012 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing 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 Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Bank are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review of these condensed consolidated financial statements 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
30 August 2012

Unaudited Condensed Consolidated Interim Financial Information

Unaudited Condensed Consolidated Statement of Comprehensive Income

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

	Notes	Three months ended 30 June 2012	Three months ended 30 June 2011 (Restated)	Six months ended 30 June 2012	Six months ended 30 June 2011 (Restated)
Interest income		60,166	46,536	118,203	88,372
Interest expense		(30,585)	(20,695)	(59,809)	(38,796)
Net interest income	3	29,581	25,841	58,394	49,576
Fee and commission income	4	6,108	5,471	12,461	11,055
Fee and commission expense	5	(741)	(671)	(1,499)	(1,299)
Net fee and commission income		5,367	4,800	10,962	9,756
Dividend income	6	12	41	13	59
Net gains arising from trading activities	7	720	38	1,374	649
Net gains arising from de-recognition of investment securities	20	22	71	26	146
Insurance business income		201	216	426	320
Other operating income	8	1,502	823	2,784	1,671
Impairment losses on loans and advances to customers	9	(3,329)	(2,687)	(7,136)	(5,807)
Insurance business expense		(193)	(169)	(407)	(201)
Other operating expense	10	(14,211)	(12,175)	(26,268)	(22,177)
Share of result of an associate		(2)	—	—	—
Profit before tax		19,670	16,799	40,168	33,992
Income tax	13	(4,438)	(3,662)	(9,028)	(7,544)
Net profit for the period		15,232	13,137	31,140	26,448
Other comprehensive income/(loss)					
Investment securities — available-for-sale					
Changes in fair value recorded in equity		819	(541)	1,147	(206)
Changes in fair value reclassified from equity to profit or loss		246	(82)	220	(157)
Translation difference on foreign operations		(86)	(86)	(17)	(158)
Other comprehensive income/(loss) for the period	35	979	(709)	1,350	(521)
Total comprehensive income for the period		16,211	12,428	32,490	25,927
Net profit attributable to:					
Shareholders of the Bank		15,208	13,116	31,088	26,396
Non-controlling interests		24	21	52	52
Total comprehensive income attribute to:					
Shareholders of the Bank		16,172	12,416	32,416	25,894
Non-controlling interests		39	12	74	33
Basic earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)	14	0.24	0.19	0.50	0.43

The accompanying notes presented on pages 63 to 100 form a part of this unaudited condensed consolidated interim financial information.

For details of the dividends paid or proposed please refer to Note 31.

Unaudited Condensed Consolidated Statement of Financial Position

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

	Notes	As at 30 June 2012	As at 31 December 2011
ASSETS			
Cash and balances with central banks	15	758,030	736,999
Due from banks and other financial institutions	16	658,323	443,240
Financial assets at fair value through profit or loss	17	42,426	48,422
Loans and advances to customers	19	2,743,356	2,505,385
Investment securities — loans and receivables	20	27,353	28,256
Investment securities — available-for-sale	20	208,153	184,092
Investment securities — held-to-maturity	20	558,516	544,761
Investment in an associate	37	298	298
Property and equipment	21	38,449	37,017
Deferred income tax assets	27	10,208	7,926
Other assets	22	107,096	74,781
Total assets		5,152,208	4,611,177
LIABILITIES			
Due to banks and other financial institutions	23	1,050,297	854,499
Financial liabilities at fair value through profit or loss	24	20,050	18,921
Due to customers	25	3,592,312	3,283,232
Other liabilities	26	105,114	95,666
Current tax liabilities		5,842	4,247
Deferred income tax liabilities	27	7	21
Debt securities issued	28	79,532	81,803
Total liabilities		4,853,154	4,338,389
EQUITY			
Capital and reserves attributable to shareholders of the Bank			
Share capital	29	61,886	61,886
Capital surplus	29	69,465	69,465
Other reserves		109,670	93,617
Retained earnings		57,008	46,834
		298,029	271,802
Non-controlling interests		1,025	986
Total equity		299,054	272,788
Total equity and liabilities		5,152,208	4,611,177

This unaudited condensed consolidated interim financial information on pages 58 to 100 was approved for issue by the Board of Directors on 30 August 2012 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 63 to 100 form a part of this unaudited condensed consolidated interim financial information.

Unaudited Condensed Consolidated Statement of Changes in Equity

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

			Other Reserves								
	Share capital Note 29	Capital surplus Note 29	Statutory reserve	Discretionary reserve Note 30	Statutory general reserve Note 30	Revaluation reserve for available-for-sale financial assets	Translation reserve on foreign operations	Retained earnings Notes 30, 31	Attributable to the shareholders of the Bank	Non-controlling interests	Total
Balance at 1 January 2011	56,260	69,465	13,780	31,272	23,962	(589)	(1,318)	29,941	222,773	884	223,657
Net profit for the period	–	–	–	–	–	–	–	26,396	26,396	52	26,448
Changes in fair value recorded in equity	–	–	–	–	–	(190)	–	–	(190)	(16)	(206)
Changes in fair value reclassified from equity to profit or loss	–	–	–	–	–	(154)	–	–	(154)	(3)	(157)
Translation difference on foreign operations	–	–	–	–	–	–	(158)	–	(158)	–	(158)
Total comprehensive income	–	–	–	–	–	(344)	(158)	26,396	25,894	33	25,927
Establishment of new subsidiaries	–	–	–	–	–	–	–	–	–	21	21
Dividends paid and accrued	–	–	–	–	–	–	–	(1,125)	(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	247,542	868	248,410
Balance at 1 January 2012	61,886	69,465	18,771	48,240	29,094	(647)	(1,841)	46,834	271,802	986	272,788
Net profit for the period	–	–	–	–	–	–	–	31,088	31,088	52	31,140
Changes in fair value recorded in equity	–	–	–	–	–	1,125	–	–	1,125	22	1,147
Changes in fair value reclassified from equity to profit or loss	–	–	–	–	–	220	–	–	220	–	220
Translation difference on foreign operations	–	–	–	–	–	–	(17)	–	(17)	–	(17)
Total comprehensive income	–	–	–	–	–	1,345	(17)	31,088	32,416	74	32,490
Dividends paid and accrued	–	–	–	–	–	–	–	(6,189)	(6,189)	(35)	(6,224)
Transfer to reserve	–	–	–	9,917	4,808	–	–	(14,725)	–	–	–
Balance at 30 June 2012	61,886	69,465	18,771	58,157	33,902	698	(1,858)	57,008	298,029	1,025	299,054

The accompanying notes presented on pages 63 to 100 form a part of this unaudited condensed consolidated interim financial information.

Unaudited Condensed Consolidated Statement of Cash Flows

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

	Six months ended 30 June	
	2012	2011
Cash flows from operating activities:		
Profit before tax:	40,168	33,992
Adjustments for:		
Impairment losses on loans and advances to customers	7,136	5,807
Unwind of discount on allowances during the period	(416)	(370)
Impairment of finance lease receivables	168	118
Provision for/(reversal of) impairment of other receivables	4	(16)
Insurance contracts reserve	140	201
Impairment of investment securities	366	5
Reversal of outstanding litigation and unsettled obligation	(32)	(27)
Depreciation of property and equipment	1,792	1,654
Amortisation of rent and renovation	241	228
Net losses from fair value hedges	12	—
Amortisation of land use rights	10	15
Amortisation of intangible assets	105	91
Interest income from investment in debt securities	(14,297)	(12,858)
Net gains arising from de-recognition of investment securities	(26)	(146)
Net gains on disposal of property and equipment	—	(65)
Increase in revaluation of investment property	(6)	(54)
Interest expense on subordinated debts securities and other debts issued	1,642	981
Interest expense on certificates of deposit issued	75	—
Dividend income	(13)	(59)
Operating cash flows before movements in operating assets and liabilities	37,069	29,497
Net increase in mandatory reserve deposits	(18,972)	(70,786)
Net increase in due from banks and other financial institutions	(55,336)	(96,345)
Net decrease in financial assets at fair value through profit or loss	5,996	27
Net increase in loans and advances to customers	(244,710)	(196,743)
Net increase in other assets	(32,136)	(17,916)
Net increase in due to banks and other financial institutions	195,798	61,643
Net increase in financial liabilities at fair value through profit or loss	1,069	6,760
Net increase in due to customers	309,080	290,128
Net increase in other liabilities	8,478	10,955
Net increase in business tax payable	192	371
Income tax paid	(10,176)	(7,171)
Net cash from operating activities	196,352	10,420

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

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

	Six months ended 30 June 2012	2011
Cash flows from investing activities:		
Purchase of investment securities	(166,591)	(144,522)
Disposal or redemption of investment securities	131,150	140,418
Dividends received	13	59
Interest received from investment securities	13,918	12,298
Acquisition of intangible assets and other assets	(199)	(183)
Disposal of intangible assets and other assets	22	—
Purchase and construction of property and equipment	(3,413)	(2,204)
Disposal of property and equipment	218	246
Net cash (used in)/from investing activities	(24,882)	6,112
Cash flows from financing activities:		
Proceeds from debt securities issued	6,729	—
Interest paid on debt securities issued	(1,047)	(997)
Dividends paid to shareholders of the Bank	(6,189)	—
Capital contribution by non-controlling interests	—	21
Repayment of debts securities issued	(9,000)	—
Dividends paid to non-controlling interests	(5)	(10)
Net cash used in financing activities	(9,512)	(986)
Effect of exchange rate changes on cash and cash equivalents	(152)	(142)
Net increase in cash and cash equivalents	161,806	15,404
Cash and cash equivalents at the beginning of the period	209,635	156,899
Cash and cash equivalents at the end of the period (Note 36)	371,441	172,303
Supplementary Information		
Interest received	115,102	86,214
Interest paid	(50,101)	(36,844)

The accompanying notes presented on pages 63 to 100 form a part of this unaudited condensed consolidated interim financial information.

