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)

2013 INTERIM REPORT

Stock Code:03328

Contents

Definitions

The following terms will have the following meanings in this Interim Report unless otherwise stated:

"Bank"	Refers to the Bank of Communications Co., Ltd.
"Group"	Refers to the Bank and its subsidiaries
"Board of Directors"	Refers to the Board of Directors of the Bank
"Ministry of Finance"	Refers to the Ministry of Finance of the People's Republic of China
"PBOC"	Refers to The People's Bank of China
"CBRC"	Refers to the China Banking Regulatory Commission
"CSRC"	Refers to the China Securities Regulatory Commission
"HSBC"	Refers to The Hongkong and Shanghai Banking Corporation Limited
"SSF"	Refers to the National Council for Social Security Fund
"Shanghai Stock Exchange"	Refers to the Shanghai Stock Exchange
"Hong Kong Stock Exchange"	Refers to The Stock Exchange of Hong Kong Limited
"Company Law"	Refers to the Company Law of the People's Republic of China
"Securities Law"	Refers to the Securities Law of the People's Republic of China
"Commercial Bank Law"	Refers to the Law of the People's Republic of China on Commercial Banks
"Hong Kong Listing Rules"	Refers to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"Articles of Association"	Refers to the Articles of Association of the Bank of Communications Co., Ltd. as approved by the CBRC
"Reporting Period"	Refers to 1 January 2013 to 30 June 2013
"Head Office"	Refers to the Group's Head Office in Shanghai
"North China"	Includes Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region
"Northeast China"	Includes Liaoning Province, Jilin Province and Heilongjiang Province
"East China"	Includes Shanghai (excluding the Head Office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province
"Central and South China"	Includes Henan Province, Hunan Province, Hubei Province, Guangdong Province, Hainan Province and Guangxi Autonomous Region
"West China"	Includes Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region, Xinjiang Autonomous Region and Tibet Autonomous Region
"Overseas"	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 and Bank of Communications (UK) Co., Ltd. and other overseas subsidiaries
"Basis point"	Refers to one in ten thousand
"Impaired loans"	Refers to loans which are impaired due to objective evidence that the counterparty will be unable to pay amounts in full when due
"Interest-bearing assets"	Refers to the loans and advances to customers, investment securities, and due from banks and other financial institutions
"Interest-bearing liabilities"	Refers to due to customers, due to banks and other financial institutions and other borrowings
"Bocom Schroder"	Refers to Bank of Communications Schroder Fund Management Co., Ltd.
"Bocom International Trust"	Refers to Bank of Communications International Trust Co., Ltd.
"Bocom Leasing"	Refers to Bank of Communications Finance Leasing CO., Ltd.
"Bocom International"	Refers to BOCOM International Holdings Company Limited
"BoCommLife Insurance"	Refers to BoCommLife Insurance Company Limited
"Bocom Insurance"	Refers to China BOCOM Insurance Co., Ltd.

Financial Highlights

The major interim financial data and indicators of the Group as at 30 June 2013 prepared under the International Financial Reporting Standards ("**IFRS**") were as follows:

			(in millions of RMB unless otherwise stated)
	As at 30 June 2013	As at 31 December 2012	Increase/ (decrease) (%)
Total assets	**5,717,602**	5,273,379	8.42
Include: loans and advances to customers	**3,201,417**	2,947,299	8.62
Total liabilities	**5,319,444**	4,891,932	8.74
Include: due to customers	**3,953,310**	3,728,412	6.03
Shareholders' equity attributable to shareholders of the parent company	**396,371**	379,918	4.33
Net assets per share attributable to shareholders of the parent company (in RMB yuan)	**5.34**	5.12	4.30
	January to June 2013	January to June 2012	Increase/ (decrease) (%)
Net interest income	**65,008**	58,394	11.33
Profit before tax	**45,060**	40,170	12.17
Net profit attributable to shareholders of the parent company	**34,827**	31,089	12.02
Basic earnings per share (in RMB yuan)	**0.47**	0.50	(6.00)
	As at 30 June 2013 (%)	As at 31 December 2012 (%)	Change (percentage point)
Return on average assets[1]	**1.27**	1.18	0.09
Return on average shareholders' equity[2]	**17.95**	17.91	0.04
Cost-to-income ratio[3]	**25.20**	29.86	(4.66)
Impaired loans ratio[4]	**0.99**	0.92	0.07
Provision coverage of impaired loans[5]	**222.92**	250.68	(27.76)
Core capital adequacy ratio[6]	**11.20**	11.24	(0.04)
Capital adequacy ratio[6]	**13.85**	14.07	(0.22)

Notes:

1. Calculated by dividing annualised net profit of the Reporting Period by the average of total assets as at the beginning and the end of the Reporting Period.
2. Calculated by dividing annualised net profit attributable to shareholders of the parent company of the Reporting Period by the average of shareholders' equity attributable to shareholders of the parent company as at the beginning and the end of the Reporting Period.
3. Refers to business and administrative expenses against the total of various net income.
4. Calculated by dividing the outstanding balance of impaired loans by the outstanding balance of loans and advances to customers before impairment allowances as at the end of the Reporting Period.
5. Calculated by dividing the outstanding balance of impairment allowances by the outstanding balance of impaired loans as at the end of the Reporting Period.
6. Calculated pursuant to the *Administrative Measures for the Capital Adequacy Ratio of Commercial Banks* issued by the CBRC and other relevant regulatory requirements.

Corporate Information

LEGAL NAME

交通銀行股份有限公司

Bank of Communications Co., Ltd.

LEGAL REPRESENTATIVE

Niu Ximing

COMPANY SECRETARY

Du Jianglong

AUTHORISED REPRESENTATIVES APPOINTED ACCORDING TO THE HONG KONG LISTING RULES

Qian Wenhui

Du Jianglong

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NEWSPAPERS AND WEBSITES FOR INFORMATION DISCLOSURE

A Share: China Securities Journal
Shanghai Securities News
Securities Times
Website of the Shanghai Stock Exchange
www.sse.com.cn

H Share: Website of the Hong Kong Stock Exchange
www.hkexnews.hk

PLACES WHERE THE INTERIM REPORT ARE AVAILABLE

Head office of the Bank

AUDITORS

A Share: Deloitte Touche Tohmatsu CPA LLP

H Share: Deloitte Touche Tohmatsu

HONG KONG LEGAL ADVISER

DLA Piper UK LLP

PRC LEGAL ADVISER

King & Wood

SHARE REGISTRARS AND TRANSFER OFFICE

A Share: China Securities Depository and Clearing Corporation Limited, Shanghai Branch
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No. 166 Lujiazui Dong Road,
Pudong New District, Shanghai, PRC

H Share: Computershare Hong Kong Investor Services Limited,
Room 1712–1716.
17/F, Hopewell Centre,
183 Queen's Road East, Hong Kong

LISTING INFORMATION

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

Management Discussion and Analysis

(I) MACROECONOMIC AND FINANCIAL ENVIRONMENT

The first half of 2013 still witnessed a complex economic environment around the globe and within China. The US and Japan were sluggish in their recovery whereas the Eurozone continued to remain weak. Most emerging economies experienced slowdown in economic growth, and the global commodity price continued to decline. With the continuous implementation of the proactive fiscal policy and a prudent monetary policy and the expedited paces in reform, China's economic growth was steady in an overall way and the key economic indicators were on track of the annual targets. The actual GDP increased by 7.6% as compared with the corresponding period in prior year, particularly the GDP in the second quarter grew by 7.5%, 0.2 percentage point lower than that in the first quarter. The employment rate remained stable. CPI zigzagged up, increasing by 2.4% on average as compared with the corresponding period in prior year. Loan growth experienced some slowdown, with the balance of RMB loans increasing by 14.2% as compared with the corresponding period in prior year, accompanied by the increasing proportion of medium and long-term corporate loans. Total social financing increased by RMB2,380 billion to RMB10,150 billion as compared with the corresponding period in prior year. The growth rate of Broad Money ascended slightly prior to declining, and as at the end of June, M2 grew by 14.0% as compared with the corresponding period in prior year. Monetary policy was maintained prudent with enhanced flexibility. The interest rate deregulation continued to be carried forward and the expectations on RMB exchange rate remained stable.

(II) BUSINESS REVIEW

As at the end of the Reporting Period, the Group's total assets increased by 8.42% from the beginning of the year to RMB5,717.602 billion. Customer deposits increased by 6.03% from the beginning of the year to RMB3,953.310 billion. Balance of loans and advances to customers (before impairment allowance unless otherwise stated, same applies hereinafter) increased by 8.62% from the beginning of the year to RMB3,201.417 billion. Net profits of the Reporting Period increased by 12.02% as compared with the corresponding period in prior year to RMB34.827 billion. Annualised return on average assets and annualised return on average shareholders' equity were 1.27% and 17.95% respectively, representing an increase of 0.09 and 0.04 percentage point respectively as compared with prior year. Net interest spread and net interest margin decreased by 8 and 5 basis points as compared with the corresponding period in prior year to 2.39% and 2.56% respectively. The impaired loans ratio increased by 0.07 percentage point to 0.99% from the beginning of the year, while the provision coverage of impaired loans decreased by 27.76 percentage points as compared with the beginning of the year to 222.92%. The Group's capital adequacy ratio and Tier 1 capital adequacy ratio calculated under the risk-weighted approach were 12.68% and 10.14% respectively, which were in compliance with the regulatory requirements.

The Group made into the list of *FORTUNE 500* for five consecutive years, ranking No. 243 in terms of operating income, ascending by 83 positions from the previous year. The Group ranked No. 23 among the global top 1,000 banks in terms of Tier 1 Capital rated by *The Banker*, up 7 positions from the previous year.

1. Corporate banking

In the first half of 2013, the Group proactively responded to the changes of the economic situation and policy environment, and with the consistent focus on the corporate wealth management service, the Group further promoted the transition of corporate financial services by giving full play to the advantages in internationalised network and universal operation. Starting with business innovation, the Group substantially enhanced the marketing and service for key customers, and provided support to SMEs (small and medium enterprises) to achieve sustained, robust and wholesome development. Leveraging the global service network and the collaborative mechanism between the domestic and overseas branches, the Group's core competitiveness of corporate finance was steadily improved. As at the end of the Reporting Period, the corporate deposits balance increased by 4.66% from the beginning of the year to RMB2,641.398 billion, and the corporate loan balance increased by 8.21% from the beginning of the year to RMB2,538.394 billion. Meanwhile, the balance of corporate impaired loans increased by 10.11% from the beginning of the year to RMB24.110 billion, with the impaired corporate loans ratio increasing by 0.02 percentage point from the beginning of the year to 0.95%. The net fee and commission income generated from corporate banking business totaled RMB8.002 billion, increasing by 16.27% as compared with the corresponding period in prior year. Corporate banking business yielded a profit before tax of RMB26.165 billion, increasing by 10.72% as compared with the corresponding period in prior year. As at the end of the Reporting Period, the number of corporate customers increased by 5.59% from the beginning of the year, in particular that of middle-to-high-end corporate wealth management customers increased by 3.04% correspondingly.

(1) Corporate and institutional business

The Group proactively enhanced cooperation with government and enterprises by organising various activities such as "China Wealth Management Summit for Outstanding Entrepreneurs", "Win To Fortune by Your Side" and "Win To Fortune Treasurers Club", and expanded cooperation with corporate customers in the industries of energy, commerce and trading, machinery, automotive, culture and large scaled e-commerce. The Group carried out the combination and integration of governmental financial investment vehicles and other resources, participated in several pilot projects transferring housing fund as entrusted loans for the construction of indemnificatory apartments in various cities. Through the domestic and overseas synergy, the Group became the first bank that extended cross-border RMB loan to an electric power corporation, provided funds backflow service for offshore RMB-denominated bonds issued by a domestic non-financial institution, and completed the agreement-based repo financing transaction in the Shenzhen Stock Exchange. The Group continued to roll out the Green Credit initiative to perform its social responsibilities. Confronted with the opportunities arising from urbanisation, the Group followed up the demands in the areas of services industry, modern agriculture, industrial transition and the new rural area construction to support the local economic growth. A number of e-banking services were launched, such as "Bank-enterprise Cooperation Service Platform", "Account Receivable Service Platform" and "One-stop Public Utilities Service". The Group continued with its efforts in business innovation. The Group was awarded Best Innovation in Transaction and Best Marine Engineering Finance Transaction for the year 2012 by the *Marine Money* as recognition of the Group's innovation in the shipping industry. "Easy Tuition Payment", a case of financial product innovation, was awarded Top 10 Best Financial Product Innovations in 2013 by *The Chinese Banker*.

(2) MSMEs (micro, small and medium enterprises) business

The Group continued to expand the customer base to support the development of micro and small enterprises. In accordance with the sector distribution of MSMEs and the guidance of the national macro-economic policy, the Group proactively enhanced the financial services provided to business circles, supply chains and industrial parks through the launch of new lending services such as express discounting service for electronic commercial papers and property mortgage loans for small enterprises business operation, and launched the "Small Enterprises E-loan" to enhance the support for micro and small enterprises. As at the end of the Reporting Period, MSMEs loan balance increased by 8.79% from the beginning of the year to RMB1,210.651 billion. Such growth accounted for 38.51% of total incremental loans. The proportion of MSMEs loans in the total loan balance increased by 0.61 percentage point from the beginning of the year.

(3) The "one-branch-offering-nationwide-service" industry chain service

Focusing on the demands of core enterprises in industry chains and their upstream and downstream enterprises, the Group fulfilled an in-depth collaboration with large enterprises and the collective customer base expansion of the upstream and downstream SMEs and the end users. As at the end of the Reporting Period, the Group had built over 13,000 industry chain networks, and attracted or maintained business relationship with over 70,000 enterprises on the chains. The new "one-branch-offering-nationwide-service" industry chain service model was successfully implemented on pilot basis in industries such as automotive and project and machinery, and had gradually formed into a business specialty. In addition, the Bank continued enhancing the research and development of industry chain finance products, further improved the innovative financial services such as "electronic supply chain", "express discounting service for electronic bills", "express factoring" and "general procurement financial service", by means of which a system of industry chain financial products had been established. The Bank won the Award of Technology Advancement rated by the PBOC, and was awarded the Best Innovation in Financial Service by *The Chinese Banker*.

(4) Cash management

The Bank continued to build a cash management model combining innovative services, chain marketing and centralised system management with the launch of competitive cash pool products and cash management services. As at the end of the Reporting Period, over 10,000 group corporate customers were using cash management services, increasing by 65% from the beginning of the year. The Bank obtained the qualification as a pilot bank offering centralised operation and management of foreign exchange fund for multinational corporations, and reached cooperation intention with various corporations. Furthermore, the Bank completed the design and development of the cross-bank bill pooling product for customers with multiple margin deposit accounts, reducing the risk of bill arbitrage and effectively supporting the real economy. The global cash management was launched, realising the services including agreement-signing, inquiries, centralised collection and payment for domestic foreign currency accounts, offshore accounts, and NRA (Non-Resident Accounts) inquiries, as well as the domestic and foreign currency fund pooling service under the entrusted loan model and financial company model. The Bank offered cash management solutions for bureaus of finance in accordance with current policy requirements, launched the Win To Account multi-lateral fund transfer service for group customers who had not completely realised the centralised fund management, and introduced revenue and expenditure management service under Win To Account for corporate customers with separated management of revenue and expenditure.

(5) International settlement and trade finance

With the Bank's traditional advantages in international settlement and trade finance, the business volume continued to increase steadily. Volume of international settlement in the first half of 2013 increased by 24.86% as compared with the corresponding period in prior year to USD280.629 billion. Volume of international trade finance increased by 193.45% as compared with the corresponding period in prior year to USD24.453 billion. In particular, the volume of import trade finance reached USD19.974 billion. Based on the market demands and the characteristics of various sectors, the Bank provided financial support on a selective basis for corporate customers involved in external guarantees business. As at the end of June 2013, the balance of external guarantees increased by 29.42% from the beginning of the year to USD27.720 billion. In addition, the Bank accelerated the growth of international factoring and finance against export credit insurance policy to provide corporate customers with comprehensive financial services.

(6) Investment banking

During the Reporting Period, income generated from investment banking business reached RMB4.153 billion, increasing by 21.72% as compared with the corresponding period in prior year, representing 26.71% of the total fee and commission income. The Bank acted as a lead underwriter for 75 debt financing instruments, with a total underwriting volume of RMB136.601 billion, increasing by 82.66% as compared with the corresponding period in prior year. Innovations continued to evolve in new products such as new-type corporate bonds, private placement note, asset-backed bills and bond bridge financing. Business innovations were further enhanced in equity financing services involving integrated IPO (Initial Public Offering) and mergers and acquisitions. The Bank was awarded the Best Innovation Investment Banking, the Best Bank in Cross-border Financing, the Best Structured Financing Project and the Best Innovation in Asset Management Project by the *Securities Times*.

(7) Asset custody

The Bank proactively responded to market changes and challenges, explored potential markets and customers, and continued to promote product and business innovation. As at the end of the Reporting Period, the Group’s total assets under custody increased by 53.07% from the beginning of the year to RMB2,300.695 billion. Focusing on the customer and market demands, the Group took the lead to launch leasing-related, bill-related and electronic custody products to expand the business areas. Committed to consolidating the franchises in pension management business and internationalised custody service, the Group, based on the completion of pension product lines covering the entire rural and urban social security system, introduced a series of innovative pension products covering personal income tax-deferred vehicle, special-purpose medicare funds, and remuneration and welfare plan etc. to take a preemptive action in the pension insurance market and consolidate its position as the largest pension management bank in China. Along with the implementation of the strategy to “become a first-class listed universal banking group focusing on international expansion and specialising in wealth management” (the “**BoCom Strategy**”), the Group set up a custody centre in Hong Kong with the aim to accelerate the build-up of an international custody network and promote its product innovation. The Group was among the first to enter the global custody market to extend its wealth management services. In addition, the Group enhanced its risk management covering the entire process and procedures to ensure the safety of custody assets and maintained zero error in the operation process.

2. Personal banking

In the first half of 2013, following the customer-oriented philosophy, the Group continued to expand its customer base, and actively improved its marketing approach and enhanced the account managers' service capability. With continued efforts in service innovation and risk management, the Group enhanced the growth of retail credit business, further promoted the bank card business, and expedited wealth management service. During the Reporting Period, the number of personal customers increased by 4.62% from the beginning of the year. The fee and commission income generated from personal banking business increased by 58.03% as compared with the corresponding period in prior year to RMB5.030 billion. The related profit before tax generally remained unchanged as compared with the corresponding period in prior year to RMB5.531 billion. The total balance of impaired personal loans increased by 48.21% from the beginning of the year to RMB7.557 billion with the impaired loans ratio up 0.29 percentage point from the beginning of the year to 1.14%.

(1) Personal deposits and loans

The Group proactively promoted the personal deposit business and was dedicated to increasing the share of personal deposits through payroll service, household banking and wealth management services. As at the end of the Reporting Period, the Group's personal deposits balance increased by 8.98% from the beginning of the year to RMB1,307.451 billion. The proportion of personal deposits in total deposits increased by 0.89 percentage point from the beginning of the year.

The Group adhered to the national economic policy of promoting consumption and its working principle of "steady development, risk management, mechanism establishment, efficiency improvement and excellent service", carried forward the consumer lending business, and provided credit support to personal customers to meet their financing demands. As at the end of the Reporting Period, the Group's personal loans balance increased by 10.22% from the beginning of the year to RMB663.023 billion, with the proportion in total loans increasing by 0.30 percentage point from the beginning of the year to 20.71%.

(2) Personal wealth management

With regard to implementation of segmented customer services in the wealth management plan, the Group targeted high-end customers with tailored wealth management plan. As such, a brand new image of OTO Fortune was introduced with a new concept of "Fortune As Your Plan, Life As You Wish". With the "OTO Fortune Carnival" campaign, the Group further standardised the service of its OTO Fortune airport VIP membership and VIP health care service and promoted the construction of value-added service platform for high-end customers. The OTO Fortune was awarded China's Best VIP Wealth Management Service in the 2013 China's Best Wealth Management Institution Competition. As at the end of the Reporting Period, the AUM (asset-under-management) balance of domestic branches increased by 7.19% from the beginning of the year to RMB1,836.587 billion. Number of customers meeting the standards of OTO Fortune and BoCom Fotune increased by 11.80% and 8.11% respectively from the beginning of the year. Income generated from major wealth management products grew materially, in which the fee income from personal wealth management products increased by 64.79% and that from bancassurance increased by 115.26%.

The Group made substantial progress in its private banking business. The private banking business unit was officially opened, and the private banking personnel training project was launched. Featured in comprehensive cross-border services and health care related banking products, the Group enhanced its capabilities in providing customer services. As at the end of the Reporting Period, the number of private banking customers and the AUM balance increased by 25.07% and 21.45% respectively from the beginning of the year.

(3) Bank card

Credit card

The Group enhanced its refined marketing in credit card business and achieved continued growth in its customer base. The Group also made great efforts in improving its business process and product functions, implementing the self-discipline convention adopted by the banking industry, and placing significant emphasis on business risk prevention. In addition, the Group strived to improve customer experience through exploring and applying the service brand of "International Quality, Benefits at Your Side". As at the end of the Reporting Period, the number of credit cards in force increased by 1.81 million pieces from the beginning of the year to 28.84 million. Accumulated spending volume in the first half of 2013 increased by 47.2% as compared with the corresponding period in prior year to RMB349.5 billion. The balance of credit card overdraft increased by 8% from the beginning of the year to RMB128.9 billion.

The Group continued to enhance its brand image of "Red Friday" and launched online credit card application service to offer multiple application channels and simplify the application process.

Debit card

The Group continued to develop its debit card business, and organised the "New Year Beginning with New IC Card" competition to boost its IC debit card issuance and continued to improve the card issuance quality. Furthermore, the Group strengthened its business innovation, promoted the replacement of magnetic stripe card with IC card while keeping the same card number, and completed the development and implementation of the inquiry and credit-for-load functions for second generation special shaped card and for electronic checking account application in mobile phone with NFC (Near Field Communication) capability. Focusing on cardholders' needs, the Group also made efforts in the development of credit granting function tied to debit card. As at the end of the Reporting Period, the number of debit cards in force increased by 4.35 million pieces from the beginning of the year to 90.20 million.

3. Treasury and financial institutional businesses

The organisational structure based on business sector was further enhanced through integration of treasury, institutional financial service, wealth management, precious metal and commodity business. The Group promoted the business cooperation with various markets in Shanghai and developed a closer relationship with other financial institutions. The Group was dedicated to becoming a first-class financial services provider in institutional business in both domestic and overseas markets, and one of the most active banks in the financial trading market. In the first half of 2013, the Bank flexibly responded to the negative impact of China's economic slowdown and the inter-bank market price fluctuations, with net interest income from treasury business increasing by 19.61% as compared with the corresponding period in prior year to RMB13.426 billion. The related profit before tax increased by 19.68% as compared with the corresponding period in prior year to RMB12.633 billion.

(1) Money market business

In the first half of 2013, particularly in June, the price of inter-bank market fluctuated drastically as a result of the tightened market liquidity and soaring fund cost. The Bank actively responded to the liquidity volatility in the market and held sufficient liquidity buffers. Additionally, a large amount of low-cost foreign currency fund were raised, due to the state-of-the-art 24-hour global trading and fund management system in cross-market trading and financing. Meanwhile, the Bank flexibly adjusted the maturity structure of its business products, developed non-banking financial institution counterparties, and expanded the utilisation channels of foreign exchange fund. During the Reporting Period, the accumulated volume of RMB money market trading by domestic branches amounted to RMB6,000 billion, of which RMB4,000 billion attributed to lending and RMB2,000 billion attributed to borrowing, and that of foreign currency money market tradings reached USD153.893 billion.

(2) Trading book businesses

The Group closely monitored the macroeconomic and financial situation both domestically and internationally, enhanced its monitoring and research function on market trend, and flexibly adjusted the scale and structure of its business. Seizing opportunities in both domestic and overseas markets, the Group concentrated on building its image as a trading-based bank by accelerating the transition process from holding assets to a trading-based business model, and from management of existing funds to trading activities, which resulted in gradual increase in revenue contribution of trading activities.

With respect to the trading of RMB-denominated bonds, the Group continued to enhance its pricing capabilities. Facing the volatile market environment of RMB-denominated bonds in the first half of 2013, the Group maintained its lending position in the debt trading market with its transaction volume of domestic inter-bank RMB-denominated bonds reaching RMB2,140 billion. Furthermore, the Group expanded the proprietary business in foreign exchange trading, and actively conducted portfolio transactions, taking advantages in the currency fluctuation in both domestic and offshore markets to improve the efficiency of fund utilisation. During the Reporting Period, total foreign exchange trading volume in the inter-bank market amounted to USD271.111 billion. The Bank was among the first batch of market makers approved by the PBOC to conduct direct trading of RMB against Australian Dollar, with its trading volume ranked the top in the market. In addition, the Bank continued to strengthen its innovation and trading of financial derivatives and actively prepared for the launch of new products such as the treasury futures.

(3) Banking book investment

The Group was dedicated to optimising the structure and improve the overall yield of non-credit assets. The main focus of the RMB-denominated investment securities portfolio was on optimising the investment structure while giving consideration to the liquidity and profitability of securities investment and increasing the investment in national debt, policy bank bonds, municipal bonds, and high-quality credit debt. For foreign currency securities investment, the Group adopted prudent investment strategy to enhance investment risk management and control, particularly in country risk monitoring, and realised stable investment income. As at the end of the Reporting Period, the investment securities scale of the Group increased by 11.16% from the beginning of the year to RMB973.774 billion, with the yield investment securities remaining at a desired level of 3.70%.

(4) Institutional financial service

Taking the financial factor market as a main target, the Bank became the first commercial bank to sign the agreement with China Securities Depository and Clearing Corporation Limited after strategic cooperation agreements reached with Shenzhen Stock Exchange, China Securities Depository and Clearing Corporation Limited, and Shanghai Futures Exchange. The number of banks within the inter-bank collaboration platform increased by 9 from the beginning of the year to 71, and the number of connected outlets increased by more than 3,200 from the beginning of the year to 15,000. The number of cooperative brokerage companies in margin business increased by 8 from the beginning of the year to 61, and the number of margin business customers under the Bank's custody increased by 54.79% from the beginning of the year. The balance of the margin deposits in the future accounts reached to RMB57.382 billion. Among this, the balance of margin deposits from futures companies increased by RMB13.829 billion or 47.20% from the beginning of the year to RMB43.130 billion.

(5) Precious metal business

In the first half year of 2013, the gold price in the international markets continued dropping due to global asset reallocation and the continuous recovery of the US economy. Leveraging the price difference between the domestic and overseas markets and between the spot and futures markets, the Bank further diversified the trading strategy through the combination of gold importing, gold placement, and proprietary gold trading. In addition, the Bank explored new trading products to continuously enhance business innovation capability. The Bank launched the gold leasing business, completed the first forward trading in the gold price inquiry market of foreign exchange trading centre, completed the first silver T+D proprietary transaction, and launched 2-way Special Drawing Right (SDR) position squaring. At the same time, the Bank adopted stringent risk management, timely adjusted trading strategies, reduced risk exposure and effectively managed the market risk of precious metal trading business. During the Reporting Period, the number of gold T+D accounts increased by 4.68% from the beginning of the year, with the accumulated transaction volume increasing by 54.77% as compared with the corresponding period in prior year to RMB40.235 billion. The accumulated transaction volume of proprietary gold trading increased by 206.75% as compared with the corresponding period in prior year to 274.91 tons, maintaining an active role in the market.

4. “Trinity” network construction

The Bank was dedicated to enhancing the branch network, continued to improve e-banking layout, accelerated the account manager team building, improved the layout of business outlets, and improved the overall capability to promote the coordination among outlets, e-channels and account managers. As at the end of the Reporting Period, the deposit per outlet increased by 6.43% from the beginning of the year to RMB1.440 billion and the annualised profit per capita increased by 8.04% as compared with the corresponding period in prior year to RMB717.4 thousand. The Bank promoted the coordinated development of self-banking, online banking, mobile banking, e-commerce and other e-channels, with further improvement in the diversion rate and service functions. The proportion of the number of stand-alone self-service outlets to that of physical outlets increased to 0.92:1. The number of account managers continued to increase by 3.18% from the beginning of the year to 19,611 with further improvement in staff quality.

(1) Physical outlets

The construction of the Bank’s physical outlets followed the principle focusing on “total number control, layout optimisation, structural improvement, and business transition”, with accelerated optimisation of the organisational structure, business integration, and overall capacity and competitiveness. The Bank initiated the matrix reform at the existing tier-2 branches, and continued to optimise the operational model at the newly opened tier-2 branches.

As at the end of the Reporting Period, the number of domestic outlets decreased by 10 from the beginning of the year to 2,691, of which 19 were newly opened and 29 were closed or merged due to their low productivity. With the opening of 5 new tier-2 branches, the Bank’s network covered 207 cities at or above prefecture level, with the coverage ratio at cities at or above prefecture level up 1.32 percentage points from the beginning of the year to 61.98%. In particular, the coverage ratio in West China was up 1.53 percentage points from the beginning of the year to 37.40%. The efforts in the building of comprehensive outlets started to be rewarding, the 200 outlets adopted in the annual construction plan contributing an average deposit balance per outlet of over RMB2.2 billion, increasing by 8.46% from the beginning of the year.

(2) E-banking

The Group accelerated the innovation of its e-banking. Through market segmentation, the Group developed the advantage of its e-banking products and promoted the philosophy of building comprehensive electronic channels. The Group gradually built an electronic banking network comprising online banking, mobile banking and e-commerce, together with electronic terminals at self-service and regular branches. During the Reporting Period, the number of e-banking transactions exceeded 749 million with the transaction amount reaching RMB35,900 billion. The diversion rate of e-channels was up 3.80 percentage points from the beginning of the year to 76.97%.

Self-service banking

As at the end of the Reporting Period, the number of self-service machines increased by 1,789 to more than 22,000 in total and the number of self-service outlets increased by 804 to more than 12,000 in total. The transaction number of self-service banking increased by 11.36% as compared with the corresponding period in prior year to 327 million and the transaction amount increased by 22.07% to RMB591.702 billion. The coverage of the iTM (Intelligent Teller Machines) continued to expand, with over 60 machines installed in 30 tier-1 branches.

Online banking

The Bank continued with product innovation with the launch of "Payroll Easy", designed for corporate and personal customers using agency compensation distribution service, providing services including cross-bank compensation distribution, electronic pay sheet and exclusive wealth management products. The Bank took the lead to launch the automobile smart banking applications, and upgraded the supply chain financial services. As at the end of the Reporting Period, the number of online banking corporate customers increased by 12.34% from the beginning of the year. The number of transactions completed through online banking by corporate customers increased by 48.11% as compared with the corresponding period in prior year to 93.914 million. The number of personal online banking customers increased by 8.86% from the beginning of the year, with the number of transactions increasing by 49.48% as compared with the corresponding period in prior year to 303 million.

Mobile banking

The Group is the first among its peers to have introduced contactless transfer function on IC card, which means transfer of funds from the account of IC card to an electronic checking account through mobile banking. This function enabled the usage of IC card in supermarkets, shopping centres and restaurants for small consumptions without a password. As at the end of the Reporting Period, the number of the mobile banking customers increased by 33.78% from the beginning of the year. The transaction number of mobile banking increased by 308.45% as compared with the corresponding period in prior year to 23.81 million, with the transaction amount increasing by 127.80% to RMB466.211 billion.

E-commerce

As at the end of the Reporting Period, the number of e-payment merchants increased by 99.77% from the beginning of the year. The number of registered e-payment customers increased by 3.37% from the beginning of the year. The transaction number of e-payment increased by 63.64% as compared with the corresponding period in prior year to 217 million, with the transaction amount increasing by 55.63% to RMB34.587 billion.

(3) Account managers

As at the end of the Reporting Period, the number of account managers in the domestic branches increased by 3.18% from the beginning of the year to 19,611, among which the corporate account managers increased by 2.48% from the beginning of the year to 8,838, and personal account managers increased by 3.76% from the beginning of the year to 10,773. Among these, account managers holding AFP, CFP, CPB and EFP certificates totaled 6,200, 1,237, 19 and 275 persons respectively.

(4) Customer service

With special efforts made to improve customer service, the Group successfully transitioned from "resolving customer dissatisfaction" to "improving customer satisfaction", and achieved noticeable results. In a customer satisfaction survey conducted among customers of the 6 major domestic commercial banks, the Bank was ranked the second. In addition, in order to further enhance the protection of consumers' interest, the Bank established the Consumer Protection Committee, and actively pushed forward on the establishment of similar organisation at tier-1 branches.

5. Internationalisation and universal operation

(1) Internationalisation strategy

The Bank continued to promote the internationalisation strategy and enhance the synergy of domestic and overseas services. As at the end of the Reporting Period, the total assets of overseas institutions of the Group increased by 20.62% from the beginning of the year to RMB488.099 billion, accounting for 8.54% of the Group's total assets, up 0.87 percentage point from the beginning of the year. The net profits of overseas institutions increased by 30.10% as compared with the corresponding period in prior year to RMB1.958 billion, accounting for 5.62% of the Group's total net profits, up 0.78 percentage point as compared with the corresponding period in prior year. While committing to the rigorous monitoring of credit risk, the overseas institutions made extra efforts in collecting impaired loans. The balance of impaired loans in overseas institutions decreased by 36.80% from the beginning of the year to RMB170 million, with the impaired loans ratio of 0.06%, down 0.06 percentage point from the beginning of the year.

