交通銀行
BANK OF COMMUNICATIONS

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

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock code: 03328)

2012 INTERIM RESULTS ANNOUNCEMENT

The board of directors of Bank of Communications Co., Ltd. (the "Bank") is pleased to announce the unaudited consolidated interim results (the "Interim Results") of the Bank and its subsidiaries (the "Group") for the six months ended 30 June 2012 (the "Reporting Period"), which have been prepared in accordance with the International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board. The board of directors of the Bank (the "Board") and the audit committee of the Board have reviewed and adopted the Interim Results.

1. CORPORATE INFORMATION

(1) Stock exchanges on which shares of the Bank are listed:

A shares: Shanghai Stock Exchange
H shares: The Stock Exchange of Hong Kong Limited

(2) Stock name and stock code:

A shares: Bank of Communications, 601328
H shares: BANKCOMM, 03328

(3) Secretary to the Board: Du Jianglong

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2. MAJOR FINANCIAL DATA AND INDICATORS

The major financial data and indicators of the Group for the six months ended 30 June 2012 prepared under the International Financial Reporting Standards ("IFRSs") are as follows:

(in millions of RMB unless otherwise stated)

	As at 30 June 2012	As at 31 December 2011	Increase/ (decrease) (%)
Total assets	**5,152,208**	4,611,177	11.73
Include: loans and advances to customers	**2,805,920**	2,561,750	9.53
Total liabilities	**4,853,154**	4,338,389	11.87
Include: customer deposits	**3,592,312**	3,283,232	9.41
Shareholders' equity (excluding non-controlling interests)	**298,029**	271,802	9.65
Net assets per share (excluding non-controlling interests, in RMB yuan)	**4.82**	4.39	9.79

	January to June 2012	January to June 2011	Increase/ (decrease) (%)
Net interest income	**58,394**	49,576	17.79
Profit before tax	**40,168**	33,992	18.17
Net profit (excluding non-controling interests)	**31,088**	26,396	17.78
Earnings per share (excluding non-controlling interests, in RMB yuan)	**0.50**	0.43	16.28

	As at 30 June 2012 (%)	As at 31 December 2011 (%)	Change (percentage point)
Return on average assets[1]	**1.28**	1.19	0.09
Return on average shareholders' equity[2]	**21.82**	20.52	1.30
Cost-to-income ratio[3]	**25.61**	30.19	(4.58)
Impaired loans ratio[4]	**0.82**	0.86	(0.04)
Provision coverage of impaired loans[5]	**273.53**	256.37	17.16
Core capital adequacy ratio	**9.58**	9.27	0.31
Capital adequacy ratio	**12.57**	12.44	0.13

Notes:

1. Calculated by dividing annualised net profit of the Reporting Period by the average of total assets at the beginning and the end of the Reporting Period.

2. Calculated by dividing annualised net profit (excluding non-controlling interests) of the Reporting Period by the average of shareholders' equity (excluding non-controlling interests) at the beginning and the end of the Reporting Period.

3. Refers to percentage of certain operating expenses and certain net operating income.

4. Calculated by dividing the outstanding balance of impaired loans by the outstanding balance of loans and advances to customers before impairment allowances at the end of the Reporting Period.

5. Calculated by dividing the outstanding balance of impairment allowances by the outstanding balance of impaired loans at the end of the Reporting Period.

3. CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

(1) Changes in share capital

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

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

(2) Shareholdings of the top 10 shareholders and the top 10 shareholders not subject to sales restrictions (according to the Bank's register of members maintained at its share registrar as at 30 June 2012)

1. Shareholdings of the top 10 shareholders

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

Notes:

1. Unless otherwise stated, the Bank is not aware of any circumstances where shares held by the above shareholders have been pledged or frozen, nor of the existence of any connected relations between the above shareholders.