(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 stocks 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 167 cities level and above branches in the Mainland China and also branches in Hong Kong, New York, Singapore, Seoul, Tokyo, Frankfurt, Macau, Hu Chi Minh City, San Francisco, Sydney and Taipei. 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 referred to as 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.

The Bank has obtained a business licence for its Taipei branch on 11 June 2012 and the branch started its operation officially from 16 July 2012.

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS

A Basis of preparation and principal accounting policies

These unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board.

These unaudited condensed consolidated financial statements of the Group should be read in conjunction with the 2011 annual financial statements.

On 1 January 2012, the Group adopted the following amendments, which were applicable for the Group's financial year beginning on 1 January 2012:

Amendments to IFRS 7	Disclosures — Transfers of Financial Assets
Amendments to IAS 12	Deferred Tax — Recovery of Underlying Assets

The directors of the Bank considered that the application of the amendments to IFRS 7 will affect the Group's disclosures regarding transfers of financial assets in the annual financial statements for the year ending 31 December 2012.

The amendments to IAS 12 provide an exception to the general principles in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Under the amendments to IAS 12, investment properties that are measured using the fair value model in accordance with IAS 40 "Investment Property" are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to IAS 12, the directors of the Bank reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodies in the investment properties over time, and that the presumption set out in the amendments to IAS 12 is not rebutted.

The amendments to IAS 12 have been applied retrospectively by the Group. The change in accounting policy had no impact on amounts reported in these unaudited condensed consolidated financial statements.

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

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS

(Continued)

A Basis of preparation and principal accounting policies *(Continued)*

Except for the above mentioned amendments, the Group adopts accounting policies and methods of computation which are consistent with those applied in financial statements for the year ended 31 December 2011.

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

Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle
Amendments to IFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities
International Financial Reporting Standard ("IFRS") 9	Financial Instruments
Amendments to IFRS 7 and IFRS 9	Mandatory Effective Date of IFRS 9 and Transition Disclosures
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
IAS 19 (Revised 2011)	Employee Benefits
IAS 27 (Revised 2011)	Separate Financial Statements
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities

The directors of the Bank anticipate that the adoption of IFRS 13 in the Group's consolidated financial statements may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

The Group is considering the impact of IFRS 9 on the consolidated financial statements and the timing of its application. At the same time, the Group is considering the impact of the new and revised standards on consolidation, joint arrangements, associates and disclosure to the consolidated financial statements.

Except for the above mentioned impacts of standards and amendments, the adoption of the above new and revised standards and amendments issued but not yet effective is not expected to have a material effect on the Group's operating results, financial position or other comprehensive income.

B Critical accounting estimates and judgments in applying accounting policies

The preparation of these unaudited condensed consolidated financial statements in conformity with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies of the Group. The Group adopts accounting estimates and judgments in the process of applying the accounting policies which are consistent with those applied in financial statements for the year ended 31 December 2011.

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

3 NET INTEREST INCOME

	Three months ended 30 June 2012	Three months ended 30 June 2011 (Restated)	Six months ended 30 June 2012	Six months ended 30 June 2011 (Restated)
Interest income				
Balances with central banks	2,747	2,243	5,461	4,342
Due from banks and other financial institutions	3,076	1,834	6,129	3,329
Loans and advances to customers	46,862	35,760	91,911	67,843
Investment in debt securities	7,481	6,699	14,702	12,858
	60,166	46,536	118,203	88,372
Interest expense				
Due to banks and other financial institutions	(11,867)	(7,972)	(23,494)	(14,480)
Due to customers	(17,834)	(12,187)	(34,510)	(23,262)
Subordinated debts and other debts issued	(789)	(493)	(1,642)	(981)
Certificate of deposits issued	(95)	(43)	(163)	(73)
	(30,585)	(20,695)	(59,809)	(38,796)
Net interest income	29,581	25,841	58,394	49,576

For six months ended 30 June 2012, interest income of the Group includes RMB405 million (six months ended 30 June 2011: RMB392 million) of interest income accrued on investment securities at fair value through profit or loss.

For six months ended 30 June 2012, interest expense of the Group includes RMB88 million (six months ended 30 June 2011: RMB73 million) of interest expense accrued on certificate of deposits issued classified as financial liabilities designated at fair value through profit or loss.

	Six months ended 30 June 2012	Six months ended 30 June 2011
Interest income on listed investments	3,836	3,849
Interest income on unlisted investments	10,866	9,009
Sub-total	14,702	12,858

For six months ended 30 June 2012, interest income of the Group includes RMB416 million (six months ended 30 June 2011: RMB370 million) of interest income accrued on impaired loans and advances to customers.

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

4 FEE AND COMMISSION INCOME

	Six months ended 30 June 2012	2011 (Restated)
Settlement service	1,013	959
Bank card	3,641	2,830
Investment banking	3,412	3,546
Guarantee and commitment	1,805	1,269
Management service	1,616	1,395
Agent service	764	912
Others	210	144
	12,461	11,055

	Six months ended 30 June 2012	2011
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	253	140
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	490	472

5 FEE AND COMMISSION EXPENSE

	Six months ended 30 June 2012	2011 (Restated)
Settlement and agent service	116	178
Bank card	1,216	977
Others	167	144
	1,499	1,299

	Six months ended 30 June 2012	2011
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	38

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

6 DIVIDEND INCOME

	Six months ended 30 June 2012	2011
Available-for-sale equity investments — unlisted	13	59

7 NET GAINS ARISING FROM TRADING ACTIVITIES

	Six months ended 30 June 2012	2011
Foreign exchange	1,010	539
Interest rate instruments	364	110
	1,374	649

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 six months ended 30 June 2012 include a loss of RMB31 million (six months ended 30 June 2011: a loss of RMB80 million) in relation to fair value change of financial liabilities designated at fair value through profit or loss.

8 OTHER OPERATING INCOME

	Six months ended 30 June 2012	2011
Gains on sale of property and equipment	10	74
Revaluation of investment property	6	54
Income from sales of franchised precious metal merchandise	2,051	1,338
Other miscellaneous income	717	205
	2,784	1,671

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

9 IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

	Three months ended 30 June		Six months ended 30 June	
	2012	2011	2012	2011
Loans and advances to customers (Note 19(b))				
— Collectively assessed losses	2,679	2,494	6,110	5,470
— Individually assessed losses	650	193	1,026	337
	3,329	2,687	7,136	5,807

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

10 OTHER OPERATING EXPENSE

	Six months ended 30 June 2012	2011
Staff costs (Note 11)	9,721	8,514
General and administrative expenses	4,426	3,604
Business tax and surcharges	5,347	4,158
Depreciation of property and equipment (Note 21)	1,792	1,654
Operating lease rental expenses	982	835
Supervision fee to regulators	122	121
Amortisation of intangible assets	105	91
Impairment of finance lease receivables	168	118
Impairment of investment securities (Note 20)	366	5
Professional fees	7	9
Amortisation of land use rights	10	15
Litigation expenses	13	33
Provision for/(reversal of) impairment of other receivables	4	(16)
Others	3,205	3,036
	26,268	22,177

11 STAFF COSTS

	Six months ended 30 June 2012	2011
Salary and bonuses	6,921	6,146
Pension costs	916	701
Housing benefits and subsidies	288	431
Other social security and benefit costs	1,596	1,236
	9,721	8,514

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 2012	2011
Emoluments	5	4

No directors waived or agreed to waive any emolument the periods.

In the first six months of 2012, RMB500,000 was accrued for independent non-executive directors' emolument (In the first six months of 2011: RMB375,000).

During the first six months of 2012 and 2011, no cash settled share appreciation rights ("SARs") were exercised.

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(Continued)

Movements in the number of SARs outstanding are as follows:

	Six months ended 30 June 2012 Number of shares (In millions)	Year ended 31 December 2011 Number of shares (In millions)
Outstanding at the beginning of the period/year	11	11
Granted in the period/year	—	—
Outstanding at the end of the period/year	11	11

13 INCOME TAX

	Three months ended 30 June 2012	Three months ended 30 June 2011	Six months ended 30 June 2012	Six months ended 30 June 2011
Current tax				
— PRC enterprise income tax	7,015	3,664	11,403	7,104
— Hong Kong profits tax	121	87	209	202
— Overseas taxation	86	41	159	66
	7,222	3,792	11,771	7,372
Deferred income tax (Note 27)	(2,784)	(130)	(2,743)	172
	4,438	3,662	9,028	7,544

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 tax differs from the theoretical amount that would arise using the tax rate of the home country of the Group at 25% (2011: 25%). The major reconciliation items are as follows:

	Three months ended 30 June 2012	Three months ended 30 June 2011	Six months ended 30 June 2012	Six months ended 30 June 2011
Profit before tax	19,670	16,799	40,168	33,992
Tax calculated at a tax rate of 25%	4,917	4,200	10,042	8,498
Effect of different tax rates in other countries (or regions)	20	(6)	23	(9)
Tax effect arising from income not subject to tax [(1)]	(560)	(595)	(1,112)	(1,073)
Tax effect of expenses that are not deductible for tax purposes [(2)]	61	63	75	128
Income tax expense	4,438	3,662	9,028	7,544

(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 represent a portion of expenditure, such as entertainment expense etc, which exceed the tax deduction limits in accordance with PRC tax regulations.