Overseas banking business

As at the end of the Reporting Period, the Bank had 12 overseas branches or subsidiary banks in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, London, Sydney, San Francisco and Taipei, with a total of 55 business outlets. With the addition of 22 correspondent banks during the Reporting Period, the total number of correspondent banks reached 1,587, covering 143 countries and regions. The Bank had opened 154 cross-border RMB accounts for 101 overseas peers from 25 countries and regions, with the balance in cross-border RMB accounts increasing by 35.36% to RMB47.089 billion.

Domestic and overseas synergy business

The Bank continued to improve the synergy between domestic and overseas branches and enhance its advantages by building the Financial Services Platform and the Wealth Management Platform. During the Reporting Period, the volume of synergy business between domestic and overseas branches amounted to USD29.039 billion, which generated an income of RMB2.718 billion. Through joint efforts of both domestic and overseas branches, the Bank was able to provide corporate customers with comprehensive and full-process financial services including international settlement, overseas loan syndication, cross-border cash management and financial advisory in respect of product import and export and cross-border investment and financing, and provided a series of financial services for personal customers to meet their needs of travelling and studying abroad, such as cross-border remittance, foreign currency exchange and lending for overseas study.

Cross-border RMB business

Taking the product innovation and the national economic transformation as driving force, the Bank continued to develop its cross-border RMB business. The cross-border RMB settlement expanded significantly, and the direct investment in RMB business was also booming. The smooth operation of bond trading agency business and RQFII custody business also supported the development of foreign trade and investment as well as the real economy. As at the end of the Reporting Period, the volume of cross-border RMB settlement by domestic and overseas branches totaled RMB354.632 billion, increasing by 77.47% as compared with the corresponding period in prior year.

Offshore business

With focuses on service innovation, enlarging liabilities and enhancing business collaboration, the Bank further cemented its advantage in its comprehensive offshore business. As at the end of the Reporting Period, the total offshore assets increased by 11.76% from the beginning of the year to USD11.746 billion. International settlement volume reached USD76.308 billion, increasing by 31.42% as compared with the corresponding period in prior year. The Bank ranked the first among its peers in the domestic offshore inter-bank market in terms of offshore asset scale, loan balance, and international settlement volume.

(2) Universal operation

The Group's universal financial service continued to be promoted due to the robust momentum of its subsidiaries and the further improvement in the universal operation and coordination mechanism. As at the end of the Reporting Period, total assets of the Bank-controlled subsidiaries (excluding Bank of Communications (UK) Co., Ltd.) increased 23.88% from the beginning of the year to RMB113.463 billion, and the net profit attributable to the parent company amounted to RMB1.014 billion, representing an increase of 138.59% as compared with the corresponding period in prior year.

The subsidiaries of the Bank, giving full play to their business specialties, continued to enhance their market position and, by taking advantage in business synergy, contributed to the Group's business innovation. With a scale of public offering funds reaching RMB51.604 billion, the Bocom Schroder Fund ranked the 16th in the industry, with the average daily scale of specialised wealth management amounting to RMB20.191 billion. The company launched the first "Regular Payment Fund", which filled the blanks in domestic fund industry. Its Hong Kong subsidiary was approved to open and completed the first deal in the special account service for insurance premium. On a consecutive basis, the company won all of the 3 top awards in the fund management industry rated by *China Securities Journal, Shanghai Securities News* and *Securities Times* for the year 2012, achieving the "Grand Slam" for the first time in history. As at the end of the Reporting

Period, total trust assets managed by Bocom International Trust reached RMB221.648 billion, increasing by 41.71% from the beginning of the year. The company won the Excellent Trust Award from *Shanghai Securities News*, and made to the top 10 of trust industry for the first time. As at the end of the Reporting Period, total leasing assets managed by Bocom Leasing amounted to RMB85.017 billion, increasing by 22.49% from the beginning of the year. Bocom International issued "Bocom International Strategic Emerging Markets Bond Fund", the first emerging market bond fund issued by the Chinese investment banks in Hong Kong. Bocom Insurance successfully gained the annual reinsurance business from China Pacific Property Insurance Co., Ltd. and achieved a breakthrough in the vessel insurance. To support the Group's marketing strategy, BoCommLife Insurance launched a number of customised products such as Bocom Teachers' Health and the "Bocom Automobile Casualty Insurance". Through "Bocom Safe Loan Insurance", a product in cooperation with the parent company, BoCommLife Insurance had provided risk insurance for RMB6.4 billion of loans. As at the end of the Reporting Period, the total assets of the 4 rural banks founded by the Bank reached RMB4.762 billion, increasing by 18.31% from the beginning of the year, and their net profit increased by 35.40% as compared with the corresponding period in prior year to RMB30.75 million.

(III) FINANCIAL STATEMENTS ANALYSIS

1. Analysis on major income statement items

(1) Profit before tax

During the Reporting Period, the Group's profit before tax increased by RMB4.890 billion or 12.17% as compared with the corresponding period in prior year to RMB45.060 billion. Profit before tax was derived mainly from net interest income and 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	
	2013	2012
Net interest income	**65,008**	58,394
Net fee and commission income	**13,895**	10,962
Impairment losses on loans and advances to customers	**(8,469)**	(7,136)
Profit before tax	**45,060**	40,170

(2) Net interest income

During the Reporting Period, the Group's net interest income increased by RMB6.614 billion as compared with the corresponding period in prior year to RMB65.008 billion. This accounted for 76.53% 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 2013			For the six month ended 30 June 2012		
	Average balance	Interest income/(expense)	Annualised average yield/(cost) (%)	Average balance	Interest income/(expense)	Annualised average yield/(cost) (%)
Assets						
Balances with central banks	798,793	6,243	1.56	701,887	5,461	1.56
Due from banks and other financial institutions	418,663	7,045	3.37	331,505	6,129	3.70
Loans and advances to customers and receivables	3,120,786	95,095	6.09	2,724,197	91,911	6.75
Include: Corporate loans and receivables	2,421,017	72,514	5.99	2,096,278	69,824	6.66
Personal loans	607,486	20,694	6.81	481,277	17,081	7.10
Discounted bills	92,283	1,887	4.09	146,642	5,006	6.83
Investment securities	904,100	16,706	3.70	799,912	14,702	3.68
Total interest-bearing assets	5,084,255[3]	122,680[3]	4.83	4,481,849[3]	116,698[3]	5.21
Total non-interest-bearing assets	189,748			187,577		
TOTAL ASSETS	5,274,003[3]			4,669,426[3]		
Liabilities and Shareholders' Equity						
Due to customers	3,711,232	38,570	2.08	3,179,543	34,510	2.17
Include: Corporate deposits	2,480,267	25,826	2.08	2,185,143	24,065	2.20
Personal deposits	1,230,965	12,744	2.07	994,400	10,445	2.10
Due to banks and other financial institutions	1,074,376	19,679	3.66	1,058,354	23,494	4.44
Debts issued and others	95,269	1,832	3.85	91,832	1,805	3.93
Total interest-bearing liabilities	4,722,790[3]	57,672[3]	2.44	4,254,077[3]	58,304[3]	2.74
Shareholders' equity and non-interest-bearing liabilities	551,213			415,349		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	5,274,003[3]			4,669,426[3]		
Net interest income		65,008			58,394	
Net interest spread[1]			2.39[3]			2.47[3]
Net interest margin[2]			2.56[3]			2.61[3]
Net interest spread[1]			2.45[4]			2.53[4]
Net interest margin[2]			2.62[4]			2.67[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's net interest income increased by 11.33% as compared with the corresponding period in prior year. The PBOC cut the benchmark interest rates twice in 2012, and the impact was gradually shown in the Reporting Period, with net interest spread and net interest margin standing at 2.39% and 2.56%, down 8 and 5 basis points respectively as compared with the corresponding period in prior year.

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 2013 and January to June 2012 Increase/(decrease) due to		
	Balance	Interest rate	Net increase/ (decrease)
Interest-bearing assets			
Balances with central banks	782	–	782
Due from banks and other financial institutions	1,612	(696)	916
Loans and advances to customers and receivables	13,385	(10,201)	3,184
Investment securities	1,917	87	2,004
Changes in interest income	17,696	(10,810)	6,886
Interest-bearing liabilities			
Due to Customers	5,769	(1,709)	4,060
Due to banks and other financial institutions	356	(4,171)	(3,815)
Debt issued and others	68	(41)	27
Changes in interest expense	6,193	(5,921)	272
Changes in net interest income	11,503	(4,889)	6,614

During the Reporting Period, the Group's net interest income increased by RMB6.614 billion as compared with the corresponding period in prior year, of which the increase of RMB11.503 billion was due to changes in the average balances of assets and liabilities, while the decrease of RMB4.889 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 RMB6.886 billion or 5.83% as compared with the corresponding period in prior year to RMB125.089 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 RMB3.184 billion or 3.46% as compared with the corresponding period in prior year to RMB95.095 billion, largely due to the increase in loans and advances to customers and receivables.

B. *Interest income from investment securities*

During the Reporting Period, interest income from investment securities increased by RMB2.004 billion or 13.63% as compared with the corresponding period in prior year to RMB16.706 billion. The Group managed to seize favourable opportunities for investments by strengthening its prospective study to optimise the its investment structure. This, in turn, helped to maintain the return on investment securities at a relatively high level of 3.70%.

C. *Interest income from balances with central banks*

Balances with central banks mainly included balances in statutory reserves and in excess reserves. During the Reporting Period, due to the increase in average balances with central banks by RMB96.906 billion or 13.81%, interest income from balances with central banks reached RMB6.243 billion, representing an increase of RMB782 million as compared with the corresponding period in prior year. The growth of the statutory reserve was primarily due to increase in customer deposits.

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 RMB916 million or 14.95% as compared with the corresponding period in prior year to RMB7.045 billion. This was mainly driven by the increase of trading volume in the inter-bank market, the average outstanding balance of which increased by 26.29% as compared with the corresponding period in prior year.

② **Interest expense**

During the Reporting Period, the Group's interest expense increased by RMB272 million or 0.45% as compared with the corresponding period in prior year to RMB60.081 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 RMB4.060 billion or 11.76% as compared with the corresponding period in prior year to RMB38.570 billion. This accounted for 64.20% of total interest expense. The increase in interest expense on customer deposits was mainly due to the continuous increase in the volume of customer deposits.

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 decreased by RMB3.815 billion or 16.24% as compared with the corresponding period in prior year to RMB19.679 billion, mainly due to the Group's active adjustment to its inter-bank liabilities, which resulted a decrease of 78 basis points in the average cost of inter-bank liabilities to 3.66%.

C. *Interest expense on debts issued and others*

During the Reporting Period, interest expense on debts issued and other interest-bearing liabilities increased by RMB27 million as compared with the corresponding period in prior year to RMB1.832 billion. The average cost of funding decreased from 3.93% in the corresponding period in prior year to 3.85%.

(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 intermediary 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 RMB2.933 billion or 26.76% as compared with the corresponding period in prior year to RMB13.895 billion. Management service, investment banking and bank cards were the main driving forces of the Group's intermediary businesses.

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	
	2013	2012
Settlement service	**1,187**	1,013
Bank card	**4,369**	3,641
Investment banking	**4,153**	3,412
Guarantee and commitment	**1,880**	1,805
Management service	**2,749**	1,616
Agency service	**1,036**	764
Others	**175**	210
Total fee and commission income	**15,549**	12,461
Less: Fee and commission expense	**(1,654)**	(1,499)
Net fee and commission income	**13,895**	10,962

Fee income from settlement service increased by RMB174 million or 17.18% as compared with the corresponding period in prior year to RMB1.187 billion, mainly due to the increase in trading volume.

Fee income from bank card services increased by RMB728 million or 19.99% as compared with the corresponding period in prior year to RMB4.369 billion, mainly due to the substantial increase in card issuance, spending volume as well as transaction volume at self-service machines.

Fee income from investment banking increased by RMB741 million or 21.72% as compared with the corresponding period in prior year to RMB4.153 billion, mainly due to the substantial increase in the Group's income generated from financial advisory services as compared with the corresponding period in prior year.

Fee income from guarantee and commitment services remained stable with the increment of RMB75 million as compared with the corresponding period in prior year to RMB1.880 billion.

Fee income from management services increased by RMB1.133 billion or 70.11% as compared with the corresponding period in prior year to RMB2.749 billion, mainly driven by the increase in the fee income from assets custody services and wealth management services.

Fee income from agency services increased by RMB272 million or 35.60% as compared with the corresponding period in prior year to RMB1.036 billion. This was mainly driven by the substantial increase in the commission income from the Group's bancassurance business.

(4) Operating costs

The Group continuously strengthened its cost management. During the Reporting Period, the Group's operating cost increased by RMB1.885 billion or 10.22% as compared with the corresponding period in prior year to RMB20.338 billion, 4.60 percentage points lower than the increase in net operating income. The cost-to-income ratio was 25.20%, down 0.41 percentage point as compared with the corresponding period in prior year, representing further improvement in 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 RMB1.333 billion or 18.68% as compared with the corresponding period in prior year to RMB8.469 billion. The increase was comprised of (1) collectively assessed allowances decreasing by RMB972 million as compared with the corresponding period in prior year to RMB5.138 billion; and (2) individually assessed allowances increasing by RMB2.305 billion as compared with the corresponding period in prior year to RMB3.331 billion. During the Reporting Period, credit cost ratio increased by 0.02 percentage point as compared with the corresponding period in prior year to 0.53%.

(6) Income tax

During the Reporting Period, the Group's income tax expense increased by RMB1.113 billion or 12.33% as compared with the corresponding period in prior year to RMB10.142 billion. The effective tax rate of 22.51% is lower than the statutory tax rate of 25%, mainly 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	
	2013	2012
Current tax	**10,846**	11,771
Deferred tax	**(704)**	(2,742)

2. Analysis on major balance sheet items

(1) Assets

As at the end of the Reporting Period, the Group's total assets was RMB5,717.602 billion, representing an increase of RMB444.223 billion or 8.42% 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 2013		31 December 2012	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Loans and advances to customers	**3,130,826**	**54.76**	2,879,628	54.61
Investment securities	**976,272**	**17.07**	879,301	16.67
Cash and balances with central banks	**881,583**	**15.42**	816,846	15.49
Due from banks and other financial institutions	**518,204**	**9.06**	520,963	9.88
Total assets	**5,717,602**		5,273,379	

① Loans and advances to customers

During the Reporting Period, the Group reasonably controlled the volume, direction and pace of credit disbursements, which brought a balanced and steady growth in loans. As at the end of the Reporting Period, the Group's total loans and advances to customers increased by RMB254.118 billion or 8.62% from the beginning of the year to RMB3,201.417 billion, among which the increase in RMB loans from domestic branches amounted to RMB173.421 billion or 6.75% 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 2013		31 December 2012	
	Balance	Proportion (%)	Balance	Proportion (%)
Mining	80,872	2.53	72,000	2.44
Manufacturing				
— Petroleum and chemical	125,577	3.92	113,677	3.86
— Electronics	81,557	2.55	53,813	1.83
— Steel	43,760	1.37	45,739	1.55
— Machinery	115,824	3.62	106,908	3.63
— Textile and clothing	43,239	1.35	38,758	1.32
— Other manufacturing	246,040	7.69	225,276	7.64
Electricity, gas and water production and supply	136,960	4.28	132,394	4.49
Construction	103,167	3.22	93,246	3.16
Transportation, storage and postal service	376,852	11.77	363,797	12.34
Telecommunications, IT services and software	9,875	0.31	10,080	0.34
Wholesale and retail	406,727	12.70	389,695	13.22
Accommodation and catering	24,905	0.78	23,358	0.79
Financial services	25,972	0.81	23,471	0.80
Real estate	189,642	5.92	179,862	6.10
Services	199,146	6.22	184,211	6.25
Water conservancy, environmental and other public utilities	142,190	4.44	137,343	4.66
Education, science, culture and public health	44,686	1.40	37,596	1.28
Others	62,652	1.95	49,784	1.69
Discounted bills	78,751	2.46	64,769	2.20
Total corporate loans	2,538,394	79.29	2,345,777	79.59
Mortgage loans	405,246	12.66	358,258	12.16
Credit card overdraft	129,026	4.03	119,212	4.04
Medium-term and long-term personal business loans	56,898	1.78	55,172	1.87
Short-term personal business loans	28,804	0.90	31,672	1.07
Car loans	2,643	0.08	3,514	0.12
Others	40,406	1.26	33,694	1.15
Total personal loans	663,023	20.71	601,522	20.41
Gross amount of loans and advances to customers before impairment allowance	3,201,417	100.00	2,947,299	100.00

As at the end of the Reporting Period, the Group's corporate loans increased by RMB192.617 billion or 8.21% from the beginning of the year to RMB2,538.394 billion. The four most concentrated industries were manufacturing, wholesale and retail, transportation, storage and postal service, and services, which collectively accounted for 64.56% of total corporate loans.

As at the end of the Reporting Period, the Group's personal loans increased by RMB61.501 billion or 10.22% from the beginning of the year to RMB663.023 billion. The proportion of personal loans as a percentage to total loans and advances to customers increased by 0.30 percentage point from the beginning of the year to 20.71%.

Loan concentration by borrowers
As at the end of the Reporting Period, the highest lending to a single customer of the Group accounted for 1.55% of the Group's net capital, and the total loans made to the top 10 customers accounted for 13.83% of the Group's net capital, which were 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 dates indicated:

(in millions of RMB unless otherwise stated)

		As at 30 June 2013	
	Type of industry	Loan balance	Percentage of total loans and advances (%)
Customer A	Transportation, storage and postal service	7,711	0.24
Customer B	Wholesale and retail	7,676	0.24
Customer C	Transportation, storage and postal service	7,665	0.23
Customer D	Water conservation, environmental and public facilities management	7,320	0.23
Customer E	Transportation, storage and postal service	7,071	0.22
Customer F	Manufacturing — other manufacturing	6,994	0.22
Customer G	Wholesale and retail	6,345	0.20
Customer H	Transportation, storage and postal service	6,326	0.20
Customer I	Wholesale and retail	6,102	0.19
Customer J	Services	5,728	0.18
Total		**68,938**	**2.15**

Loan concentration by geographical locations

The Group's credit customers are mainly concentrated in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta. As at the end of the Reporting Period, loans and advances to customers in these three regions accounted for 32.54%, 20.58% and 7.79% of the Group's total loans, with the loan balance increasing by 8.11%, 3.71% and 3.85% respectively from the beginning of the year.

Loan quality

As at the end of the Reporting Period, the impaired loans ratio was 0.99%, up 0.07 percentage point from the beginning of the year. The provision coverage ratio of impaired loans decreased by 27.76 percentage points from the beginning of the year to 222.92%.

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 2013	31 December 2012
Impaired loans	**31,667**	26,995
Loans overdue by more than 90 days	**27,405**	20,452
Percentage of impaired loans to gross amount of loans and advances to customers (%)	**0.99**	0.92

Loan customer structure

As at the end of the Reporting Period, based on the Bank's internal risk rating system, loans and advances to corporate customers by domestic branches of class 1 to class 8 accounted for 92.28% of total loans and advances to corporate customers and decreased by 1.49 percentage points from the beginning of the year. Loans and advances to corporate customers of class 9 to class 12 accounted for 4.02% and increased by 0.78 percentage point from the beginning of the year. Loans and advances to corporate customers in default category accounted for 0.88% and decreased by 0.07 percentage point from the beginning of the year.

② **Investment securities**

As at the end of the Reporting Period, the Group's net balance of investment securities increased by RMB96.971 billion or 11.03% from the beginning of the year to RMB976.272 billion. Return on investment securities reached a relatively satisfactory level of 3.70%, benefiting 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 2013		31 December 2012	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Financial assets at fair value through profit or loss	**42,662**	**4.37**	45,683	5.20
Investment securities — loans and receivables	**48,583**	**4.98**	30,395	3.46
Investment securities — available-for-sale	**232,361**	**23.80**	204,608	23.27
Investment securities — held-to-maturity	**652,666**	**66.85**	598,615	68.07
Total	**976,272**	**100.00**	879,301	100.00

— By type of issuers

	(in millions of RMB unless otherwise stated)			
	30 June 2013		31 December 2012	
	Balance	**Proportion (%)**	Balance	Proportion (%)
Governments and central banks	**322,278**	**33.01**	303,472	34.51
Public sector entities	**16,366**	**1.68**	16,534	1.88
Banks and other financial institutions	**407,194**	**41.71**	362,223	41.20
Corporate entities	**230,434**	**23.60**	197,072	22.41
Total	**976,272**	**100.00**	879,301	100.00

(2) Liabilities

As at the end of the Reporting Period, the Group's total liabilities increased by RMB427.512 billion or 8.74% from the beginning of the year to RMB5,319.444 billion. Of which, customer deposits increased by RMB224.898 billion from the beginning of the year, and accounted for 74.32% of total liabilities, down 1.90 percentage points from the beginning of the year. Balance due to banks and other financial institutions increased by RMB170.363 billion and accounted for 20.93% of total liabilities, up 1.65 percentage points from the beginning of the year.

Customer deposits

Customer deposits are the main source of funding for the Group. As at the end of the Reporting Period, the Group's customer deposits balance increased by RMB224.898 billion or 6.03% from the beginning of the year to RMB3,953.310 billion. With respect to the Group's customer structure, the proportion of corporate deposits to total deposits decreased by 0.87 percentage point from the beginning of the year to 66.82%. The proportion of personal deposits to total deposits increased by 0.89 percentage point from the beginning of the year to 33.07%. With respect to deposit terms, the proportion of demand deposits to total deposits decreased by 2.29 percentage points from the beginning of the year to 43.27%, while the proportion of time deposits increased by 2.31 percentage points from the beginning of the year to 56.62%.

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

		(in millions of RMB)
	30 June 2013	31 December 2012
Corporate deposits	**2,641,398**	2,523,768
Include: Corporate demand deposits	**1,239,993**	1,254,248
Corporate time deposits	**1,401,405**	1,269,520
Personal deposits	**1,307,451**	1,199,663
Include: Personal demand deposits	**470,465**	444,369
Personal time deposits	**836,986**	755,294

3. Analysis on major cash flow items

As at the end of the Reporting Period, the Group's cash and cash equivalents decreased by RMB20.628 billion from the beginning of the year to RMB250.970 billion.

The net cash inflows from operating activities decreased by RMB130.024 billion as compared with the corresponding period in prior year to RMB66.328 billion, mainly due to the decrease in the amount of net cash inflow from customer deposits and the balance due to banks and other financial institutions.

The net cash outflows from investing activities increased by RMB66.783 billion as compared with the corresponding period in prior year to RMB91.665 billion, mainly due to the increase in net cash outflows resulted from the investment securities.

The net cash inflows from financing activities increased by RMB15.642 billion as compared with the corresponding period in prior year to RMB6.130 billion, mainly due to the increase in the cash inflow from the issue of debts.

4. Segment analysis

(1) *Operating results by geographical segments*

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

				(in millions of RMB)
	For the six months ended 30 June			
	2013		2012	
	Profit before tax	**Net operating income[1]**	Profit before tax	Net operating income[1]
North China	**6,077**	**11,169**	6,059	10,773
Northeast China	**1,666**	**3,694**	1,369	3,084
East China	**13,692**	**30,097**	13,433	26,552
Central and South China	**8,629**	**15,509**	7,420	13,495
West China	**4,946**	**7,909**	3,067	5,916
Overseas	**2,593**	**3,831**	1,734	3,120
Head office	**7,457**	**12,735**	7,088	11,039
Total[2]	**45,060**	**84,944**	40,170	73,979

Notes:

1. Includes net interest income, net fee and commission income, dividend income, net gains/(losses) arising from trading activities, net gains/(losses) arising from de-recognition of investment securities, insurance business income, share of result of an associate and other operating income.
2. Includes profit or loss of minority interest.

(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 2013		31 December 2012	
	Deposits balance	**Loans and advances balance**	Deposits balance	Loans and advances balance
North China	**632,870**	**511,495**	641,369	494,469
Northeast China	**256,126**	**161,470**	247,009	152,696
East China	**1,535,968**	**1,214,216**	1,456,617	1,129,986
Central and South China	**840,583**	**582,698**	790,006	552,547
West China	**432,274**	**308,489**	369,334	279,751
Overseas	**253,612**	**285,843**	222,233	215,673
Head office	**1,877**	**137,206**	1,844	122,177
Total	**3,953,310**	**3,201,417**	3,728,412	2,947,299

(3) Operating results by business segments

The Group's four main business segments are: corporate banking, personal banking, treasury business and other business. The corporate banking segment was the primary source of profit for the Group, accounting for 53.56% 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 2013				
	Corporate banking	Personal banking	Treasury business	Other businesses	Total
Net interest income	34,821	16,328	13,426	433	65,008
— External net interest income/ (expenses)	32,457	11,919	20,199	433	65,008
— Internal net interest income/ (expenses)	2,364	4,409	(6,773)	–	–

(IV) INFORMATION ON CAPITAL ADEQUACY

The Group calculated the capital adequacy ratio pursuant to the *Administrative Measures for the Capital of Commercial Banks (Provisional)* issued by the CBRC, in which the credit risk is measured under the risk-weighted approach, the market risk is measured under the standard approach, and the operational risk is measured under the basic indicator approach. As at the end of June 2013, the Group's capital adequacy ratio was 12.68%, the Tier 1 capital adequacy ratio was 10.14%, the core Tier 1 capital adequacy ratio was 10.14%, the credit risk weighted asset was RMB3,639.641 billion, the market risk weighted asset was RMB55.353 billion, and the operational risk weighted asset was RMB235.369 billion. The Group's capital adequacy ratios at all tiers were in compliance with the regulatory requirements.

1. Capital adequacy ratio statement

Based on the calculation in *Administrative Measures for the Capital of Commercial Banks (Provisional)* issued by the CBRC[Note]:

(in millions of RMB unless otherwise stated)		
Item	The Group	The Bank
Net Core Tier 1 Capital	398,358	380,932
Net Tier 1 Capital	398,362	380,932
Net Capital	498,413	478,517
Core Tier 1 Capital Adequacy Ratio	10.14%	9.96%
Tier 1 Capital Adequacy Ratio	10.14%	9.96%
Capital Adequacy Ratio	12.68%	12.51%

Based on the calculation in *Administrative Measures for the Capital Adequacy Ratio of Commercial Banks* issued by the CBRC:

Item	The Group	The Bank
Core Capital Adequacy Ratio	11.20%	11.18%
Capital Adequacy Ratio	13.85%	13.70%

Note: Pursuant to the *Administrative Measures for the Capital of Commercial Banks (Provisional)* issued by the CBRC, the above calculation excluded Bocom Insurance and BoCommLife Insurance.

2. Statement of risk exposure of credit risk asset portfolio

Based on the calculation in *Administrative Measures for the Capital of Commercial Banks (Provisional)* issued by the CBRC:

The Group		*(in millions of RMB)*
Item	Balance of risk exposure	Balance of unreleased risk exposure
On-balance-sheet credit risk asset	5,675,394	5,286,243
Cash and cash equivalents	871,661	871,661
Due from the Central Government and the Central Bank	310,448	310,448
Due from the public sector entities	37,603	37,603
Due from domestic financial institutions	847,948	809,023
Due from financial institutions registered in other countries or regions	80,314	78,989
Due from institutions and enterprises	2,682,732	2,341,187
Due from qualified small and micro enterprises	62,019	59,497
Due from individuals	651,459	646,625
Equity Investment	1,409	1,409
On-balance-sheet items from asset securitisation	733	733
Others	129,068	129,068
Off-balance-sheet credit risk assets	725,368	445,533
Counterparty credit risk assets	13,839	11,692

3. Statement of gain or loss from equity investment

The Group		*(in millions of RMB)*
	Balance of risk exposure	Unrealised potential risk profit [Note]
Equity Investment	1,409	74

Note: Unrealised potential risk profile refers to the unrealised gain (loss) in the statement of financial position rather than profit or loss in the statement of profit or loss and comprehensive income.

(V) RISK MANAGEMENT

In the first half of 2013, the Bank continued to pursue its medium-term goal of "full implementation of risk management" and made good progress in all risk management aspects. Under the guideline of the overall development planning and risk appetite, the Bank maintained strong growth and profitability, and facilitated transformation and reform through effective risk management to realise the equal attention and win-win situation of the long-term mechanism establishment and key risk control during the Reporting Period.

1. Risk appetite

The Bank strictly adhered to its risk appetite focusing on stability, balancedness, compliance and innovation. With a strong commitment in compliance operation, under the dual constraints of external regulation and internal policies, the Bank was able to manage its various risks effectively and rationally, yet supporting its business innovation. Sticking to the pursuit for the stable and balanced development, the Bank pushed forward its risk management standard to a level of international mature market with the support of advanced technologies. The Bank also strived to maintain a dynamic balance between risk and return to achieve a balanced development among business scale, quality and profitability. The Bank also secured its effective development path with growth potential and business scale advantage supported by risk management enhancement.

Based on the above risk appetite, the Bank established its risk tolerance and risk limit indicators, which defined its risk tolerance in details from the four dimensions of return, capital, quality and risk rating. The Bank also developed specific quota indicators for the six major risks, i.e., credit, market, operational, liquidity, banking book interest rate and country, to gain control over risk changes on a regular basis.

2. Risk management framework

The Board of Directors has the ultimate responsibility and decision-making authority for the Bank's risk management. The Board of Directors monitors and controls the bank-wide risk management matters through its delegation to the Risk Management Committee. Senior Management established a Enterprise Risk Management Committee, which is dedicated to implementing the risk management strategy and risk appetite formulated by the Board of Directors. The Enterprise Risk Management Committee is also responsible for improving risk management system, optimising working mechanism, standardising management procedures and performing evaluations on management effectiveness, according to the guidelines of "going horizontal to the edges, going vertical to the bottom, and covering all aspects". Three sub-committees have been established under the Enterprise Risk Management Committee, namely the Credit Risk Management Committee, the Market and Liquidity Risk Management Committee, and the 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 risk management committees are collectively referred to as the "1+3+2" Risk Management Committee System. All branches and subsidiaries followed the Head Office to establish simplified committee system. The Bank ensured the full implementation of risk management procedures through the mechanism of "leadership and execution, supervision and reporting" between the Risk Management Committee and sub-committees, and between committees of the Head Office and branches, which has formed a unified and coordinated risk management system. The Chairman of the Board of Directors is responsible for risk control, the President is responsible for risk management, the Chairman of the Supervisory Committee is responsible for risk supervision, and the Executive Vice Presidents and the Chief Risk Officer take different roles in order to execute the various tasks of risk management.

The Bank has established a relatively complete execution system composed of "large and small scaled middle offices" and dual reporting mechanism. The setup of a risk management unit is to organise and coordinate the entire Bank's risk management tasks and to report collectively, which consolidates the Bank's risk management capabilities. The small scaled middle offices normally take the lead in implementing risk management procedures. Through the establishment of its reporting system of dual lines and the communication and operation among large and small scaled middle offices, the Bank has established various solid risk defense lines.

3. Credit risk management

(1) Risk classification procedures and methodology

According to the regulatory requirements as stipulated in the *Guidelines on Risk-Based Loan Classification* issued by the CBRC and the risk level, the Bank implements a five-category loan classification 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 principal and interest in a timely manner. For corporate credit assets, the Bank relies on the core regulatory definition as a basis and references its internal credit rating assessment and individual allowances to define detailed risk attributes and measurement standards of the five categories. 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 adopts a five-category system based on the aging of overdue status and the type of guarantees provided.

To further enhance the level of details of its credit risk management, the Bank adopts an advanced internal rating based approach under the *Administrative Measures for the Capital of Commercial Banks (Provisional)*, and has established a standard of classification based on the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). This has enabled the Bank to develop a more detailed internal credit risk assessment process in order to execute internal assessment management on credit business.

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

During the Reporting Period, the Bank continued to improve its credit structure abiding by the national macroeconomic control policy and focused on providing financial support to the real economy, industrial upgrading, and the mergers and acquisitions as well as the restructing in key areas. In addition, the Bank increased its credit support to sectors of energy and resources, people's livelihood and consumption. The Bank also seized the opportunities in emerging industries such as the marine economy. Furthermore, the Bank enhanced its industry early warning system, the related credit approval in various industries, and the post-loan management. The Bank also took tighter controls and credit structure adjustment on lending to the over-capacity sectors, with special efforts made to reduce the loan balance and gain stronger credit support.

The Bank continued to improve its capabilities in the refined credit management. To strengthen its comprehensive risk management capabilities, the Bank established a multi-dimensional and comprehensive risk monitoring mechanism system, conducted periodical risk investigation, identified potential risk accurately and took risk prevention measures actively. Furthermore, the Bank continued to strengthen its risk management on key industries, through tightened watch-list monitoring on local government financing vehicle and real estate industry, as well as the implementation of quota management.

The Bank continuously deepened its monitoring of retail credit through constant updating of monitoring procedures for loans made to individuals and small enterprises, and enhanced the efficiency of the system monitoring. Moreover, the Bank strengthened the control over the collaborative relationship between the Bank and guarantee companies by carrying out a re-approval process on guarantee companies to gradually optimise the composition of these guarantee companies.

The independently run credit card centre is fully responsible for the operation and management of the Bank's credit card business. During the Reporting Period, the centre strengthened its risk control processes and continued to improve the precision of its risk management. It also optimised its policies on installment products, and enhanced its risk monitoring on installment services. In addition, the centre intensified its efforts on cracking down credit card frauds such as cashing out on credit card, investing, and the related illegal operations.

The Bank proactively explored new ideas and methods to accelerate the resolution of non-performing assets. The Bank assisted branches in investigating and resolving issues encountered and developing feasible plans through branch visits and business diagnostic meetings. In addition, the Bank closely monitored the resolution process of non-performing assets, with an open mind on resolution strategies and a strong focus on the implementation of resolution plan. Furthermore, the Bank strengthened the resolution on mass of personal loans and centralised collection of overdue personal loans as well as refined the watch-list management to mitigate potential risks.