2. The aggregate number of shares held by the nominee, HKSCC Nominees Limited, represents the total number of H shares of the Bank (the "H shares") held by all institutional and individual investors who maintained an account with it as at 30 June 2012. (same applies hereinafter)

3. According to the Bank's register of members kept by Computershare Hong Kong Investor Services Limited, The Hongkong and Shanghai Banking Corporation Limited ("HSBC") held 11,530,478,263 H shares of the Bank as at 30 June 2012. In addition, please refer to "(4) Substantial shareholders and holders of interest or short positions required to be disclosed under Divisions 2 and 3 of Part XV of the Hong Kong Securities and Futures Ordinance" for details of the H shares that deemed to be beneficially owned by HSBC as at 30 June 2012 as disclosed in the disclosure of interests form filed with the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") by HSBC Holdings plc. (same applies hereinafter)

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

No.	Name of shareholders	Number of shares held	Shareholding percentage (%)	Class of shares
1	Ministry of Finance of the People's Republic of China	12,618,353,049	26.52	Renminbi ordinary shares
		3,795,000,000		Overseas-listed foreign shares
2	HKSCC Nominees Limited	13,574,536,198	21.93	Overseas-listed foreign shares
3	The Hongkong and Shanghai Banking Corporation Limited	11,530,478,263	18.63	Overseas-listed foreign shares
4	Capital Airports Holding Company	1,246,591,087	2.01	Renminbi ordinary shares
5	Shandong Luneng Group Co., LTD.	571,078,169	0.92	Renminbi ordinary shares
6	Yunnan Hongta Group Company Limited	438,686,794	0.71	Renminbi ordinary shares
7	Sinopec Finance Company Limited	374,901,733	0.61	Renminbi ordinary shares
8	Shanghai Haiyan Investment Management Co., Ltd	368,584,978	0.60	Renminbi ordinary shares
9	Aviation Industry Corporation of China	310,678,434	0.50	Renminbi ordinary shares
10	Daqing Petroleum Administration Bureau	294,936,165	0.48	Renminbi ordinary shares

Details of connected relations or acting in concert among the above shareholders:

(1) The Bank is not aware of any connected relations among the above shareholders not subject to sales restrictions or whether they are parties acting in concert as regulated in the Administration Procedures of the Takeover of Listed Companies.

(2) The top 10 shareholders are the same as the top 10 shareholders not subject to sales restrictions, there is not any connected relations among the top 10 shareholders not subject to sales restrictions and the top 10 shareholders or whether they are parties acting in concert.

(3) Shareholdings of the top 10 shareholders subject to sales restrictions and the details of restrictions

As at 30 June 2012, there was no shareholder whose shares were subject to sales restrictions.

(4) Substantial shareholders and holders of interests or short positions required to be disclosed under Divisions 2 and 3 of part XV of the Hong Kong Securities and Futures Ordinance

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

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

Name of substantial shareholders	Capacity	Number of H shares	Nature of interest[1]	Approximate percentage of total issued H shares (%)	Approximate percentage of total issued shares (%)
National Council for Social Security Fund	Beneficial owner	7,027,777,777[3]	Long position	24.09	11.36
Ministry of Finance of the People's Republic of China	Beneficial owner	3,795,000,000[2]	Long position	13.01	6.13

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

Notes:

1. Long positions held other than through equity derivatives.

2. According to the information provided by the Ministry of Finance of the People's Republic of China (the "MOF"), as at 30 June 2012, the MOF held 3,795,000,000 H shares and 12,618,353,049 A shares of the Bank (the "A shares"), representing 6.13% and 20.39% of the total share capital of the Bank, respectively.

3. According to the information provided by the National Council for Social Security Fund (the "SSF"), as at 30 June 2012, SSF held 7,027,777,777 H shares, representing 11.36% of the total share capital of the Bank and all these shares were registered under the name of HKSCC Nominees Limited.

4. The proposal in relation to the non-public issuance of new A shares and new H shares has been considered and approved at the 2012 first extraordinary general meeting of the Bank. After obtaining all relevant approvals, the aforesaid issuance has been completed by 24 August 2012 and the issued share capital of the Bank has also been enlarged. For details, please refer to "Significant Events — (2) Major fund raising activities" of this announcement.