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 2012	2011
Net profit attributable to shareholders of the Bank	31,088	26,396
Weighted average number of ordinary shares in issue (expressed in millions)	61,886	61,886
Basic earnings per share (expressed in RMB yuan per share)	0.50	0.43

15 CASH AND BALANCES WITH CENTRAL BANKS

	As at 30 June 2012	As at 31 December 2011
Cash	15,489	16,254
Balances with central banks other than mandatory reserve deposits	100,630	97,806
Included in cash and cash equivalents (Note 36)	116,119	114,060
Mandatory reserve deposits	641,911	622,939
	758,030	736,999

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.

	As at 30 June 2012	As at 31 December 2011
Mandatory reserve rate for deposits denominated in RMB	20.00%	21.00%
Mandatory reserve rate for deposits denominated in foreign currencies	5.00%	5.00%

16 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2012	As at 31 December 2011
Placement with banks and other financial institutions	287,597	96,605
Included in cash and cash equivalents (Note 36)	*255,322*	*95,575*
Securities purchased under reverse repurchase agreements	161,457	147,588
Loans and bills purchased under reverse repurchase agreements	75,333	50,321
Loans and advances to other banks	76,927	104,875
Loans to other financial institutions	57,009	43,851
	658,323	443,240

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

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2012	As at 31 December 2011
Derivative financial instruments (Note 18)	4,739	5,585
Government bonds		
— Listed in Hong Kong	315	699
— Listed outside Hong Kong	1,005	980
— Unlisted	7,374	3,177
Other debt securities		
— Listed in Hong Kong	2,242	2,220
— Listed outside Hong Kong	2,573	3,616
— Unlisted — corporate entities	14,107	24,046
— Unlisted — public sector entities	1,205	10
— Unlisted — banking sector	8,762	7,957
Equity securities		
— Listed in Hong Kong	104	131
— Listed outside Hong Kong	—	1
	42,426	48,422

Securities — Financial assets at fair value through profit or loss are analysed by issuer as follows:

	As at 30 June 2012	As at 31 December 2011
Securities — Financial assets at fair value through profit or loss		
— Governments and central banks	8,694	4,856
— Public sector entities	2,703	1,488
— Banks and other financial institutions	11,487	11,134
— Corporate entities	14,803	25,359
	37,687	42,837

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

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

As at 30 June 2012, RMB4,093 million trading securities were pledged to third parties and stock exchanges under repurchase agreements and short-selling arrangements (31 December 2011: RMB3,714 million).

18 DERIVATIVE FINANCIAL INSTRUMENTS

	Contract/notional amount	Fair value Assets	Fair value Liabilities
As at 30 June 2012			
Foreign exchange contracts	675,740	2,789	(2,513)
Interest rate contracts	452,274	1,950	(2,695)
Total amount of derivative instruments recognised	1,128,014	4,739	(5,208)

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

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

	Contract/notional amount	Fair value Assets	Liabilities
As at 31 December 2011			
Foreign exchange contracts	571,381	3,785	(3,392)
Interest rate contracts	326,370	1,800	(2,601)
Total amount of derivative instruments recognised	897,751	5,585	(5,993)

The tables above provide a breakdown of the contract or notional amount 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

	As at 30 June 2012	As at 31 December 2011
Derivatives		
— Foreign exchange contracts	2,097	2,276
— Interest rate contracts	491	520
	2,588	2,796

Contract/notional amount of derivative financial instruments by original currency

	As at 30 June 2012	As at 31 December 2011
RMB	637,592	474,914
US dollar	404,032	339,866
HK dollar	59,336	54,499
Others	27,054	28,472
Total	1,128,014	897,751

Hedge accounting

As at 30 June 2012 and 31 December 2011, included in the derivative financial instruments above are those designated as hedging instruments by the Group as follows:

	Contract/notional amount	Fair value Assets	Liabilities
As at 30 June 2012			
Derivative financial instruments designated as hedging instruments in fair value hedges — Interest rate swaps	6,972	—	(525)
Total	6,972	—	(525)

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

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting *(Continued)*

	Contract/notional amount	Fair value Assets	Liabilities
As at 31 December 2011			
Derivative financial instruments designated as hedging instruments in fair value hedges			
— Interest rate swaps	7,000	—	(465)
Total	7,000	—	(465)

The Group uses interest rate swaps to minimise its exposure to fair value changes of its fixed-rate bond investments by swapping fixed-rate bond investments from fixed rates to floating rates. The interest rate swaps and the corresponding bond investments have the same terms and management of the Group considers that the interest rate swaps are highly effective hedging instruments.

The following table shows the profit and loss effects in the fair value hedges:

	Six months ended 30 June 2012	Six months ended 30 June 2011
Losses on hedging instruments	(60)	—
Gains on hedged items attributable to the hedge risk	48	—
Net losses from fair value hedges	(12)	—

19 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

	As at 30 June 2012	As at 31 December 2011
Loans and advances to customers	2,805,920	2,561,750
Less: Allowances for collectively assessed impairment losses	(51,243)	(45,115)
Less: Allowances for individually assessed impairment losses	(11,321)	(11,250)
	2,743,356	2,505,385

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

19 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

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

	Six months ended 30 June 2012		Six months ended 30 June 2011	
	Collectively assessed	Individually assessed	Collectively assessed	Individually assessed
Balance at the beginning of the period	45,115	11,250	31,833	14,604
Impairment allowances for loans	6,110	2,551	5,470	2,570
Reversal of impairment allowances for loans	—	(1,525)	—	(2,233)
Net impairment allowances for loans charged to profit or loss (Note 9)	6,110	1,026	5,470	337
Recoveries of loans and advances written-off in previous periods	—	125	—	149
Unwind of discount on allowances during the period	—	(416)	—	(370)
Loans written off during the periods as uncollectible	—	(665)	—	(763)
Exchange differences	18	1	(48)	(17)
Balance at the end of the period	51,243	11,321	37,255	13,940

	Six months ended 30 June 2012		Six months ended 30 June 2011	
	Corporate	Individuals	Corporate	Individuals
Balance at the beginning of the period	49,740	6,625	40,833	5,604
Impairment allowances for loans	7,557	1,104	7,096	944
Reversal of impairment allowances for loans	(1,307)	(218)	(1,997)	(236)
Net impairment allowances for loans charged to profit or loss	6,250	886	5,099	708
Recoveries of loans and advances written-off in previous periods	65	60	108	41
Unwind of discount on allowances during the period	(370)	(46)	(354)	(16)
Loans written off during the periods as uncollectible	(495)	(170)	(540)	(223)
Exchange differences	17	2	(62)	(3)
Balance at the end of the period	55,207	7,357	45,084	6,111

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

19 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(c) Individually assessed loans with impairment

	As at 30 June 2012		As at 31 December 2011	
	Gross amount of impaired loans before allowance for impairment	Allowance for individually assessed impaired loans	Gross amount of impaired loans before allowance for impairment	Allowance for individually assessed impaired loans
Corporate	19,608	(9,374)	19,194	(9,610)
Individuals	3,265	(1,947)	2,792	(1,640)
	22,873	(11,321)	21,986	(11,250)

	As at 30 June 2012	As at 31 December 2011
Individually assessed impaired loans to loans and advances to customers	0.82%	0.86%

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

	As at 30 June 2012	%	As at 31 December 2011	%
PRC domestic regions				
— Jiangsu	333,444	11.88	315,655	12.32
— Shanghai	322,812	11.50	285,835	11.16
— Beijing	277,223	9.88	271,290	10.59
— Guangdong	219,165	7.81	206,998	8.08
— Zhejiang	211,504	7.54	199,281	7.78
— Shandong	120,538	4.30	113,036	4.41
— Hubei	90,548	3.23	85,393	3.33
— Henan	89,888	3.20	84,989	3.32
— Others	912,592	32.53	812,828	31.73
PRC domestic regions total	2,577,714	91.87	2,375,305	92.72
Hong Kong, Macau and overseas regions	228,206	8.13	186,445	7.28
Gross amount of loans and advances to customers before allowance for impairment	2,805,920	100.00	2,561,750	100.00