(3) Asset quality and migration status

As at the end of June 2013, the breakdown of the Group's five loan categories as stipulated by the Chinese banking regulatory authorities are as follows:

(in millions of RMB unless otherwise stated)

Categories	As at 30 June 2013		As at 31 December 2012		As at 31 December 2011	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Pass	**3,104,764**	**96.98**	2,851,980	96.76	2,481,585	96.87
Special mention	**64,986**	**2.03**	68,324	2.32	58,179	2.27
Total performing loan balance	**3,169,750**	**99.01**	2,920,304	99.08	2,539,764	99.14
Sub-standard	**13,783**	**0.43**	13,269	0.46	9,042	0.35
Doubtful	**13,391**	**0.42**	9,793	0.33	8,450	0.33
Loss	**4,493**	**0.14**	3,933	0.13	4,494	0.18
Total non-performing loan balance	**31,667**	**0.99**	26,995	0.92	21,986	0.86
Total	**3,201,417**	**100.00**	2,947,299	100.00	2,561,750	100.00

As at the end of June 2013, 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 2013	2012	2011
Pass	**1.02**	2.00	1.66
Special mention	**17.35**	7.99	8.34
Sub-standard	**31.54**	36.61	47.86
Doubtful	**21.90**	22.63	24.15

4. Market risk management

The Bank has established a complete market risk management system with "large and small scaled middle offices", clarified duties and responsibilities, sound policies and procedures, and adequate technology and tools. With regard to the management of interest rate risk and currency risk of the trading book, the Bank implemented an effective monitoring and quota management system via 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 continued to improve its information system and policies and procedures of market risk management, and enhanced its monitoring activities. The Bank completed the market risk management system upgrade (KRM system) to version 8.0, which effectively improved the precision of calculation and enabled more comprehensive reporting. In addition, the Bank made further improvement in the development of policies and procedures, and tentatively issued the policies on market risk management practices at Group level, which set the specific risk management requirements for the different types of subsidiaries of the Group. The Bank also established a regular joint meeting system at Group level to conduct analysis on the economic trend, to share the analysis results within the organisation, and to further enhance the Group's professional and comprehensive capabilities on market risk management. Furthermore, the Bank strengthened its risk monitoring and analysis. With respect to the recent fluctuation in exchange rate, the Bank carried out foreign exchange trend analysis, strengthened the monitoring of RMB exchange rates against major foreign currencies (including gold) to enhance the relevance and sensitivity of its market risk management.

(2) Market risk analysis

① Value at Risk (VaR)

VaR refers to the maximum loss that an investment portfolio may occur at a given confidence level and holding period caused by the changes of the market prices with regard to the interest rate and exchange rate risk. The Group adopted the historical simulation method to calculate daily VaR (99% confidence interval, holding period of one day).

A summary of VaR by risk type of the Group's trading portfolios is as follows:

(in millions of RMB)

	January to June 2013				January to June 2012			
	Final	Average	Maximum	Minimum	Final	Average	Maximum	Minimum
Interest rate risk	35	19	57	12	14	18	35	6
Foreign exchange risk	152	125	193	65	51	58	81	12
VaR of trading portfolios	183	134	215	69	48	57	79	21

② Interest rate risk and sensitivity analysis

As at the end of June 2013, 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 to 3 months	Due between 3 months to 1 year	Due between 1 to 5 years	More than 5 years	Non-interest-bearing	Total
Total assets	2,538,016	759,410	1,561,696	443,735	264,327	150,418	5,717,602
Total liabilities	(2,916,850)	(619,019)	(925,881)	(654,866)	(49,949)	(152,879)	(5,319,444)
Net exposure	(378,834)	140,391	635,815	(211,131)	214,378	(2,461)	398,158

The table below illustrates the sensitivity of net interest income and other comprehensive income after a 100 basis points movement in yield rate of all currencies based on the structure of assets and liabilities as at the dates indicated:

(in millions of RMB)

	As at 30 June 2013		As at 31 December 2012	
	Expected Change in net interest income	Expected Change in other comprehensive income	Expected Change in net interest income	Expected Change in other comprehensive income
+100 basis points parallel shift in all yield curves	12,314	(2,774)	12,730	(2,507)
- 100 basis points parallel shift in all yield curves	(12,314)	2,925	(12,730)	2,666

③ **Foreign exchange risk and sensitivity analysis**

The Group manages its foreign exchange risk through various approaches such as quota management and hedging activities. The Group strengthened its foreign exchange risk management through real-time monitoring of quota execution and daily reporting of sensitivity analysis and stress testing.

The Group conducts the majority of its businesses in RMB, whereas the main foreign currency business involves US dollar and HK dollar, with only minor activities in other foreign currencies. Categorised by the main foreign currencies associated by the Group, the assets and liabilities of the Group by currency as at the end of June 2013 is as follows:

(in millions of RMB)

	RMB	US dollar equivalent to RMB	HK dollar equivalent to RMB	Others equivalent to RMB	Total
Assets					
Cash and balances with central banks	859,184	10,813	7,106	4,480	881,583
Due from banks and other financial institutions	407,104	99,514	2,038	9,548	518,204
Financial assets at fair value through profit or loss	36,426	6,479	8,677	1,664	53,246
Loans and advances to customers	2,726,357	309,671	78,437	16,361	3,130,826
Investment securities – available-for-sale	48,583	–	–	–	48,583
Investment securities – held-to-maturity	183,735	24,129	13,834	10,663	232,361
Investment securities – loans and receivables	651,513	993	–	160	652,666
Other assets	182,365	6,923	8,717	2,128	200,133
Total assets	5,095,267	458,522	118,809	45,004	5,717,602
Liabilities					
Due to banks and other financial institutions	(948,657)	(140,728)	(7,654)	(16,313)	(1,113,352)
Financial liabilities at fair value through profit or loss	(2,146)	(14,973)	(10,087)	(1,645)	(28,851)
Due to customers	(3,600,816)	(199,163)	(124,712)	(28,619)	(3,953,310)
Other liabilities	(205,772)	(10,075)	(3,709)	(4,375)	(223,931)
Total liabilities	(4,757,391)	(364,939)	(146,162)	(50,952)	(5,319,444)

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

(in millions of RMB)

	As at 30 June 2013		As at 31 December 2012	
	Expected change in net profit/(loss)	Expected change in other comprehensive income	Expected change in net profit/(loss)	Expected change in other comprehensive income
5% appreciation of RMB	(3,627)	(940)	(1,730)	(574)
5% depreciation of RMB	3,627	940	1,730	574

5. Liquidity risk management

The objective of the 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 undertaken 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 funds such as surplus reserve with the PBOC, overnight inter-bank dealings and highly liquid debt investments; at the same time, retaining a strong financing capability in the market through active participation in the open, money and bond markets; and (5) building a reasonable maturity structure of assets and to reduce liquidity risk through multilevel liquidity combination.

During the Reporting Period, in response to the extreme situation of tightening liquidity in the domestic market, the Bank took the following measures to actively manage its liquidity risk: (1) strengthened the prospective analysis on the money market trend, and to make advanced plan to address the liquidity exposure, while taking full consideration of factors such as maturity and matching fund; (2) controlled the pace of non-credit funding business to reduce the stress on the Bank's liquidity; (3) continued to improve the management of daily RMB liquidity position at both Head Office and branches, and minimise the daily ending cash reserves for better efficiency of funds; (4) through the usage of pricing management tools such as funds transfer pricing (FTP), the Bank promoted a coordinated development of loan and deposit businesses in both domestic and foreign currencies, and maintained a balanced funding in both domestic and foreign currencies; and (5) focused on strengthening the liquidity risk management of overseas branches, the Treasury Department of Offshore Centre and subsidiaries through continuous monitoring on various risk indicators, especially on preventing the liquidity risk arising from rapid asset growth.

As at the end of June 2013, the Bank's liquidity ratios computed based on the guidelines as stipulated by the Chinese banking regulatory authorities are as follows, which complied with the regulatory requirements.

Major regulatory indicators (%)	As at 30 June 2013	As at 31 December 2012
Liquidity ratio (including domestic and foreign currencies)	**43.95**	37.93
Loan-to-deposit ratio (including domestic and foreign currencies)	**74.44**	72.71

As at the end of June 2013, the term of asset debts and structure matching of the Group is stated in the "Notes to the Unaudited Condensed Consolidated Financial Statements 39.3.3".

6. Operational risk management

During the Reporting Period, the Bank vigorously promoted the integration of operational risk management and business management. The Bank established a three-layered operational risk management mechanism based on checklist, risk event and case examples, identified key operational risk events and undertook rectification measures. In addition, the Bank held overall evaluation of management procedures for operational risk covering business activities such as bills, wealth management, loan disbursement and retail lending and implemented action plan to mitigate potential risks and weaknesses. The Bank also made further improvement in its key operational risk indicators to install a multi-level monitoring mechanism at Head Office and branches.

The Bank made improvement in its business continuity management, taking the business continuity management on the financial market and asset custody businesses as pilot runs. Furthermore, the Bank conducted investigation on risk management outsourcing activities by using activity logs at branch level to gain understanding on the status of outsourcing business.

7. Anti-money laundering

During the Reporting Period, the Bank continued to carry out its anti-money laundering activities and promoted the construction of anti-money laundering system. The Bank also completed the programming and evaluation on functional modules such as search of anti-money laundering special name list, and monitoring and analysis of suspicious transactions. Through anti-money laundering data management and filtering and capturing suspicious activities, the Bank strengthened its monitoring and reporting on suspicious anti-money laundering transactions across branches and regions.

(VI) STRATEGIC COOPERATION WITH HSBC

In the first half of 2013, the Bank continued to carry forward the strategic cooperation with HSBC, its international strategic investor, with the goal of strengthening a partnership characterised as complementary advantages, win-win, and mutual beneficial.

1. Seamless communication among the top management. In the first half of 2013, top management from the Bank and HSBC maintained close and seamless communications through various ways including summit meetings, executive chairman regular meetings, and correspondences to where management would discuss the results of cooperation, set future cooperation targets and further explore the potential cooperative areas. Additionally, Mr. Ng Siu On, an expert of international and corporate business nominated by HSBC, joined the Bank's senior management team and was appointed as the Strategic Cooperation Consultant of the Bank.

2. Closer business cooperation. Both banks actively promoted establishing quantified objectives for key cooperation area, identified as global financial services, private banking, e-banking, bank cards, and

overseas branches, by leveraging the complementary advantages in the two banks' vast network and strong customer base to achieve mutual benefits and win-win results.

— In the aspect of "1+1" global financial service program, both banks took advantage in their own customer base and network resources from both domestic and overseas markets, conducted cooperation in overseas project outsourcing, cross-border RMB settlement, projects and export financing services, etc., striving to provide comprehensive financial service supporting Chinese enterprises' going global initiatives.

— In international business, both banks maintained excellent momentum of cooperation in areas such as international letters of guarantees, trade finance and US dollar settlement, with excellent progress made in cooperation of financial institution business in Hong Kong. Both banks signed the MOU on the Cross-border RMB Business Cooperation, thus establishing a solid foundation for further exploration and collaboration. Additionally, they organised the first seminar on international settlement business document. In the future, both banks will take further step in mutual exchange of network resources from both domestic and overseas markets to strengthen their collaboration.

— In corporate banking business, both banks signed the Cooperation Agreement on BoCom-HSBC Inter-Bank Cash Management, which established the system connection for corporate banking business between two banks and provided the system support for joint global cash management service. In addition, both banks maintained good communication and collaboration in the aspects of loan syndication and joint marketing.

— In custody business, both banks deepened their cooperation in the domestic custody business of mutual fund, enterprise annuity, insurance assets, and commercial bank's wealth management products. Meanwhile, both banks closely monitored the regulatory developments, and actively developed the cross-border custody business cooperation in new areas of QDII (Qualified Domestic Institutional Investors), QFII (Qualified Foreign Institutional Investors), and RQFII (RMB Qualified Foreign Institutional Investors), etc.

— In financial market business, both banks maintained close communication and cooperation in RMB-denominated bond trading, money market business, and foreign exchange business, etc. The number of business transactions increased rapidly, especially for gold consignment and money market business.

— In credit card business, as at the end of June 2013, the number of the registered domestic credit cards in issue increased by 1.81 million from the beginning of the year to 28.84 million. The accumulated consumers' spending via credit card during the first half of the year increased by 47.2% as compared with the corresponding period in prior year to RMB349.5 billion.

3. Technical Cooperation and Exchange (TCE). Adhering to the TCE Agreement, both banks actively promoted mutual exchange and cooperation, with excellent results achieved.

— In exchange of expertise, as at the end of June 2013, HSBC stationed a total of 25 experts at 13 departments of the Bank to provide technical support. These departments included the Credit Management Department, the Internal Audit Department, the Risk Management Department, the Budget and Finance Department, the Personal Banking Department, etc.

Many of these experts from HSBC also participated in supporting the 15 key strategic development projects, including the Process Re-engineering Project, the IRB (Internal Rating Based Approach) Project, the ERM (Enterprise Risk Management) Project and the Data Centralisation Project, etc.

— In exchange of personnel, as at the end of June 2013, the Bank organised personnel secondment programme for 314 key employees from the Corporate Banking Department, the Personal Banking Department, the Asset Custody Department, the Non-performing Assets Management Department and the Financial Markets Department to work in HSBC offices in Hong Kong and Singapore. The programme allowed employees to have a closer look at the advanced operation and management at HSBC as a world-class commercial bank. From this year, the Bank planned to arrange annual internship programmes for 3 batches of 15 investment banking professionals at the HSBC Asia-Pacific head office.

— In personnel training, in order to gain advanced concepts and experience in human resources management from a world-class bank, the Bank organised a training session in June 2013 by stationing 25 senior managers in the Human Resource Department of HSBC focusing on exchange and communications, as well as exploring ways for strategic transformation of the human resource management strategy in the new commercial banking era.

In the future, both banks will continue to move forward on developing the TCE project, enhance the effectiveness of technical exchange and cooperation, and promote resource and experience sharing. Meanwhile, both banks will stay focused on the quantified objectives, strengthen cooperation in key areas, explore new areas of cooperation, and finally, enhance the effectiveness of mutual collaboration.

(VII) OUTLOOK

In a market environment that comprised of economic slowdown, accelerated interest rate deregulation, and the upheaval of Internet Finance, the banking industry is facing new opportunities and challenges. In the upcoming second half year, the Group will proactively respond to new challenges, continue to promote system reforms and mechanism innovations and, with further efforts in achieving the equilibrium among “growth, transition and quality”, focus on the following aspects:

First, to control the volume and direction of lending activities and maintain well-adjusted credit structure and profitability, focusing on serving the real economy;

Second, to continue promoting the “BoCom Strategy” by taking full advantage in the internationalised and universal operation platforms, and enhance the Group’s core competitiveness through cross-border and cross-industry collaboration;

Third, to continue improving the Enterprise Risk Management system, enhance the liquidity management and effectively manage risks and fraud cases;

Fourth, to accelerate the “Trinity” channel construction to increase the geographical service coverage and competitiveness of its comprehensive business outlets, improve customers’ experience with e-channels and accelerate product innovation in mobile banking;

Fifth, to implement standardised and streamlined process to improve service quality and efficiency, so as to improve customer satisfaction.

Changes in Share Capital and Shareholdings of Substantial Shareholders

(I) CHANGES IN SHARE CAPITAL

As at 30 June 2013, the Bank has issued a total of 74,262,726,645 shares, including 39,250,864,015 A shares, accounting for 52.85%, and 35,011,862,630 H shares, accounting for 47.15%. The Bank had a total of 399,622 shareholders with 357,034 shareholders holding A shares while 42,588 shareholders holding H shares.

	1 January 2013		Changes(+/-)					30 June 2013	
	Number of shares	Percentage (%)	Issue of new shares	Bonus shares	Shares transferred from the surplus reserve	Others	Sub-total	Number of shares	Percentage (%)
I. Shares subject to sales restrictions	**6,541,810,669**	**8.81**	**–**	**–**	**–**	**–**	**–**	**6,541,810,669**	**8.81**
1. State-owned shares	4,407,854,231	5.94	–	–	–	–	–	4,407,854,231	5.94
2. Shares held by state-owned legal persons	1,428,571,426	1.92	–	–	–	–	–	1,428,571,426	1.92
3. Shares held by other domestic investors	705,385,012	0.95	–	–	–	–	–	705,385,012	0.95
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	–	–	–	–	–	–	–	–	–
II. Shares not subject to sales restrictions	**67,720,915,976**	**91.19**	**–**	**–**	**–**	**–**	**–**	**67,720,915,976**	**91.19**
1. RMB ordinary shares	32,709,053,346	44.04	–	–	–	–	–	32,709,053,346	44.04
2. Domestically-listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas-listed foreign shares	35,011,862,630	47.15	–	–	–	–	–	35,011,862,630	47.15
4. Others	–	–	–	–	–	–	–	–	–
III. Total	**74,262,726,645**	**100.00**	**–**	**–**	**–**	**–**	**–**	**74,262,726,645**	**100.00**

(II) SHAREHOLDINGS OF THE SHAREHOLDERS (ACCORDING TO THE BANK'S REGISTER OF MEMBERS MAINTAINED AT ITS SHARE REGISTRAR)

1. Shareholdings of the top 10 shareholders

Name of shareholders	Increase/ decrease during the Reporting Period (shares)	Number of shares held as at the end of the Reporting Period	Shareholding percentage (%)	Number of shares held subject to sales restrictions	Number of shares pledged or frozen[1]	Nature of shareholders
Ministry of Finance	–	19,702,693,828	26.53	2,530,340,780	Nil	State
HKSCC Nominees Limited[2]	4,330,900	14,898,944,701	20.06	–	Unknown	Foreign legal person
HSBC[3]	–	13,886,417,698	18.70	–	Nil	Foreign legal person
SSF[4]	–	3,283,069,006	4.42	1,877,513,451	Unknown	State
Capital Airports Holding Company	–	1,246,591,087	1.68	–	Unknown	State-owned legal person
Shanghai Haiyan Investment Management Co., Ltd.	–	808,145,417	1.09	439,560,439	Unknown	State-owned legal person
Ping An Life Insurance Company of China Ltd. – Traditional – High interest rate policy products	–	705,385,012	0.95	705,385,012	Unknown	Other domestic entity
China FAW Group Corporation	–	663,941,711	0.89	439,560,439	Unknown	State-owned legal person
Yunnan Hongta Group Co., Ltd.	–	658,467,013	0.89	219,780,219	Unknown	State-owned legal person
Luneng Group Co., Ltd.	–	571,078,169	0.77	–	Unknown	State-owned legal person

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 related relationship or acting in concert 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 held by all institutional and individual investors who maintained an account with it as at 30 June 2013. (Same applies hereinafter)
3. According to the Bank's register of members kept by Computershare Hong Kong Investor Services Limited, HSBC held 13,886,417,698 H shares of the Bank as at 30 June 2013. In addition, according to the disclosure of interests forms filed with the Hong Kong Stock Exchange by HSBC Holdings plc, HSBC beneficially held 14,135,636,613 H shares of the Bank as at 30 June 2013, representing 19.03% of the Bank's total share capital. Please refer to "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" for details of the H shares that deemed to be beneficially owned by HSBC. (Same applies hereinafter)
4. According to the information provided by SSF, as at 30 June 2013, besides its shareholdings recorded in the register of members, SSF held additional 7,027,777,777 H shares of the Bank, representing 9.46% of the Bank's total share capital, which had been registered under HKSCC Nominees Limited. As at 30 June 2013, SSF held a total of 10,310,846,783 A shares and H shares, representing 13.88% of the Bank's total share capital. (Same applies hereinafter)

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

Name of shareholders	Number of shares held not subject to sales restrictions	Class of shares
Ministry of Finance	12,618,353,049	RMB Ordinary Shares
	4,553,999,999	Overseas-listed Foreign Shares
HKSCC Nominees Limited	14,898,944,701	Overseas-listed Foreign Shares
HSBC	13,886,417,698	Overseas-listed Foreign Shares
SSF	1,405,555,555	Overseas-listed Foreign Shares
Capital Airports Holding Company	1,246,591,087	RMB Ordinary Shares
Luneng Group Co., Ltd.	571,078,169	RMB Ordinary Shares
Yunnan Hongta Group Co., Ltd.	438,686,794	RMB Ordinary Shares
Shanghai Haiyan Investment Management Co., Ltd.	368,584,978	RMB Ordinary Shares
Sinopec Finance CO., LTD.	363,956,733	RMB Ordinary Shares
Aviation Industry Corporation of China	310,678,434	RMB Ordinary Shares

3. Shareholdings of the shareholders subject to sales restrictions and the details of restrictions

According to the undertakings made by the shareholders in process of the non-public issuance conducted by the Bank in 2012, the A shares subscribed for by the shareholders are not allowed to be transferred within 36 months from the date of completion of the issuance. Such A Shares are subject to a lock-up period of three years from 22 August 2012, which will be listed on 23 August 2015 (such date shall be extended to the next trading date if it happens to be a legal holiday or non-working day). As at 30 June 2013, shareholdings of the shareholders subject to sales restrictions were held as follows:

Name of shareholders	Number of shares held subject to sales restrictions	Percentage of total issued shares subject to sales restrictions (%)	Restriction conditions
Ministry of Finance	2,530,340,780	38.68	Three-year lock-up period
SSF	1,877,513,451	28.70	Three-year lock-up period
Ping An Life Insurance Company of China Ltd. — Traditional — High interest rate policy products	705,385,012	10.78	Three-year lock-up period
China FAW Group Corporation	439,560,439	6.72	Three-year lock-up period
Shanghai Haiyan Investment Management Co., Ltd.	439,560,439	6.72	Three-year lock-up period
China National Tobacco Corporation — Zhejiang Branch	329,670,329	5.04	Three-year lock-up period
Yunnan Hongta Group Co., Ltd.	219,780,219	3.36	Three-year lock-up period

(III) 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 2013, 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 Future 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	Beneficial owner	15,148,693,829[2]	Long position	38.59	20.40
SSF	Beneficial owner	1,877,513,451	Long position	4.78	2.53

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 (%)
SSF	Beneficial owner	8,433,333,332	Long position	24.09	11.35
Ministry of Finance	Beneficial owner	4,553,999,999[2]	Long position	13.01	6.13
HSBC	Beneficial owner	14,135,636,613	Long position	40.37	19.03
	Interest of controlled corporations[3]	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[4]	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[5]	63,250	Long position	0.0002	0.0001
	Total:	**9,075,250**		**0.03**	**0.01**
HSBC Holdings plc	Interest of controlled corporations[6]	14,147,386,095	Long position	40.41	19.05

Notes:

1. Long positions held other than through equity derivatives.
2. To the knowledge of the Bank, as at 30 June 2013, the Ministry of Finance held 4,553,999,999 H shares and 15,148,693,829 A shares of the Bank, representing 6.13% and 20.40% of the total share capital of the Bank, respectively.
3. 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.
4. 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.
5. 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.
6. Both HSBC Finance (Netherlands) and HSBC Bank plc are wholly owned by HSBC Holdings plc. Pursuant to Notes 3, 4, 5, and the SFO, HSBC Holdings plc is deemed to be interested in the 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 2013, no other person (excluding the Directors, Supervisors and Chief Executive of the Bank) or corporation was recorded in the register required to be kept under Section 336 of the SFO as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

Directors, Supervisors, Senior Management and Employees

(I) MEMBERS OF THE BOARD OF DIRECTORS

Name	Position	Name	Position
Niu Ximing	Chairman of the Board of Directors, Executive Director and President	Lei Jun	Non-executive Director
Qian Wenhui	Executive Director and Executive Vice President	Zhang Yuxia	Non-executive Director
Yu Yali	Executive Director, Executive Vice President and Chief Financial Officer	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
Wang Taiyin	Non-executive Director	Choi Yiu Kwan	Independent Non-Executive Director
Wong Tung Shun, Peter	Non-executive Director	Liu Tinghuan	Independent Non-Executive Director
Fung Yuen Mei, Anita	Non-executive Director	Yu Yongshun	Independent Non-Executive Director
Ma Qiang	Non-executive Director		

(II) MEMBERS OF THE SUPERVISORY COMMITTEE

Name	Position	Name	Position
Hua Qingshan	Chairman of the Supervisory Committee	Gao Zhongyuan	Supervisor
Jiang Yunbao	External Supervisor	Yan Hong	Supervisor
Lu Jiahui	External Supervisor	Chen Qing	Employee Representative Supervisor
Teng Tieqi	Supervisor	Shuai Shi	Employee Representative Supervisor
Gu Huizhong	Supervisor	Du Yarong	Employee Representative Supervisor
Dong Wenhua	Supervisor	Fan Jun	Employee Representative Supervisor
Li Jin	Supervisor		

(III) MEMBERS OF SENIOR MANAGEMENT

Name	Position	Name	Position
Niu Ximing	President	Zhu Hexin	Executive Vice President
Qian Wenhui	Executive Vice president	Yang Dongping	Chief Risk Officer
Yu Yali	Executive Vice President and Chief Financial Officer	Du Jianglong	Secretary of the Board of Directors
Shou Meisheng	Executive Vice President and Secretary of the Commission for Discipline Inspection	Lv Benxian	Corporate Business Director
Hou Weidong	Executive Vice President and Chief Information Officer	Ng Siu On	HSBC-BoCom Strategic Cooperation Consultant

(IV) 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 as at the end of the Reporting Period	Reason for changes in shareholdings
Zhang Jixiang	Non-executive Director	A shares	37,980	–	–	37,980	–
Yang Dongping	Chief Risk Officer	A shares	94,820	–	–	94,820	–

Note: Mr. Zhang Jixiang, a Non-executive Director of the Bank, retired at the conclusion of the General Meeting held on 25 June 2013.

As at 30 June 2013, save as disclosed above, none of the Bank's Directors, Supervisors or Chief Executive had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required to be recorded in the register as kept pursuant to section 352 of the SFO, or which were required, pursuant to "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") as set out in the Appendix 10 to the Hong Kong Listing Rules, to be notified to the Bank and the Hong Kong Stock Exchange.

(V) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. On 27 March 2013, Mr. Zhu Hexin was appointed as an Executive Vice President of the Bank, and Mr. Ng Siu On was appointed as a member of the Senior Management of the Bank and the HSBC-BoCom Strategic Cooperation Consultant at the Nineteenth Meeting of the Sixth Session of the Board of Directors. The qualification of Mr. Zhu Hexin as an Executive Vice President of the Bank has been approved by the CBRC.

2. On 15 April 2013, Mr. Hu Huaibang resigned as the Chairman of the Board of Directors, an Executive Director and the Chairman of the Strategy Committee of the Board of Directors due to reassignment of work.

3. On 20 May 2013, Mr. Niu Ximing was elected as the Chairman of the Board of Directors at the Twenty-second Meeting of the Sixth Session of the Board of Directors. His qualification as the Chairman of the Board of Directors has been approved by the CBRC.

4. On 20 May 2013, Mr. Fan Jun was elected as an Employee Representative Supervisor of the Bank at the Employee Representatives' General Meeting of the Bank.

5. On 25 June 2013, resolutions were passed at the 2012 Annual General Meeting of the Bank in relation to the election of Mr. Wang Taiyin and Ms. Zhang Yuxia as Non-executive Directors of the Bank and the election of Mr. Liu Tinghuan and Mr. Yu Yongshun as Independent Non-executive Directors of the Bank. The qualifications of the above-mentioned persons in respect of their above appointments have been approved by the CBRC.

6. On 25 June 2013, resolutions were passed at the 2012 Annual General Meeting of the Bank in relation to the election of Mr. Lu Jiahui as an External Supervisor of the Bank and the election of Mr. Teng Tieqi, Mr. Dong Wenhua and Mr. Gao Zhongyuan as Supervisors of the Bank.

7. On 25 June 2013, after the conclusion of the 2012 Annual General Meeting of the Bank, Mr. Zhang Jixiang retired as a Non-executive Director of the Bank; Mr. Eric Li Ka-cheung and Mr. Gu Mingchao retired as Independent Non-executive Directors of the Bank; Mr. Jiang Zuqi retired as the External Supervisor of the Bank; Mr. Guo Yu, Mr. Yang Fajia and Mr. Chu Hongjun retired as Supervisors of the Bank; and Ms. Liu Sha retired as an Employee Representative Supervisor of the Bank.

(VI) BASIC INFORMATION OF EMPLOYEES

1. Number of employees

As at the end of June 2013, the Bank had a total of 97,092 domestic and overseas employees, representing an increase of 0.87% from the beginning of the year. Of which, 95,244 employees were based domestically, representing an increase of 0.81% from the beginning of the year, and 1,848 employees were based in overseas branches, representing an increase of 3.59% from the beginning of the year.

Among the domestic employees, 646 employees held senior professional and technical qualifications, accounting for approximately 0.68% of total domestic employees, 23,129 employees held intermediate professional and technical qualifications, accounting for approximately 24.28% of total domestic employees, and 20,917 employees held junior professional and technical qualifications, accounting for approximately 21.96% of total domestic employees.

Among the domestic employees, 41,661 employees were under the age of 30, accounting for approximately 43.74% of total domestic employees, 27,175 employees between the age of 30 and 40, accounting for approximately 28.53% of total domestic employees, 19,224 employees between the age of 40 and 50, accounting for approximately 20.18% of total domestic employees, and 7,184 employees above the age of 50, accounting for approximately 7.54% of total domestic employees.

Among the domestic employees, 6,688 employees possessed postgraduate or higher academic degrees, accounting for approximately 7.02% of total domestic employees, 58,764 employees possessed undergraduate degrees, accounting for approximately 61.70% of total domestic employees, 24,972 employees possessed college diploma, accounting for approximately 26.22% of domestic employees, and 4,820 employees possessed secondary vocational school certificates or lower qualifications, accounting for approximately 5.06% of total domestic employees.

2. Human resource management

In support of the development of the "BoCom Strategy", the Bank continued to optimise the organisation structure and position management system, promoted the matrix reform in the existing tier-2 branches, clarified the criterion for classification of tier-1 branches, tier-2 branches and sub-branches, conducted the integration of the retail credit business, and implemented position optimisation plan for both front desk tellers and account managers.

The Bank implemented and continued to perfect a remuneration system with the job position system as the basis and the labour market rate as the target, in order to highlight the principle of stability and strengthen the self-discipline, as well as emphasize on the linkage between performance incentives and risk-adjusted operational performance, so as to fully utilise the control of remuneration to corporate governance and risk control, and lead to the steady operation and sustainable development. The Bank also cares about its employees' benefits and pension plan, and continues pushing forward the implementation of an employee benefit system centred on corporate annuity fund in principle of "a unified approach and standardised operation management".

The Bank implemented an in-depth personnel training strategy, coordinating development of professionals with various expertise. The Bank organised hundreds of institutional administrators to attend a research seminar entitled "New Thoughts, New Perspective, and New Path — New Financing Formats and Business Model Innovation" to explore the new path and new approach of the innovation and transformation of the commercial banking industry under the new financial environment; launched a strategy of developing 500 experts in 3 years through training programme, the Bank selected and prepared the first batch of 200 personnel for the investment banking, private banking and international business, with measures of "domestic training, overseas experience and practice workshop", and equipped them with an international perspective, comprehensive capabilities and practical expertise. By establishing the campus recruitment programme, the Bank unified the management mechanism relating to the recruiting process, which has been improved to a more streamlined, detailed and standardised level.

During the Reporting Period, the Bank abided strictly with the relevant laws, regulations and regulatory rules, such as the Company Law, the Securities Law and the Commercial Banking Law, and continued to improve the effectiveness of its corporate governance. All of these efforts were made to safeguard the rights and interests of domestic and foreign shareholders and other stakeholders.

During the Reporting Period, the Board of Directors confirmed that the Bank had fully complied with the code provisions under the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules, and had also followed most of the best recommended practices contained in the Corporate Governance Code.

(I) GENERAL MEETINGS

During the Reporting Period, the Bank held 2012 Annual General Meeting which considered and approved ten resolutions, including the "Work Report of the Board of Directors for 2012", the "Report of the Supervisory Committee for 2012", the "Report of the Financial Account for 2012", the "Profit Distribution Plan for 2012", and the "Resolution in relation to the Amendments of 'the Articles of Association of Bank of Communications Co., Ltd.'", etc.

At 2012 Annual General Meeting, as the expiration of the term of the Sixth Session of the Board of Directors and the Sixth Session of the Supervisory Committee, the members for a new session of the Board of Directors and the Supervisory Committee were elected at the meeting. All the resigned and retired Directors and Supervisors of the Bank had been diligent and committed to their work during their tenure of service, and made remarkable contributions to the Bank's reform and development, corporate governance, and standardised operation of the Board of Directors and the Supervisory Committee. The Bank hereby deeply appreciated their performance.

(II) MEETINGS OF THE BOARD OF DIRECTORS

During the Reporting Period, the Board of Directors held six meetings which considered and approved 35 resolutions, while the five Special Committees under the Board of Directors held 11 meetings which considered and approved 32 resolutions or reports. All members of the Board of Directors diligently attended every meeting of the Board of Directors and Special Committees, displaying a high level of professionalism and a strong sense of responsibilities, so as to giving full play to the decision-making and performance supervisory functions of the Board of Directors.

1. Further promoted the implementation of strategy and various transformation

First, the Board of Directors promoted the implementation of the "BoCom Strategy", and supervised Senior Management to develop strategic implementation roadmap, to carry out the strategy application. Second, the Board of Directors optimised the measures of performance appraisal, and enhanced the assessment on resource guiding and application, to further improve the resources allocation mechanism. Third, the Board of Directors promoted the reform of business model at branch level, initiated categorised implementation of the matrix reform of the existing tier-2 branches, and deeply carried forward the construction of "Trinity" service channel, so as to accelerate the exploration on the effective integration of financial services and Internet.