5. As disclosed in the Bank's 2011 Annual Report, as at 31 December 2011, HSBC beneficially owned 11,779,697,178 H shares, representing 19.03% of the total share capital of the Bank. According to the proposal in relation to the non-public issuance of new A shares and new H shares. On 15 March 2012, the Bank and HSBC signed a subscription agreement whereby HSBC subscribed in cash for 2,355,939,435 new H shares and was deemed to be interested in such new H shares. HSBC had filed the disclosure of interest form for such interests. As at 30 June 2012, the issuance of such new A shares and new H shares had not been completed.

   By 24 August 2012, the Bank completed the non-public issuance of new A shares and new H shares. Immediately after the completion of such issuance, HSBC beneficially owned 14,135,636,613 H shares representing 40.37% and 19.03% of the enlarged H shares in issue and enlarged total shares in issue of the Bank, respectively.

6. HSBC holds 62.14% equity interest in Hang Seng Bank Limited. Pursuant to the SFO, HSBC is deemed to be interested in the Bank's H shares held by Hang Seng Bank Limited.

   Hang Seng Bank Limited is deemed to be interested in the 2,674,232 H shares held by its wholly-owned subsidiaries. Such 2,674,232 H shares represent the aggregate of the 2,581,887 H shares directly held by Hang Seng Bank Trustee International Limited and 92,345 H shares directly held by Hang Seng Bank (Trustee) Limited.

7. HSBC is wholly owned by HSBC Asia Holdings BV and HSBC Asia Holdings BV is, in turn wholly owned by HSBC Asia Holdings (UK) Limited which is wholly owned by HSBC Holdings BV. Furthermore, HSBC Holdings BV is wholly owned by HSBC Finance (Netherlands). Pursuant to the SFO, each of HSBC Asia Holdings BV, HSBC Asia Holdings (UK) Limited, HSBC Holdings BV and HSBC Finance (Netherlands) is deemed to be interested in the 14,138,310,845 H shares held by HSBC.

8. HSBC Trustee (C.I.) Limited holds 63,250 H shares. HSBC Trustee (C.I.) Limited is wholly owned by HSBC Private Bank (C.I.) Limited, which is wholly owned by HSBC Private Banking Holdings (Suisse) SA. Furthermore, HSBC Private Banking Holdings (Suisse) SA is wholly owned by HSBC Europe (Netherlands) BV, which is in turn owned as to 94.90% by HSBC Bank plc. Pursuant to the SFO, each of HSBC Private Bank (C.I.) Limited, HSBC Private Banking Holdings (Suisse) SA, HSBC Europe (Netherlands) BV and HSBC Bank plc is deemed to be interested in the 63,250 H shares held by HSBC Trustee (C.I.) Limited.

9. Both HSBC Finance (Netherlands) and HSBC Bank plc are wholly owned by HSBC Holdings plc. Pursuant to Notes 5, 6, 7, and 8 and the SFO, HSBC Holdings plc is deemed to be interested in the 14,138,310,845 H shares held by HSBC and the 9,075,250 H shares held by HSBC Bank plc.

Save as disclosed above, on 30 June 2012, no person (excluding the directors, supervisors and chief executive of the Bank) or corporation was recorded in the register of members required to be kept under Section 336 of the SFO as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(1) Changes in shareholdings of directors, supervisors and senior management

Name	Position	Class of shares	Number of shares held at the beginning of the year	Increase in shareholdings during the Reporting Period	Decrease in shareholdings during the Reporting Period	Number of shares held at the end of the Reporting Period	Reason for changes in shareholdings
Zhang Jixiang	Non-executive director	A shares	37,180	800	—	37,980	Purchased from secondary market
Yang Dongping	Chief risk officer	A shares	94,820	—	—	94,820	—

Save as disclosed above, as at 30 June 2012, none of the Bank's directors, supervisors or chief executive had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO), or which was required to be entered in the register of members pursuant to section 352 of the SFO, or which was required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), to be notified to the Bank and the Hong Kong Stock Exchange.