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

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

19 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(e) Industry analysis

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

	As at 30 June 2012	%	As at 31 December 2011	%
Corporate loans				
Mining	66,004	2.35	51,040	1.99
Manufacturing				
— Petroleum and chemical	107,566	3.83	103,193	4.03
— Electronics	48,802	1.74	52,532	2.05
— Steel	44,773	1.60	42,547	1.66
— Machinery	100,445	3.58	89,785	3.50
— Textile and clothing	37,234	1.33	34,996	1.37
— Other manufacturing	211,461	7.54	188,906	7.37
Electricity, gas and water production and supply	143,034	5.10	141,316	5.52
Construction	95,260	3.39	80,621	3.15
Transportation, storage and postal service	342,731	12.21	329,566	12.86
Telecommunication, IT service and software	9,235	0.33	10,195	0.40
Wholesale and retail	366,105	13.05	290,874	11.35
Accommodation and catering	22,230	0.79	21,009	0.82
Financial services	19,664	0.70	22,995	0.90
Real estate	168,517	6.01	158,688	6.19
Services	176,531	6.29	160,039	6.25
Water conservancy, environmental and other public utilities	146,828	5.23	151,161	5.90
Education, science, culture and public health	36,456	1.30	32,647	1.27
Others	46,686	1.66	40,136	1.58
Discounted bills	76,762	2.74	50,197	1.96
Total corporate loans	2,266,324	80.77	2,052,443	80.12
Individual loans				
Mortgage loans	325,741	11.61	312,897	12.21
Credit card advances	92,292	3.29	74,194	2.90
Medium-term and long-term working capital loans	53,471	1.91	51,060	1.99
Short-term working capital loans	33,882	1.21	37,495	1.46
Car loans	4,503	0.16	5,632	0.22
Others	29,707	1.05	28,029	1.10
Total individual loans	539,596	19.23	509,307	19.88
Gross amount of loans and advances to customers before allowance for impairment	2,805,920	100.00	2,561,750	100.00

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

(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 contractual maturity and security type (gross)

	As at 30 June 2012			
	Within 1 year (inclusive)	1 year to 5 years (inclusive)	Over 5 years	Total
Unsecured loans	360,595	208,365	212,399	781,359
Guaranteed loans	454,325	200,515	136,679	791,519
Collateralised and other secured loans	371,645	304,485	556,912	1,233,042
— loans secured by property and other immovable assets	203,952	254,486	452,920	911,358
— other pledged loans	167,693	49,999	103,992	321,684
Gross amount of loans and advances to customers before allowance for impairment	1,186,565	713,365	905,990	2,805,920

	As at 31 December 2011			
	Within 1 year (inclusive)	1 year to 5 years (inclusive)	Over 5 years	Total
Unsecured loans	307,197	223,936	200,975	732,108
Guaranteed loans	345,347	205,655	121,718	672,720
Collateralised and other secured loans	352,106	292,766	512,050	1,156,922
— loans secured by property and other immovable assets	195,945	244,139	422,252	862,336
— other pledged loans	156,161	48,627	89,798	294,586
Gross amount of loans and advances to customers before allowance for impairment	1,004,650	722,357	834,743	2,561,750

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

20 INVESTMENT SECURITIES

	As at 30 June 2012	As at 31 December 2011
Securities — loans and receivables		
Debt securities — at amortised cost		
— Unlisted	27,353	28,256
Loans and receivables securities	27,353	28,256
Securities — available-for-sale		
Debt securities — at fair value		
— Listed in Hong Kong	2,736	1,160
— Listed outside Hong Kong	38,906	38,258
— Unlisted	164,017	141,932
Debt securities	205,659	181,350
Equity securities — at fair value		
— Listed in Hong Kong	203	429
— Listed outside Hong Kong	1,060	1,044
— Unlisted	1,231	1,269
Equity securities	2,494	2,742
Securities — available-for-sale total	208,153	184,092
Fair value of listed available-for-sale securities	42,905	40,891
Securities — held-to-maturity		
Debt securities — at amortised cost		
— Listed outside Hong Kong	199,220	205,022
— Unlisted	359,296	339,739
Held-to-maturity securities	558,516	544,761
Fair value of listed held-to-maturity securities	204,515	209,775

As at 30 June 2012, investment securities at fair value of RMB21,834 million (31 December 2011: RMB26,801 million) were pledged to third parties under repurchase agreements.

The Group holds bonds issued by the PBOC as at 30 June 2012 amounting to RMB6,709 million (31 December 2011: RMB9,328 million). The related interest rates on such bonds as at 30 June 2012 ranged between 2.65% — 2.70% (31 December 2011: 2.65% — 3.49%).

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

	Six months ended 30 June 2012	2011
Net gains arising from de-recognition of investment securities		
— Available-for-sale	26	146

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

20 INVESTMENT SECURITIES *(Continued)*

The movements in allowance for impairment losses of investment securities are summarised as follows:

	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Allowance for impairment losses				
As at 1 January 2012	—	(1,296)	—	(1,296)
Provision for impairment	—	(366)	—	(366)
Written off and transfer out during the period	—	3	—	3
Exchange differences	—	1	—	1
As at 30 June 2012	—	(1,658)	—	(1,658)
Allowance for impairment losses				
As at 1 January 2011	—	(1,480)	—	(1,480)
Provision for impairment	—	(6)	—	(6)
Written off and transfer out during the period	—	106	—	106
Exchange differences	—	84	—	84
As at 31 December 2011	—	(1,296)	—	(1,296)

The investment securities are analysed by issuer as follows:

	As at 30 June 2012	As at 31 December 2011
Securities — loans and receivables		
— Governments and central banks	1,492	2,671
— Banks and other financial institutions	18,395	13,496
— Corporate entities	7,466	12,089
	27,353	28,256
Securities — available-for-sale		
— Governments and central banks	49,312	39,829
— Public sector entities	1,011	3,004
— Banks and other financial institutions	108,021	92,544
— Corporate entities	49,809	48,715
	208,153	184,092
Securities — held-to-maturity		
— Governments and central banks	234,793	241,336
— Public sector entities	9,467	10,012
— Banks and other financial institutions	204,833	173,409
— Corporate entities	109,423	120,004
	558,516	544,761

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

20 INVESTMENT SECURITIES *(Continued)*

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

	As at 30 June 2012	As at 31 December 2011
Available-for-sale, at fair value		
— Unlisted	6,275	906

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

	As at 30 June 2012	As at 31 December 2011
Within 3 months	365	237
3 months to 12 months	2,521	345
1 year to 5 years	3,389	324
	6,275	906

21 PROPERTY AND EQUIPMENT

	Land and Buildings	Construction in Progress	Equipment	Motor Vehicles	Property Improvement	Total
Cost						
As at 1 January 2012	28,997	6,861	15,701	972	3,544	56,075
Additions	838	1,559	558	312	146	3,413
Transfer in from investment property	33	—	—	—	—	33
Disposals	(191)	—	(419)	(15)	(10)	(635)
Transfers in/(out)	631	(696)	—	—	65	—
As at 30 June 2012	30,308	7,724	15,840	1,269	3,745	58,886
Accumulated depreciation						
As at 1 January 2012	(6,862)	—	(10,898)	(402)	(896)	(19,058)
Charge for the period	(501)	—	(1,020)	(43)	(228)	(1,792)
Disposals	38	—	365	9	1	413
As at 30 June 2012	(7,325)	—	(11,553)	(436)	(1,123)	(20,437)
Net book value						
As at 30 June 2012	22,983	7,724	4,287	833	2,622	38,449

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

21 PROPERTY AND EQUIPMENT *(Continued)*

	Land and Buildings	Construction in Progress	Equipment	Motor Vehicles	Property Improvement	Total
Cost						
As at 1 January 2011	25,189	8,076	14,455	586	2,468	50,774
Additions	785	2,841	2,390	450	489	6,955
Disposals	(405)	(17)	(1,144)	(64)	(24)	(1,654)
Transfers in/(out)	3,428	(4,039)	—	—	611	—
As at 31 December 2011	28,997	6,861	15,701	972	3,544	56,075
Accumulated depreciation						
As at 1 January 2011	(6,032)	—	(9,936)	(395)	(500)	(16,863)
Charge for the year	(969)	—	(1,990)	(68)	(396)	(3,423)
Disposals	139	—	1,028	61	—	1,228
As at 31 December 2011	(6,862)	—	(10,898)	(402)	(896)	(19,058)
Net book value						
As at 31 December 2011	22,135	6,861	4,803	570	2,648	37,017

With exception to the Hong Kong branch and subsidiaries, all other land and buildings of the Group are located outside Hong Kong. The net book value of land and buildings is analysed based on the remaining lease terms as follows:

	As at 30 June 2012	As at 31 December 2011
Held in Hong Kong		
on long-term lease (over 50 years)	194	168
on medium-term lease (10-50 years)	37	34
	231	202
Held outside Hong Kong		
on long-term lease (over 50 years)	22	22
on medium-term lease (10-50 years)	21,508	20,637
on short-term lease (less than 10 years)	1,222	1,274
	22,752	21,933
	22,983	22,135

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

22 OTHER ASSETS

	As at 30 June 2012	As at 31 December 2011
Interest receivable	22,458	19,773
Settlement accounts	16,684	4,393
Other receivables	2,592	2,004
Less: impairment allowance	(561)	(574)
Land use rights [(a)]	538	556
Foreclosed assets	209	230
Leasehold improvement	562	658
Intangible assets	558	609
Rental deposits	236	242
Goodwill	322	322
Investment property [(b)]	169	196
Finance lease receivables [(c)]	63,443	45,743
Less: impairment allowance	(685)	(517)
Others	571	1,146
	107,096	74,781