2. Continued to enhance the effectiveness of its corporate governance

First, the re-election and appointments for the new session of the Board of Directors had been actively and properly completed in accordance with the laws and regulation. All members of the new session of the Board of Directors are experts in aspects of commercial banking operational management, financial auditing and internal control, which maintained the international and professional features of the Board of Directors and the Special Committees. Second, the Board of Directors continuously deepened the strategic decision-making function, strengthened the decision-making and guidance on annual business operation and development, made deep research on work arrangement and budget plan for 2013, and conducted the analysis and research on domestic and overseas economic trends, and policies of macroeconomic control and other regulatory policies. Third, the mechanisms of decision execution and post-evaluation were further reinforced. The Board of Directors listened to the reports on the execution performance for the Board of Directors' resolutions, opinions and suggestions in the first half of the year, and comprehensively supervised the execution of various resolutions approved by the Board of Directors and the opinions and suggestions raised by the Directors.

3. Proactively carried out the function of capital management

First, the Board of Directors considered and approved the "Resolution in relation to the Official Application for the Advanced Measures of Capital and Risk Measurement System", clarified the scope, method and substance of advanced measures of capital and risk management, and submitted the official application to the CBRC. Second, the Board of Directors established and implemented internal evaluation of capital adequacy. The Board of Directors approved the "Internal Evaluation Report of Capital Adequacy for Year 2013-2015", adopted basic standards, mechanism and operational procedures for internal capital adequacy evaluation tasks, and further displayed the control and promotion functions on capital in the operation and development. Third, the Board of Directors carefully studied the requirements of capital adequacy ratio disclosures and timely released capital adequacy ratio information to investors and the public according to regulatory requirements.

4. Firmly promoted the Enterprise Risk Management

First, the Board of Directors enhanced its decision-making function in risk management, deepened the prediction and evaluation of risk events, strengthened evaluation of risk prevention and clarified the responsibilities. Second, the Board of Directors optimised the Enterprise Risk Management system. With the implementation of "1+3+2" decision-making system of risk management, the Board of Directors promoted the construction of centralised credit granting management system, conducted overall risk evaluation for both on-balance-sheet and off-balance-sheet credit business, and continued to optimise credit risk management for retail credit business. Third, the Board of Directors concentrated on risk management on key aspects such as local government financing platform, real estate, private financing, banknote, steel trade, wealth management, etc., paid more attention on credit risk management, balanced the relationship of "growth, transition and quality", and maintained the sustainable development of the Bank.

(III) SUPERVISORY COMMITTEE

During the Reporting Period, the Bank's Supervisory Committee held three meetings which considered and approved 17 resolutions, including the periodic reports, financial accounts report, profit distribution plan, the "Supervisory Committee's Appraisal of the Discharge of Duties by the Board of Directors and Senior Management for 2012", the "Supervisory Committee's Appraisal of the Discharge of Duties by the Special Committees of Board of Directors for 2012", the "Report on Internal Control Review for 2012", the "Report on Fund Raise and Use of Proceeds for 2012", the "2012 Report on Corporate Social Responsibilities", "2012 Report of the Supervisory Committee", the "2012 Report of Self-evaluation on Duties Performed by the Supervisory Committee", the "2013 Work Plan of the Supervisory Committee", etc. In addition, the Supervisory Committee completed the re-election and established the Seventh Session of the Supervisory Committee and relative Special Committees. In accordance with the relevant regulatory requirements, the Supervisory Committee deepened the appraisal of the discharge of duties by the Board of Directors and Senior Management. Following the work plan, Senior Management reported the risk management results of retail credit business and credit risk to the Supervisory Committee.

All of the Supervisors participated in the meetings of the Supervisory Committee and Special Committees and attended at the meetings of the Board of Directors and its Special Committees in order to execute their duties, safeguard shareholders' interests, and improve the management capabilities of the Bank.

(IV) SENIOR MANAGEMENT

The Bank's Senior Management comprises of President, Executive Vice President, Secretary of the Commission for Discipline Inspection, Chief Financial Officer, Chief Information Officer, Chief Risk Officer, Secretary to the Board of Directors, Corporate Business Director and BoCom-HSBC Strategic Cooperation Consultant. The Bank adheres to a system whereby the President, as the ultimate responsible officer, reports to the Board of Directors. During the Reporting Period, Senior Management committed to their work and fulfilled their responsibilities through executing the various resolutions approved by the Board of Directors and carrying out day-to-day operation of the Bank in accordance with the laws, regulations, the Articles of Association and authorisation from the Board of Directors.

(V) INTERNAL CONTROL

During the first half of 2013, the Bank's internal control system operated reliably and steadily.

1. The enhancement of the risk management system

First, in order to improve the operation of a comprehensive risk management system, the Bank formulated promoted the implementation of the 2012-2015 Risk Management Plan to enhance functions of procedure of the specialised Risk Management Committee, and strengthened responsibilities of "general manager of each branch" regarding risk management events. Second, the Bank further leveraged the risk structure of small scaled middle office, improved business management and risk control system, formulating a risk control structure covering the whole process and chain. Third, the Bank continued to promote the implementation and optimisation of advanced measures of capital deepened the credit risk application, strengthened the market risk monitoring and analysis, and promoted the implementation of operational risk management in order to enhance capital monitoring and management capabilities. Fourth, the Bank strengthened the liquidity management in both domestic and overseas branches, optimising asset and liability structure and pricing management mechanisms. Fifth, the Bank studied the impact of interest rate deregulation, and focused on improving the interest rate risk management approach and applying risk control measures.

2. The improvement of the credit granting management system and the enhancement of the credit granting management

First, the Bank integrated the management structure regarding corporate credit granting, optimised the approval model, and gradually unified non-credit business into general credit granting management system. Second, the Bank continued to optimise the credit structure, developed the credit granting guidelines in line with national policy guidance by covering 55 industries to support the real economy, continued to enhance management and control in the “heavily-polluting, highly-energy-consuming and over-capacity” sectors, real estate, local government financing vehicle and inefficient enterprises. Third, as per the guidance of “promoting risk-benefit balance and strengthening risk control and management”, the Bank improved its capabilities in RAROC (risk-adjusted return on capital) management. Fourth, the Bank continued to implement risk monitoring and investigation mechanism in key areas and promoted the clearing, retrieval and disposal of non-performing credit assets, maintaining the smooth running of credit business.

3. The optimisation of the retail credit risk management and control system

First, the Bank adjusted the management structure of retail credit business, strengthened the approval and management functions of the middle office. Second, the Bank developed retail credit policy guidelines to optimise the credit structure, refining the post-loan monitoring and management requirements. Third, the Bank improved collaboration between agencies and guarantee business management, applied stringent entry requirements and various measures of the risk management. Fourth, the Bank carried out investigation regarding retail credit risk, thus resolving risks in particular areas.

4. Concentration on management in the aspects of personal banking, wealth management and international business

First, the Bank continued to promote the standardised work process of the account managers to promote the whole process management and the channel construction regarding the personal banking business. Second, the Bank improved the management system of wealth management business and further emphasised the system structuring and accounting management. Third, the Bank established a cross-border RMB settlement centre, improved fund allocation regarding the collaboration between domestic and overseas branches to promote the institutional network building and international business process optimisation.

5. The enhancement of the operation and IT (Information Technology) management

First, the Bank adjusted the operating structure at branch level improving the “Trinity” network and institutional evaluation system, optimising the institutional network layout, accelerating the comprehensive branch and electronic banking construction, and gradually promoting the transformation of operation and management at tier-2 branches. Second, the Bank continued to strengthen the detailed management in service centre, standardise business operation process for centralised business in front and back office, strengthen the outsourcing management, and steadily implement the construction and optimisation of IT projects. Third, the Bank continued to move forward on the “531” project construction to promote the demand integration and system development. Fourth, the Bank improved the evaluation of data modification and product innovation, and conducted the on-going construction of data security and disaster recovery.

(VI) INVESTOR RELATIONS

In the first half of 2013, the overall performance of banking industry was stable, but under the influence of macroeconomic slowdown and other various factors, the capital market was pessimistic and the valuation level of banking industry remained at a low position. Facing with challenges, the Bank continuously created new ways and channels of investor relations management (IRM), maintained close, effective and smooth communication with the capital market in order to upgrade the acknowledgement of the investors to the long-term investment values of the Bank.

During the Reporting Period, the Bank held two results release press conferences in Hong Kong and Shanghai respectively, and organised an international road show in major international financial centres. The Bank also participated in 5 domestic and overseas investor forums and hosted regular visits by investors and analysts of 35 times. Through these activities, the Bank managed to communicate with about 560 investors and analysts.

The Bank attached great importance to the opinions from the capital market and developed good interaction with investors. During the Reporting Period, the Bank held two special reverse road shows themed as the “BoCom Electronic Banking Business Expansion and IT System Construction” and the “BoCom Internationalisation and Universal Operation Strategy” respectively, by which investors gained further direct understanding on the “BoCom Strategy” implementation and the advantages and features of IT system construction and electronic banking business development. Meanwhile, the Bank obtained opinions and suggestions from investors for the service transformation and business management.

Focusing on the market value management, the Bank closely watched the capital market operation and continuously enhanced stock price and capital market research, giving full play to IRM’s role as a “bridge” between the capital market and business management. The Bank continued the daily maintenance work on the investor communication platform, including but not limited to investor’s hotline and emails, timely response to investors, rationally guiding investors’ anticipation, and acceptance of reasonable opinions and suggestions from investors.

In the future, the Bank will continue maintaining a sound management regarding investor relations and market value, and strengthen the initiative on communication with investors, improve the measures of communication, enhance the quality of communication, and make efforts on achieving stable growth of shareholders’ value.

Corporate Social Responsibilities

The Bank upheld its belief of "strong harmony and integrity, constant pursuit for excellence and a growth with the society" and vigorously performed its corporate social responsibilities in the areas of economy, environment and community and contributed to building a harmonious society. During the Reporting Period, the Bank retained the Annual Corporate Social Responsibility Award of Financial Institution awarded by the China Banking Association and received the social responsibilities awards for its efforts by well-known media such as *Fortune (Chinese Version) and Southern Weekly*.

(I) ECONOMIC RESPONSIBILITY

The Bank earnestly executed the government's macro-control policies, and played an important role as a major bank in supporting the real economy. At the same time, the Bank supported the sectors that are closely related to social development of China, such as small enterprises, agriculture related business, and conducive to people's livelihood and career in the financial section in Central and West China, thus demonstrated the Bank's strong commitment in fulfilling its corporate social responsibilities.

1. The Bank continued to optimise its credit structure, and formulated its credit policy which in line with the government policies, with a strong focus supporting the development of real economy, the upgrading of industrial structure, and mergers and acquisitions of key industries. The newly developed credit policy includes lending guidance on 55 industries and 175 sub-sectors, covering 99% of the Bank's credit assets. The Bank focused its lending efforts in areas that would increase consumer demands, benefit people's livelihood, facilitate the improvement and development of Central and West China, and support the pillar industries that are critical for the overall economic development of China. In addition, the Bank seized opportunities in the development of urbanisation, marine economy, ecological construction, energy conservation and environmental protection projects and provided financial support to related projects. During the Reporting Period, most of the new originations were made to support the real economy projects, which were relatively large in scale and had great influence on the national economy, such as sectors of manufacturing, wholesale, transportation, services, and mining, accounting for nearly two-thirds of the balance of newly granted corporate loans.

2. The Bank continued to provide financial support to Central and West China, agriculture-related business and consumer consumption. During the Reporting Period, the Bank was dedicated to establishing more service locations in the Central and West China, and the proportion of RMB-denominated deposits and loans from branches in those areas increased by 0.75 and 0.62 percentage point from the beginning of the year to 30.31% and 29.22% respectively; the growth rates of loans made to agriculture related businesses and consumer consumption were higher than the overall loan growth by 2.67 and 9.71 percentage points respectively. The coverage rate of county-level branches increased by 0.35 percentage point to 7.52%. In addition, the Bank enhanced its financial support to sectors of agriculture, forestry, husbandry and fishery, education, technology and culture, health care, and social works.

3. The Bank continued to promote the development of the retail credit business. As at the end of the Reporting Period, the balance of retail credit loans made to small enterprises reached RMB211.9 billion, and the growth rate for this particular sector was significantly higher than that of the overall

loan growth of the Bank. During the Reporting Period, with the strategy of targeting the “business circles, supply chains and industrial parks”, the Bank grew its retail business through developing small enterprise customers by clusters. The Bank introduced a comprehensive financial product line for customers within business circles, and provided online supply chain service for upstream suppliers of core enterprises and enterprises who won the bid in government procurement projects. Through exploring and setting up branches specialised in technology and IT innovation, the Bank helped customers seek government supports in tax subsidy and risk compensation. Furthermore, the Bank provided the enterprises with flexible financing plans secured by collaterals of varied forms, tangible or intangible, according to the reality of their assets structure.

(II) ENVIRONMENTAL RESPONSIBILITY

The Bank made further progress in the implementation of “Green Credit” policy, and continued to improve the related management system. The proportion of number of “green” customers and the relative outstanding balance increased steadily with a further decrease in the proportion of loans made to aspects of “heavily-polluting, highly-energy-consuming and over-capacity” sectors. At the same time, the Bank was dedicated to reducing the negative impact on the environment due to its operation and vigorously promoted the e-banking. As at the end of the Reporting Period, the channel diversion rate of e-banking services reached 76.97% and the proportion of the number of stand-alone self-service outlets to that of physical outlets increased to 0.92:1.

1. The Bank thoroughly implemented the guidance and requirements by the regulatory authorities to continuously implement the “Green Credit” policy and effectively improve the sustainable and healthy development of credit business. As at the end of the Reporting Period, the proportion of “green” customers was 99.53% and the related outstanding loan balances was 99.81%, maintaining a growth at a high level. The balance of credit granting to “green” customers, characterised as supporting low-carbon economy, environmental protection and comprehensive utilisation of energy, increased by RMB10.3 billion from the beginning of the year to RMB154.3 billion. During the Reporting Period, the Bank released “2013 Industrial Guidance of Green Credit” which contained the proposed specified requirements for 55 industries, covering the areas from energy consumption, pollution, land, healthcare, safety, resettlement, ecological protection, and climate change, etc. to promote the “Green Credit” standards being accurately implemented in the management of credit business.

2. The Bank integrated its “Green Credit” policy with the industrial quota control for the “heavily polluting, highly-energy-consuming and over-capacity” sectors. Through screening process, credit enhancement measures on lower rating customers and improved application control, the Bank strengthened its management over lending to the “heavily polluting, highly-energy-consuming and over-capacity” sectors. During the Reporting Period, the outstanding balance of loans made to such sectors decreased by 0.40 percentage point to RMB32.9 billion. Additionally, the Bank carried out risk examinations on credit customers for potential violations on environmental and safety regulations. Checking against the name lists of enterprises with record of violations issued by regulatory authorities and Ministry of Environment Protection of the People’s Republic of China, the Bank conducted self-evaluation and follow-up measures on the related credit customers.

(III) SOCIAL RESPONSIBILITY

While maintaining strong business growth and excellent financial return for shareholders, the Bank adhered to its ultimate goal of improving corporate governance, maintaining the Bank's market value and becoming a first-class public-held commercial bank. Meanwhile, the Bank placed great concerns about the needs of customers, employees, communities and other stakeholders, and made significant progress in areas of customer service, employee development and social contribution, as well as other new progress.

1. Through continued product innovation and enhanced customer service, the Bank was able to provide customers with better financial services experience. During the Reporting Period, through the campaign of "annual innovation of hundred products", the Head Office carried out 123 key innovation projects and 52 key marketing projects, and 26 innovation projects were conducted in subsidiaries, with 41 key innovation projects being completed. With the effort to promote innovation on specialised services and results sharing; branches carried out 294 distinctive projects on specialised services and 1,214 projects on results sharing. Adhere to its customer-orientated strategy, the Bank took actions to standardise its banking services, and carried out process reviews to identify potential impediments that affect service efficiencies. The Bank also conducted operational reviews on middle and back offices, to identify areas of improvements in service model, process design, operational approach and constraint mechanisms, to further enhance service quality and improve customer satisfaction.

2. The Bank focused on providing employees with a harmonious working environment and adequate protection of interests. During the Reporting Period, the Bank made significant accomplishment in the development of employee positioning system, remuneration policy, employee benefits plan and team building. Specifically, the Bank optimised the structure of the employee positioning management system, promoted the reform of matrix management model, and improved the positioning of account manager and bank teller. At the same time, the Bank continued to implement and improve the remuneration system to maximise the constraining impact of remuneration in corporate governance and risk control, and to facilitate steady and sustainable development of the Bank. The Bank also cares about its employees' benefits and pension plan, and continues pushing forward the implementation of an employee benefit system centred on corporate annuity fund. Furthermore, the Bank implemented an in-depth personnel training strategy, through coordinating the development of professionals with various expertise, launching a strategy of 500 experts in 3 years through training programme. By establishing the campus recruitment programme, the Bank unified the management mechanism relating to the recruiting process, which has been improved to a more streamlined, detailed and standardised level.

3. The Bank also devoted to charity and public welfare events. After the tragedy of Lushan earthquake, the Head Office and many branches made charitable contributions totaling RMB5.95 million. The program "Gateway to Tomorrow: Education Grant for Disabled Youth by Bank of Communications" was in its fifth session, with RMB7.40 million contributed to help poor or disabled high school students and freshmen in the university, made recognition for outstanding special education teachers and disabled university students, and subsidised training programs for provincial special education teachers. The Bank's targeted poverty alleviation program to Tian Zhu, a Tibet autonomous region in Gansu province, entered into its eleventh year, with a total amount of RMB2.00 million invested in the construction of 200 high quality green houses, helping local citizens overcome poverty. Donation projects were approved and carried out smoothly by 16 branches of the Bank, with a total contribution amount estimated up to RMB2.34 million. The Bank organised various commercial sponsorship activities regarding cultural prosperity, including the World Snooker Master Tournament, National Amateur Snooker Tournament, Elegant Art in 100 Universities and Shanghai Summer Sonic Festival, etc.

(I) PROFIT DISTRIBUTION

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

The proposal in relation to the distribution of the final dividend of the Bank for the year ended 31 December 2012 was considered and approved at the 2012 Annual General Meeting of the Bank held on 25 June 2013. Based on the total share capital of 74,262,726,645 shares as at 31 December 2012, a cash dividend of RMB0.24 (tax inclusive) per share was paid to the registered holders of A shares and H shares of the Bank, totaling RMB17.823 billion. The record dates for receiving the final dividend by the holders of H shares and A shares were 7 July 2013 and 10 July 2013 respectively, and the payment date of such dividend was 31 July 2013.

2. Proposal on payment of interim dividend and proposal on conversion of capital reserve into share capital

The Bank will not distribute an interim dividend for the six months ended 30 June 2013 or convert any capital reserve into share capital.

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

The Bank implemented the cash dividend distribution policy strictly in accordance with the relevant provisions of the Articles of Association.

(II) SHAREHOLDINGS IN OTHER COMPANIES

1. Holdings of equity interest in other listed companies

(in RMB unless otherwise stated)

Stock code	Stock short name	Initial investment amount	Percentage of equity interest in the company (%)	Book value as 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	134,200,800.00	1.42	194,439,000.00	–	(74,845,500.00)	Investment securities – available-for-sale	Foreclosed assets
000979	ZHONGHONG STOCKS	7,743,404.99	1.20	82,136,009.50	–	(16,000,639.38)	Investment securities – available-for-sale	Foreclosed assets
02236	WISON ENERG	40,711,422.72	0.50	58,528,343.14	33,335,121.58	–	Financial assets at fair value through profit or loss	Equity investment
600094	DAMINGCHENG	47,566,267.21	0.72	55,868,232.75	–	(20,296,633.80)	Investment securities – available-for-sale	Foreclosed assets
00067	LUMENA NEWMAT	113,364,685.89	0.79	51,049,315.07	–	(7,081,846.22)	Investment securities – available-for-sale	Equity investment
V	Visa Inc.	6,147,621.57	–	26,268,778.24	–	4,210,032.40	Investment securities – available-for-sale	Equity investment
00658	C TRANSMISSION	53,281,189.15	0.59	22,758,316.14	–	3,987,066.91	Investment securities – available-for-sale	Equity investment
600757	CHANGJIANG CHUANMEI	22,397,258.16	0.31	18,901,732.32	–	(1,003,345.38)	Investment securities – available-for-sale	Foreclosed assets
01798	DATANG RENEW	20,772,438.43	0.44	14,739,720.77	(49,833,203.38)	67,710,121.36	Investment securities – available-for-sale	Equity investment
600155	*ST BAOSHUO	19,614,012.99	0.72	8,289,500.00	–	453,005.96	Investment securities – available-for-sale	Foreclosed assets
	Others	24,200,068.16		21,427,253.10	11,992,114.66	(17,091,438.00)		
	Total	**489,999,169.27**		**554,406,201.03**	**(4,505,967.14)**	**(59,959,176.15)**		

Notes:

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

2. Holdings of equity interest in unlisted financial institutions

(in RMB unless otherwise stated)

Name of institution	Initial investment amount	Number of shares held	Percentage of equity interest in the company (%)	Book value as 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	38,002,626.25	–	Investment securities – available-for-sale	Equity investment
China Union Pay Co., Ltd.	146,250,000.00	112,500,000	3.90	146,250,000.00	–	–	Investment securities – available-for-sale	Equity Investment
China National Aviation Fuel Group Finance Corporation	120,000,000.00	N/A	10.00	120,000,000.00	–	–	Investment securities – available-for-sale	Equity Investment
Bank of Tibet Co., Ltd.	300,000,000.00	300,000,000	20.00	309,768,008.74	7,626,986.44	–	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**			**1,165,518,008.74**	**45,629,612.69**	–		

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 purchased/ (sold) during the Reporting Period	Number of shares held as at the end of the Reporting Period	Fund utilised	Gains
Purchase	169,400	199,000	368,400	1,255,863.00	—
Sales	194,556,079	(140,022,000)	54,534,079	—	61,375,624.84

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

(III) 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.

(IV) SIGNIFICANT RELATED PARTY TRANSACTIONS

During the Reporting Period, all the transactions between the Group and its related parties were ordinary operating capital flows at arms-length. No significant related party transaction occurred during the Reporting Period.

Details of the related party transactions of the Group as at the end of the Reporting Period are disclosed in "Note 37 to the Unaudited Condensed Consolidated Financial Statements".

(V) AUDIT COMMITTEE

The Bank has established an Audit Committee under the Board of Directors in accordance with the requirements of the Hong Kong 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 the efficiency and compliance of internal controls. The members of the Audit Committee are Mr. Yu Yongshun, Ms. Du Yuemei, Ms. Zhang Yuxia, Mr. Choi Yiu Kwan and Mr. Liu Tinghuan. Mr. Yu Yongshun, 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, and also reviewed the interim results.

(VI) 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.

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

The Bank has adopted the Model Code as set out in Appendix 10 to the Hong Kong 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.

(VIII) COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE UNDER THE HONG KONG LISTING RULES

During the Reporting Period, the Bank had complied with the code provisions contained in the "Corporate Governance Code" as set out in Appendix 14 to the Hong Kong Listing Rules. Details are stated in "Corporate Governance" at page 51 of this report.

List of Branches

(I) DOMESTIC BRANCHES

Number	Name	Address	Number of Outlets	Number of Staff
1	Head office	188 Yin Cheng Zhong Road, Pudong New District, Shanghai	1	2,782
2	Beijing Branch	22 Jin Rong Street, Xicheng District, Beijing	116	4,727
3	Tianjin Branch	7 You Yi Road, Hexi District, Tianjin	69	1,669
4	Hebei Provincial Branch	22 Zi Qiang Road, Shijiazhuang	82	2,363
5	Shanxi Provincial Branch	35 Jie Fang Road, Taiyuan	47	1,482
6	Inner Mongolia Autonomous Region Branch	110 West Da Xue Street, Sai Han District, Huhhot	21	788
7	Liaoning Provincial Branch	100 Shi Yi Wei Road, Shen He District, Shenyang	157	3,777
8	Dalian Branch	6 Zhong Shan Square, Zhong Shan District, Dalian	42	1,320
9	Jilin Provincial Branch	3515 Ren Min Avenue, Changchun	70	1,885
10	Heilongjiang Provincial Branch	428 You Yi Road, Dao Li District, Harbin	87	2,307
11	Shanghai Branch	99 South Zhong Shan Road, Shanghai	132	5,044
12	Jiangsu Provincial Branch	124 North Zhong Shan Road, Nanjing	227	5,803
13	Suzhou Branch	77 North Nan Yuan Road, Suzhou	53	1,420
14	Wuxi Branch	198 Middle Ren Min Road, Wuxi	51	1,403
15	Zhejiang Provincial Branch	1–39 Ju Yuan Road, Hangzhou	140	4,261
16	Ningbo Branch	55 East Zhong Shan Road, Ningbo	41	1,095
17	Anhui Provincial Branch	38 Hua Yuan Street, Hefei	110	2,743
18	Fujian Provincial Branch	116 Hu Dong Road, Fuzhou	36	1,166
19	Xiamen Branch	9 Hu Bin Zhong Road, Xiamen	19	507
20	Jiangxi Provincial Branch	199 Huizhan Road, Honggutan, Nanchang	56	1,410
21	Shandong Provincial Branch	98 Gong Qing Tuan Road, Jinan	135	3,550
22	Qingdao Branch	6 Zhong Shan Road, Qingdao	51	1,324
23	Henan Provincial Branch	11 Zheng Hua Road, Zhengzhou	87	2,724
24	Hubei Provincial Branch	847 Jianshe Avenue, Wuhan	82	2,392
25	Hunan Provincial Branch	37 Middle Shao Shan Road, Changsha	62	1,682
26	Guangdong Provincial Branch	123 South Jie Fang Road, Guangzhou	207	5,522
27	Shenzhen Branch	2066 Middle Shen Nan Road, Shenzhen	50	1,899
28	Guangxi Zhuang Autonomous Region Branch	228 East Ren Min Road, Nanning, Guangxi Zhuang Autonomous Region	80	1,983
29	Hainan Provincial Branch	45 Guo Mao Road, Haikou, Hainan Province	18	565
30	Chongqing Municipal Branch	158 Zhongshan San Road, Yu Zhong District, Chongqing	54	1,382
31	Sichuan Provincial Branch	211 Xi Yu Long Street, Chengdu	90	2,299
32	Guizhou Provincial Branch	4 Sheng Fu Road, Guiyang	45	895
33	Yunnan Provincial Branch	67 Hu Guo Road, Kunming	49	1,328
34	Shaanxi Provincial Branch	88 Xi Xin Street, New City District, Xian	57	1,373

List of Branches (Continued)

Number	Name	Address	Number of Outlets	Number of Staff
35	Gansu Provincial Branch	129 Qing Yang Road, Lanzhou	28	685
36	Ningxia Hui Autonomous Region Branch	296 North Minzu road, Yinchuan	7	255
37	Xinjiang Uygur Autonomous Region Branch	16 Dong Feng Road, Urumqi	30	851
38	Qinghai Provincial Branch	29 West Wusi Road, Xining	2	126

(II) OVERSEAS BRANCHES

Number	Name	Address	Number of Outlets	Number of Staff
1	Hong Kong Branch	20 Pedder Street, Central, Hong Kong	44	1,583
2	New York Branch	One Exchange Plaza/55 Broadway, 31st & 32nd Floor New York, NY 10006-3008,U.S.A.	1	50
3	Tokyo Branch	Toranomon, No. 37 Mori BLDG. 9F 3-5-1, Toranomon Minato-ku Tokyo, Japan	1	40
4	Singapore Branch	50 Raffles Place #18-01 Singapore Land Tower, Singapore	1	36
5	Seoul Branch	6th Floor, Samsung Fire & Marine Bldg.#87, Euljiro 1-Ga, Jung-Gu,Seoul 100-782, Korea	1	33
6	Frankfurt Branch	Neue Mainzer Strasse 75, 60311 Frankfurt am Main, Germany	1	27
7	Macau Branch	16F, AIA Tower, No. 251A–301, Avenida Commercial De Macau	1	48
8	Ho Chi Minh City Branch	17th floor, Vincom Center, 72 Le Thanh Ton, Dist.1, HCMC,VN	1	33
9	Bank of Communications (UK) Limited.	4th Floor, 1 Bartholomew Lane, London, EC2N2AX UK	1	25
10	Sydney Branch	Level 27, 363 George Street, Sydney NSW 2000 Australia	1	29
11	Taipei Branch	A Wing, 29th Floor, No. 7, Section 5, Xinyi Road, 110, Taipei (101 Tower), Xinyi District, Taiwan	1	23
12	San Francisco Branch	575 MARKET STREET, 38th FLOOR, SAN FRANCISCO, CA 94105 U.S.A.	1	12

Independent Auditor's Report

Deloitte.
德勤

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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 66 to 152, which comprise the condensed consolidated statement of financial position as of 30 June 2013 and the related condensed consolidated statement of profit or loss and other 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
21 August 2013

Unaudited Condensed Consolidated Financial Statements

Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

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

	Notes	Three months ended 30 June		Six months ended 30 June	
		2013	2012 (Restated)	2013	2012 (Restated)
Interest income		63,875	60,166	125,089	118,203
Interest expense		(30,898)	(30,585)	(60,081)	(59,809)
Net interest income	3	32,977	29,581	65,008	58,394
Fee and commission income	4	7,814	6,108	15,549	12,461
Fee and commission expense	5	(853)	(741)	(1,654)	(1,499)
Net fee and commission income		6,961	5,367	13,895	10,962
Dividend income	6	24	12	61	13
Net (losses)/gains arising from trading activities	7	(263)	720	161	1,374
Net gains arising from de-recognition of investment securities	20	26	22	97	26
Insurance business income		309	201	688	426
Other operating income	8	2,648	1,502	5,026	2,784
Impairment losses on loans and advances to customers	9	(3,356)	(3,329)	(8,469)	(7,136)
Insurance business expense		(253)	(193)	(595)	(407)
Other operating expense	10	(16,902)	(14,205)	(30,820)	(26,266)
Share of result of an associate		6	(2)	8	—
Profit before tax		22,177	19,676	45,060	40,170
Income tax	13	(5,009)	(4,440)	(10,142)	(9,029)
Net profit for the period		17,168	15,236	34,918	31,141
Other comprehensive (loss)/income					
Items that may be reclassified subsequently to profit or loss:					
Investment securities — available-for-sale					
Changes in fair value recorded in equity		(747)	819	254	1,147
Changes in fair value reclassified from equity to profit or loss		(73)	246	(147)	220
Translation difference on foreign operations		(592)	(86)	(671)	(17)
		(1,412)	979	(564)	1,350
Item that will not be reclassified subsequently to profit or loss:					
Actuarial (losses)/gains on pension benefits		(2)	(4)	4	(1)
Other comprehensive (loss)/income for the period	34	(1,414)	975	(560)	1,349
Total comprehensive income for the period		15,754	16,211	34,358	32,490
Net profit attributable to:					
Shareholders of the Bank		17,121	15,212	34,827	31,089
Non-controlling interests		47	24	91	52
Total comprehensive income attributable to:					
Shareholders of the Bank		15,717	16,172	34,276	32,416
Non-controlling interests		37	39	82	74
Basic earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)	14	0.23	0.24	0.47	0.50

The accompanying notes presented on pages 71 to 152 form a part of this unaudited condensed consolidated financial statements.

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 2013	As at 31 December 2012 (Restated)
ASSETS			
Cash and balances with central banks	15	881,583	816,846
Due from banks and other financial institutions	16	518,204	520,963
Financial assets at fair value through profit or loss	17	53,246	52,161
Loans and advances to customers	19	3,130,826	2,879,628
Investment securities - loans and receivables	20	48,583	30,395
Investment securities - available-for-sale	20	232,361	204,608
Investment securities - held-to-maturity	20	652,666	598,615
Investment in an associate	37	310	302
Property and equipment	21	48,734	45,536
Deferred income tax assets	27	13,194	12,501
Other assets	22	137,895	111,824
Total assets		5,717,602	5,273,379
LIABILITIES			
Due to banks and other financial institutions	23	1,113,352	942,989
Financial liabilities at fair value through profit or loss	24	28,851	23,060
Due to customers	25	3,953,310	3,728,412
Other liabilities	26	130,958	110,769
Current tax liabilities		6,588	7,125
Deferred income tax liabilities	27	24	5
Debt securities issued	28	86,361	79,572
Total liabilities		5,319,444	4,891,932
EQUITY			
Capital and reserves attributable to shareholders of the Bank			
Share capital	29	74,263	74,263
Capital surplus	29	113,383	113,383
Other reserves		161,748	114,404
Retained earnings		46,977	77,868
		396,371	379,918
Non-controlling interests		1,787	1,529
Total equity		398,158	381,447
Total equity and liabilities		5,717,602	5,273,379

This unaudited condensed consolidated financial statements on pages 66 to 152 was approved for issue by the Board of Directors on 21 August 2013 and signed on its behalf by:

Chairman of Board: Niu Ximing *Vice Governor and Chief Financial Officer: Yu Yali*

The accompanying notes presented on pages 71 to 152 form a part of this unaudited condensed consolidated financial statements.