(2) Changes in directors, supervisors and senior management

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

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

5. MANAGEMENT DISCUSSION AND ANALYSIS

(1) Group operation review

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

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

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

(2) Business review

Continuing growth in business scale

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

Steady improvements in operating efficiency

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

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

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

Continuing optimisation in credit structure

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

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

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

Acceleration in promoting the “BoCom Strategy”

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

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

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

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

Overall improvement in enterprise risk management

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

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

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

Broaden the "Trinity" network construction

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

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

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

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

(3) Financial statement analysis

1. Analysis on major income statement items

(1) Profit before tax

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

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

(in millions of RMB)

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

(2) Net interest income

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

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

(in millions of RMB unless otherwise stated)

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

Notes:

1. This represents the difference between the annualised average yield on total average interest-bearing assets and the annualised average cost of total average interest-bearing liabilities.

2. This ratio represents the annualised net interest income to total average interest-bearing assets.

3. This eliminates the impact of wealth management products.

4. This eliminates the impact of wealth management products and takes into account the tax exemption on the interest income from investments in government bonds.

During the Reporting Period, the Group achieved a steady increase in its net interest margin and thus its net interest income increased significantly. The Group's net interest spread and net interest margin increased by 1 and 6 basis points as compared with the corresponding period in prior year to 2.47% and 2.61% respectively. The reasons that the gap between net interest spread and net interest margin was widened were: (1) the continuing impact of increase in interest rates of last round; (2) the Group has further improved its pricing capability; (3) the Group has optimised its asset-liability structure.

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

(in millions of RMB)

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

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

① Interest income

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

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

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

B. Interest income from investment securities

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

C. Interest income from balances with central banks

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

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

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

② Interest expense

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

A. Interest expense on balances due to customers

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

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

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

C. Interest expense on debts issued and others

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

(3) Net fee and commission income

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

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

(in millions of RMB)

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

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

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

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

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

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

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

(4) Operating costs

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

(5) Impairment losses on loans and advances to customers

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

(6) Income tax

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

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

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

2. *Analysis on major balance sheet items*

(1) Assets

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

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

(in millions of RMB unless otherwise stated)

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

① Loans and advances to customers

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

Loans concentration by industry

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

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

(in millions of RMB unless otherwise stated)

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

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

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

Loan concentration by borrowers

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

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

(in millions of RMB unless otherwise stated)

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

Loan concentration by geographical locations

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

Loan quality

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

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

(in millions of RMB unless otherwise stated)

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

Loan customer structure

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

② Investment securities

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

Distribution of the Group's investment securities

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

— By financial asset classification

(in millions of RMB unless otherwise stated)

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

— By type of issuers

(in millions of RMB unless otherwise stated)

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

(2) Liabilities

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

Customer deposits

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

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

(in millions of RMB)

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

3. *Analysis on major statement of cash flows items*

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

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

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

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

4. *Segment analysis*

(1) Operating results by geographical segments

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

(in millions of RMB)

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

Notes:

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

2. Includes Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province and the Inner Mongolia Autonomous Region (same applies hereinafter).

3. Includes Liaoning Province, Jilin Province and Heilongjiang Province (same applies hereinafter).

4. Includes Shanghai Municipality (excluding Head Office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province (same applies hereinafter).

5. Includes Henan Province, Hunan Province, Hubei Province, Guangdong Province, Guangxi Autonomous Region and Hainan Province (same applies hereinafter).

6. Includes Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Tibet Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region and Xinjiang Autonomous Region (same applies hereinafter).

7. Includes Hong Kong Branch, New York Branch, Singapore Branch, Seoul Branch, Tokyo Branch, Frankfurt Branch, Macau Branch, Ho Chi Minh City Branch, San Francisco Branch, Sydney Branch, Taipei Branch, Bank of Communications (UK) Co., Ltd. and other overseas subsidiaries (same applies hereinafter).

8. Includes minority interest income.

(2) Deposits and loans and advances by geographical segments

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

(in millions of RMB)

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

Note: Excluding head office.

(3) Operating results by business segments

The Group's four main business segments are: corporate banking, retail banking, treasury operations and other businesses. The corporate banking segment was the primary source of income for the Group, and accounted for 64.49% of the Group's net interest income.