(a) The net book value of land use rights is analysed based on the remaining terms of the leases

	As at 30 June 2012	As at 31 December 2011
Held outside Hong Kong		
on medium-term lease (10-50 years)	517	542
on short-term lease (less than 10 years)	21	14
	538	556

(b) Investment property

	Six months ended 30 June 2012	Year ended 31 December 2011
Balance at the beginning of the period/year	196	141
Transfer to owner-occupied property	(33)	—
Gains on property revaluation	6	61
Effect of foreign currency exchange differences	—	(6)
Balance at the end of the period/year	169	196

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

22 OTHER ASSETS *(Continued)*

(b) Investment property *(Continued)*

The net book value of investment properties is analysed based on the remaining terms of the leases:

	As at 30 June 2012	As at 31 December 2011
Held in Hong Kong		
on long-term lease (over 50 years)	46	72
on medium-term lease (10-50 years)	123	124
	169	196

(c) Finance lease receivables

	As at 30 June 2012	As at 31 December 2011
Minimum finance lease receivables		
Within 1 year (inclusive)	16,443	13,731
1 year to 5 years (inclusive)	42,978	28,635
Over 5 years	13,883	11,834
	73,304	54,200
Gross investment in finance leases	73,304	54,200
Unearned finance income	(9,861)	(8,457)
Present value of minimum lease payments receivables	63,443	45,743
The present value of minimum lease payments receivables is analysed based on the remaining terms as follows:		
Within 1 year (inclusive)	14,485	11,774
1 year to 5 years (inclusive)	37,074	23,740
Over 5 years	11,884	10,229
	63,443	45,743
The allowance for uncollectible finance lease receivables	(685)	(517)
Net finance lease receivables	62,758	45,226

23 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2012	As at 31 December 2011
Deposits from other banks	351,961	275,446
Deposits from other financial institutions	470,275	387,261
Loans from banks and other financial institutions	208,489	164,178
Securities sold under repurchase agreements	19,572	27,614
	1,050,297	854,499

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

24 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2012	As at 31 December 2011
Derivative financial instruments (Note 18)	5,208	5,993
Short position of securities held for trading	3,564	406
Certificates of deposit issued	11,278	12,522
	20,050	18,921

Certificates of deposit were issued by Hong Kong branch of the Bank and were classified as financial liabilities designated at fair value through profit or loss. Except for certificates of deposit issued, the financial liabilities at fair value through profit or loss include financial liabilities held for trading and derivatives designated and effective as hedging instruments.

Financial liabilities designated as fair value through profit or loss

	As at 30 June 2012	As at 31 December 2011
Difference between carrying amount and amount payable at maturity		
Fair value	11,278	12,522
Amount payable at maturity	11,273	12,506
	5	16

For six months ended 30 June 2012 and year ended 31 December 2011, there were no significant changes in the fair value of the Group's financial liabilities designated as at fair value through profit or loss that were attributable to the changes in credit risk.

25 DUE TO CUSTOMERS

	As at 30 June 2012	As at 31 December 2011 (Restated)
Corporate demand deposits	1,187,800	1,184,123
Corporate time deposits	1,246,679	1,064,194
Individual demand deposits	449,636	422,487
Individual time deposits	703,548	608,118
Other deposits	4,649	4,310
	3,592,312	3,283,232
Including:		
Pledged deposits held as collateral	360,469	305,658

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

26 OTHER LIABILITIES

	As at 30 June 2012	As at 31 December 2011
Interest payable	48,761	39,053
Settlement accounts	28,609	31,209
Staff compensation payable	4,909	6,920
Business and other tax payable	3,311	3,119
Insurance contracts reserve	1,734	1,594
Deposits received for finance leases	4,219	2,284
Provision for outstanding litigation [a]	574	561
Provision for unsettled obligation [a]	96	149
Dividends payable	94	64
Others	12,807	10,713
	105,114	95,666

(a) The movements in the provision for outstanding litigation and unsettled obligation

	As at 31 December 2011	Amounts accrued during the period	Amounts reversed during the period	As at 30 June 2012
Provision for outstanding litigation	561	79	(66)	574
Provision for unsettled obligation	149	—	(53)	96
Total	710	79	(119)	670

27 DEFERRED INCOME TAX

Deferred income taxes are calculated on all temporary differences using an effective tax rate of 25% for the six months ended 30 June 2012 (for the six months ended 30 June 2011: 25%) for transactions in PRC. Deferred income taxes are calculated on all temporary differences using an effective tax rate of 16.5% (for the six months ended 30 June 2011: 16.5%) for transactions in Hong Kong.

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

	Six months ended 30 June 2012	2011
Balance at the beginning of the period	7,905	7,275
Credit/(charge) to profit or loss	2,743	(172)
Available-for-sale financial assets — fair value remeasurement	(447)	119
Balance at the end of the period	10,201	7,222

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

27 DEFERRED INCOME TAX *(Continued)*

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

	As at 30 June 2012	As at 31 December 2011
Deferred income tax liabilities		
Available-for-sale financial assets	(313)	(10)
Other temporary differences	(131)	(2,552)
	(444)	(2,562)
Deferred income tax assets		
Impairment allowances for loans	8,265	7,492
Impairment allowances for investments	378	318
Impairment allowances for other assets	280	319
Unpaid salaries and bonuses	753	1,249
Retirement supplementary pension payable	151	143
Outstanding litigation and unsettled obligation	168	178
Available-for-sale financial assets	103	247
Other temporary differences	547	521
	10,645	10,467
Net deferred income tax assets	10,201	7,905

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

	As at 30 June 2012	As at 31 December 2011
Deferred income tax assets	10,208	7,926
Deferred income tax liabilities	(7)	(21)

The deferred tax credit/(charge) to profit or loss in the statement of comprehensive income comprises the following temporary differences:

	Six months ended 30 June 2012	2011
Impairment allowances for loans:		
Additional impairment allowances for loans	1,215	1,048
Prior year written-off amounts which are approved to be deductible in current period	(442)	(770)
Sub-total	773	278
Impairment allowances for investments	60	(30)
Impairment allowances for other assets	(39)	(120)
Outstanding litigation and unsettled obligation	(10)	7
Unpaid salaries and bonuses	(496)	(268)
Retirement supplementary pension payable	8	(5)
Other temporary differences	2,447	(34)
	2,743	(172)

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

28 DEBT SECURITIES ISSUED

	As at 30 June 2012	As at 31 December 2011
Subordinated debts and other debts issued[(1)]	70,000	78,000
Certificates of deposit issued[(2)]	9,532	3,803
	79,532	81,803

For the six months ended 30 June 2012 and year ended 31 December 2011, the Group did not default on principal, interest or redemption amounts with respect to its debt securities issued.

(1) Details of the Group's subordinated debts and other debts issued

	As at 30 June 2012	As at 31 December 2011
Fixed rate subordinated debt — 2022 [(a)]	16,000	16,000
Fixed rate subordinated debt — 2017 [(a)]	—	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
Fixed rate subordinated debt — 2026 [(d)]	26,000	26,000
Fixed rate debt [(e)]	1,000	—
	70,000	78,000

(a) The Group issued subordinated debts amounting to RMB25 billion on 6 March 2007 in China's inter-bank bond market:

The first type of subordinated debts, 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, payable annually. The Group has an option to redeem these debts at face value on 8 March 2017. If the Group does not exercise this redemption option, these debts 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 debts, which was in the principal amount of RMB9 billion with a maturity of 10 years, has a fixed coupon rate of 3.73% for the first five years, payable annually. The Group has an option to redeem these debts at face value on 8 March 2012. If the Group does not exercise this redemption option, these debts will bear interest at a fixed rate of interest of the original coupon rate plus 3% for the remaining five years. On 8 March 2012, the Group exercised the redemption option and redeemed the principal amount of RMB9 billion of this type of subordinated debts.

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

28 DEBT SECURITIES ISSUED *(Continued)*

(1) Details of the Group's subordinated debts and other debts issued *(Continued)*

(c) The Group issued subordinated debts amounting to RMB25 billion on 1 July 2009 in China's inter-bank bond market:

The first type of subordinated debts, which was in the principal amount of RMB11.5 billion with a maturity of 10 years, has a fixed coupon rate of 3.28% for the first five years, payable annually. The Group has an option to redeem these debts at face value on 3 July 2014. If the Group does not exercise this redemption option, these debts 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 debts, which was in the principal amount of RMB13.5 billion with a maturity of 15 years, has a fixed coupon rate of 4% for the first ten years, payable annually. The Group has an option to redeem these debts at face value on 3 July 2019. If the Group does not exercise this redemption option, these debts will bear interest at a fixed rate of interest of the original coupon rate plus 3% for the remaining five years.

(d) On 21 October 2011, the Group issued subordinated debts in China's inter-bank bond market, which was in the principal amount of RMB26 billion with a maturity of 15 years, has a fixed coupon rate of 5.75%, payable annually. The Group has an option to redeem these debts at face value on 23 October 2021.

(e) The Group issued term debts amounting to RMB1 billion on 8 March 2012 in Hong Kong. The first type of term debts, which was in the principal amount of RMB700 million with a maturity of 2 years, has a fixed coupon rate of 2.98%. The second type of term debts, which was in the principal amount of RMB300 million with a maturity of 3 years, has a fixed coupon rate of 3.10%.