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 Note 30 (Restated)	Discretionary reserve Note 30	Statutory general reserve Note 30 (Restated)	Revaluation reserve for available-for-sale financial assets	Translation reserve on foreign operations	Actuarial changes reserve (Restated)	Retained earnings Notes 30, 31 (Restated)	Attributable to the shareholders of the Bank	Non-controlling interests	Total
Balance at 1 January 2012 (Restated)	61,886	69,465	19,033	48,240	29,299	(647)	(1,841)	(5)	46,372	271,802	986	272,788
Net profit for the period (restated)	–	–	–	–	–	–	–	–	31,089	31,089	52	31,141
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)
Actuarial losses on pension benefits (restated)	–	–	–	–	–	–	–	(1)	–	(1)	–	(1)
Total comprehensive income/(loss)	–	–	–	–	–	1,345	(17)	(1)	31,089	32,416	74	32,490
Dividends paid and accrued	–	–	–	–	–	–	–	–	(6,189)	(6,189)	(35)	(6,224)
Transfer to reserve (restated)	–	–	30	9,917	4,922	–	–	–	(14,869)	–	–	–
Balance at 30 June 2012 (Restated)	61,886	69,465	19,063	58,157	34,221	698	(1,858)	(6)	56,403	298,029	1,025	299,054
Balance at 1 January 2013 (Restated)	74,263	113,383	24,790	58,157	34,309	(975)	(1,876)	(1)	77,868	379,918	1,529	381,447
Net profit for the period	–	–	–	–	–	–	–	–	34,827	34,827	91	34,918
Changes in fair value recorded in equity	–	–	–	–	–	259	–	–	–	259	(5)	254
Changes in fair value reclassified from equity to profit or loss	–	–	–	–	–	(143)	–	–	–	(143)	(4)	(147)
Translation difference on foreign operations	–	–	–	–	–	–	(671)	–	–	(671)	–	(671)
Actuarial gains on pension benefits	–	–	–	–	–	–	–	4	–	4	–	4
Total comprehensive income/(loss)	–	–	–	–	–	116	(671)	4	34,827	34,276	82	34,358
Capital increase in a subsidiary	–	–	–	–	–	–	–	–	–	–	176	176
Dividends paid and accrued	–	–	–	–	–	–	–	–	(17,823)	(17,823)	–	(17,823)
Transfer to reserve	–	–	31	20,353	27,511	–	–	–	(47,895)	–	–	–
Balance at 30 June 2013	74,263	113,383	24,821	78,510	61,820	(859)	(2,547)	3	46,977	396,371	1,787	398,158

The accompanying notes presented on pages 71 to 152 form a part of this unaudited condensed consolidated financial statements.

Unaudited Condensed Consolidated Statement of Cash Flows

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

	Six months ended 30 June	
	2013	2012 (Restated)
Cash flows from operating activities:		
Profit before tax	45,060	40,170
Adjustments for:		
Impairment losses on loans and advances to customers	8,469	7,136
Impairment losses on foreclosed assets	46	-
Unwind of discount on allowances during the period	(707)	(416)
Impairment of finance lease receivables	229	168
Provision for impairment of other receivables	11	4
Insurance contracts reserve	395	140
Impairment of investment securities	9	366
Provision for/(reversal of) outstanding litigation and unsettled obligation	18	(32)
Depreciation of property and equipment	2,066	1,792
Amortisation of rent and renovation	244	241
Share of result of an associate	(8)	-
Net losses from fair value hedges	9	12
Amortisation of land use rights	12	10
Amortisation of intangible assets	123	105
Interest income from investment in debt securities	(16,252)	(14,297)
Net gains arising from de-recognition of investment securities	(97)	(26)
Net gains on disposal of property and equipment	1	-
Increase in revaluation of investment property	(11)	(6)
Interest expense on subordinated debts securities and other debts issued	1,620	1,642
Interest expense on certificates of deposit issued	126	75
Dividend income	(61)	(13)
Operating cash flows before movements in operating assets and liabilities	41,302	37,071
Net increase in mandatory reserve deposits	(49,608)	(18,972)
Net increase in due from banks and other financial institutions	(32,998)	(55,336)
Net (increase)/decrease in financial assets at fair value through profit or loss	(1,069)	5,996
Net increase in loans and advances to customers	(258,822)	(244,710)
Net increase in other assets	(23,375)	(32,136)
Net increase in due to banks and other financial institutions	170,363	195,798
Net increase in financial liabilities at fair value through profit or loss	5,973	1,069
Net increase in due to customers	224,898	309,080
Net increase in other liabilities	799	8,476
Net increase in business tax payable	248	192
Income tax paid	(11,383)	(10,176)
Net cash from operating activities	66,328	196,352

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

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

	Six months ended 30 June	
	2013	2012
Cash flows from investing activities:		
Purchase of investment securities	(238,158)	(166,591)
Disposal or redemption of investment securities	136,211	131,150
Dividends received	61	13
Interest received from investment securities	15,315	13,918
Acquisition of intangible assets and other assets	(393)	(199)
Disposal of intangible assets and other assets	-	22
Purchase and construction of property and equipment	(4,961)	(3,413)
Disposal of property and equipment	260	218
Net cash used in investing activities	(91,665)	(24,882)
Cash flows from financing activities:		
Proceeds from debt securities issued	16,361	6,729
Interest paid on debt securities issued	(835)	(1,047)
Dividends paid to shareholders of the Bank	—	(6,189)
Capital contribution by non-controlling interests	176	—
Repayment of debts securities issued	(9,572)	(9,000)
Dividends paid to non-controlling interests	—	(5)
Net cash from/(used in) financing activities	6,130	(9,512)
Effect of exchange rate changes on cash and cash equivalents	(1,421)	(152)
Net (decrease)/increase in cash and cash equivalents	(20,628)	161,806
Cash and cash equivalents at the beginning of the period	271,598	209,635
Cash and cash equivalents at the end of the period (Note 35)	250,970	371,441

	Six months ended 30 June	
	2013	2012 (Restated)
Net cash flows from operating activities include:		
Interest received	106,494	101,184
Interest paid	(51,603)	(49,054)

The accompanying notes presented on pages 71 to 152 form a part of this unaudited condensed consolidated financial statements.

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 194 cities level and above branches in the Mainland China and also branches in Hong Kong, New York, Singapore, Seoul, Tokyo, Frankfurt, Macau, Ho 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.

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 2012 annual consolidated financial statements.

(a) New and revised International Financial Reporting Standards ("IFRSs") issued and applied

On 1 January 2013, the Group applied certain new, revised or amendments to IFRSs, which were applicable for the Group's financial year beginning on 1 January 2013 and the relevant impact is set out below:

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* for the first time in the current period. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed as a 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The Group has renamed 'statement of comprehensive income' as 'statement of profit or loss and other comprehensive income' and the presentation of items of other comprehensive income has been modified accordingly upon the adoption of the amendments.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

The Group has applied for the first time IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance. IAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

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

(a) New and revised International Financial Reporting Standards ("IFRSs") issued and applied (Continued)

New and revised Standards on consolidation, joint arrangements, associates and disclosures (Continued)

Key requirements of these five standards that are relevant to the Group are described below.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC 12 Consolidation - Special Purpose Entities will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive.

In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

The application of the above new and revised standards on consolidation, joint arrangements, associates and disclosures has no material impact on the Group's unaudited condensed consolidated financial statements. However, the directors of the Bank consider that the application of IFRS 12 will affect the Group's disclosures regarding subsidiaries and unconsolidated structured entities in the annual consolidated financial statements for the year ending 31 December 2013.

IFRS 13 Fair Value Measurement

The Group has applied IFRS 13 Fair Value Measurement for the first time in the current period. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements. Consequential amendments have been made to IAS 34 to require certain disclosure to be made in the interim condensed consolidated financial statements.

The application of IFRS 13 results in more disclosures on the fair value information of the assets and liabilities in both the Group's unaudited condensed consolidated financial statements and annual consolidated financial statements for the year ending 31 December 2013. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised. Disclosures are set out in Note 39.4.

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

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

(a) ***New and revised International Financial Reporting Standards ("IFRSs") issued and applied*** *(Continued)*

Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to IFRS 7 Disclosures — *Offsetting Financial Assets and Financial Liabilities* for the first time in the current period. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The application has been applied retrospectively and the application of the amendments has no material impact on the disclosures or on the amounts recognised in both the Group's unaudited condensed consolidated financial statements and the annual consolidated financial statements for the year ending 31 December 2013.

IAS 19 (as revised in 2011) Employee Benefits

The Group has applied the amendments to IAS 19 (as revised in 2011) *Employee Benefits* and related consequential amendments for the first time in the current period.

IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the condensed consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. These changes have had an impact on the amounts recognised in profit or loss and other comprehensive income in prior years. In addition, IAS 19 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

The amendments to IAS 19 have been applied retrospectively by the Group. Pursuant to the amendments, the Group reclassified the actuarial gains or losses on pension benefits originally recognised in profit or loss to other comprehensive income retrospectively. The impact of the retrospective application is set out in Note 2C.

Annual Improvements to IFRSs 2009–2011 Cycle

The Group has applied the Annual Improvements to IFRSs 2009–2011 Cycle in the current period. The improvements include a number of amendments to various IFRSs. Amendments to IFRSs include the amendments to IAS 1 Presentation of Financial Statements and the amendments to IAS 32 Financial Instruments: Presentation.

The amendments to IAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

The amendments to IAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes.

(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)*

(a) *New and revised International Financial Reporting Standards ("IFRSs") issued and applied* *(Continued)*

Annual Improvements to IFRSs 2009–2011 Cycle (Continued)

The directors of the Bank consider that the application of the amendments included in the annual improvements to IFRSs 2009–2011 cycle has no material impact on both the Group's unaudited condensed consolidated financial statements and annual consolidated financial statements for the year ending 31 December 2013.

Except for the above, the Group adopts accounting policies and methods of computation which are consistent with those applied in consolidated financial statements for the year ended 31 December 2012 and the application of the other IFRSs in the current period has had no material effect on the amounts reported in the condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

(b) *New IFRSs and amendments to IFRSs that have been issued but not yet effective are as follows*

IFRS 9	Financial Instruments[2]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[2]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[1]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
IFRIC 21	Levies[1]

[1] Effective for annual periods beginning on or after 1 January 2014
[2] Effective for annual periods beginning on or after 1 January 2015

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

Except the above mentioned impact of IFRS 9, the adoption of the above new IFRSs and amendments to IFRSs 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 2012.

C Comparatives

As mentioned in Note 2A (a), the Group has applied IAS 19 (as revised in 2011) Employee Benefits for the first time in the current period. Pursuant to the amendments, retrospective adjustments were made to certain items in equity as at 31 December 2012 and 1 January 2012, and certain items in profit or loss and other comprehensive income for the three months and six months ended 30 June 2012 were restated. Comparative condensed consolidated financial statements are presented based on the restated figures and such adoption has no impact to the basic earnings per share for the three months and six months ended 30 June 2012 as previously reported.

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

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

C Comparatives *(Continued)*

Items in the Group's condensed consolidated statement of financial position as at 31 December 2012 and 1 January 2012 and the condensed consolidated statement of profit or loss and other comprehensive income for the three months and six months ended 30 June 2012 affected by the application of the IAS 19 (as revised in 2011), are as follows:

	As at 31 December 2012		
	Before restatement	Impact of restatement	Restated
EQUITY			
Capital and reserves attributable to shareholders of the Bank			
Other reserves	114,405	(1)	114,404
Retained earnings	77,867	1	77,868
Effects on total equity	192,272	—	192,272

	As at 1 January 2012		
	Before restatement	Impact of restatement	Restated
EQUITY			
Capital and reserves attributable to shareholders of the Bank			
Other reserves	94,084	(5)	94,079
Retained earnings	46,367	5	46,372
Effects on total equity	140,451	—	140,451

	Three months ended 30 June 2012		
	Before restatement	Impact of restatement	Restated
Other operating expense	(14,211)	6	(14,205)
Profit before tax	19,670	6	19,676
Income tax	(4,438)	(2)	(4,440)
Net profit for the period	15,232	4	15,236
Other comprehensive income			
Actuarial losses on pension benefits	—	(4)	(4)
Other comprehensive income for the period	979	(4)	975
Total comprehensive income for the period	16,211	—	16,211
Net profit attributable to:			
Shareholders of the Bank	15,208	4	15,212

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

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

C Comparatives *(Continued)*

	Six months ended 30 June 2012		
	Before restatement	Impact of restatement	Restated
Other operating expense	(26,268)	2	(26,266)
Profit before tax	40,168	2	40,170
Income tax	(9,028)	(1)	(9,029)
Net profit for the period	31,140	1	31,141
Other comprehensive income			
Actuarial losses on pension benefits	—	(1)	(1)
Other comprehensive income for the period	1,350	(1)	1,349
Total comprehensive income for the period	32,490	—	32,490
Net profit attributable to:			
Shareholders of the Bank	31,088	1	31,089

Impact on profit or loss and other comprehensive income for the period upon the application of IAS 19 (as revised in 2011):

	Three months ended 30 June 2013	Six months ended 30 June 2013
Decrease/(increase) in other operating expense	3	(5)
(Increase)/decrease in income tax	(1)	1
Increase/(decrease) in net profit for the period	2	(4)
(Decrease)/increase in actuarial changes on pension benefits	(2)	4
(Decrease)/increase in other comprehensive income for the period	(2)	4
Increase/(decrease) in net profit attributable to:		
Shareholders of the Bank	2	(4)
Non-controlling interests	—	—

The adoption of IAS 19 (as revised in 2011) has no impact to the basic earnings per share for the three months and six months ended 30 June 2013.

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

3 NET INTEREST INCOME

	Three months ended 30 June		Six months ended 30 June	
	2013	2012	2013	2012
Interest income				
Balances with central banks	3,171	2,747	6,243	5,461
Due from banks and other financial institutions	3,789	3,076	7,045	6,129
Loans and advances to customers	48,247	46,862	95,095	91,911
Investment in debt securities	8,668	7,481	16,706	14,702
	63,875	60,166	125,089	118,203
Interest expense				
Due to banks and other financial institutions	(10,300)	(11,867)	(19,679)	(23,494)
Due to customers	(19,656)	(17,834)	(38,570)	(34,510)
Subordinated debts and other debts issued	(828)	(789)	(1,620)	(1,642)
Certificates of deposit issued	(114)	(95)	(212)	(163)
	(30,898)	(30,585)	(60,081)	(59,809)
Net interest income	32,977	29,581	65,008	58,394

For six months ended 30 June 2013, interest income of the Group includes RMB454 million (six months ended 30 June 2012: RMB405 million) of interest income accrued on debt securities classified as financial assets at fair value through profit or loss.

For six months ended 30 June 2013, interest expense of the Group includes RMB86 million (six months ended 30 June 2012: RMB88 million) of interest expense accrued on certificate of deposits issued classified as financial liabilities designated at fair value through profit or loss.

For six months ended 30 June 2013, interest income of the Group includes RMB707 million (six months ended 30 June 2012: RMB416 million) of interest income accrued on impaired loans and advances to customers.

	Six months ended 30 June	
	2013	2012
Interest income on listed investments	4,959	3,836
Interest income on unlisted investments	11,747	10,866
Sub-total	16,706	14,702

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

4 FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2013	2012
Settlement service	1,187	1,013
Bank card	4,369	3,641
Investment banking	4,153	3,412
Guarantee and commitment	1,880	1,805
Management service	2,749	1,616
Agent service	1,036	764
Others	175	210
	15,549	12,461

	Six months ended 30 June	
	2013	2012
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	376	253
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	873	490

5 FEE AND COMMISSION EXPENSE

	Six months ended 30 June	
	2013	2012
Settlement and agent service	170	116
Bank card	1,337	1,216
Others	147	167
	1,654	1,499

	Six months ended 30 June	
	2013	2012
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	33	38

6 DIVIDEND INCOME

	Six months ended 30 June	
	2013	2012
Available-for-sale equity investments — unlisted	61	13

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

7 NET (LOSSES)/GAINS ARISING FROM TRADING ACTIVITIES

	Six months ended 30 June	
	2013	2012
Foreign exchange	(541)	1,010
Interest rate instruments and others	185	(141)
Securities held for trading	517	505
	161	1,374

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 and others includes the gains or losses from interest rate swaps, interest rate options and other interest rate derivatives.

Net gains arising from trading activities for the six months ended 30 June 2013 include a gain of RMB11 million (six months ended 30 June 2012: a loss of RMB31 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	
	2013	2012
Net gain on disposal of property and equipment	2	10
Revaluation of investment property	11	6
Income from sales of franchised precious metal merchandise	4,421	2,051
Other miscellaneous income	592	717
	5,026	2,784

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	
	2013	2012	2013	2012
Loans and advances to customers (Note 19(b))				
— Collectively assessed losses provision	2,004	2,679	5,138	6,110
— Individually assessed losses provision	1,352	650	3,331	1,026
	3,356	3,329	8,469	7,136

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

10 OTHER OPERATING EXPENSE

	Six months ended 30 June 2013	2012 (Restated)
Staff costs (Note 11)	9,800	9,719
General and administrative expenses	5,357	4,426
Business tax and surcharges	5,920	5,347
Depreciation of property and equipment (Note 21)	2,066	1,792
Operating lease rental expenses	1,140	982
Supervision fee to regulators	137	122
Amortisation of intangible assets (Note 22(b))	123	105
Impairment of finance lease receivables (Note 22(e))	229	168
Impairment of investment securities (Note 20)	9	366
Professional fees	7	7
Amortisation of land use rights	12	10
Litigation expenses (Note 26 (a))	18	13
Provision for impairment of other receivables (Note 22 (e))	11	4
Others	5,991	3,205
	30,820	26,266

11 STAFF COSTS

	Six months ended 30 June 2013	2012 (Restated)
Salary and bonuses	6,986	6,921
Pension costs	1,019	914
Housing benefits and subsidies	31	288
Other social security and benefit costs	1,764	1,596
	9,800	9,719

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 2013	2012
Emoluments	4	5

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

For the six months ended 30 June 2013, RMB500,000 was accrued for independent non-executive directors' emolument (six months ended 30 June 2012: RMB500,000).

For the six months ended 30 June 2013 and 2012, 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 2013 Number of shares (In millions)	Year ended 31 December 2012 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		Six months ended 30 June	
	2013	2012 (Restated)	2013	2012 (Restated)
Current tax				
— PRC enterprise income tax	6,309	7,015	10,410	11,403
— Hong Kong profits tax	136	121	274	209
— Overseas taxation	64	86	162	159
	6,509	7,222	10,846	11,771
Deferred income tax (Note 27)	(1,500)	(2,782)	(704)	(2,742)
	5,009	4,440	10,142	9,029

The provision for enterprise income tax in PRC is calculated based on the statutory rate of 25% (2012: 25%) of the assessable income of the Bank and each of the subsidiaries established in PRC. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions.

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% (2012: 25%). The major reconciliation items are as follows:

	Three months ended 30 June		Six months ended 30 June	
	2013	2012 (Restated)	2013	2012 (Restated)
Profit before tax	22,177	19,676	45,060	40,170
Tax calculated at a tax rate of 25%	5,544	4,919	11,265	10,043
Effect of different tax rates in other countries (or regions)	11	20	35	23
Tax effect arising from income not subject to tax(1)	(589)	(560)	(1,226)	(1,112)
Tax effect of expenses that are not deductible for tax purposes(2)	43	61	68	75
Income tax expense	5,009	4,440	10,142	9,029

(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 number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2013	2012 (Restated)
Net profit attributable to shareholders of the Bank	34,827	31,089
Number of ordinary shares in issue (expressed in millions)	74,263	61,886
Basic earnings per share (expressed in RMB yuan per share)	0.47	0.50

15 CASH AND BALANCES WITH CENTRAL BANKS

	As at 30 June 2013	As at 31 December 2012
Cash	17,037	18,819
Balances with central banks other than mandatory reserve deposits	131,131	114,220
Included in cash and cash equivalents (Note 35)	148,168	133,039
Mandatory reserve deposits	733,415	683,807
	881,583	816,846

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 2013	As at 31 December 2012
Mandatory reserve rate for deposits denominated in RMB	20.00%	20.00%
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 2013	As at 31 December 2012
Placement with banks and other financial institutions	134,822	172,322
Included in cash and cash equivalents (Note 35)	102,802	138,559
Securities purchased under reverse repurchase agreements	72,030	107,667
Loans purchased under reverse repurchase agreements	118,803	87,187
Loans and advances to other banks	130,957	84,674
Loans to other financial institutions	61,592	69,113
	518,204	520,963

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

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2013	As at 31 December 2012
Derivative financial instruments (Note 18)	10,584	6,478
Government bonds		
— Listed in Hong Kong	756	821
— Listed outside Hong Kong	1,199	1,449
— Unlisted	8,379	1,511
Other debt securities		
— Listed in Hong Kong	2,046	2,093
— Listed outside Hong Kong	2,421	2,373
— Unlisted — corporate entities	19,657	25,144
— Unlisted — public sector entities	995	862
— Unlisted — banking sector	7,016	10,702
Equity securities and fund investments		
— Listed in Hong Kong	163	322
— Listed outside Hong Kong	30	406
	53,246	52,161

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

	As at 30 June 2013	As at 31 December 2012
Securities — Financial assets at fair value through profit or loss		
— Central governments and central banks	10,334	3,781
— Public sector entities	2,132	2,350
— Banks and other financial institutions	10,172	13,404
— Corporate entities	20,024	26,148
	42,662	45,683

The financial assets at fair value through profit or loss include financial assets held for trading and derivatives designated and effective as hedging instruments.

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

As at 30 June 2013, RMB29,589 million trading securities were pledged to third parties and stock exchanges under repurchase agreements and short-selling arrangements (31 December 2012: RMB2,378 million).

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

18 DERIVATIVE FINANCIAL INSTRUMENTS

	Contractual/notional amount	Fair value Assets	Liabilities
As at 30 June 2013			
Foreign exchange contracts	1,348,151	9,371	(9,734)
Interest rate contracts and others	716,361	1,213	(2,038)
Total amount of derivative instruments recognised	2,064,512	10,584	(11,772)

	Contractual/notional amount	Fair value Assets	Liabilities
As at 31 December 2012			
Foreign exchange contracts	904,853	4,782	(5,090)
Interest rate contracts and others	490,258	1,696	(2,560)
Total amount of derivative instruments recognised	1,395,111	6,478	(7,650)

The tables above provide a breakdown of the contractual 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.

Contractual/notional amount of derivative financial instruments by original currency

	As at 30 June 2013	As at 31 December 2012
RMB	1,165,357	761,104
US dollar	749,888	522,860
HK dollar	73,533	63,733
Others	75,734	47,414
Total	2,064,512	1,395,111

Hedge accounting

As at 30 June 2013 and 31 December 2012, included in the derivative financial instruments above are those designated as hedging instruments by the Group as follows:

	Contractual/notional amount	Fair value Assets	Liabilities
As at 30 June 2013			
Derivative financial instruments designated as hedging instruments in fair value hedges — Interest rate swaps	7,171	16	(319)
Total	7,171	16	(319)

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

18 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Hedge accounting *(Continued)*

	Contractual/notional amount	Fair value Assets	Liabilities
As at 31 December 2012			
Derivative financial instruments designated as hedging instruments in fair value hedges			
—Interest rate swaps	6,845	—	(501)
Total	6,845	—	(501)

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 or loss effects in the fair value hedges:

	Six months ended 30 June 2013	Six months ended 30 June 2012
Gains/(losses) on hedging instruments	198	(60)
(Losses)/gains on hedged items attributable to the hedge risk	(207)	48
Net losses from fair value hedges	(9)	(12)

19 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

	As at 30 June 2013	As at 31 December 2012
Loans and advances to customers	3,201,417	2,947,299
Less: Allowances for collectively assessed impairment losses	(56,738)	(55,187)
Less: Allowances for individually assessed impairment losses	(13,853)	(12,484)
	3,130,826	2,879,628

(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 2013		Six months ended 30 June 2012	
	Collectively assessed	Individually assessed	Collectively assessed	Individually assessed
Balance at the beginning of the period	55,187	12,484	45,115	11,250
Impairment allowances for loans	5,138	4,536	6,110	2,551
Reversal of impairment allowances for loans	–	(1,205)	–	(1,525)
Net impairment allowances for loans charged to profit or loss (Note 9)	5,138	3,331	6,110	1,026
Recoveries of loans and advances written-off in previous periods	–	119	–	125
Unwind of discount on allowances during the period	–	(707)	–	(416)
Loans written off during the periods as uncollectible	–	(4,823)	–	(665)
Other transfer (out)/in	(3,466)	3,466	–	–
Exchange differences	(121)	(17)	18	1
Balance at the end of the period	56,738	13,853	51,243	11,321

	Six months ended 30 June 2013		Six months ended 30 June 2012	
	Corporate	Individual	Corporate	Individual
Balance at the beginning of the period	58,869	8,802	49,740	6,625
Impairment allowances for loans	6,635	3,039	7,557	1,104
Reversal of impairment allowances for loans	(917)	(288)	(1,307)	(218)
Net impairment allowances for loans charged to profit or loss	5,718	2,751	6,250	886
Recoveries of loans and advances written-off in previous periods	62	57	65	60
Unwind of discount on allowances during the period	(595)	(112)	(370)	(46)
Loans written off during the periods as uncollectible	(4,301)	(522)	(495)	(170)
Exchange differences	(137)	(1)	17	2
Balance at the end of the period	59,616	10,975	55,207	7,357

(c) Individually assessed loans with impairment

	As at 30 June 2013		As at 31 December 2012	
	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	24,110	(9,399)	21,896	(9,672)
Individual	7,557	(4,454)	5,099	(2,812)
	31,667	(13,853)	26,995	(12,484)

	As at 30 June 2013	As at 31 December 2012
Individually assessed impaired loans to loans and advances to customers	0.99%	0.92%

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

20 INVESTMENT SECURITIES

	As at 30 June 2013	As at 31 December 2012
Securities — loans and receivables		
Debt securities — at amortised cost		
— Unlisted	48,585	30,399
Impairment allowance	(2)	(4)
Loans and receivables securities (net)	48,583	30,395
Securities — available-for-sale		
Debt securities — at fair value		
— Listed in Hong Kong	4,644	2,422
— Listed outside Hong Kong	46,825	46,845
— Unlisted	178,587	152,779
Debt securities	230,056	202,046
Equity securities and fund investment — at fair value		
— Listed in Hong Kong	94	181
— Listed outside Hong Kong	412	512
— Unlisted	1,799	1,869
Equity securities and fund investments	2,305	2,562
Securities — available-for-sale total	232,361	204,608
Include: Fair value of listed available-for-sale securities	51,975	49,960
Securities — held-to-maturity		
Debt securities — at amortised cost		
— Listed outside Hong Kong	259,740	239,470
— Unlisted	392,926	359,145
Held-to-maturity securities	652,666	598,615
Include: Fair value of listed held-to-maturity securities	263,553	243,687

As at 30 June 2013, investment securities at fair value of RMB133,235 million (31 December 2012: RMB30,625 million) were pledged to third parties under repurchase agreements.

The Group holds bonds issued by the PBOC as at 30 June 2013 amounting to RMB4,200 million (31 December 2012: RMB6,522 million). The related interest rates on such bonds as at 30 June 2013 ranged between 2.65%–3.96% (31 December 2012: 2.65%–2.70%).

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

	Six months ended 30 June	
	2013	2012
Net gains arising from de-recognition of investment securities		
— Available-for-sale	97	26

(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 2013	(4)	(1,443)	—	(1,447)
Reversal of/(allowance for) impairment	2	(11)	—	(9)
Disposals/Redemptions	—	122	—	122
Exchange differences	—	33	—	33
As at 30 June 2013	(2)	(1,299)	—	(1,301)
Allowance for impairment losses				
As at 1 January 2012	—	(1,296)	—	(1,296)
Allowance for impairment	(4)	(328)	—	(332)
Disposals/Redemptions	—	174	—	174
Amounts written off during the period as uncollectible	—	4	—	4
Exchange differences	—	3	—	3
As at 31 December 2012	(4)	(1,443)	—	(1,447)

The investment securities are analysed by issuer as follows:

	As at 30 June 2013	As at 31 December 2012
Securities — loans and receivables		
— Central governments and central banks	957	1,159
— Banks and other financial institutions	25,077	23,361
— Corporate entities	22,549	5,875
	48,583	30,395
Securities — available-for-sale		
— Central governments and central banks	40,800	43,718
— Public sector entities	1,798	1,362
— Banks and other financial institutions	130,959	114,746
— Corporate entities	58,804	44,782
	232,361	204,608
Securities — held-to-maturity		
— Central governments and central banks	270,187	254,814
— Public sector entities	12,436	12,822
— Banks and other financial institutions	240,986	210,712
— Corporate entities	129,057	120,267
	652,666	598,615

(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 2013	As at 31 December 2012
Available-for-sale, at fair value		
— Unlisted	14,284	11,620

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

	As at 30 June 2013	As at 31 December 2012
Within 3 months	644	2,372
3 months to 12 months	2,844	584
1 year to 5 years	10,796	8,664
	14,284	11,620

21 PROPERTY AND EQUIPMENT

	Land and Buildings	Construction in Progress	Equipment	Transportation Equipment	Property Improvement	Total
Cost						
As at 1 January 2013	33,550	7,714	17,337	4,270	4,222	67,093
Additions	302	3,582	859	599	184	5,526
Disposals	(69)	(85)	(246)	(12)	(6)	(418)
Transfers in/(out)	424	(472)	—	—	48	—
As at 30 June 2013	34,207	10,739	17,950	4,857	4,448	72,201
Accumulated depreciation						
As at 1 January 2013	(7,926)	—	(11,833)	(485)	(1,313)	(21,557)
Charge for the period	(585)	—	(1,136)	(117)	(228)	(2,066)
Disposals	10	—	131	10	5	156
As at 30 June 2013	(8,501)	—	(12,838)	(592)	(1,536)	(23,467)
Net book value						
As at 30 June 2013	25,706	10,739	5,112	4,265	2,912	48,734

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

21 PROPERTY AND EQUIPMENT *(Continued)*

	Land and Buildings	Construction in Progress	Equipment	Transportation Equipment	Property Improvement	Total
Cost						
As at 1 January 2012	28,997	6,861	15,701	972	3,544	56,075
Additions	2,734	3,235	3,281	3,339	392	12,981
Disposals	(266)	—	(1,645)	(41)	(45)	(1,997)
Transfers in/(out)	2,051	(2,382)	—	—	331	—
Transfer in from investment property	34	—	—	—	—	34
As at 31 December 2012	33,550	7,714	17,337	4,270	4,222	67,093
Accumulated depreciation						
As at 1 January 2012	(6,862)	—	(10,898)	(402)	(896)	(19,058)
Charge for the year	(1,265)	—	(1,774)	(117)	(460)	(3,616)
Disposals	201	—	839	34	43	1,117
As at 31 December 2012	(7,926)	—	(11,833)	(485)	(1,313)	(21,557)
Net book value						
As at 31 December 2012	25,624	7,714	5,504	3,785	2,909	45,536

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 2013	As at 31 December 2012
Held in Hong Kong		
on long-term lease (over 50 years)	179	187
on medium-term lease (10–50 years)	36	36
	215	223
Held outside Hong Kong		
on long-term lease (over 50 years)	19	20
on medium-term lease (10–50 years)	24,275	24,134
on short-term lease (less than 10 years)	1,197	1,247
	25,491	25,401
	25,706	25,624

As at 30 June 2013, the net book value of aircrafts and vessel leased out by the Group under operating lease arrangements was RMB3,985 million (31 December 2012: RMB3,497 million).

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

22 OTHER ASSETS

	As at 30 June 2013	As at 31 December 2012
Interest receivable	26,239	24,225
Settlement accounts	19,578	11,426
Other receivables	3,791	3,159
Less: impairment allowance[e]	(534)	(539)
Land use rights[a]	737	589
Foreclosed assets	173	426
Leasehold improvement	581	676
Intangible assets[b]	760	774
Rental deposits	232	228
Goodwill[f]	322	322
Investment property[c]	190	182
Finance lease receivables[d]	85,161	68,999
Less: impairment allowance[e]	(1,058)	(829)
Others	1,723	2,186
	137,895	111,824

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

	As at 30 June 2013	As at 31 December 2012
Held outside Hong Kong		
on medium-term lease (10–50 years)	726	564
on short-term lease (less than 10 years)	11	25
	737	589

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

22 OTHER ASSETS *(Continued)*

(b) Intangible assets

	Software
Cost	
As at 1 January 2013	1,867
Additions	109
As at 30 June 2013	1,976
Accumulated amortisation	
As at 1 January 2013	(1,093)
Amortisation expense	(123)
As at 30 June 2013	(1,216)
Carrying amounts	760

	Software
Cost	
As at 1 January 2012	1,482
Additions	394
Disposals	(9)
As at 31 December 2012	1,867
Accumulated amortisation	
As at 1 January 2012	(873)
Amortisation expense	(223)
Disposals	3
As at 31 December 2012	(1,093)
Carrying amounts	774

(c) Investment property

	Six months ended 30 June 2013	Year ended 31 December 2012
Balance at the beginning of the period/year	182	196
Transfer to owner-occupied property	—	(34)
Gains on property revaluation	11	20
Effect of foreign currency exchange differences	(3)	—
Balance at the end of the period/year	190	182

The Group's investment properties are located in active real estate markets, and external appraisers make reasonable estimation of fair value using market prices of the same or similar properties from the real estate market.

Investment properties are held by Hong Kong Branch. The valuation of these investment properties as at 30 June 2013 were performed by Vigers Appraisal and Consulting Limited based on open market price.