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

(in millions of RMB)

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

(4) Risk management

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

1. Risk preference

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

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

2. Risk management framework

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

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

3. Credit risk management

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

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

(1) Risk classification procedures and methodology

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

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

(2) Risk management and control polices

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

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

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

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

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

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

(3) Asset quality and migration status

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

(in millions of RMB unless otherwise stated)

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

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

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

4. *Market risk management*

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

The Bank implemented a centralised control framework for its market risk management. The asset liability management department takes the lead in the Bank's market risk management, while business units such as financial markets department and domestic and overseas branches are the execution units of the Bank's market risk management policies. The risk management department and the audit department are responsible for the independent verification of the market risk assessment models and management system, as well as the internal audit of the Bank.

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

(1) Risk management and control policies

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

(2) Market risk analysis

① Interest rate risk and sensitivity analysis

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

(in millions of RMB)

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

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

(in millions of RMB)

	As at 30 June 2012		As at 31 December 2011	
	Expected changes in net interest income	**Changes in other comprehensive income**	Expected changes in net interest income	Changes in other comprehensive income
Increase yield rate by 100 basis points	**10,679**	**(2,929)**	10,788	(3,017)
Decrease yield rate by 100 basis points	**(10,679)**	**3,144**	(10,788)	3,252

② Foreign currency risk and sensitivity analysis

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

(in millions of RMB)

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

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

(in millions of RMB)

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

5. *Liquidity risk management*

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

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

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

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

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

(in millions of RMB)

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

6. *Operational risk management*

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

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

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

7. *Anti-money laundering*

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

(5) Internal Control

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

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

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

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

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

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

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

(6) Outlook

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

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

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

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

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

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

6. SIGNIFICANT EVENTS

(1) Profit distribution

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

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

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

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

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

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

The above rules were strictly complied with by the Bank.

(2) Major fund raising activities

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

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

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

(3) Shareholdings in other companies

1. Holdings of shares issued by other listed companies

(in RMB unless otherwise stated)

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

Notes:

1. The table above sets out the investment securities in other listed companies held by the Group, that are classified as investment securities-available-for-sale and financial assets at fair value through profit or loss.

2. Gains/(losses) during the Reporting Period refer to the impact of such investments on the Group's consolidated net profit.

2. *Holdings of shares issued by unlisted financial institutions*

(in RMB unless otherwise stated)

Name of institution	Initial investment cost	Number of shares held	Percentage shareholding in the company (%)	Book value at the end of the Reporting Period	Gains/(losses) during the Reporting Period	Changes in owners' equity during the Reporting Period	Accounting items	Source of shares
Jiangsu Changshu Rural Commercial Bank Co., Ltd.	489,500,000.00	101,340,337	10.00	489,500,000.00	—	—	Investment securities — available-for-sale	Equity investment
China Union Pay Co., Ltd.	146,250,000.00	112,500,000	3.90	146,250,000.00	3,937,500.00	—	Investment securities — available-for-sale	Equity investment
China National Aviation Fuel Group Finance Corporation	120,000,000.00	N/A	10.00	120,000,000.00	—	—	Investment securities — available-for-sale	Equity investment
Bank of Tibet Co., Ltd.	300,000,000.00	300,000,000	20.00	298,592,062.69	103,468.45	—	Investment in an associate	Equity investment
Shaanxi Coal and Chemical Industry Group Finance Corporation	100,000,000.00	N/A	10.00	100,000,000.00	—	—	Investment securities — available-for-sale	Equity investment
Total	**1,155,750,000.00**			**1,154,342,062.69**	**4,040,968.45**	**—**		

3. *Purchases and sales of shares of other listed companies*

(in RMB unless otherwise stated)

	Number of shares held at the beginning of the Reporting Period	Number of shares bought/(sold) during the Reporting Period	Number of shares held at the end of the Reporting Period	Fund utilised	Gains
Purchases	351,426	790,840	1,142,266	7,134,311.36	—
Sales	23,384,642	(5,593,163)	17,791,479	—	1,963,670.13

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

(4) Material litigation and arbitration matters

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

(5) Significant related party transactions

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

(6) Audit committee

The Bank has established an audit committee in accordance with the requirements of the Listing Rules. The main responsibilities of the audit committee are to review the Bank's internal and external audits, examine and approve financial reports, and oversee the implementation of the Bank's internal control policies as well as efficiency and compliance of internal controls. The members of the audit committee are — Mr. Li Ka-cheung, Eric, Mr. Gu Mingchao, Mr. Choi Yiu-kwan and Ms. Du Yuemei. Mr. Li Ka-cheung, Eric, being an independent non-executive director, serves as the chairman of the audit committee. The audit committee and senior management reviewed the Bank's accounting policies and practices and discussed on issues relating to internal controls and financial reporting, which includes the review of the Interim Results.