(2) Certificates of deposit were issued by the branches of the Bank in Hong Kong, Singapore and Sydney.

29 SHARE CAPITAL AND CAPITAL SURPLUS

	Number of shares (in millions)	Ordinary shares of RMB1 each (RMB million)	Capital surplus (RMB million)	Total (RMB million)
At 1 January 2012	61,886	61,886	69,465	131,351
At 30 June 2012	61,886	61,886	69,465	131,351

	Number of shares (in millions)	Ordinary shares of RMB1 each (RMB million)	Capital surplus (RMB million)	Total (RMB million)
At 1 January 2011	56,260	56,260	69,465	125,725
Distributions of stock dividend	5,626	5,626	—	5,626
At 31 December 2011	61,886	61,886	69,465	131,351

29 SHARE CAPITAL AND CAPITAL SURPLUS *(Continued)*

The shareholding structure of the Bank as at 30 June 2012 and 31 December 2011 is as follows:

	Number of shares (in millions)	Approximated percentage of the Bank's issued share capital
Renminbi ordinary shares (A shares)	32,709	52.85%
Overseas listed foreign shares (H shares)	29,177	47.15%
Total number of shares	61,886	100.00%

Transactions of the following natures are recorded in the capital surplus:

(a) share premium arising from the issuance 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 issuance of stock dividend or for increasing paid-up capital as approved by the shareholders. There are no changes during the period.

As at 30 June 2012 and 31 December 2011, the Bank's capital surplus is listed as follows:

Share premium	68,851
Property revaluation gain designated by Ministry of Finance of the PRC ("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 is based on the recommendations of the directors and are subject to the resolutions to be passed at the General Meeting.

Pursuant to the relevant PRC banking regulations, the Bank is required to transfer a certain amount of its net profit to the statutory general reserve through its profit appropriation. It is determined based on the overall unidentified loss exposure, normally not 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 is also included in the above statutory general reserve.

For the year ending 31 December 2012, pursuant to "Administrative Measures for the Provisioning of Financial Enterprises" (Cai Jin [2012] No. 20), the Group will make general reserve for the risk assets as defined by the policy.

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 General Meeting.

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

30 RESERVES AND RETAINED EARNINGS *(Continued)*

As at 30 June 2012, the retained earnings of the Group include statutory and discretionary reserves provided by its subsidiaries of RMB292 million (31 December 2011: RMB262 million), and statutory general reserve (consisting of statutory general reserve and trust compensation reserve) provided by its subsidiaries of RMB319 million (31 December 2011: RMB205 million).

On 9 May 2012, the shareholders at the 2012 First Extraordinary General Meeting approved the following profit appropriation of 2011:

Statutory reserve	4,991
Statutory general reserve	4,808
Discretionary reserve	9,917
	19,716

31 DIVIDENDS

	Six months ended 30 June 2012	2011
Paid to shareholders of the Bank in the period	6,189	—

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

(i) Making up cumulative losses from prior years, if any;
(ii) Allocations to the non-distributable statutory reserve of 10% of the net profit of a bank as determined under the relevant PRC accounting standards;
(iii) Allocations to statutory general reserve;
(iv) Allocations to the discretionary reserve if approved by the General Meeting. These funds form part of the shareholders' equity.

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

On 28 March 2012, the 12th meeting of the 6th session of the Board of Directors of the Bank proposed and the shareholders at the 2012 First Extraordinary General Meeting on 9 May 2012 approved, the Bank transferred a total of RMB4,808 million to the statutory general reserve and RMB9,917 million to discretionary reserve. A cash dividend of RMB0.10 (before tax) per share, amounting to RMB6,189 million based on the total number of shares outstanding of 61.886 billion shares as at 31 December 2011 was also approved. The actual distribution date of the above cash dividend was 18 June 2012.

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

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:

	As at 30 June 2012	As at 31 December 2011 (Restated)
Letters of guarantees	265,507	218,012
Letters of credit	101,462	82,755
Acceptances	498,551	447,943
Other commitments with an original maturity of		
— Under 1 year	209,363	165,000
— 1 year and over	202,703	204,949
	1,277,586	1,118,659

Capital expenditure commitments

	As at 30 June 2012	As at 31 December 2011
Authorised but not contracted for	2,082	—
Contracted but not provided for	4,353	3,463
	6,435	3,463

Operating lease commitments

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

	As at 30 June 2012	As at 31 December 2011
Within 1 year	1,520	1,392
Beyond 1 year but not more than 5 years	3,761	3,474
More than 5 years	1,118	1,207
	6,399	6,073

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

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

Commitments on security underwriting and bond acceptance

	As at 30 June 2012	As at 31 December 2011
Outstanding balance on security underwriting	38,195	35,660
Outstanding balance on bond acceptance [(a)]	25,862	25,974

(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 till redemption date.

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 Group is involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. Provision for litigation losses as advised by in-house or external legal professionals is disclosed in Note 26. The total outstanding claims against the Group (defendant) by a number of third parties at end of the period/year are summarised as follows:

	As at 30 June 2012	As at 31 December 2011
Outstanding claims	1,538	1,508
Provision for outstanding litigation (Note 26)	574	561

33 COLLATERALS

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

	Pledged Assets		Related Liabilities	
	As at 30 June 2012	As at 31 December 2011	As at 30 June 2012	As at 31 December 2011
Trading securities	4,093	3,714	4,464	3,250
Investment securities	21,474	26,317	18,672	24,770
	25,567	30,031	23,136	28,020

The Group accepts collaterals under reverse repurchase agreements, which are permitted for sale or re-pledge. As at 30 June 2012, the fair value of such collaterals amounted to RMB4,361 million (31 December 2011: RMB18,381 million). All pledges are conducted under standard and normal business terms. As at 30 June 2012 and 31 December 2011, the Group did not sell or re-pledge any collaterals received.

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

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

	As at 30 June 2012	As at 31 December 2011
Credit risk weighted amount of financial guarantees and credit related commitments	436,139	383,661

The credit risk weighted amount refers to the amount as computed in accordance with the formula promulgated by the China Banking Regulatory Commission ("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 INCOME/(LOSS)

	Six months ended 30 June 2012		
	Before tax amount	Tax expense	Net of tax amount
Other comprehensive income/(loss)			
Investment securities — available-for-sale	1,814	(447)	1,367
Changes in fair value recorded in equity	1,520	(373)	1,147
Changes in fair value reclassified from equity to profit or loss	294	(74)	220
Translation difference on foreign operations	(17)	—	(17)
Other comprehensive income/(loss) for the period	1,797	(447)	1,350

	Six months ended 30 June 2011		
	Before tax amount	Tax benefit	Net of tax amount
Other comprehensive income/(loss)			
Investment securities — available-for-sale	(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 income/(loss) for the period	(640)	119	(521)

36 NOTES TO CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Analysis of the balance of cash and cash equivalents

For the purposes of the condensed consolidated statement of cash flows, 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:

	As at 30 June 2012	As at 30 June 2011
Cash and balances with central banks (Note 15)	116,119	120,566
Due from banks and other financial institutions (Note 16)	255,322	51,737
	371,441	172,303

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

37 INVESTMENT IN AN ASSOCIATE

	As at 30 June 2012	As at 31 December 2011
Investment cost	300	300
Share of post-acquisition result	(2)	(2)
Investment in an associate	298	298

The Group's investment in an associate is Bank of Tibet Co., Ltd., which was registered in Tibet of the PRC and established on 30 December 2011. The registered capital of the entity is RMB1,500 million, and the principal activities of the entity are banking activities. The Group held 20% of equity interest in this associate as at 30 June 2012 (31 December 2011: 20%).

38 RELATED PARTY TRANSACTIONS

(a) Transactions with the MOF

As at 30 June 2012, the MOF holds 16,413 million (31 December 2011: 16,413 million) shares of the Bank which represents 26.52% (31 December 2011: 26.52%) of total share capital of the Bank. The Group enters into banking transactions with the MOF under the 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/year end, and related income and expense for the periods are summarised as follows:

(i) Treasury bonds issued by the MOF

	Six months ended 30 June 2012	2011
Purchase during the period	34,208	30,830
Redemption during the period	(71,887)	(31,568)
Interest income	4,601	4,167

	As at 30 June 2012	As at 31 December 2011
Outstanding balance of treasury bonds at the beginning of the period/year	231,223	230,309
Outstanding balance of treasury bonds at the end of the period/year	251,136	231,223
Maturity range of the bonds	9 months–30 years	6 months–30 years
Interest rate range of the bonds	1.40%–6.15%	1.44%–6.15%

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

38 RELATED PARTY TRANSACTIONS *(Continued)*

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

(ii) Deposits

	As at 30 June 2012	As at 31 December 2011
Time Deposits	66,390	35,390
Maturity range of the deposits	3 months–12 months	6 months–12 months
Interest rate range of the deposits	3.23%–6.90%	5.70%–6.83%