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

22 OTHER ASSETS *(Continued)*

(c) Investment property *(Continued)*

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

	As at 30 June 2013	As at 31 December 2012
Held in Hong Kong		
on long-term lease (over 50 years)	54	49
on medium-term lease (10–50 years)	136	133
	190	182

(d) Finance lease receivables

	As at 30 June 2013	As at 31 December 2012
Minimum finance lease receivables		
Within 1 year (inclusive)	25,930	21,801
1 year to 5 years (inclusive)	60,112	45,674
Over 5 years	12,678	12,478
	98,720	79,953
Gross investment in finance leases	98,720	79,953
Unearned finance income	(13,559)	(10,954)
Present value of minimum lease payments receivables	85,161	68,999
The present value of minimum lease payments receivables is analysed based on the remaining terms as follows:		
Within 1 year (inclusive)	22,229	18,643
1 year to 5 years (inclusive)	51,488	38,875
Over 5 years	11,444	11,481
	85,161	68,999
The allowance for uncollectible finance lease receivables	(1,058)	(829)
Net finance lease receivables	84,103	68,170

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

22 OTHER ASSETS *(Continued)*

(e) Impairment allowance

	As at 1 January 2013	Amounts accrued	Write-off	As at 30 June 2013
Other receivables	(539)	(11)	16	(534)
Finance lease receivables	(829)	(229)	—	(1,058)
Total	(1,368)	(240)	16	(1,592)

	As at 1 January 2012	Amounts accrued	Write-off	As at 31 December 2012
Other receivables	(574)	(9)	44	(539)
Finance lease receivables	(517)	(312)	—	(829)
Total	(1,091)	(321)	44	(1,368)

(f) Goodwill

	As at 1 January 2013	Addition during the period	Decrease during the period	As at 30 June 2013	Impairment allowance
Bank of Communications International Trust Co., LTD.	200	—	—	200	—
BoComm Life Insurance Company Limited	122	—	—	122	—
Total	322	—	—	322	—

At the end of the reporting period, the Group performed impairment tests on goodwill based on financial forecasts approved by management of the subsidiaries and the share prices of those listed financial institutions in similar types.

As indicated by the impairment tests, goodwill arising from business combinations is not impaired and thus, no impairment loss is recognised.

23 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2013	As at 31 December 2012
Loans from PBOC	928	150
Deposits from other banks	260,305	263,905
Deposits from other financial institutions	486,232	445,177
Loans from banks and other financial institutions	224,268	204,197
Financial assets sold under repurchase agreements	141,619	29,560
	1,113,352	942,989

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

24 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2013	As at 31 December 2012
Derivative financial instruments (Note 18)	11,772	7,650
Short position of securities held for trading	4,758	2,433
Certificates of deposit issued	12,321	12,977
	28,851	23,060

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 2013	As at 31 December 2012
Difference between carrying amount and amount payable at maturity		
Fair value	12,321	12,977
Amount payable at maturity	12,281	12,900
	40	77

For the six months ended 30 June 2013 and year ended 31 December 2012, 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 2013	As at 31 December 2012
Corporate demand deposits	1,239,993	1,254,248
Corporate time deposits	1,401,405	1,269,520
Individual demand deposits	470,465	444,369
Individual time deposits	836,986	755,294
Other deposits	4,461	4,981
	3,953,310	3,728,412
Including:		
Pledged deposits held as collateral	562,328	399,290

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

26 OTHER LIABILITIES

	As at 30 June 2013	As at 31 December 2012
Interest payable	58,399	50,757
Settlement accounts	21,475	27,004
Staff compensation payable	4,328	6,899
Business and other tax payable	3,851	3,603
Insurance contracts reserve	2,248	1,853
Deposits received for finance leases	5,783	4,948
Provision for outstanding litigation[(a)]	407	389
Provision for unsettled obligation[(a)]	89	92
Dividends payable	17,887	64
Others	16,491	15,160
	130,958	110,769

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

	As at 1 January 2013	Amounts accrued during the period	Amounts reversed during the period	Exchange differences	As at 30 June 2013
Provision for outstanding litigation	389	40	(22)	—	407
Provision for unsettled obligation	92	—	—	(3)	89
Total	481	40	(22)	(3)	496

	As at 1 January 2012	Amounts accrued during the year	Amounts reversed during the year	Amount paid during the year	As at 31 December 2012
Provision for outstanding litigation	561	81	(253)	—	389
Provision for unsettled obligation	149	—	(49)	(8)	92
Total	710	81	(302)	(8)	481

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

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 2013 (for the six months ended 30 June 2012: 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 2012: 16.5%) for transactions in Hong Kong.

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

	Six months ended 30 June	
	2013	2012 (Restated)
Balance at the beginning of the period	12,496	7,905
Credit to profit or loss	704	2,742
(Charge)/credit to other comprehensive income		
Change in fair value of available-for-sale financial assets — unhedged	(29)	(447)
Actuarial changes on pension benefits	(1)	1
Balance at the end of the period	13,170	10,201

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

	As at 30 June 2013	As at 31 December 2012
Deferred income tax liabilities		
Change in fair value of available-for-sale financial assets	(22)	(33)
Other temporary differences	(96)	(103)
	(118)	(136)
Deferred income tax assets		
Impairment allowances for loans	10,655	9,353
Impairment allowances for investments	315	345
Impairment allowances for other assets	230	245
Unpaid salaries and bonuses	646	1,216
Retirement supplementary pension payable	132	156
Outstanding litigation and unsettled obligation	124	121
Change in fair value of available-for-sale financial assets	385	373
Other temporary differences	801	823
	13,288	12,632
Net deferred income tax assets	13,170	12,496

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 2013	As at 31 December 2012
Deferred income tax assets	13,194	12,501
Deferred income tax liabilities	(24)	(5)

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

27 DEFERRED INCOME TAX *(Continued)*

The deferred tax credit/(charge) to profit or loss comprises the following temporary differences:

	Six months ended 30 June	
	2013	2012 (Restated)
Impairment allowances for loans:		
Additional impairment allowances for loans	1,460	1,215
Prior year written-off amounts which are approved to be deductible in current period	(158)	(442)
Sub-total	1,302	773
Impairment allowances for investments	(30)	60
Impairment allowances for other assets	(15)	(39)
Outstanding litigation and unsettled obligation	3	(10)
Unpaid salaries and bonuses	(570)	(496)
Retirement supplementary pension payable	(23)	7
Other temporary differences	37	2,447
	704	2,742

28 DEBT SECURITIES ISSUED

	As at 30 June 2013	As at 31 December 2012
Subordinated debts and other debts issued[1]	73,087	70,000
Certificates of deposit issued[2]	13,274	9,572
	86,361	79,572

For the six months ended 30 June 2013 and year ended 31 December 2012, 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 2013	As at 31 December 2012
Fixed rate subordinated debt — 2022[a]	16,000	16,000
Fixed rate debt — 2013[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 — 2014[e]	700	700
Fixed rate debt — 2015[e]	300	300
Fixed rate debt — 2023[f]	3,087	—
	73,087	70,000

28 DEBT SECURITIES ISSUED *(Continued)*

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

(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 term debts in China's inter-bank bond market, which was in the principal amount of RMB2 billion with a maturity of three years, has an annual coupon rate of 3.15%.

(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%.

(f) On 6 March 2013, Azure Orbit International Finance Limited, a subsidiary of the Group issued term debts in Hong Kong, which was in the principal amount of USD500 million with a maturity of 10 years, has a fixed coupon rate of 3.75%. The term debts are guaranteed by the Bank's Hong Kong Branch.

(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 2013	74,263	74,263	113,383	187,646
At 30 June 2013	74,263	74,263	113,383	187,646

	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
Additional stock issued to specific investors[(a)]	12,377	12,377	43,918	56,295
At 31 December 2012	74,263	74,263	113,383	187,646

The shareholding structure of the Bank as at 30 June 2013 and 31 December 2012 is as follows:

	Number of shares (in millions)	Approximated percentage of the Bank's issued share capital
Renminbi ordinary shares (A shares)	39,251	52.85%
Overseas listed foreign shares (H shares)	35,012	47.15%
Total number of shares	74,263	100.00%

(a) Having been approved by the shareholders at the 2012 First Extraordinary General Meeting and obtained the China Banking Regulatory Commission ("CBRC") at Yin Jian Fu [2012] No. 222, <CBRC's Approval on Non-public Offering of Bank of Communications Co., Ltd on A Shares and H Shares>, the China Securities Regulatory Commission at Zheng Jian Xu Ke [2012] No. 1097, <Approval on Non-public Offering of Bank of Communications Co., Ltd> and [2012] No. 1098, <Approval on Issuing Additional Oversea Listing Shares of Bank of Communications Co., Ltd>, the Bank has made non-public offering on A shares and H shares during the year ended 31 December 2012.

On 22 August 2012, the Bank issued 6,542 million A shares with nominal value of RMB1 per share at issuing price of RMB4.55 per share. The net proceed from the fund-raising was RMB29,668 million, net with issuance costs of which RMB6,542 million was recorded in "Share Capital" and RMB23,126 million was recorded in "Capital Surplus". Deloitte Touche Tohmatsu CPA Limited had verified and issued the capital verification report De Shi Bao (Yan) Zi (12) No. 0050 for the above shares issued.

On 27 August 2012, the Bank issued 5,835 million H shares with nominal value of RMB1 per share and issuing price of HK$5.63 per share. The net proceed from the fund-raising was RMB equivalent 26,627 million, net with issuance costs of which RMB5,835 million was recorded in "Share Capital" and RMB20,792 million was recorded in "Capital Surplus". Deloitte Touche Tohmatsu CPA Limited had verified and issued the capital verification report De Shi Bao (Yan) Zi (12) No. 0051 for the above shares issued. The bank has finished the registration of business alteration on 5 January 2013.

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

29 SHARE CAPITAL AND CAPITAL SURPLUS *(Continued)*

(a) *(Continued)*

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

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

Capital surplus can be 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 current period.

As at 30 June 2013 and 31 December 2012, the Bank's capital surplus is listed as follows:

Share premium	112,769
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	113,383

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.

Since 1 July 2012, pursuant to "Administrative Measures for the Provisioning of Financial Enterprises" (Cai Jin [2012] No. 20), the Group made 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.

As at 30 June 2013, the subsidiaries of the Bank provided statutory and discretionary reserves of RMB327 million (31 December 2012: RMB296 million), and statutory general reserve (consisting of statutory general reserve and trust compensation reserve) of RMB592 million (31 December 2012: RMB407 million).

On 25 June 2013, the shareholders at 2012 Annual General Meeting approved the following profit appropriation of 2012:

Statutory reserve	5,723
Statutory general reserve	27,326
Discretionary reserve	20,353
	53,402

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

31 DIVIDENDS

	Six months ended 30 June	
	2013	2012
Declared to shareholders of the Bank in the period	17,823	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 27 March 2013, the 19th Meeting of the 6th Session of the Board of Directors of the Bank proposed and the shareholders at 2012 Annual General Meeting on 25 June 2013 approved, the Bank transferred a total of RMB27,326 million to the statutory general reserve and RMB20,353 million to discretionary reserve. A cash dividend of RMB0.24 (before tax) per share, to be distributed to the registered shareholders of A shares and H shares, amounting to RMB17,823 million based on the total number of shares outstanding of 74.263 billion shares (RMB1 per share) as at 31 December 2012 was also approved. The actual distribution date of the above cash dividend was 31 July 2013.

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 2013	As at 31 December 2012
Letters of guarantees	351,349	326,767
Letters of credit	66,659	82,398
Acceptances	564,141	517,946
Loan commitments with an original maturity of		
— Under 1 year	275,829	228,549
— 1 year and over	159,492	208,016
	1,417,470	1,363,676

Capital expenditure commitments

	As at 30 June 2013	As at 31 December 2012
Authorised but not contracted for	342	381
Contracted but not provided for	3,960	3,952
	4,302	4,333

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

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

Operating lease commitments

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

	As at 30 June 2013	As at 31 December 2012
Within 1 year	2,393	1,907
Beyond 1 year and not more than 2 years	1,831	1,713
Beyond 2 years and not more than 3 years	1,472	1,389
Beyond 3 years and not more than 5 years	1,713	1,616
More than 5 years	1,540	1,435
	8,949	8,060

The Group acts as lessor in operating leases principally through aircrafts and vessel leasing undertaken by its subsidiaries. The future minimum lease receivables on certain aircrafts and vessel under non-cancellable operating leases are as follows:

	As at 30 June 2013	As at 31 December 2012
Within 1 year	431	365
Beyond 1 year and not more than 2 years	431	365
Beyond 2 years and not more than 3 years	431	365
Beyond 3 years and not more than 5 years	850	730
More than 5 years	2,029	1,752
	4,172	3,577

Commitments on security underwriting and bond acceptance

The Bank is entrusted by the MOF to underwrite certain Certificates Type Treasury Bonds and Saving Type Treasury Bonds. The investors of Certificates Type Treasury Bonds and Saving Type Treasury Bonds have early redemption right while the Bank has the obligation to buy back those Certificates Type Treasury Bonds and Saving Type Treasury Bonds. The redemption price is the principal value of the Certificates Type Treasury Bond or Saving Type Treasury Bond plus unpaid interest till redemption date. As at 30 June 2013, the principal value of the Treasury Bonds the Bank had the obligation to buy back amounted to RMB34,930 million (31 December 2012: RMB31,013 million).

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 and Saving Type Treasury Bonds on a back-to-back basis but will pay interest and principal at maturity.

As at 30 June 2013, there was no unexpired commitment on security underwriting of the Group which was irrevocable and announced to the public (31 December 2012 (restated): RMB1,800 million).

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

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

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 the end of the period/year are summarised as follows:

	As at 30 June 2013	As at 31 December 2012
Outstanding claims	1,260	1,261
Provision for outstanding litigations (Note 26)	407	389

33 COLLATERALS

Assets pledged are mainly collaterals under repurchase and short selling agreements with banks and other financial institutions.

	Pledged Assets		Related Liabilities	
	As at 30 June 2013	As at 31 December 2012	As at 30 June 2013	As at 31 December 2012
Trading securities	29,589	2,378	24,349	3,286
Investment securities	132,956	30,334	122,028	28,707
	162,545	32,712	146,377	31,993

The Group accepts collaterals under reverse repurchase agreements, which are permitted for sale or re-pledge. As at 30 June 2013, the fair value of such collaterals amounted to RMB1,058 million (31 December 2012: RMB2,795 million). All pledges are conducted under standard and normal business terms. As at 30 June 2013 and 31 December 2012, the Group did not sell or re-pledge any collaterals received.

34 OTHER COMPREHENSIVE INCOME/(LOSS)

	Six months ended 30 June 2013		
	Before tax amount	Tax expense	Net of tax amount
Other comprehensive income/(loss)			
Investment securities — available-for-sale	136	(29)	107
Changes in fair value recorded in equity	320	(66)	254
Changes in fair value reclassified from equity to profit or loss	(184)	37	(147)
Translation difference on foreign operations	(671)	—	(671)
Actuarial gains on pension benefits	5	(1)	4
Other comprehensive loss for the period	(530)	(30)	(560)

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

34 OTHER COMPREHENSIVE INCOME/(LOSS) *(Continued)*

	Six months ended 30 June 2012 (restated)		
	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)
Actuarial gains on pension benefits (restated)	(2)	1	(1)
Other comprehensive income for the period	1,795	(446)	1,349

35 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 2013	As at 30 June 2012
Cash and balances with central banks (Note 15)	148,168	116,119
Due from banks and other financial institutions (Note 16)	102,802	255,322
	250,970	371,441

36 INVESTMENT IN AN ASSOCIATE

	As at 30 June 2013	As at 31 December 2012
Investment cost	300	300
Share of post-acquisition result	10	2
Investment in an associate	310	302

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 2013 (31 December 2012: 20%).

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

37 RELATED PARTY TRANSACTIONS

(a) Transactions with the MOF

As at 30 June 2013, the MOF holds 19,703 million (31 December 2012: 19,703 million) shares of the Bank which represents 26.53% (31 December 2012: 26.53%) 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	
	2013	2012
Purchase during the period	93,600	34,208
Redemption during the period	(77,035)	(71,887)
Interest income	4,926	4,601

	As at 30 June 2013	As at 31 December 2012
Outstanding balance of treasury bonds at the beginning of the period/year	253,502	231,223
Outstanding balance of treasury bonds at the end of the period/year	270,147	253,502
Maturity range of the bonds	1 year–50 years	1 year–50 years
Interest rate range of the bonds	1.40%–6.15%	1.40%–6.15%

(ii) Deposits

	As at 30 June 2013	As at 31 December 2012
Time Deposits	17,900	56,450
Maturity range of the deposits	3 months–6 months	3 months–12months
Interest rate range of the deposits	4.50%-6.50%	3.05% — 4.80%

(iii) Interest expense

	Six months ended 30 June	
	2013	2012
Interest expense	722	1,160

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

37 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with National Council for Social Security Fund

As at 30 June 2013, National Council for Social Security Fund holds 10,311 million (31 December 2012: 10,311 million) shares of the Bank which represents 13.88% (31 December 2012: 13.88%) 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	
	2013	2012
Outstanding balance at the beginning of the period	42,100	28,233
Deposited during the period	10,432	8,000
Repaid during the period	(9,432)	(9,093)
Outstanding balance at the end of the period	43,100	27,140
Interest expense	1,003	558

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

As at 30 June 2013, HSBC holds 13,886 million (31 December 2012: 13,886 million) shares of the Bank which represents 18.70% (31 December 2012: 18.70%) 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	
	2013	2012
Outstanding at the beginning of the period	2,865	2,317
Deposited during the period	91,970	221,216
Repaid during the period	(92,186)	(221,888)
Outstanding at the end of the period	2,649	1,645
Interest income	20	14

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

37 RELATED PARTY TRANSACTIONS *(Continued)*

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

(ii) Due to HSBC

	Six months ended 30 June 2013	2012
Outstanding at the beginning of the period	16,769	19,707
Deposited during the period	17,081	29,577
Repaid during the period	(19,154)	(30,367)
Outstanding at the end of the period	14,696	18,917
Interest expense	97	99

(iii) Investment securities issued by HSBC

	Six months ended 30 June 2013	2012
Interest income	20	22

	As at 30 June 2013	As at 31 December 2012
Outstanding balances at the end of the period/year	1,406	1,555

(iv) Derivative transactions

	As at 30 June 2013	As at 31 December 2012
Notional amount of derivative transactions	69,622	55,613
Fair value of derivative liabilities	(342)	(319)

(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 2013 and 2012 and outstanding balances as at 30 June 2013 and 2012 are summarised as follows:

(i) Loans

	Six months ended 30 June 2013	2012
Outstanding at the beginning of the period	2	2
Granted during the period	1	—
Repaid during the period	(2)	—
Outstanding at the end of the period	1	2

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

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

37 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Transactions with directors and senior management *(Continued)*

(ii) Deposits

	Six months ended 30 June	
	2013	2012
Outstanding at the beginning of the period	9	7
Deposited during the period	2	2
Repaid during the period	(5)	(2)
Outstanding at the end of the period	6	7

(iii) Emoluments

The key management personnel represented the directors, the supervisors and the senior management and their emoluments are set out in Note 12.

(e) Transactions with an associate

As at 30 June 2013, The Group holds 20% (31 December 2012: 20%) of total share capital of Bank of Tibet Co., Ltd. Transactions between the Group and Bank of Tibet Co., Ltd. are carried out under normal commercial terms and paid at market rates. Details of transaction volumes and outstanding balances are summarised below:

Due to Bank of Tibet Co., Ltd.

	Six months ended 30 June	
	2013	2012
Outstanding at the beginning of the period	—	—
Deposited during the period	2,251	702
Repaid during the period	—	—
Outstanding at the end of the period	2,251	702
Interest expense	14	7

(f) Transactions with other government related entities

Other than disclosed above, a significant portion of the Group's banking transactions are entered into with government related entities. These transactions are entered into under normal commercial terms and conditions and mainly include provision of credit and guarantee, taking and placing of interbank balances, deposits, foreign exchange related services, agency services, purchase, sales and redemption of treasury bonds issued by the government.

Management of the Group considers that transactions with government related entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government related entities.

38 SEGMENTAL ANALYSIS

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

The 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) North China — Including the following provinces: Beijing, Tianjin, Hebei, Shanxi and Inner Mongolia;

(ii) Northeast China — Including the following provinces: Liaoning, Jilin and Heilongjiang;

(iii) East China — Including the following provinces: Shanghai (excluding Head Office), Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;

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

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

(vi) Head Office;

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

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

The revenue from external parties reported to the senior management is measured in a manner consistent with that in the unaudited condensed consolidated statement of profit or loss and other comprehensive income.

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

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

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

38 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information

	North China	Northeast China	East China	Central and South China	West China	Head Office	Overseas	Eliminations	Total
Six months ended 30 June 2013									
Interest income[1]	34,670	9,777	68,618	35,953	17,172	33,289	5,096	(79,486)	125,089
Interest expense[2]	(25,476)	(6,810)	(46,306)	(24,793)	(10,974)	(22,961)	(2,247)	79,486	(60,081)
Net interest income[3]	9,194	2,967	22,312	11,160	6,198	10,328	2,849	–	65,008
Fee and commission income	1,389	436	5,796	3,409	1,308	2,491	720	–	15,549
Fee and commission expense	(314)	(47)	(646)	(306)	(135)	(129)	(77)	–	(1,654)
Net fee and commission income	1,075	389	5,150	3,103	1,173	2,362	643	–	13,895
Dividend income	–	–	–	–	–	59	2	–	61
Net gains/(losses) arising from trading activities	58	40	12	77	1	(117)	90	–	161
Net gains/(losses) arising from de-recognition of investment securities	–	–	14	–	–	(18)	101	–	97
Insurance business income	–	–	669	–	–	–	19	–	688
Share of result of an associate	–	–	–	–	–	8	–	–	8
Other operating income	842	298	1,940	1,169	537	113	127	–	5,026
Net operating income	11,169	3,694	30,097	15,509	7,909	12,735	3,831	–	84,944
Impairment losses on loans and advances to customers	(873)	(350)	(5,593)	(1,359)	(269)	(10)	(15)	–	(8,469)
Insurance business expense	–	–	(583)	–	–	–	(12)	–	(595)
Other operating expense	(4,219)	(1,678)	(10,229)	(5,521)	(2,694)	(5,268)	(1,211)	–	(30,820)
Profit before tax	6,077	1,666	13,692	8,629	4,946	7,457	2,593	–	45,060
Income tax	(1,532)	(424)	(3,485)	(2,184)	(1,247)	(614)	(656)	–	(10,142)
Net profit for the period	4,545	1,242	10,207	6,445	3,699	6,843	1,937	–	34,918
Depreciation and amortisation	(315)	(168)	(885)	(399)	(249)	(392)	(37)	–	(2,445)
Acquisition cost of property and equipment and intangible assets	(286)	(150)	(1,737)	(2,370)	(399)	(898)	(79)	–	(5,919)
[1]Include									
External interest income	16,392	5,076	39,052	19,049	9,748	31,529	4,243	–	125,089
Inter-segment interest income	18,278	4,701	29,566	16,904	7,424	1,760	853	(79,486)	–
[2]Include									
External interest expense	(13,599)	(3,264)	(21,687)	(11,527)	(4,272)	(3,715)	(2,017)	–	(60,081)
Inter-segment interest expense	(11,877)	(3,546)	(24,619)	(13,266)	(6,702)	(19,246)	(230)	79,486	–
[3]Include									
External net interest income	2,793	1,812	17,365	7,522	5,476	27,814	2,226	–	65,008
Inter-segment net interest income/(expense)	6,401	1,155	4,947	3,638	722	(17,486)	623	–	–
As at 30 June 2013									
Total assets	1,005,842	295,615	2,119,133	1,068,255	503,788	2,493,037	488,693	(2,256,761)	5,717,602
Total liabilities	(1,008,254)	(296,967)	(2,101,853)	(1,059,873)	(500,706)	(2,126,951)	(481,601)	2,256,761	(5,319,444)

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

38 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

	North China	Northeast China	East China	Central and South China	West China	Head Office	Overseas	Eliminations	Total
Six months ended 30 June 2012 (Restated)									
Interest income[1]	36,470	9,360	67,712	33,461	15,106	29,625	4,435	(77,966)	118,203
Interest expense[2]	(27,692)	(6,715)	(46,710)	(22,647)	(10,169)	(21,439)	(2,403)	77,966	(59,809)
Net interest income[3]	8,778	2,645	21,002	10,814	4,937	8,186	2,032	–	58,394
Fee and commission income	1,539	316	4,497	2,181	760	2,470	698	–	12,461
Fee and commission expense	(332)	(38)	(578)	(274)	(91)	(161)	(25)	–	(1,499)
Net fee and commission income	1,207	278	3,919	1,907	669	2,309	673	–	10,962
Dividend income	–	–	2	–	–	6	5	–	13
Net gains arising from trading activities	224	49	296	142	23	394	246	–	1,374
Net gains/(losses) arising from de-recognition of investment securities	–	–	–	–	3	34	(11)	–	26
Insurance business income	–	–	408	–	–	–	18	–	426
Share of result of an associate	–	–	–	–	–	–	–	–	–
Other operating income	564	112	925	632	284	110	157	–	2,784
Net operating income	10,773	3,084	26,552	13,495	5,916	11,039	3,120	–	73,979
Impairment losses on loans and advances to customers	(1,018)	(384)	(3,535)	(1,345)	(716)	(17)	(121)	–	(7,136)
Insurance business expense	–	–	(397)	–	–	–	(10)	–	(407)
Other operating expense	(3,696)	(1,331)	(9,187)	(4,730)	(2,133)	(3,934)	(1,255)	–	(26,266)
Profit before tax	6,059	1,369	13,433	7,420	3,067	7,088	1,734	–	40,170
Income tax	(1,493)	(339)	(3,490)	(1,896)	(760)	(663)	(388)	–	(9,029)
Net profit for the period	4,566	1,030	9,943	5,524	2,307	6,425	1,346	–	31,141
Depreciation and amortisation	(295)	(155)	(696)	(374)	(210)	(360)	(58)	–	(2,148)
Acquisition cost of property and equipment and intangible assets	(514)	(123)	(1,303)	(793)	(715)	(178)	(17)	–	(3,643)
[1]Include									
External interest income	16,772	4,716	38,749	18,503	8,598	27,082	3,783	–	118,203
Inter-segment interest income	19,698	4,644	28,963	14,958	6,508	2,543	652	(77,966)	–
[2]Include									
External interest expense	(15,130)	(3,146)	(21,203)	(9,811)	(3,875)	(4,509)	(2,135)	–	(59,809)
Inter-segment interest expense	(12,562)	(3,569)	(25,507)	(12,836)	(6,294)	(16,930)	(268)	77,966	–
[3]Include									
External net interest income	1,642	1,570	17,546	8,692	4,723	22,573	1,648	–	58,394
Inter-segment net interest income/(expense)	7,136	1,075	3,456	2,122	214	(14,387)	384	–	–
As at 31 December 2012									
Total assets	981,247	282,895	1,939,094	986,521	444,688	2,272,327	386,009	(2,019,402)	5,273,379
Total liabilities	(973,306)	(282,405)	(1,906,712)	(968,499)	(438,798)	(1,935,531)	(406,083)	2,019,402	(4,891,932)

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

38 SEGMENTAL ANALYSIS *(Continued)*

Geographical information

	Six months ended 30 June 2013 Revenue	As at 30 June 2013 Non-current assets[1]	Six months ended 30 June 2012 Revenue	As at 31 December 2012 Non-current assets[1]
PRC	145,358	51,771	133,946	48,788
Other countries	1,321	115	1,341	131
Total	146,679	51,886	135,287	48,919

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

Business Information

The Group is engaged predominantly in banking and related financial activities. It comprises corporate banking, personal banking, treasury and other classes of business. Corporate banking mainly comprises corporate loans, bills, trade finance, corporate deposits and remittance. Personal banking mainly comprises individual loans, individual deposits, credit card and remittance. Treasury mainly comprises money market placements and takings, investment securities, and securities sold under repurchase agreements. The "Others" business segment mainly comprises items which cannot be categorised in the above business segments.

	Six months ended 30 June 2013				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	32,457	11,919	20,199	433	65,008
Internal net interest income/(expense)	2,364	4,409	(6,773)	—	—
Net interest income	34,821	16,328	13,426	433	65,008
Net fee and commission income	8,002	5,030	109	754	13,895
Dividend income	—	—	—	61	61
Net gains/(losses) arising from trading activities	569	(130)	(250)	(28)	161
Net gains arising from de-recognition of investment securities	—	—	5	92	97
Insurance business income	—	—	—	688	688
Other operating income	94	4,515	4	413	5,026
Impairment losses on loans and advances to customers	(5,718)	(2,751)	—	—	(8,469)
Insurance business expense	—	—	—	(595)	(595)
Other operating expense	(11,603)	(17,461)	(661)	(1,095)	(30,820)
— depreciation and amortisation	(854)	(1,424)	(46)	(121)	(2,445)
— others	(10,749)	(16,037)	(615)	(974)	(28,375)
Share of result of an associate	—	—	—	8	8
Profit before tax	26,165	5,531	12,633	731	45,060
Capital expenditure	2,087	3,502	112	218	5,919

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

38 SEGMENTAL ANALYSIS *(Continued)*

Business Information *(Continued)*

	As at 30 June 2013				
Total assets	2,567,358	662,382	2,386,577	101,285	5,717,602
Total liabilities	(2,812,957)	(1,317,696)	(1,163,675)	(25,116)	(5,319,444)

	Six months ended 30 June 2012				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	Total
External net interest income	33,042	10,649	14,316	387	58,394
Internal net interest income/(expense)	(1,018)	4,109	(3,091)	—	—
Net interest income	32,024	14,758	11,225	387	58,394
Net fee and commission income	6,882	3,183	104	793	10,962
Dividend income	—	—	—	13	13
Net gains/(losses) arising from trading activities	1,685	40	(310)	(41)	1,374
Net gains arising from de-recognition of investment securities	—	—	25	1	26
Insurance business income	—	—	—	426	426
Other operating income	96	2,333	6	349	2,784
Impairment losses on loans and advances to customers	(6,250)	(886)	—	—	(7,136)
Insurance business expense	—	—	—	(407)	(407)
Other operating expense	(10,805)	(13,942)	(494)	(1,025)	(26,266)
— depreciation and amortisation	(693)	(1,350)	(5)	(99)	(2,147)
— others	(10,112)	(12,592)	(489)	(926)	(24,119)
Share of result of an associate	—	—	—	—	—
Profit before tax	23,632	5,486	10,556	496	40,170
Capital expenditure	1,189	2,331	8	115	3,643

	As at 31 December 2012				
Total assets	2,421,169	610,869	2,219,762	21,579	5,273,379
Total liabilities	(2,676,580)	(1,213,526)	(994,442)	(7,384)	(4,891,932)

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

39 FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of a certain degree of risks or a portfolio of risks. Risk management is core to the financial business, and business risks are inevitable as a result. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and latest best practice.

The Board of Directors sets out strategies and risk preference for overall risk management strategy and decides the risk tolerance level. The senior management establishes related risk management policies and procedures under the strategy approved by the Board of Directors, including policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. The Chief Risk Officer assumes the overall risk management responsibility on behalf of the senior management. The Risk Management Department at Head Office undertakes the overall risk management function of the Group. The risk management division in each Head Office's department, the Risk Management Department of each domestic and overseas branch and subsidiary undertakes the specific risk management function. In addition, internal audit department is responsible for the independent review of risk management and the control environment.

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.

39.1 Credit risk

The Group is exposed to credit risk, which is the risk that a customer or counterparty will be unable to or is unwilling to meet its obligations under a contract. Significant changes in the economy, credit quality of a particular industry segment in the Group's portfolio, could result in a loss amount different from the loss provision at the end of the reporting date. Credit risk increases when counterparties are within similar industry segments or geographical regions. Credit exposures arise principally from loans and advances, investment securities, derivative instruments and due from banks and other financial institutions. There is also credit risk in off-balance sheet financial arrangements such as loan commitments, financial guarantees, acceptances and letters of credit. The majority of the Group's operation is located within Mainland China, where different regions in China have their own unique characteristics in economic development. For example, the economic development in the eastern provinces is better than that in the western provinces. The Risk Management Department at Head Office is responsible for the overall management of the Group's credit risk, and reports to the Bank's senior management and Board of Directors regularly. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a particular borrower. Such limits are monitored on a regular basis and subject to an annual review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers to meet interest and principal repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also controlled by obtaining collaterals and corporate and individual guarantees.

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.1 Credit risk *(Continued)*

39.1.1 Credit risk assessment

(a) *Loans and advances to customers and off-balance sheet commitments*

In assessing credit risk of loan and advances to corporate customers and off-balance sheet commitments at a counterparty level, the Group considers three factors: (i) the "probability of default" by the customer or counterparty on its contractual obligations; (ii) current exposure to the counterparty and possible future development, from which the Group derives the "exposure at default"; and (iii) the recovery ratio on the defaulted obligation (the "loss given default").

Exposure at default is based on the loan amount the Group has already lent out at the time of default. For a commitment, the Group includes any amount already drawn plus any further amount that may have been drawn by the time of default, should it occur.

Loss given default or loss severity represents the Group's expectation of the extent of loss on a claim should a default occurs. It is expressed as the loss percentage per unit of exposure and typically varies by nature of counterparty, type and seniority of claim and availability of collaterals or other credit mitigations.

These credit risk measurements, which reflect expected loss (the expected loss model), are in accordance with the banking regulations and requirements of regulatory measures of the Basel Committee on Banking Supervision (the "Basel Committee"), and are applied in the daily operations of the Group. In contrast, the provision for impairment of IAS 39 is based on the loss that has been incurred rather than the expected loss at the end of the reporting period.