(7) Purchase, sale or redemption of the Bank's shares

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

(8) Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

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

(9) Compliance with the "Corporate Governance Code" under the Listing Rules of the Hong Kong Stock Exchange

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

7. FINANCIAL STATEMENTS

(1) Unaudited Condensed Consolidated Statement of Comprehensive Income

(in millions of RMB unless otherwise stated)

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

(2) Unaudited Condensed Consolidated Statement of Financial Position

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

(3) Unaudited Condensed Consolidated Statement of Changes in Equity

(in millions of RMB)

	Share capital	Capital surplus	Other Reserves: Statutory reserve	Other Reserves: Discretionary reserve	Other Reserves: Statutory general reserve	Other Reserves: Revaluation reserve for available-for-sale financial assets	Other Reserves: Translation reserve on foreign operations	Retained earnings	Attributable to the shareholders of the Bank	Non-controlling interests	Total
Balance at 1 January 2011	56,260	69,465	13,780	31,272	23,962	(589)	(1,318)	29,941	222,773	884	223,657
Net profit for the period	—	—	—	—	—	—	—	26,396	26,396	52	26,448
Changes in fair value recorded in equity	—	—	—	—	—	(190)	—	—	(190)	(16)	(206)
Changes in fair value reclassified from equity to profit or loss	—	—	—	—	—	(154)	—	—	(154)	(3)	(157)
Translation difference on foreign operations	—	—	—	—	—	—	(158)	—	(158)	—	(158)
Total comprehensive income	—	—	—	—	—	(344)	(158)	26,396	25,894	33	25,927
Establishment of new subsidiaries	—	—	—	—	—	—	—	—	—	21	21
Dividends paid and accrued	—	—	—	—	—	—	—	(1,125)	(1,125)	(70)	(1,195)
Transfer to reserve	—	—	—	16,968	5,132	—	—	(22,100)	—	—	—
Balance at 30 June 2011	56,260	69,465	13,780	48,240	29,094	(933)	(1,476)	33,112	247,542	868	248,410
Balance at 1 January 2012	61,886	69,465	18,771	48,240	29,094	(647)	(1,841)	46,834	271,802	986	272,788
Net profit for the period	—	—	—	—	—	—	—	31,088	31,088	52	31,140
Changes in fair value recorded in equity	—	—	—	—	—	1,125	—	—	1,125	22	1,147
Changes in fair value reclassified from equity to profit or loss	—	—	—	—	—	220	—	—	220	—	220
Translation difference on foreign operations	—	—	—	—	—	—	(17)	—	(17)	—	(17)
Total comprehensive income	—	—	—	—	—	1,345	(17)	31,088	32,416	74	32,490
Dividends paid and accrued	—	—	—	—	—	—	—	(6,189)	(6,189)	(35)	(6,224)
Transfer to reserve	—	—	—	9,917	4,808	—	—	(14,725)	—	—	—
Balance at 30 June 2012	**61,886**	**69,465**	**18,771**	**58,157**	**33,902**	**698**	**(1,858)**	**57,008**	**298,029**	**1,025**	**299,054**

(4) Unaudited Condensed Consolidated Statement of Cash Flows

(in millions of RMB)

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

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

(in millions of RMB)

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

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

1. *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 IAS 34 "Interim Financial Reporting" issued by the International Accounting Standards Board.