(iii) Interest expense

	Six months ended 30 June 2012	2011
Interest expense	1,160	607

(b) Transactions with National Council for Social Security Fund

As at 30 June 2012, National Council for Social Security Fund holds 7,028 million (31 December 2011: 7,028 million) shares of the Bank which represents 11.36% (31 December 2011: 11.36%) of total share capital of the Bank. The Group enters into transactions with National Council for Social Security Fund under the 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 expense for the period are summarised as follows:

Deposits

	Six months ended 30 June 2012	2011
Outstanding balance at the beginning of the period	28,233	25,033
Deposited during the period	8,000	3,868
Repaid during the period	(9,093)	(368)
Outstanding balance at the end of the period	27,140	28,533
Interest expense	558	665

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

38 RELATED PARTY TRANSACTIONS *(Continued)*

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

As at 30 June 2012, HSBC holds 11,530 million (31 December 2011: 11,530 million) shares of the Bank which represents 18.63% (31 December 2011: 18.63%) of total share capital of the Bank. Transactions between the Group and HSBC are carried out under the 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 2012	2011
Outstanding at the beginning of the period	2,317	402
Deposited during the period	221,216	302,254
Repaid during the period	(221,888)	(302,120)
Outstanding at the end of the period	1,645	536
Interest income	14	8

(ii) Due to HSBC

	Six months ended 30 June 2012	2011 (Restated)
Outstanding at the beginning of the period	19,707	10,368
Deposited during the period	29,577	29,242
Repaid during the period	(30,367)	(28,093)
Outstanding at the end of the period	18,917	11,517
Interest expense	99	40

(iii) Investment securities issued by HSBC

	Six months ended 30 June 2012	2011
Interest income	22	27

	As at 30 June 2012	As at 31 December 2011
Outstanding balances at the end of the period/year	1,650	2,137

(iv) Derivative transactions

	As at 30 June 2012	As at 31 December 2011
Notional amount of derivative transactions	49,758	39,959
Fair value of derivative liabilities	(222)	(242)

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

38 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 commercial terms and paid at market rates. The volumes during the six months ended 30 June 2012 and 2011 and outstanding balances as at 30 June 2012 and 2011 are summarised as follows:

(i) Loans

	Six months ended 30 June	
	2012	2011
Outstanding at the beginning of the period	2	2
Granted during the period	—	—
Repaid during the period	—	—
Outstanding at the end of the period	2	2

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

(ii) Deposits

	Six months ended 30 June	
	2012	2011
Outstanding at the beginning of the period	7	6
Deposited during the period	2	4
Repaid during the period	(2)	(4)
Outstanding at the end of the period	7	6

(e) Transactions with an associate

Due to Bank of Tibet Co., Ltd.

	Six months ended 30 June	
	2012	2011
Outstanding at the beginning of the period	—	—
Deposited during the period	702	—
Repaid during the period	—	—
Outstanding at the end of the period	702	—
Interest expense	7	—

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

39 SEGMENTAL ANALYSIS

The Group's chief operating decision maker 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 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 and 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, Shannxi, Gansu, Qinghai, Ningxia and Xinjiang;

(vi) Head Office;

(vii) Overseas — Including overseas subsidiaries and the following banking institutions: Hong Kong, New York, Singapore, Seoul, Tokyo, Frankfurt, Macau, Hu Chi Mihn City, San Francisco, Sydney, London and Taipei.

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

The measure of segment profit or loss reviewed by the Group's chief operating decision maker is profit before tax.

	Head Office	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Eliminations	Group Total
Six months ended 30 June 2012									
External income	30,096	19,099	5,193	44,877	21,458	9,668	4,896	—	135,287
Inter-segment income	10,831	19,698	4,644	28,963	14,958	6,508	652	(86,254)	—
Total income	40,927	38,797	9,837	73,840	36,416	16,176	5,548	(86,254)	135,287
Profit before tax	7,086	6,059	1,369	13,433	7,420	3,067	1,734	—	40,168

	Head Office	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Overseas	Eliminations	Group Total
Six months ended 30 June 2011 (Restated)									
External income	22,189	15,130	4,242	34,054	16,000	7,177	3,480	—	102,272
Inter-segment income	6,630	14,629	3,547	21,842	10,746	4,788	199	(62,381)	—
Total income	28,819	29,759	7,789	55,896	26,746	11,965	3,679	(62,381)	102,272
Profit before tax	4,855	4,779	1,342	11,988	6,779	2,934	1,315	—	33,992

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

40 FINANCIAL RISK MANAGEMENT

The main types of financial risks of the Group are credit risk, liquidity risk and market risk which also includes foreign exchange risk, interest rate risk and other price risk.

These unaudited condensed consolidated financial statements of the Bank and its subsidiaries do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's 2011 annual financial statements.

The Group's financial risk management objectives and policies are consistent with those disclosed in the Group's 2011 annual financial statements.

For the six months ended 30 June 2012, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities, whether those assets or liabilities are recognised at fair value or amortised cost.

For the six months ended 30 June 2012, there were no significant transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments of the Group.

LIQUIDITY RISK

The tables below analyse the Group's assets and liabilities into relevant maturity groupings based on the remaining period from the 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 2012									
Assets									
Cash and balances with central banks	116,119	–	–	–	–	–	–	641,911	758,030
Due from banks and other financial institutions	84,010	451,435	64,767	55,679	2,420	–	12	–	658,323
Financial assets at fair value through profit or loss	–	3,218	7,719	12,770	14,185	4,430	–	104	42,426
Loans and advances to customers	–	216,398	324,464	909,265	644,978	634,567	13,684	–	2,743,356
Investment securities — loans and receivables	–	654	75	2,321	5,687	18,616	–	–	27,353
Investment securities — available-for-sale	–	2,451	7,514	35,812	107,385	52,497	–	2,494	208,153
Investment securities — held-to-maturity	–	8,368	20,170	61,521	302,709	165,748	–	–	558,516
Other assets	29,178	6,533	13,048	17,589	37,335	12,057	239	40,072	156,051
Total assets	229,307	689,057	437,757	1,094,957	1,114,699	887,915	13,935	684,581	5,152,208
Liabilities									
Due to banks and other financial institutions	(143,048)	(161,656)	(146,618)	(207,216)	(389,759)	(2,000)	–	–	(1,050,297)
Financial liabilities at fair value through profit or loss	(3,564)	(361)	(1,246)	(7,414)	(6,400)	(1,065)	–	–	(20,050)
Due to customers	(1,661,873)	(474,577)	(439,692)	(709,460)	(306,705)	(5)	–	–	(3,592,312)
Other liabilities	(41,891)	(7,038)	(14,696)	(31,982)	(51,241)	(43,647)	–	–	(190,495)
Total liabilities	(1,850,376)	(643,632)	(602,252)	(956,072)	(754,105)	(46,717)	–	–	(4,853,154)
Net amount on liquidity gap	(1,621,069)	45,425	(164,495)	138,885	360,594	841,198	13,935	684,581	299,054

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

40 FINANCIAL RISK MANAGEMENT *(Continued)*

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 2011									
Assets									
Cash and balances with central banks	114,060	–	–	–	–	–	–	622,939	736,999
Due from banks and other financial institutions	62,850	285,382	18,979	75,157	860	–	12	–	443,240
Financial assets at fair value through profit or loss	–	2,715	3,954	15,116	20,200	6,305	–	132	48,422
Loans and advances to customers	–	170,161	282,312	825,120	601,798	617,062	8,932	–	2,505,385
Investment securities – loans and receivables	–	300	1,515	6,555	6,422	13,464	–	–	28,256
Investment securities – available-for-sale	–	2,594	9,300	28,587	95,581	45,288	–	2,742	184,092
Investment securities – held-to-maturity	–	6,504	9,646	105,434	264,029	159,148	–	–	544,761
Other assets	14,421	5,105	10,297	16,578	24,348	10,289	257	38,727	120,022
Total assets	191,331	472,761	336,003	1,072,547	1,013,238	851,556	9,201	664,540	4,611,177
Liabilities									
Due to banks and other financial institutions	(142,593)	(160,682)	(90,138)	(95,629)	(359,027)	(6,430)	–	–	(854,499)
Financial liabilities at fair value through profit or loss	(406)	(1,795)	(1,577)	(4,556)	(9,694)	(893)	–	–	(18,921)
Due to customers	(1,619,891)	(416,608)	(347,850)	(655,603)	(238,556)	(4,724)	–	–	(3,283,232)
Other liabilities	(45,604)	(6,389)	(21,343)	(23,774)	(25,933)	(58,694)	–	–	(181,737)
Total liabilities	(1,808,494)	(585,474)	(460,908)	(779,562)	(633,210)	(70,741)	–	–	(4,338,389)
Net amount on liquidity gap	(1,617,163)	(112,713)	(124,905)	292,985	380,028	780,815	9,201	664,540	272,788

41 RECLASSIFICATION OF COMPARATIVE FIGURES

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

42 SUBSEQUENT EVENT

As at 22 August 2012, the Bank had completed the non-public issue of RMB ordinary shares (A Shares). 6,541,810,669 A Shares with par value of RMB1 each were issued at the price of RMB4.55 per share. As at 24 August 2012, the Bank had completed the non-public issue of overseas listed foreign shares (H Shares). 5,835,310,438 H Shares with par value of RMB1 each were issued at the price of HK$5.63 per share.