According to the Basel New Capital Accord and requirements of internal rating system supervision guidelines issued by China Banking Regulatory Commission ("CBRC"), an internal rating system was implemented in the Group. The Bank summarised a series of financial and other related factors to build the internal credit rating model for corporate customers, which is based on historical data collection, data statistics and data analysis on the characteristics of risks of the clients before the default occurs. Internal rating model applies the principle of regression to forecast the probability of default in the future 12 months, and then matches the probability of default with relevant rank of default risk which decides the borrower's credit rank within the internal rating system. In order to improve the system's accuracy and stability, the back-test will be performed against the actual default status of borrowers and rating results every six months by the Bank.

The Group periodically identifies potential risks in the corporate loan assets based on its three-hierarchy risk identification method through the asset risk management system, and applies discounted cash flow model to assess the expected losses on loan-by-loan basis to identify impaired loan assets. With regard to the impaired loan assets, the Group develops customer-based action plan, appointed certain employee for further clearing, retrieval and disposal, and provides impairment allowance in accordance with the expected losses. With regard to the loan assets not impaired, the Group performs collective assessment based on its migration model.

The Group has issued credit commitments, guarantees and letters of credit. The primary purpose of these instruments is to ensure that funds are available to customers as required. These instruments represent irrevocable assurances that the Group will make payments in the events that a customer cannot meet its obligations to third parties. These instruments carry similar credit risk as loans, so the Group manages such credit risk together with loan portfolio.

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.1 Credit risk *(Continued)*

39.1.1 Credit risk assessment *(Continued)*

(a) Loans and advances to customers and off-balance sheet commitments (Continued)

The Group monitors the overdue status of its loans and advances to individual customers to manage credit risk. The Group analyses credit exposures by geography, industry and customer type. This information is monitored regularly by senior management.

In the internal rating system, the credit rating of domestic customers and businesses has been divided into 15 non-default grades and one default grade based on the probability of default. The criteria of the grade of non-default customers and businesses are assessed based on the probability of default in the future 12 months. Customers and businesses with default grade are those meet the Group's definition of default.

(b) Debt securities

For debt securities and other bills, external ratings (such as Standard and Poor's) are used by the Group when available for managing the credit risk. The investment in those securities and bills is to have better credit quality assets while maintaining readily available funding sources.

(c) Derivative instruments

The Group maintains strict limits on net open derivative investment positions (i.e., the difference between long and short contracts), by both amount and maturity. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favorable to the Group (i.e., assets where their fair value is positive), which, in relation to derivative instruments, is only a fraction of the contract's notional amount used to express the amount outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market fluctuations. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except when the Group requires margin deposits from counterparties. The management has set limits of these contracts according to counterparty, and regularly monitor and control the actual credit risk when the Group concludes foreign exchange, interest rate contracts and others with other financial institutions and clients.

(d) Due from banks and other financial institutions

The Group manages the credit quality of due from and placements with banks and other financial institutions considering the size, financial position and the external credit rating of the banks and financial institutions. The Head Office monitors and reviews the credit risk of due from and placements with banks and other financial institutions by counterparties periodically. Limits are placed on different counterparties.

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.1 Credit risk *(Continued)*

39.1.2 Risk limit control and mitigation measures

The Group manages, limits and controls concentrations of credit risk wherever they are identified — in particular, to individual counterparties, company and groups, industry segments and geographical regions.

The Group structures the levels of credit risk it undertakes by placing limits in relation to one borrower, or groups of borrowers. Such risks are monitored on a regular basis and subject to annual or more frequent review, whenever necessary.

The exposure to any single borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate.

Some other specific control and risk mitigation measures are outlined below:

(a) *Collateral*

The Group employs a range of policies and practices to mitigate credit risk. The most useful practice is to accept collaterals. The Group implements guidelines on the acceptability of specific classes of collateral. The principal types of collateral for loans and advances to customers are:

- Residential properties;
- Business assets such as premises, inventory and accounts receivable;
- Financial instruments such as debt securities and stocks.

The value of collaterals at the time of loan origination is determined by the Credit Authorisation Department and the amount of the loans granted is subject to loan-to-value ratio limits based on collateral types. The principal types of collateral for corporate loans and individual loans are as follows:

Collateral	**Maximum loan-to-value ratio**
Cash deposits with the Group	90%
PRC treasury bonds	90%
Financial institution bonds	90%
Publicly traded stocks	60%
Rights to collect fees or right of management	60%
Properties	70%
Land use rights	70%
Vehicles	50%

Long-term loans and advances to corporate and individual customers are generally secured; while revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collaterals from the counterparties as soon as impairment indicators are noted for the relevant individual loans and advances.

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.1 Credit risk *(Continued)*

39.1.2 Risk limit control and mitigation measures (Continued)

(a) *Collateral (Continued)*

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

Collaterals held as security for financial assets other than loans and advances to customers are determined by the nature of the instrument. Debt securities, treasury bonds and PBOC bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

(b) *Master netting arrangements*

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as each transaction subject to the arrangement will affect credit risk.

39.1.3 Impairment and provision policies

The internal rating system described in Note 39.1.1 focuses more on credit-quality mapping from the inception of lending activities. In contrast, impairment allowances recognised for financial reporting purposes are the losses that have been incurred at the end of the reporting date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The internal rating system assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, profit margin);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Other observable data indicating that there is a measurable decrease in the estimated future cash flows from such loans and advances.

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.1 Credit risk *(Continued)*

39.1.3 Impairment and provision policies *(Continued)*

The Group's policy requires the review of individual financial assets that have objective evidence of impairment at least quarterly or more regularly when individual circumstances require. Impairment allowances on individually assessed financial assets are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis, and are applied to all individually impaired financial assets. The assessment normally encompasses collaterals held (including re-confirmation of its enforceability) and the anticipated cash flows for that individual asset.

Collectively assessed impairment allowances are provided for: losses that have been incurred but have not yet been identified, by using the available historical experience, judgment and statistical techniques.

39.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

	As at 30 June 2013	As at 31 December 2012
Assets		
Balances with central banks	864,546	798,027
Due from banks and other financial institutions	518,204	520,963
Financial assets at fair value through profit or loss (debt securities and derivatives)	53,053	51,433
Loans and advances to customers		
— Loans to corporate entities	2,478,778	2,286,909
— Loans to individuals	652,048	592,719
Investment securities — loans and receivables	48,583	30,395
Investment securities — available-for-sale (debt securities)	230,056	202,046
Investment securities — held-to-maturity	652,666	598,615
Other financial assets	133,177	106,441
	5,631,111	5,187,548
Off-balance sheet exposures		
Guarantees, acceptances and letters of credit	982,149	927,111
Other credit related commitments	435,321	436,565
	1,417,470	1,363,676

The above table represents a worse case scenario of credit risk exposure to the Group as at 30 June 2013 and 31 December 2012, without taking account of any related collaterals or other credit enhancements. For on-balance sheet assets, the exposures above are based on carrying amounts as reported in the condensed consolidated statement of financial position.

As shown above, 56% of the total on-balance sheet exposure is derived from loans and advances to customers (2012: 56%).

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.1 Credit risk *(Continued)*

39.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements *(Continued)*

Management is confident in its ability to continuously control and sustain a minimal exposure to credit risk to the Group based on the following performance of its loans and advances portfolio:

- Mortgage loans, which represent the biggest portion in the individual portfolio, are backed by collaterals;
- 99% of the loans and advances portfolio are neither past due nor impaired (2012: 99%);
- The impaired loans to loans and advances to customers is 0.99%. (2012: 0.92%).

39.1.5 Loans and advances to customers

	As at 30 June 2013		As at 31 December 2012	
	Loans and advances to customers	Due from banks and other financial institutions	Loans and advances to customers	Due from banks and other financial institutions
Neither past due nor impaired	3,156,529	518,192	2,906,618	520,951
Past due but not impaired	13,221	12	13,686	12
Individually impaired	31,667	—	26,995	—
Gross	3,201,417	518,204	2,947,299	520,963
Less: allowance for collectively assessed impairment losses	(56,738)	—	(55,187)	—
Less: allowance for individually assessed impairment losses	(13,853)	—	(12,484)	—
Net	3,130,826	518,204	2,879,628	520,963

As at 30 June 2013, the Group's total impairment allowances for loans and advances to customers are RMB70,591 million (2012: RMB67,671 million) of which RMB13,853 million (2012: RMB12,484 million) represents those for individually assessed impaired loans and the remaining amount of RMB56,738 million (2012: RMB55,187 million) represents those for collectively assessed impaired loans. Further information about the impairment allowances for loans and advances to customers is provided in Note 19.

As at 30 June 2013, the Group's total loans and advances to customers increased by 8.62% as a result of the continuous increase of market demand in Mainland China. When entering into a new market or new industry, the Group targets at large enterprises or other financial institutions with good credit ratings or customers with sufficient collaterals in order to minimise the potential risk of increased credit risk exposure.

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.1 Credit risk *(Continued)*

39.1.5 Loans and advances to customers *(Continued)*

(a) *Loans and advances neither past due nor impaired*

The Group monitors the credit risk of loans and advances neither past due nor impaired by applying its internal 16 grading system to customers.

As at 30 June 2013	Internal Rating System				
Neither past due nor impaired	Grade 1–8	Grade 9–12	Grade 13–15	Unrated	Total
Mainland corporate loans and advances					
— Loans	1,812,146	149,269	2,803	—	1,964,218
— Discounted bills	28,058	3,087	297	46,682	78,124
— Trade finance	141,026	3,268	27	—	144,321
Mainland individual loans and advances	564,255	33,663	1,791	24,978	624,687
Total	2,545,485	189,287	4,918	71,660	2,811,350
Overseas branches, offshore center and subsidiaries					345,179

As at 31 December 2012	Internal Rating System				
Neither past due nor impaired	Grade 1–8	Grade 9–12	Grade 13–15	Unrated	Total
Mainland corporate loans and advances					
— Loans	1,753,867	123,639	2,377	—	1,879,883
— Discounted bills	24,349	4,305	11	35,212	63,877
— Trade finance	108,908	3,311	—	—	112,219
Mainland individual loans and advances	510,007	32,466	407	24,750	567,630
Total	2,397,131	163,721	2,795	59,962	2,623,609
Overseas branches, offshore center and subsidiaries					283,009

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.1 Credit risk *(Continued)*

39.1.5 Loans and advances to customers *(Continued)*

(b) *Loans and advances past due but not impaired*

Gross amount of loans and advances by types of customers that are past due but not impaired are as follows:

	Past due up to 30 days	Past due 31–60 days	Past due 61–90 days	Past due over 90 days	Total	Fair value of collateral
As at 30 June 2013						
Corporate entities						
— Commercial loans	1,555	1,199	1,758	—	4,512	4,358
— Trade finance	1	—	—	—	1	1
Individual						
— Mortgages	2,136	450	244	—	2,830	2,259
— Credit Cards	3,018	561	274	—	3,853	—
— Other	679	310	1,036	—	2,025	1,618
Total	7,389	2,520	3,312	—	13,221	8,236
Due from banks and other financial institutions	—	—	—	12	12	16

	Past due up to 30 days	Past due 31–60 days	Past due 61–90 days	Past due over 90 days	Total	Fair value of collateral
As at 31 December 2012						
Corporate entities						
— Commercial loans	2,586	1,930	1,006	—	5,522	5,323
Individual						
— Mortgages	1,804	590	245	—	2,639	1,708
— Credit Cards	2,378	503	329	—	3,210	—
— Other	460	633	1,222	—	2,315	1,485
Total	7,228	3,656	2,802	—	13,686	8,516
Due from banks and other financial institutions	—	—	—	12	12	16

The fair value of collaterals was estimated by management based on the latest available external valuations, adjusted for the current market situation and management's experience in realisation of collaterals.

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.1 Credit risk *(Continued)*

39.1.5 Loans and advances to customers *(Continued)*

(c) Loans and advances individually impaired

As at 30 June 2013, individually impaired loans and advances to customers before taking into consideration the collaterals held is RMB31,667 million (2012: RMB26,995 million).

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collaterals held by the Group as security, are as follows:

	As at 30 June 2013	As at 31 December 2012
Corporate entities	24,110	21,896
Individual	7,557	5,099
Individually impaired loans	31,667	26,995
Fair value of collaterals		
Corporate entities	6,314	6,465
Individual	3,290	2,743
Individually impaired loans	9,604	9,208

No individually impaired due from banks and other financial institutions is held by the Group as at 30 June 2013 and 31 December 2012.

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

	As at 30 June 2013	%	As at 31 December 2012	%
PRC domestic regions				
— Shanghai	386,705	12.08	355,443	12.06
— Jiangsu	366,634	11.45	347,651	11.80
— Beijing	294,352	9.19	292,119	9.91
— Guangdong	249,454	7.79	240,206	8.15
— Zhejiang	233,200	7.28	222,832	7.56
— Shandong	142,975	4.47	134,593	4.57
— Hubei	104,007	3.25	97,732	3.32
— Henan	101,631	3.17	96,411	3.27
— Others	1,036,616	32.39	944,639	32.04
PRC domestic regions total	2,915,574	91.07	2,731,626	92.68
Hong Kong, Macau, Taipei and overseas regions	285,843	8.93	215,673	7.32
Gross amount of loans and advances to customers before allowance for impairment	3,201,417	100.00	2,947,299	100.00

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.1 Credit risk *(Continued)*

39.1.5 Loans and advances to customers *(Continued)*

(d) *Geographical risk concentration for loans and advances to customers (gross) (Continued)*

A geographical PRC domestic region is reported where it contributes 3% and more of the total gross amount of loans and advances to customers before allowance for impairment.

(e) *Industry analysis*

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

	As at 30 June 2013		As at 31 December 2012	
		%		%
Corporate loans				
Mining	80,872	2.53	72,000	2.44
Manufacturing				
— Petroleum and chemical	125,577	3.92	113,677	3.86
— Electronics	81,557	2.55	53,813	1.83
— Steel	43,760	1.37	45,739	1.55
— Machinery	115,824	3.62	106,908	3.63
— Textile and clothing	43,239	1.35	38,758	1.32
— Other manufacturing	246,040	7.69	225,276	7.64
Electricity, gas and water production and supply	136,960	4.28	132,394	4.49
Construction	103,167	3.22	93,246	3.16
Transportation, storage and postal service	376,852	11.77	363,797	12.34
Telecommunication, IT service and software	9,875	0.31	10,080	0.34
Wholesale and retail	406,727	12.70	389,695	13.22
Accommodation and catering	24,905	0.78	23,358	0.79
Financial institutions	25,972	0.81	23,471	0.80
Real estate	189,642	5.92	179,862	6.10
Services	199,146	6.22	184,211	6.25
Water conservancy, environmental and other public services	142,190	4.44	137,343	4.66
Education	44,686	1.40	37,596	1.28
Others	62,652	1.95	49,784	1.69
Discounted bills	78,751	2.46	64,769	2.20
Total corporate loans	2,538,394	79.29	2,345,777	79.59
Individual loans				
Mortgage loans	405,246	12.66	358,258	12.16
Credit card advances	129,026	4.03	119,212	4.04
Medium-term and long-term personal business loans	56,898	1.78	55,172	1.87
Short-term personal business loans	28,804	0.90	31,672	1.07
Car loans	2,643	0.08	3,514	0.12
Others	40,406	1.26	33,694	1.15
Total individual loans	663,023	20.71	601,522	20.41
Gross amount of loans and advances before allowance for impairment	3,201,417	100.00	2,947,299	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)

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.1 Credit risk *(Continued)*

39.1.5 Loans and advances to customers *(Continued)*

(f) *Loans and advances to customers analysed by contractual maturity and security type (gross)*

	As at 30 June 2013			
	Within 1 year (inclusive)	1 year to 5 years (inclusive)	Over 5 years	Total
Unsecured loans	423,846	171,909	218,067	813,822
Guaranteed loans	552,012	178,725	146,033	876,770
Collateralised and other secured loans	457,389	356,850	696,586	1,510,825
— loans secured by property and other immovable assets	243,817	298,576	561,877	1,104,270
— other pledged loans	213,572	58,274	134,709	406,555
Gross amount of loans and advances before allowance for impairment	1,433,247	707,484	1,060,686	3,201,417

	As at 31 December 2012			
	Within 1 year (inclusive)	1 year to 5 years (inclusive)	Over 5 years	Total
Unsecured loans	414,230	180,651	216,631	811,512
Guaranteed loans	479,423	177,979	137,269	794,671
Collateralised and other secured loans	406,324	317,023	617,769	1,341,116
— loans secured by property and other immovable assets	228,654	264,663	502,150	995,467
— other pledged loans	177,670	52,360	115,619	345,649
Gross amount of loans and advances before allowance for impairment	1,299,977	675,653	971,669	2,947,299

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.1 Credit risk *(Continued)*

39.1.6 Investment securities

The table below presents an analysis of investment securities, excluding derivatives, by independent rating agencies designation as at 30 June 2013 and 31 December 2012:

As at 30 June 2013	Investment securities-loans and receivables	Investment securities-available-for-sale (debt securities)	Investment securities-held-to-maturity	Financial assets at fair value through profit or loss (debt securities)	Total
RMB securities					
AAA	25	18,897	128,776	6,066	153,764
AA- to AA+	400	4,101	9,042	734	14,277
A- to A+	—	697	—	—	697
BBB- to BBB+	—	—	—	—	—
Unrated[(a)]	48,158	157,984	513,695	20,938	740,775
Sub-total	48,583	181,679	651,513	27,738	909,513
Foreign currency securities					
AAA	—	1,985	130	8,194	10,309
AA- to AA+	—	7,777	153	2,906	10,836
A- to A+	—	10,688	74	659	11,421
BBB- to BBB+	—	1,152	—	62	1,214
Unrated[(a)]	—	26,775	796	2,910	30,481
Sub-total	—	48,377	1,153	14,731	64,261
Total	48,583	230,056	652,666	42,469	973,774

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.1 Credit risk *(Continued)*

39.1.6 Investment securities *(Continued)*

As at 31 December 2012	Investment securities-loans and receivables	Investment securities-available-for-sale (debt securities)	Investment securities-held-to-maturity	Financial assets at fair value through profit or loss (debt securities)	Total
RMB securities					
AAA	34	15,112	119,732	7,051	141,929
AA- to AA+	400	4,862	10,977	1,445	17,684
A- to A+	—	692	—	—	692
BBB- to BBB+	—	—	—	—	—
Unrated[(a)]	29,961	142,165	466,755	28,952	667,833
Sub-total	30,395	162,831	597,464	37,448	828,138
Foreign currency securities					
AAA	—	2,196	325	1,844	4,365
AA- to AA+	—	10,124	501	2,896	13,521
A- to A+	—	9,881	56	904	10,841
BBB- to BBB+	—	388	—	73	461
Unrated[(a)]	—	16,626	269	1,790	18,685
Sub-total	—	39,215	1,151	7,507	47,873
Total	30,395	202,046	598,615	44,955	876,011

(a) These mainly represent investments and trading securities issued by Ministry of Finance of the PRC ("MOF"), the PBOC and policy banks which are creditworthy issuers in the market, but are not rated by independent rating agencies.

The total gross amount of individually impaired debt securities as at 30 June 2013 is RMB1,116 million (31 December 2012: RMB1,179million). No collaterals is held by the Group in respect of these impaired securities, and the impairment provision is RMB1,116 million as at 30 June 2013 (31 December 2012: RMB1,179 million).

39.1.7 Derivative instruments

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

Credit risk weighted amounts

	As at 30 June 2013	As at 31 December 2012
Derivatives		
— Exchange rate contracts	5,159	3,012
— Interest rate contracts and others	366	464
	5,525	3,476

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.1 Credit risk *(Continued)*

39.1.7 Derivative instruments *(Continued)*

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

The credit risk weighted amounts stated above have not taken the effects of netting arrangements into account.

39.1.8 Foreclosed assets

	As at 30 June 2013	As at 31 December 2012
Residential properties	—	21
Business properties	26	62
Others	147	343
Total	173	426

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Group does not generally occupy foreclosed assets for its own business use. Foreclosed assets are classified as other assets in the condensed consolidated statement of financial position.

39.1.9 Concentration risk analysis for financial assets with credit risk exposure

Geographical sectors

	PRC	Hong Kong	Others	Total
As at 30 June 2013				
Financial Assets				
Balances with central banks	850,948	6,644	6,954	864,546
Due from banks and other financial institutions	495,768	2,750	19,686	518,204
Financial assets at fair value through profit or loss (debt securities and derivatives)	38,554	9,743	4,756	53,053
Loans and advances to customers	2,966,053	136,814	27,959	3,130,826
Investment securities — loans and receivables	48,583	—	—	48,583
Investment securities — available-for-sale (debt securities)	189,719	12,425	27,912	230,056
Investment securities — held-to-maturity	651,673	62	931	652,666
Other financial assets	106,733	26,280	164	133,177
	5,348,031	194,718	88,362	5,631,111
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	967,346	10,297	4,506	982,149
Other credit related commitments	405,348	14,369	15,604	435,321
	1,372,694	24,666	20,110	1,417,470

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.1 Credit risk *(Continued)*

39.1.9 Concentration risk analysis for financial assets with credit risk exposure *(Continued)*

Geographical sectors (Continued)

	PRC	Hong Kong	Others	Total
As at 31 December 2012				
Financial Assets				
Balances with central banks	785,894	587	11,546	798,027
Due from banks and other financial institutions	472,940	38,563	9,460	520,963
Financial assets at fair value through profit or loss (debt securities and derivatives)	43,781	3,049	4,603	51,433
Loans and advances to customers	2,704,358	142,419	32,851	2,879,628
Investment securities — loans and receivables	30,395	—	—	30,395
Investment securities — available-for-sale (debt securities)	164,919	13,934	23,193	202,046
Investment securities — held-to-maturity	597,609	25	981	598,615
Other financial assets	88,690	17,619	132	106,441
	4,888,586	216,196	82,766	5,187,548
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	912,640	6,110	8,361	927,111
Other credit related commitments	402,582	18,339	15,644	436,565
	1,315,222	24,449	24,005	1,363,676

The above analysis is based on the country/region in which the counterparties are located.

39.2 Market risk

39.2.1 Overview

The Group takes on exposure to market risks, which is initiated by the fluctuation of the fair value of or future cash flow of financial instruments as a result of the changes of the market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market fluctuations and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group separates exposures to market risk into either trading or banking portfolios.

In accordance with the requirements of the CBRC, the Group categorises its business into either the trading book or the banking book. The trading book consists of positions in financial instruments held either for trading intent or economic hedging in other elements of the trading book or the banking book. The banking book consists of the investment purchased by the Group with excess funds and other financial instruments that are not captured in trading book.

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.2 Market risk *(Continued)*

39.2.1 Overview *(Continued)*

The Group established a management model of "large and small middle offices" for its market risk management, which is a centralised control framework lead by Board of Directors, Supervisors and senior 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 Group monitors market risk separately in respect of trading portfolios and non-trading portfolios. With regard to the interest rate and exchange rate risks of trading book, the Group established an effective limit management system by implementing Value at Risk (VaR). And net interest income sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major tools used by the Group to monitor the market risk of its overall businesses. In addition, through adequate pricing management and asset allocation, the Group strived to maximise its rate of return while keeping its risks under control.

The Group conducted the stress tests on historical scenarios and assuming scenarios in the interests of the Group's major business risk factors. The Group successfully implemented the daily automatic collection system of trading data of overseas branches. The Group conducted the management of risk capital and VaR quota, and formulated the quota allocation plans.

As part of market risk management, the Group enters into interest rate swaps to match the interest rate risk associated with the structured deposits and fixed-rate long-term debt securities.

The major measurement techniques used to measure and control market risk are outlined below:

39.2.2 VaR

VaR refers to the maximum loss that an investment portfolio may occur at a given confidence level and holding period caused by the changes of the market prices with regard to the interest rate and exchange rate risk. The Group adopted the historical simulation method to calculate daily VaR (99% confidence interval, the holding period of one day).

A summary of VaR by risk type of the Group's trading portfolios is as follows:

		Six months ended 30 June 2013		
Items	30 June 2013	Average	Maximum	Minimum
VaR of trading portfolios	183	134	215	69
Interest Rate Risk	35	19	57	12
Foreign exchange risk	152	125	193	65

		Six months ended 30 June 2012		
Items	30 June 2012	Average	Maximum	Minimum
VaR of trading portfolios	48	57	79	21
Interest Rate Risk	14	18	35	6
Foreign exchange risk	51	58	81	12

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.2 Market risk *(Continued)*

39.2.3 Sensitivity tests

Interest rate sensitivity test

The Group performs interest rate sensitivity analysis on net interest income and other comprehensive income for the Group by measuring the impact of a change in net interest income of financial assets and liabilities, not taking customer behavior and prepayment option into consideration. On an assumption of a parallel shift of 100 basis points in RMB interest rate, the Group calculates the change in net interest income and other comprehensive income on a monthly basis.

The table below illustrates the impact of coming year net interest income of the Group at 30 June 2013 and 31 December 2012 by the parallel shift of 100 basis point of interest rate structure of interest bearing assets and liabilities.

	Expected change in net interest income	
	Period ended 30 June 2013	Year ended 31 December 2012
+100 basis points parallel shift in all yield curves	12,314	12,730
-100 basis points parallel shift in all yield curves	(12,314)	(12,730)

The table below illustrates the impact of other comprehensive income of the Group by the parallel shift of 100 basis point of interest rate structure

	Change of other comprehensive income	
	As at 30 June 2013	As at 31 December 2012
+100 basis points parallel shift in all yield curves	(2,774)	(2,507)
-100 basis points parallel shift in all yield curves	2,925	2,666

The results of the interest rate sensitivity tests set out in the table above is an illustrative only and is based on simplified scenarios. The figures represent the impact of the projected net interest income and other comprehensive income by the projected movement of current interest risk structure yield curves. This effect, however, does not incorporate actions that would be taken by the Group to mitigate the impact of this interest rate changes. The projections above also assume that interest rates of all maturities excluding demand deposits move by the same amount and, therefore, do not reflect the potential impact on net interest income due to changes in certain rates while others remain unchanged. The projections make other simplifying assumptions as well, including that all positions run to maturity. There will be changes to the projection if not letting positions run to maturity but it is not expected that the changes would be material.

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.2 Market risk *(Continued)*

39.2.3 Sensitivity tests *(Continued)*

Foreign exchange sensitivity test

The Group performs exchange rate sensitivity analysis on net profit and other comprehensive income for the Group by measuring the impact of a change in exchange rate on financial assets and liabilities by different currency. On an assumption of an appreciation or depreciation of RMB against other currencies by 5%, the Group calculates the change in net profit and other comprehensive income on a monthly basis.

The table below illustrates the impact of an appreciation or depreciation of RMB against other currencies by 5% on the Group's net profit:

	Expected change in net profit/(loss)	
	Period ended 30 June 2013	Year ended 31 December 2012
5% appreciation of RMB	(3,627)	(1,730)
5% depreciation of RMB	3,627	1,730

The table below illustrates the impact of an appreciation of RMB against other currencies by 5% on the Group's other comprehensive income:

	Change of other comprehensive income	
	As at 30 June 2013	As at 31 December 2012
5% appreciation of RMB	(940)	(574)
5% depreciation of RMB	940	574

39.2.4 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the market value of a financial instrument will fluctuate because of changes in market interest rates.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce interest margin or create losses in the event that unexpected fluctuation arise.

The Group operates its business predominantly in PRC under the interest rate scheme regulated by the PBOC. According to the PBOC regulations, there is no ceiling for loan interest rates, whilst the floor for loan interest rates is 10% below the stipulated rates. The normal practice for the interest rates of both interest-bearing assets and liabilities is to move in the same direction. The Group conducts most of its domestic businesses including loans and deposits as well as the majority of financial guarantees and credit commitments based upon the PBOC basic interest rates. Consequently, the Group is less vulnerable to interest rate risk. However, there is no guarantee that the PBOC will continue this practice in the future.

The interest rate repricing risk for foreign currency denominated debt securities and the remaining part of financial guarantees and credit commitments businesses which are not based upon these basic interest rates is not expected to be significant.

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.2 Market risk *(Continued)*

39.2.4 Interest rate risk *(Continued)*

The interest rate for discounted bills is determined by reference to the PBOC/market re-discount interest rate. However, it is generally lower than the interest rate for a loan with same term.

The tables below summarise the Group's exposures to interest rate risks. The tables show the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
As at 30 June 2013							
Assets							
Cash and balances with central banks	860,289	–	–	–	–	21,294	881,583
Due from banks and other financial institutions	303,426	123,143	85,028	6,595	–	12	518,204
Financial assets at fair value through profit or loss	5,022	10,332	16,115	7,546	3,454	10,777	53,246
Loans and advances to customers	1,300,616	514,429	1,233,145	63,195	19,441	–	3,130,826
Investment securities – loans and receivables	50	128	18,408	5,340	24,657	–	48,583
Investment securities – available-for-sale	37,586	54,848	65,010	47,153	25,459	2,305	232,361
Investment securities – held-to-maturity	20,350	31,745	98,678	310,577	191,316	–	652,666
Other assets	10,677	24,785	45,312	3,329	–	116,030	200,133
Total assets	2,538,016	759,410	1,561,696	443,735	264,327	150,418	5,717,602
Liabilities							
Due to banks and other financial institutions	(659,362)	(146,862)	(106,222)	(195,267)	(5,639)	–	(1,113,352)
Financial liabilities at fair value through profit or loss	(8,114)	(1,770)	(4,157)	(3,038)	–	(11,772)	(28,851)
Due to customers	(2,243,618)	(466,489)	(811,128)	(425,256)	–	(6,819)	(3,953,310)
Other liabilities	(5,756)	(3,898)	(4,374)	(31,305)	(44,310)	(134,288)	(223,931)
Total liabilities	(2,916,850)	(619,019)	(925,881)	(654,866)	(49,949)	(152,879)	(5,319,444)
Total interest sensitivity gap	(378,834)	140,391	635,815	(211,131)	214,378	(2,461)	398,158

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.2 Market risk *(Continued)*

39.2.4 Interest rate risk (Continued)

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2012							
Assets							
Cash and balances with central banks	792,595	—	—	—	—	24,251	816,846
Due from banks and other financial institutions	304,931	76,834	135,076	4,080	30	12	520,963
Financial assets at fair value through profit or loss	2,781	4,110	19,262	14,609	4,193	7,206	52,161
Loans and advances to customers	1,268,138	489,672	1,059,773	46,540	15,505	—	2,879,628
Investment securities — loans and receivables	—	1,095	5,406	1,511	22,383	—	30,395
Investment securities — available-for-sale	22,220	49,510	61,614	46,021	22,681	2,562	204,608
Investment securities — held-to-maturity	13,160	29,873	79,207	310,633	165,742	—	598,615
Other assets	14,471	19,966	31,231	2,502	—	101,993	170,163
Total assets	2,418,296	671,060	1,391,569	425,896	230,534	136,024	5,273,379
Liabilities							
Due to banks and other financial institutions	(508,569)	(99,103)	(133,332)	(201,985)	—	—	(942,989)
Financial liabilities at fair value through profit or loss	(4,267)	(4,674)	(1,944)	(4,525)	—	(7,650)	(23,060)
Due to customers	(2,176,076)	(406,780)	(749,468)	(389,463)	—	(6,625)	(3,728,412)
Other liabilities	(2,599)	(3,301)	(4,881)	(30,672)	(41,351)	(114,667)	(197,471)
Total liabilities	(2,691,511)	(513,858)	(889,625)	(626,645)	(41,351)	(128,942)	(4,891,932)
Total interest sensitivity gap	(273,215)	157,202	501,944	(200,749)	189,183	7,082	381,447

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.2 Market risk *(Continued)*

39.2.5 Foreign exchange risk

The Group conducts the majority of its businesses in RMB, with certain foreign transactions in US dollar, HK dollar and other currencies. The Group takes on exposure to the effects of fluctuations in the prevailing foreign exchange rates on its financial position and cash flows. The senior management sets limits on the level of exposure in exchange rate risk and monitoring regularly. The tables below summarise the Group's exposure to foreign exchange risk at the period/year end. The tables show the Group's total assets and liabilities in carrying amounts in RMB, and which categorised by the original currency.