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

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

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

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

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

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

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

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

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

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

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

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

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

B *Critical accounting estimates and judgments in applying accounting policies*

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

2. *Net interest income*

(in millions of RMB)

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

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

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

(in millions of RMB)

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

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

3. *Fee and commission income*

(in millions of RMB)

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

(in millions of RMB)

	Six months ended 30 June	
	2012	2011
Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss	**253**	140
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	**490**	472

4. *Impairment losses on loans and advances to customers*

(in millions of RMB)

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

5. *Income tax*

(in millions of RMB)

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

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

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

(in millions of RMB)

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

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

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

6. *Basic earnings per share*

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2012	2011
Net profit attributable to shareholders of the Bank (in millions of RMB)	**31,088**	26,396
Weighted average number of ordinary shares in issue (expressed in millions)	**61,886**	61,886
Basic earnings per share (expressed in RMB yuan per share)	**0.50**	0.43

7. *Derivative financial instruments*

(in millions of RMB)

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

(in millions of RMB)

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

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

The Group undertakes its transactions in foreign exchange and interest rate contracts with other financial institutions and customers. Management has established limits for these contracts based on counterparty types, industry sectors and countries. Related risks are regularly monitored and controlled by management.

Credit risk weighted amounts

(in millions of RMB)

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

Contract/notional amount of derivative financial instruments by original currency

(in millions of RMB)

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

Hedge accounting

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

(in millions of RMB)

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

(in millions of RMB)

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

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

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

(in millions of RMB)

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

8. Dividends

(in millions of RMB)

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

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

(i) Making up cumulative losses from prior years, if any;

(ii) Allocations to the non-distributable statutory reserve of 10% of the net profit of a bank as determined under the relevant PRC accounting standards;

(iii) Allocations to statutory general reserve;

(iv) Allocations to the discretionary reserve if approved by the General Meeting. These funds form part of the shareholders' equity.

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

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

9. *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:

(in millions of RMB)

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

Capital expenditure commitments

(in millions of RMB)

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

Operating lease commitments

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

(in millions of RMB)

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

Commitments on security underwriting and bond acceptance

(in millions of RMB)

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

(a) The Bank is entrusted by the MOF to underwrite certain Certificates Type Treasury Bonds. The investors of Certificates Type Treasury Bonds have early redemption right while the Bank has the obligation to buy back those Certificates Type Treasury Bonds. The redemption price is the principal value of the Certificates Type Treasury Bond plus unpaid interest till redemption date.

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

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

Legal proceedings

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

(in millions of RMB)

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

10. Segmental analysis

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

The operating segments derive their revenue primarily from the commercial banking services provided to customers and investing activities, including deposits/loans, bills, trade finance, money market placements and takings and securities investments.

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

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

(in millions of RMB)

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

(in millions of RMB)

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

11. Liquidity risk

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

(in millions of RMB)

	On Demand	**Up to 1 month**	**1–3 months**	**3–12 months**	**1–5 years**	**Over 5 years**	**Overdue**	**Undated**	**Total**
As at 30 June 2012									
Assets									
Cash and balances with central banks	**116,119**	**—**	**—**	**—**	**—**	**—**	**—**	**641,911**	**758,030**
Due from banks and other financial institutions	**84,010**	**451,435**	**64,767**	**55,679**	**2,420**	**—**	**12**	**—**	**658,323**
Financial assets at fair value through profit or loss	**—**	**3,218**	**7,719**	**12,770**	**14,185**	**4,430**	**—**	**104**	**42,426**
Loans and advances to customers	**—**	**216,398**	**324,464**	**909,265**	**644,978**	**634,567**	**13,684**	**—**	**2,743,356**
Investment securities — loans and receivables	**—**	**654**	**75**	**2,321**	**5,687**	**18,616**	**—**	**—**	**27,353**
Investment securities — available-for-sale	**—**	**2,451**	**7,514**	**35,812**	**107,385**	**52,497**	**—**	**2,494**	**208,153**
Investment securities — held-to-maturity	**—**	**8,368**	**20,170**	**61,521**	**302,709**	**165,748**	**—**	**—**	**558,516**
Other assets	**29,178**	**6,533**	**13,048**	**17,589**	**37,335**	**12,057**	**239**	**40,072**	**156,051**
Total assets	**229,307**	**689,057**	**437,757**	**1,094,957**	**1,114,699**	**887,915**	**13,935**	**684,581**	**5,152,208**
Liabilities									
Due to banks and other financial institutions	**(143,048)**	**(161,656)**	**(146,618)**	**(207,216)**	**(389,759)**	**(2,000)**	**—**	**—**	**(1,050,297)**
Financial liabilities at fair value through profit or loss	**(3,564)**	**(361)**	**(1,246)**	**(7,414)**	**(6,400)**	**(1,065)**	**—**	**—**	**(20,050)**
Due to customers	**(1,661,873)**	**(474,577)**	**(439,692)**	**(709,460)**	**(306,705)**	**(5)**	**—**	**—**	**(3,592,312)**
Other liabilities	**(41,891)**	**(7,038)**	**(14,696)**	**(31,982)**	**(51,241)**	**(43,647)**	**—**	**—**	**(190,495)**
Total liabilities	**(1,850,376)**	**(643,632)**	**(602,252)**	**(956,072)**	**(754,105)**	**(46,717)**	**—**	**—**	**(4,853,154)**
Net amount on liquidity gap	**(1,621,069)**	**45,425**	**(164,495)**	**138,885**	**360,594**	**841,198**	**13,935**	**684,581**	**299,054**