Supplementary Unaudited Financial Information

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

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

1 CAPITAL ADEQUACY RATIOS

The capital adequacy 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 were submitted to the regulators as at 30 June 2012 and 31 December 2011:

	As at 30 June 2012	As at 31 December 2011
Core capital:		
Share capital	61,886	61,886
Capital surplus	62,895	61,670
Statutory, discretionary and statutory general reserves	112,069	92,316
Retained earnings	54,666	46,755
Non-controlling interests	896	857
	292,412	263,484
Supplementary capital:		
General allowance of impaired loans	28,659	25,962
Subordinated debts	67,000	65,871
Other supplementary capital	525	3,415
Gross value of supplementary capital	96,184	95,248
Eligible value of supplementary capital	96,184	95,248
Total capital base before deductions	388,596	358,732
Deductions:		
Goodwill	(200)	(200)
Equity investments in financial institutions which are not consolidated	(1,294)	(1,218)
Equity investments in enterprises	(339)	(340)
Subordinated debts issued by other banks	(4,530)	(4,530)
	(6,363)	(6,288)
Total capital base after deductions	382,233	352,444
Risk-weighted assets:		
On-balance sheet risk-weighted assets	2,570,061	2,411,523
Off-balance sheet risk-weighted assets	436,139	383,661
Total risk-weighted assets	3,006,200	2,795,184
Market risk capital	2,779	3,034
Capital adequacy ratios	12.57%	12.44%
Core capital adequacy ratios	9.58%	9.27%

(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.

	As at 30 June 2012	As at 31 December 2011
Liquidity ratios:	44.18%	35.37%

3 CURRENCY CONCENTRATIONS

As at 30 June 2012	US dollar	HK dollar	Others	Total
Spot assets	380,874	96,357	32,383	509,614
Spot liabilities	(335,069)	(131,408)	(34,774)	(501,251)
Forward purchases	322,647	57,874	13,971	394,492
Forward sales	(354,523)	(13,922)	(12,646)	(381,091)
Net option position	(7)	84	(158)	(81)
Net long/(short) position	13,922	8,985	(1,224)	21,683
Net structural position	5,891	4,123	2,264	12,278

As at 31 December 2011	US dollar	HK dollar	Others	Total
Spot assets	265,263	83,781	31,557	380,601
Spot liabilities	(229,692)	(115,719)	(34,327)	(379,738)
Forward purchases	278,882	58,306	20,192	357,380
Forward sales	(313,676)	(13,904)	(17,467)	(345,047)
Net option position	(218)	(2)	8	(212)
Net long/(short) position	559	12,462	(37)	12,984
Net structural position	5,408	3,959	1,830	11,197

The net option 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.

(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, trade bills, certificates of deposit and investment securities.

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

	Banks and other financial institutions	Public sector entities	Others	Total
As at 30 June 2012				
Asia Pacific excluding Mainland China	37,114	10,001	85,565	132,680
— of which attributed to Hong Kong	*17,153*	*9,390*	*72,640*	*99,183*
North and South America	25,200	918	5,815	31,933
Africa	206	—	—	206
Europe	24,385	1,087	6,476	31,948
	86,905	12,006	97,856	196,767

	Banks and other financial institutions	Public sector entities	Others	Total
As at 31 December 2011				
Asia Pacific excluding Mainland China	35,783	3,830	78,571	118,184
— of which attributed to Hong Kong	*13,182*	*3,128*	*64,409*	*80,719*
North and South America	24,249	418	5,655	30,322
Africa	394	—	—	394
Europe	21,847	1,079	4,452	27,378
	82,273	5,327	88,678	176,278

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

5 OVERDUE AND RESCHEDULED ASSETS

(a) Gross amount of overdue loans

	As at 30 June 2012	As at 31 December 2011
Gross loans and advances to customers which have been overdue for:		
— within 3 months	10,880	6,779
— between 3 and 6 months	2,251	1,031
— between 6 and 12 months	2,233	2,424
— over 12 months	12,285	11,773
	27,649	22,007
Percentage:		
— within 3 months	0.39%	0.26%
— between 3 and 6 months	0.08%	0.04%
— between 6 and 12 months	0.08%	0.09%
— over 12 months	0.44%	0.46%
	0.99%	0.85%
Gross amounts for due from banks and other financial institutions:		
— 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%

As at 30 June 2012 and 31 December 2011, outstanding balances of overdue bills which have been included in the gross overdue loans and advances to customers are:

	As at 30 June 2012	As at 31 December 2011
— within 3 months	44	—
— between 3 and 6 months	—	—
— between 6 and 12 months	—	—
— over 12 months	57	68
	101	68

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

5 OVERDUE AND RESCHEDULED ASSETS *(Continued)*

(b) Overdue and rescheduled loans

	As at 30 June 2012	As at 31 December 2011
Total rescheduled loans and advances to customers	3,721	3,615
Including: rescheduled loans and advances to customers overdue over 3 months	*1,361*	*1,280*
Percentage of rescheduled loans and advances to customers overdue over 3 months in total loans	0.05%	0.05%

6 SEGMENTAL INFORMATION OF LOANS

(a) Impaired loans by geographical area

	As at 30 June 2012		As at 31 December 2011	
	Impaired loans	Allowances for individually assessed impaired loans	Impaired loans	Allowances for individually assessed impaired loans
Domestic regions				
— Northern China	3,818	(1,992)	4,130	(1,972)
— North Eastern China	2,195	(1,150)	2,334	(1,214)
— Eastern China	10,847	(4,718)	8,416	(4,335)
— Central and Southern China	4,016	(2,241)	4,583	(2,420)
— Western China	1,682	(990)	2,204	(1,107)
	22,558	(11,091)	21,667	(11,048)
Hong Kong, Macau and overseas countries	315	(230)	319	(202)
	22,873	(11,321)	21,986	(11,250)

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

	As at 30 June 2012			As at 31 December 2011		
	Overdue loans	Allowances for individually assessed impaired loans	Allowances for collectively assessed impaired loans	Overdue loans	Allowances for individually assessed impaired loans	Allowances for collectively assessed impaired loans
Domestic regions						
— Northern China	4,428	(1,888)	(18)	4,132	(1,875)	(10)
— North Eastern China	2,308	(1,049)	(9)	2,210	(1,084)	(6)
— Eastern China	12,964	(4,313)	(97)	8,431	(4,003)	(36)
— Central and Southern China	5,653	(2,120)	(40)	5,096	(2,299)	(25)
— Western China	1,817	(825)	(12)	1,750	(857)	(10)
	27,170	(10,195)	(176)	21,619	(10,118)	(87)
Hong Kong, Macau and overseas countries	479	(216)	(5)	388	(189)	(4)
	27,649	(10,411)	(181)	22,007	(10,307)	(91)
Fair value of collaterals	10,675			9,958		

(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)

	As at 30 June 2012			As at 31 December 2011		
		%	Amount covered by collaterals		%	Amount covered by collaterals
Hong Kong						
Corporate loans						
Manufacturing						
— Electronics	926	0.62	19	1,317	1.05	20
— Textile and clothing	421	0.28	45	439	0.35	54
— Other manufacturing	3,911	2.62	303	2,914	2.31	194
Electricity, gas and water production and supply	505	0.34	—	49	0.04	—
Construction	7,818	5.24	659	6,741	5.35	804
Transportation, storage and postal service	14,549	9.75	3,174	11,515	9.14	2,885
Telecommunication, IT service and software	47	0.03	—	401	0.32	—
Wholesale and retail	63,597	42.64	6,813	45,997	36.52	5,465
Accommodation and catering	158	0.11	7	154	0.12	3
Financial services	9,636	6.46	606	10,218	8.11	479
Real estate	9,397	6.30	8,563	9,595	7.62	8,064
Education, science, culture and public health	1	0.00	—	1	0.00	—
Others	18,993	12.74	955	17,541	13.93	957
Total corporate loans	129,959	87.13	21,144	106,882	84.86	18,925
Individual loans						
Mortgage loans	10,502	7.04	10,498	9,795	7.78	9,787
Short-term working capital loans	93	0.06	85	87	0.07	76
Credit card advances	94	0.06	—	213	0.17	—
Others	8,508	5.71	8,064	8,973	7.12	8,594
Total individual loans	19,197	12.87	18,647	19,068	15.14	18,457
Gross amount of loans and advances to customers before allowance for impairment	149,156	100.00	39,791	125,950	100.00	37,382
Outside Hong Kong	2,656,764			2,435,800		

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

The ratio of collateral loan to the total loan of the Group is 44% as at 30 June 2012 (31 December 2011: 45%).

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

7 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(b) Allowance on loans and advances by loan usage

	As at 30 June 2012		As at 31 December 2011	
	Impaired loans	Allowance for individually assessed impaired loans	Impaired loans	Allowance for individually assessed impaired loans
Corporate	19,608	(9,374)	19,194	(9,610)
Individuals	3,265	(1,947)	2,792	(1,640)
	22,873	(11,321)	21,986	(11,250)
Fair value of collaterals	7,681	N/A	7,647	N/A

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

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

	Six months ended 30 June					
	2012			2011		
	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years
Corporate	6,250	(495)	65	5,099	(540)	108
Individuals	886	(170)	60	708	(223)	41
	7,136	(665)	125	5,807	(763)	149

交通銀行
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