	RMB	US dollar	HK dollar	Others	Total
As at 30 June 2013					
Assets					
Cash and balances with central banks	859,184	10,813	7,106	4,480	881,583
Due from banks and other financial institutions	407,104	99,514	2,038	9,548	518,204
Financial assets at fair value through profit or loss	36,426	6,479	8,677	1,664	53,246
Loans and advances to customers	2,726,357	309,671	78,437	16,361	3,130,826
Investment securities — loans and receivables	48,583	—	—	—	48,583
Investment securities — available-for-sale	183,735	24,129	13,834	10,663	232,361
Investment securities — held-to-maturity	651,513	993	—	160	652,666
Other assets	182,365	6,923	8,717	2,128	200,133
Total assets	5,095,267	458,522	118,809	45,004	5,717,602
Liabilities					
Due to banks and other financial institutions	(948,657)	(140,728)	(7,654)	(16,313)	(1,113,352)
Financial liabilities at fair value through profit or loss	(2,146)	(14,973)	(10,087)	(1,645)	(28,851)
Due to customers	(3,600,816)	(199,163)	(124,712)	(28,619)	(3,953,310)
Other liabilities	(205,772)	(10,075)	(3,709)	(4,375)	(223,931)
Total liabilities	(4,757,391)	(364,939)	(146,162)	(50,952)	(5,319,444)
Net position	337,876	93,583	(27,353)	(5,948)	398,158
Financial guarantees and credit related commitments	1,160,797	197,101	17,052	42,520	1,417,470

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.2 Market risk *(Continued)*

39.2.5 Foreign exchange risk *(Continued)*

	RMB	US dollar	HK dollar	Others	Total
As at 31 December 2012					
Assets					
Cash and balances with central banks	795,978	14,683	1,208	4,977	816,846
Due from banks and other financial institutions	410,374	94,935	9,617	6,037	520,963
Financial assets at fair value through profit or loss	42,336	5,589	2,147	2,089	52,161
Loans and advances to customers	2,540,186	251,843	71,712	15,887	2,879,628
Investment securities — loans and receivables	30,395	—	—	—	30,395
Investment securities — available-for-sale	165,052	20,384	12,249	6,923	204,608
Investment securities — held-to-maturity	597,464	922	41	188	598,615
Other assets	159,615	3,994	5,771	783	170,163
Total assets	4,741,400	392,350	102,745	36,884	5,273,379
Liabilities					
Due to banks and other financial institutions	(805,376)	(121,427)	(5,649)	(10,537)	(942,989)
Financial liabilities at fair value through profit or loss	(4,469)	(11,153)	(6,758)	(680)	(23,060)
Due to customers	(3,410,633)	(180,120)	(114,395)	(23,264)	(3,728,412)
Other liabilities	(183,034)	(8,672)	(3,384)	(2,381)	(197,471)
Total liabilities	(4,403,512)	(321,372)	(130,186)	(36,862)	(4,891,932)
Net position	337,888	70,978	(27,441)	22	381,447
Financial guarantees and credit related commitments	1,108,398	209,460	26,673	19,145	1,363,676

39.2.6 Other price risk

The Group is exposed to other price risk arising from financial assets such as equity investments and derivatives linked to commodity price. Most of the equity investments are from the possession of foreclosed assets due to historical reasons and arise from the proprietary trading of the Group's subsidiaries which holds the qualification of securities dealing and brokerage as well. As for the proprietary trading exposure, the Group enforces strict management of the risk exposure limit and the balance is insignificant in the Group's financial assets. The Group considers that the other price risk confronted is immaterial.

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.3 Liquidity risk

39.3.1 Overview

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend. The Group's objective in liquidity management is to ensure the availability of adequate funding to meet the demands of fund deposit withdrawals and other liabilities as they fall due and to ensure that it is able to meet its obligations to fund loan originations and commitments and to take advantage of new investment opportunities.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, matured deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The Board of Directors set limits on the minimum proportion of funds to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover different levels of unexpected withdrawals. In addition, the Bank limits its loan to deposit ratio at below 75% as required by the PBOC. As at 30 June 2013, 20% (31 December 2012: 20%) of the Bank's total RMB denominated customer deposits and 5% (31 December 2012: 5%) of the total foreign currency denominated customer deposits must be deposited with the PBOC.

39.3.2 Liquidity risk management process

The Group's liquidity risk management process, as monitored by the Assets and Liabilities Management Department for RMB business and foreign exchange business, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met including replenishment of funds matured or to fulfill the commitment of lending;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities centrally at Head Office and centrally managing the utilisation of the Bank's liquid assets;
- Setting up contingency plan, regular monitoring and precaution mechanism and establishing crisis management scheme;
- Enhancing the liquidity management of overseas branches.

The Group monitors and reports cash flow measurement and projections made for the next day, week and month separately, as these are key time periods for liquidity risk management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities (Notes 39.3.3–39.3.4).

Sources of liquidity are regularly reviewed by the Assets and Liabilities Management Department respectively to maintain a wide diversification by currency, geography, customer, product and term regularly.

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.3 Liquidity risk *(Continued)*

39.3.3 Non-derivative financial instruments cash flows

The table below presents the cash flows of the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the end of the reporting date. The amounts disclosed in the tables are undiscounted contractual cash flows. The Group's expected cash flows on these financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

	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 2013									
Liabilities									
Due to banks and other financial institution	(112,674)	(345,663)	(161,045)	(172,593)	(449,011)	(18,194)	–	–	(1,259,180)
Non-derivative financial liabilities at fair value through profit or loss	(4,758)	(2,289)	(1,142)	(3,979)	(5,168)	–	–	–	(17,336)
Due to customers	(1,741,036)	(572,427)	(461,705)	(862,527)	(420,156)	–	–	–	(4,057,851)
Debts securities issued	–	(4,724)	(3,869)	(6,742)	(42,004)	(57,701)	–	–	(115,040)
Other financial liabilities	(32,664)	(19,005)	(56)	(1,832)	(4,977)	(3,343)	–	–	(61,877)
Total liabilities (contractual maturity dates)	(1,891,132)	(944,108)	(627,817)	(1,047,673)	(921,316)	(79,238)	–	–	(5,511,284)
Cash and balances with central banks	148,373	–	–	–	–	–	–	733,415	881,788
Due from banks and other financial institutions	62,366	241,494	124,197	87,099	7,392	–	12	–	522,560
Non-derivative financial assets at fair value through profit or loss	–	2,487	8,213	14,792	15,715	5,136	–	193	46,536
Loans and advances to customers	–	321,354	375,207	1,096,033	985,415	1,197,447	40,809	–	4,016,265
Investment securities – loans and receivables	–	101	370	18,801	11,047	29,607	–	–	59,926
Investment securities – available-for-sale	–	10,892	19,066	50,257	130,748	49,874	1,009	2,305	264,151
Investment securities – held-to-maturity	–	9,120	16,859	99,870	411,576	236,082	–	–	773,507
Other financial assets	22,279	2,471	7,247	16,254	58,629	14,524	945	–	122,349
Assets held for managing liquidity risk (contractual maturity dates)	233,018	587,919	551,159	1,383,106	1,620,522	1,532,670	42,775	735,913	6,687,082

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.3 Liquidity risk *(Continued)*

39.3.3 Non-derivative financial instruments cash flows *(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 2012									
Liabilities									
Due to banks and other financial institution	(144,956)	(169,281)	(100,907)	(156,455)	(461,734)	(291)	–	–	(1,033,624)
Non-derivative financial liabilities at fair value through profit or loss	(2,433)	(1,483)	(1,368)	(4,449)	(5,973)	–	–	–	(15,706)
Due to customers	(1,722,159)	(509,277)	(413,990)	(775,736)	(407,268)	–	–	–	(3,828,430)
Debts securities issued	–	(2,197)	(2,421)	(7,559)	(42,530)	(54,035)	–	–	(108,742)
Other financial liabilities	(37,046)	(1,228)	(184)	(1,211)	(3,596)	(3,997)	–	–	(47,262)
Total liabilities (contractual maturity dates)	(1,906,594)	(683,466)	(518,870)	(945,410)	(921,101)	(58,323)	–	–	(5,033,764)
Cash and balances with central banks	133,245	–	–	–	–	–	–	683,807	817,052
Due from banks and other financial institutions	54,762	250,504	77,565	138,518	4,634	38	12	–	526,033
Non-derivative financial assets at fair value through profit or loss	–	1,215	3,298	15,346	22,842	6,498	–	728	49,927
Loans and advances to customers	–	217,929	365,699	1,050,525	921,209	1,058,139	32,046	–	3,645,547
Investment securities – loans and receivables	–	16	103	6,513	6,704	27,513	–	–	40,849
Investment securities – available-for-sale	–	7,452	16,143	43,139	116,202	46,478	787	2,562	232,763
Investment securities – held-to-maturity	–	8,606	16,773	76,519	401,515	204,860	–	–	708,273
Other financial assets	13,376	2,240	4,665	15,181	45,674	12,478	923	–	94,537
Assets held for managing liquidity risk (contractual maturity dates)	201,383	487,962	484,246	1,345,741	1,518,780	1,356,004	33,768	687,097	6,114,981

Assets available to meet all of the liabilities include cash, balances with central banks, balances in the course of collection and treasury, due from banks and other financial institutions and loans and advances to customers. In the normal course of business, a proportion of loans and advances to customers contractually repayable within one year will be extended. In addition, certain debt securities have been pledged for liabilities. The Group would also be able to meet unexpected cash outflows by selling investment securities, using credit commitment from other financial institutions, early termination of borrowings from other financial institutions and reverse repurchase agreement and using the mandatory reserve deposits upon the PBOC's approval.

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.3 Liquidity risk *(Continued)*

39.3.4 Derivative financial instruments cash flows

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

(a) *Derivative settled on a net basis*

The Group's derivative financial instruments that will be settled on a net basis include:

- Foreign exchange derivative financial instruments: non-deliverable forward
- Interest rate derivative financial instruments and others: interest rate swaps, forward rate agreements, over the counter interest rate options and others

The table below analyses the Group's derivative financial instruments which will be settled on a net basis under relevant maturity groupings based on the remaining contractual period as at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 30 June 2013						
Assets						
Derivative financial instruments held for trading						
— Foreign exchange contracts	1	4	155	–	–	160
— Interest rate contracts and others	64	84	387	449	48	1,032
Total	65	88	542	449	48	1,192
Liabilities						
Derivative financial instruments held for trading						
— Foreign exchange contracts	(8)	(7)	(129)	(2)	–	(146)
— Interest rate contracts and others	(342)	(291)	(1,106)	(953)	(19)	(2,711)
Total	(350)	(298)	(1,235)	(955)	(19)	(2,857)

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.3 Liquidity risk *(Continued)*

39.3.4 Derivative financial instruments cash flows *(Continued)*

(a) *Derivative settled on a net basis (Continued)*

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2012						
Assets						
Derivative financial instruments held for trading						
— Foreign exchange contracts	11	55	77	1	—	144
— Interest rate contracts and others	63	159	637	812	170	1,841
Total	74	214	714	813	170	1,985
Liabilities						
Derivative financial instruments held for trading						
— Foreign exchange contracts	(6)	(34)	(74)	(3)	—	(117)
— Interest rate contracts and others	(85)	(305)	(1,034)	(1,149)	(213)	(2,786)
Total	(91)	(339)	(1,108)	(1,152)	(213)	(2,903)

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.3 Liquidity risk *(Continued)*

39.3.4 Derivative financial instruments cash flows *(Continued)*

(b) *Derivative settled on a gross basis*

The Group's derivative financial instruments that will be settled on a gross basis include:

- Foreign exchange derivative instruments: currency forward, currency swaps, cross currency interest rate swaps

The table below analyses the Group's derivative financial instruments which will be settled on a gross basis under relevant maturity groupings based on the remaining contractual period as at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows:

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 30 June 2013						
Derivative financial instruments held for trading						
— Foreign exchange derivative contracts						
— Outflow	(258,953)	(252,926)	(490,675)	(47,798)	—	(1,050,352)
— Inflow	258,765	252,915	490,679	47,815	—	1,050,174

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
As at 31 December 2012						
Derivative financial instruments held for trading						
— Foreign exchange derivative contracts						
— Outflow	(149,294)	(154,624)	(402,475)	(23,710)	(1,275)	(731,378)
— Inflow	149,308	154,536	402,175	23,715	1,269	731,003

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.3 Liquidity risk *(Continued)*

39.3.5 Maturity analysis

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

	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 2013									
Assets									
Cash and balances with central banks	148,168	–	–	–	–	–	–	733,415	881,583
Due from banks and other financial institutions	62,353	241,073	123,143	85,028	6,595	–	12	–	518,204
Financial assets at fair value through profit or loss	–	4,511	10,535	18,360	14,757	4,890	–	193	53,246
Loans and advances to customers	–	303,529	343,770	996,453	717,573	745,818	23,683	–	3,130,826
Investment securities – loans and receivables	–	50	128	17,808	5,940	24,657	–	–	48,583
Investment securities – available-for-sale	–	10,047	17,687	44,681	114,591	43,050	–	2,305	232,361
Investment securities – held-to-maturity	–	7,076	12,515	81,362	346,255	205,458	–	–	652,666
Other assets	36,769	7,060	18,272	22,979	50,293	13,307	186	51,267	200,133
Total assets	247,290	573,346	526,050	1,266,671	1,256,004	1,037,180	23,881	787,180	5,717,602
Liabilities									
Due to banks and other financial institution	(112,614)	(334,407)	(147,162)	(125,577)	(380,068)	(13,524)	–	–	(1,113,352)
Financial liabilities at fair value through profit or loss	(4,758)	(4,731)	(3,649)	(8,758)	(6,496)	(459)	–	–	(28,851)
Due to customers	(1,740,950)	(567,610)	(454,654)	(833,552)	(356,544)	–	–	–	(3,953,310)
Other liabilities	(37,507)	(30,735)	(16,677)	(36,319)	(56,942)	(45,751)	–	–	(223,931)
Total liabilities	(1,895,829)	(937,483)	(622,142)	(1,004,206)	(800,050)	(59,734)	–	–	(5,319,444)
Net amount on liquidity gap	(1,648,539)	(364,137)	(96,092)	262,465	455,954	977,446	23,881	787,180	398,158

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.3 Liquidity risk *(Continued)*

39.3.5 Maturity analysis *(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 2012									
Assets									
Cash and balances with central banks	133,039	–	–	–	–	–	–	683,807	816,846
Due from banks and other financial institutions	54,757	250,174	76,834	135,076	4,080	30	12	–	520,963
Financial assets at fair value through profit or loss	–	1,849	4,285	17,221	21,859	6,219	–	728	52,161
Loans and advances to customers	–	207,827	327,184	951,250	651,171	718,710	23,486	–	2,879,628
Investment securities – loans and receivables	–	–	95	5,306	2,011	22,983	–	–	30,395
Investment securities – available-for-sale	–	7,034	14,800	38,366	101,883	39,963	–	2,562	204,608
Investment securities – held-to-maturity	–	7,770	11,744	60,048	342,302	176,751	–	–	598,615
Other assets	28,219	6,402	14,741	21,787	39,308	11,622	337	47,747	170,163
Total assets	216,015	481,056	449,683	1,229,054	1,162,614	976,278	23,835	734,844	5,273,379
Liabilities									
Due to banks and other financial institution	(144,871)	(166,879)	(97,077)	(144,500)	(389,446)	(216)	–	–	(942,989)
Financial liabilities at fair value through profit or loss	(2,433)	(2,138)	(2,592)	(7,676)	(7,270)	(951)	–	–	(23,060)
Due to customers	(1,721,728)	(504,583)	(406,869)	(749,675)	(345,557)	–	–	–	(3,728,412)
Other liabilities	(44,490)	(9,293)	(16,116)	(33,336)	(50,844)	(43,392)	–	–	(197,471)
Total liabilities	(1,913,522)	(682,893)	(522,654)	(935,187)	(793,117)	(44,559)	–	–	(4,891,932)
Net amount on liquidity gap	(1,697,507)	(201,837)	(72,971)	293,867	369,497	931,719	23,835	734,844	381,447

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.3 Liquidity risk *(Continued)*

39.3.6 Off-balance sheet items

The table below lists the off-balance sheet items of the Group according to their remaining period to the contractual maturity date. Financial guarantees are included at notional amounts and based on the earliest contractual maturity date. The future minimum lease payments under non-cancellable operating leases where the Group are the lessee are also included.

	Less than 1 year	1–5 years	Over 5 years	Total
As at 30 June 2013				
Loan commitments and credit related commitments	305,879	64,301	65,141	435,321
Guarantees, acceptances and letters of credit	849,922	105,983	26,244	982,149
Operating lease commitments	2,393	5,016	1,540	8,949
Capital expenditure commitments	2,460	1,498	2	3,960
Total	1,160,654	176,798	92,927	1,430,379

	Less than 1 year	1–5 years	Over 5 years	Total
As at 31 December 2012				
Loan commitments and credit related commitments	259,727	86,920	89,918	436,565
Guarantees, acceptances and letters of credit	810,401	101,220	15,490	927,111
Operating lease commitments	1,907	4,718	1,435	8,060
Capital expenditure commitments	2,946	1,385	2	4,333
Total	1,074,981	194,243	106,845	1,376,069

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.4 Fair values of financial assets and liabilities

(a) Financial instruments not measured at fair value

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's condensed consolidated statement of financial position at their fair values.

	As at 30 June 2013		As at 31 December 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Due from banks and other financial institutions	518,204	518,204	520,963	520,963
Loans and advances to customers	3,130,826	3,131,080	2,879,628	2,879,865
Investment securities				
— loans and receivables	48,583	49,305	30,395	30,839
— held-to-maturity	652,666	651,544	598,615	597,109
Financial liabilities				
Due to banks and other financial institutions	(1,113,352)	(1,111,415)	(942,989)	(942,914)
Due to customers	(3,953,310)	(3,957,198)	(3,728,412)	(3,732,297)
Debt securities issued	(86,361)	(85,963)	(79,572)	(80,100)

The fair value of those financial assets and liabilities such as due from/to banks and other financial institutions, loans and advances to customers and due to customer is close to the carrying amount as the interest rates of most of these assets and liabilities are instantaneously adjusted to changes in interest rates set by the PBOC and other regulatory bodies. The Group only has an insignificant amount of fixed rate due from/to banks and other financial institutions, loans and advances to customers and due to customer.

Due from banks and other financial institutions

Due from banks and other financial institutions includes inter-bank placements and balances in the course of collection. The fair values of floating rate placements and overnight deposits are their carrying amounts. The estimated fair value of fixed rate deposits, which are normally less than one year, is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturities. Thus, the fair value of due from other banks and financial institutions is close to its carrying amount.

Loans and advances to customers

Loans and advances to customers are stated net of impairment allowances. Except for a very insignificant portion bearing fixed rate interest, loans and advances to customers bear interest at a floating rate. Therefore, the fair value of loans and advances to customers is close to its carrying amount.

Investment securities

The fair value for loans and receivables and held-to-maturity investments is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using discounted cash flows with key inputs of recent transaction prices, relevant interest yield curves and counterparty credit spreads, as appropriate.

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.4 Fair values of financial assets and liabilities *(Continued)*

(a) Financial instruments not measured at fair value *(Continued)*

Due to banks and other financial institutions and customers

The fair value of floating rate liabilities due to other banks and other financial institutions and customers is their carrying amount. The estimated fair value of fixed rate liabilities due to banks and other financial institutions and customers without quoted market price, which are normally less than one year, is based on discounted cash flows using interest rates for new debts with similar credit risk and remaining maturities. The fair value of due to banks and other financial institutions and customers is close to its carrying amount.

Debt securities issued

The fair value of floating rate debt securities issued is close to its carrying amount. The fair value of fixed rate debt securities issued is calculated using a discounted cash flow model which is based on a current yield curve appropriate for the remaining term to maturity.

(b) Fair value hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Hong Kong Stock Exchange).

- Level 2 — Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the over-the-counter derivative instruments and debt instruments traded in inter-bank market. The fair values of debt instruments traded in inter-bank market are provided by China Central Depository & Clearing Co., Ltd. and determined by using the present value valuation technique under income approach and applying the respective interest yield curves of relevant debt securities and the counterparty credit risks as the key parameter for their fair value measurement of which the source of input parameters is Bloomberg.

- Level 3 — Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes unlisted equity investments.

The Group uses valuation techniques to determine the fair value of financial instruments when unable to obtain the open market quotation in active markets.

The valuation techniques used by the Group include the discounted cash flow model for debt securities and certain derivatives (i.e. interest rate swap, forward and etc.) and Black Scholes model for option based derivatives. The main parameters used in discounted cash flow model include recent transaction prices, relevant interest yield curves, foreign exchange rates, prepayment rates, counterparty credit spreads and those used in Black Scholes model include relevant interest yield curves, foreign exchange rates, volatilities, counterparty credit spreads and others. If those parameters used in valuation techniques for financial instruments (including debt securities and derivatives) held by the Group, which are substantially observable and obtainable from active open market, the instruments are classified as level 2.

For unlisted equities (private equity) held by the Group, the fair value of these financial instruments may be based on unobservable inputs. Instruments which have been valued using unobservable inputs have been classified by the Group as level 3. Management determines the fair value of the Group's level 3 financial instruments using a variety of techniques, including using valuation models that incorporate unobservable inputs such as discounts for lack of marketability. The fair value measurement of these instruments will not change significantly if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.4 Fair values of financial assets and liabilities *(Continued)*

(b) ***Fair value hierarchy*** *(Continued)*

For the six months ended 30 June 2013 and year ended 31 December 2012, there were no transfers between level 1 and level 2 of the fair value hierarchy.

Financial assets and liabilities measured at fair value on a recuring basis:

As at 30 June 2013	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Debt securities	9,672	32,797	—	42,469
— Central governments and central banks	8,438	1,896	—	10,334
— Public sector entities	—	2,132	—	2,132
— Banks and other financial institutions	1,100	8,970	—	10,070
— Corporate entities	134	19,799	—	19,933
Equity securities and fund investments[1]	193	—	—	193
Derivatives	—	10,584	—	10,584
— Foreign exchange contracts	—	9,371	—	9,371
— Interest rate contracts and others	—	1,213	—	1,213
	9,865	43,381	—	53,246
Investment securities — available-for-sale				
Debt securities	19,450	210,606	—	230,056
— Central governments and central banks	3,930	36,870	—	40,800
— Public sector entities	379	1,419	—	1,798
— Banks and other financial institutions	13,751	115,590	—	129,341
— Corporate entities	1,390	56,727	—	58,117
Equity securities and fund investments[1]	1,080	—	1,225	2,305
	20,530	210,606	1,225	232,361
Total Assets	30,395	253,987	1,225	285,607
Financial liabilities at fair value through profit or loss				
Short position of securities held for trading	(4,758)	—	—	(4,758)
Certificates of deposit issued	—	(12,321)	—	(12,321)
Derivatives	—	(11,772)	—	(11,772)
— Foreign exchange contracts	—	(9,734)	—	(9,734)
— Interest rate contracts and others	—	(2,038)	—	(2,038)
Total Liabilities	(4,758)	(24,093)	—	(28,851)

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.4 Fair values of financial assets and liabilities *(Continued)*

(b) Fair value hierarchy *(Continued)*

Financial assets and liabilities measured at fair value on a recurring basis (Continued)

As at 31 December 2012	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Debt securities	2,333	42,622	—	44,955
— Central governments and central banks	1,620	2,161	—	3,781
— Public sector entities	—	2,350	—	2,350
— Banks and other financial institutions	578	12,719	—	13,297
— Corporate entities	135	25,392	—	25,527
Equity securities and fund investments(1)	728	—	—	728
Derivatives	—	6,478	—	6,478
— Foreign exchange contracts	—	4,782	—	4,782
— Interest rate contracts and others	—	1,696	—	1,696
	3,061	49,100	—	52,161
Investment securities — available-for-sale				
Debt securities	18,116	183,919	11	202,046
— Central governments and central banks	3,350	40,368	—	43,718
— Public sector entities	392	970	—	1,362
— Banks and other financial institutions	13,063	100,240	—	113,303
— Corporate entities	1,311	42,341	11	43,663
Equity securities and fund investments(1)	1,417	—	1,145	2,562
	19,533	183,919	1,156	204,608
Total Assets	22,594	233,019	1,156	256,769
Financial liabilities at fair value through profit or loss				
Short position of securities held for trading	(2,433)	—	—	(2,433)
Certificates of deposit issued	—	(12,977)	—	(12,977)
Derivatives	—	(7,650)	—	(7,650)
— Foreign exchange contracts	—	(5,090)	—	(5,090)
— Interest rate contracts and others	—	(2,560)	—	(2,560)
Total Liabilities	(2,433)	(20,627)	—	(23,060)

(1) On the basis of its analysis of the nature, characteristics and risks of the investments, the Group has determined that presenting them as a single class is appropriate.

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.4 Fair values of financial assets and liabilities *(Continued)*

(b) ***Fair value hierarchy*** *(Continued)*

Reconciliation of level 3 items

	Debt securities — Corporate entities	Equity securities — Unlisted	Total
Balance at 1 January 2013	11	1,145	1,156
Total gains or losses			
— Losses	(11)	—	(11)
— Other comprehensive income	—	3	3
Additions	—	80	80
Disposals	—	(3)	(3)
Balance at 30 June 2013	—	1,225	1,225
Total gains or losses for the year included in consolidated statement of profit or loss and other comprehensive income for assets/liabilities held at 30 June 2013	—	3	3

	Debt securities — Corporate entities	Equity securities — Unlisted	Total
Balance at 1 January 2012	11	1,117	1,128
Total gains or losses			
— Gains	—	3	3
— Other comprehensive income	—	—	—
Additions	—	100	100
Disposals	—	(75)	(75)
Balance at 31 December 2012	11	1,145	1,156
Total gains or losses for the year included in consolidated statement of profit or loss and other comprehensive income for assets/liabilities held at 31 December 2012	—	—	—

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

39 FINANCIAL RISK MANAGEMENT *(Continued)*

39.4 Fair values of financial assets and liabilities *(Continued)*

(c) Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

	Fair value at 30 June 2013	Valuation technique	Unobservable input	Range (weighted average)
Equity securities-Unlisted	1,225	Market comparable companies	Price to book ratio(1)	0.80–1.32 (1.04)
			Discount for lack of marketability(2)	10%–70% (25%)

(1) Represents amounts used when the Group has determined that market participants would use such multiples when pricing the investments.

(2) Represents amounts used when the Group has determined that market participants would take into account these discounts when pricing the investments.

40 RESTATEMENT OF COMPARATIVE FIGURES

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

41 SUBSEQUENT EVENT

Pursuant to the resolution passed at the Sixteenth Meeting of the Six Session of the Board of Directors and approved by the CBRC and the PBOC, the Bank completed the public issuance of “The First Phase of 2013 Financial Bond of Bank of Communications Co., Ltd.” in the interbank bond market on 29 July 2013. The certain bond is characterised as 5 year fix rated bond and the total amounts of bond issued reached RMB10 billion with an annualised coupon rate of 4.37%.

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

From this Reporting Period, the Group has adopted "Administrative Measures for the Capital of Commercial Banks (Provisional)" issued by the CBRC in calculation of asset adequacy ratio. In which, the credit risk is measured by the risk-weighted approach, the market risk is measured by the standard approach, and the operational risk is measured by the basic indicator approach. As at 30 June 2013, the Group's capital adequacy ratios at each tier are as follows:

Item	As at 30 June 2013
Net Core Tier 1 Capital	398,358
Net Tier 1 Capital	398,362
Net Capital	498,413
Core Tier 1 Capital Ratio	10.14%
Tier 1 Capital Ratio	10.14%
Capital Ratio	12.68%

Due to the significant difference between the calculation method under the "Administrative Measures for the Capital of Commercial Banks (Provisional)" and the previous calculation method pursuant to the "Administrative Measures for the Capital of Commercial Banks", the comparative data as of the end of prior year is not presented.

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 2013	As at 31 December 2012
Liquidity ratios:	43.95%	37.93%

3 CURRENCY CONCENTRATIONS

As at 30 June 2013	US dollar	HK dollar	Others	Total
Spot assets	452,254	115,166	43,467	610,887
Spot liabilities	(378,286)	(146,549)	(52,908)	(577,743)
Forward purchases	678,486	71,226	34,013	783,725
Forward sales	(647,194)	(19,931)	(32,367)	(699,492)
Net option position	(1,197)	21	(27)	(1,203)
Net long/(short) position	104,063	19,933	(7,822)	116,174
Net structural position	12,551	4,026	2,105	18,682

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

3 CURRENCY CONCENTRATIONS *(Continued)*

As at 31 December 2012	US dollar	HK dollar	Others	Total
Spot assets	389,160	98,890	34,333	522,383
Spot liabilities	(319,921)	(130,508)	(36,479)	(486,908)
Forward purchases	437,706	97,358	21,213	556,277
Forward sales	(432,050)	(87,816)	(20,956)	(540,822)
Net option position	(1,895)	107	(15)	(1,803)
Net long/(short) position	73,000	(21,969)	(1,904)	49,127
Net structural position	6,106	4,115	2,378	12,599

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.

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 2013				
Asia Pacific excluding Mainland China	32,710	20,313	180,236	233,259
— of which attributed to Hong Kong	7,279	17,168	169,592	194,039
North and South America	24,869	4,608	15,798	45,275
Africa	3	—	—	3
Europe	8,852	3,732	417	13,001
	66,434	28,653	196,451	291,538

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

4 CROSS-BORDER CLAIMS *(Continued)*

	Banks and other financial institutions	Public sector entities	Others	Total
As at 31 December 2012				
Asia Pacific excluding Mainland China	35,538	10,450	148,722	194,710
— of which attributed to Hong Kong	11,713	4,117	136,641	152,471
North and South America	28,328	8,131	17,330	53,789
Africa	2	—	—	2
Europe	10,688	3,565	357	14,610
	74,556	22,146	166,409	263,111

5 OVERDUE AND RESCHEDULED ASSETS

(a) Gross amount of overdue loans

	As at 30 June 2013	As at 31 December 2012
Gross loans and advances to customers which have been overdue for:		
— within 3 months	14,161	15,771
— between 3 and 6 months	7,048	4,599
— between 6 and 12 months	9,446	4,997
— over 12 months	10,911	10,856
	41,566	36,223
Percentage:		
— within 3 months	0.44%	0.54%
— between 3 and 6 months	0.22%	0.16%
— between 6 and 12 months	0.30%	0.17%
— over 12 months	0.34%	0.37%
	1.30%	1.24%

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

5 OVERDUE AND RESCHEDULED ASSETS *(Continued)*

(a) Gross amount of overdue loans *(Continued)*

	As at 30 June 2013	As at 31 December 2012
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 2013 and 31 December 2012, outstanding balances of overdue bills which have been included in the gross overdue loans and advances to customers are:

	As at 30 June 2013	As at 31 December 2012
— within 3 months	1	—
— between 3 and 6 months	—	—
— between 6 and 12 months	—	29
— over 12 months	34	55
	35	84

(b) Overdue and rescheduled loans

	As at 30 June 2013	As at 31 December 2012
Total rescheduled loans and advances to customers	2,555	2,807
Including: rescheduled loans and advances to customers overdue over 3 months	899	860
Percentage of rescheduled loans and advances to customers overdue over 3 months in total loans	0.03%	0.03%

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

6 SEGMENTAL INFORMATION OF LOANS

(a) Impaired loans by geographical area

	As at 30 June 2013		As at 31 December 2012	
	Impaired loans	Allowances for individually assessed impaired loans	Impaired loans	Allowances for individually assessed impaired loans
PRC domestic regions				
— North China	2,924	(1,320)	3,430	(1,692)
— Northeast China	2,189	(902)	1,986	(884)
— East China	20,964	(9,010)	15,593	(6,846)
— Central and South China	4,158	(1,820)	3,888	(2,028)
— West China	1,106	(622)	1,630	(769)
	31,341	(13,674)	26,527	(12,219)
Hong Kong, Macau, Taipei and overseas regions	326	(179)	468	(265)
	31,667	(13,853)	26,995	(12,484)

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

	As at 30 June 2013			As at 31 December 2012		
	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
PRC domestic regions						
— North China	4,067	(1,248)	(29)	4,118	(1,626)	(30)
— Northeast China	2,177	(783)	(12)	1,980	(784)	(9)
— East China	26,979	(8,681)	(243)	22,654	(6,308)	(1,197)
— Central and South China	6,132	(1,757)	(48)	5,298	(1,870)	(39)
— West China	1,850	(579)	(17)	1,565	(581)	(12)
	41,205	(13,048)	(349)	35,615	(11,169)	(1,287)
Hong Kong, Macau, Taipei and overseas regions	361	(174)	(5)	608	(231)	—
	41,566	(13,222)	(354)	36,223	(11,400)	(1,287)
Fair value of collaterals	16,498	—	—	15,238	—	—

(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 2013			As at 31 December 2012		
		%	Amount covered by collaterals		%	Amount covered by collaterals
Hong Kong						
Corporate loans						
Manufacturing						
— Electronics	971	0.58	16	1,280	0.82	17
— Textile and clothing	449	0.27	14	383	0.25	10
— Other manufacturing	3,193	1.91	—	3,885	2.50	258
Electricity, gas and water production and supply	1,405	0.84	—	405	0.26	—
Construction	8,573	5.12	825	7,679	4.94	265
Transportation, storage and postal service	12,841	7.66	3,554	13,515	8.70	3,060
Telecommunication, IT service and software	194	0.12	—	244	0.16	—
Wholesale and retail	74,510	44.46	7,735	64,032	41.22	7,416
Accommodation and catering	160	0.10	—	159	0.10	6
Financial services	15,851	9.46	3,215	15,097	9.72	3,723
Real estate	9,627	5.74	8,243	9,334	6.01	8,551
Education, science, culture and public health	1	—	—	1	—	—
Others	19,674	11.73	2,073	20,099	12.94	1,004
Total corporate loans	147,449	87.99	25,675	136,113	87.62	24,310
Individual loans						
Mortgage loans	10,252	6.12	10,248	10,321	6.64	10,317
Short-term personal business loans	56	0.03	52	60	0.04	55
Credit card advances	96	0.06	—	130	0.08	—
Others	9,745	5.80	9,218	8,724	5.62	8,205
Total individual loans	20,149	12.01	19,518	19,235	12.38	18,577
Gross amount of loans and advances to customers before allowance for impairment	167,598	100.00	45,193	155,348	100.00	42,887
Outside Hong Kong	3,033,819			2,791,951		

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 47% as at 30 June 2013 (31 December 2012: 46%).

(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 2013		As at 31 December 2012	
	Impaired loans	Allowance for individually assessed impaired loans	Impaired loans	Allowance for individually assessed impaired loans
Corporate	24,110	(9,399)	21,896	(9,672)
Individual	7,557	(4,454)	5,099	(2,812)
	31,667	(13,853)	26,995	(12,484)
Fair value of collaterals	9,604	N/A	9,208	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					
	2013			2012		
	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	5,718	(4,301)	62	6,250	(495)	65
Individual	2,751	(522)	57	886	(170)	60
	8,469	(4,823)	119	7,136	(665)	125

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