(in millions of RMB)

	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2011									
Assets									
Cash and balances with central banks	114,060	—	—	—	—	—	—	622,939	736,999
Due from banks and other financial institutions	62,850	285,382	18,979	75,157	860	—	12	—	443,240
Financial assets at fair value through profit or loss	—	2,715	3,954	15,116	20,200	6,305	—	132	48,422
Loans and advances to customers	—	170,161	282,312	825,120	601,798	617,062	8,932	—	2,505,385
Investment securities — loans and receivables	—	300	1,515	6,555	6,422	13,464	—	—	28,256
Investment securities — available-for-sale	—	2,594	9,300	28,587	95,581	45,288	—	2,742	184,092
Investment securities — held-to-maturity	—	6,504	9,646	105,434	264,029	159,148	—	—	544,761
Other assets	14,421	5,105	10,297	16,578	24,348	10,289	257	38,727	120,022
Total assets	191,331	472,761	336,003	1,072,547	1,013,238	851,556	9,201	664,540	4,611,177
Liabilities									
Due to banks and other financial institutions	(142,593)	(160,682)	(90,138)	(95,629)	(359,027)	(6,430)	—	—	(854,499)
Financial liabilities at fair value through profit or loss	(406)	(1,795)	(1,577)	(4,556)	(9,694)	(893)	—	—	(18,921)
Due to customers	(1,619,891)	(416,608)	(347,850)	(655,603)	(238,556)	(4,724)	—	—	(3,283,232)
Other liabilities	(45,604)	(6,389)	(21,343)	(23,774)	(25,933)	(58,694)	—	—	(181,737)
Total liabilities	(1,808,494)	(585,474)	(460,908)	(779,562)	(633,210)	(70,741)	—	—	(4,338,389)
Net amount on liquidity gap	(1,617,163)	(112,713)	(124,905)	292,985	380,028	780,815	9,201	664,540	272,788

8. PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the Hong Kong Stock Exchange HKExnews website www.hkexnews.hk, as well as the Bank's website www.bankcomm.com. This results announcement is extracted from the 2012 Interim Report which is prepared in accordance with the IFRSs and will be published on the Hong Kong Stock Exchange HKExnews website www.hkexnews.hk and the Bank's website www.bankcomm.com for shareholders' and investors' inspection. The 2012 Interim Report, which is prepared in accordance with PRC GAAP, will be available on the Shanghai Stock Exchange website www.sse.com.cn and the Bank's website www.bankcomm.com. Investors should read the full Interim Report for details of the Interim Results. The Interim Report, prepared in accordance with the IFRSs, is expected to be despatched to the holders of H shares in September 2012.

By order of the Board
Bank of Communications Co., Ltd.
Hu Huaibang
Chairman of the Board

Shanghai, the PRC
30 August 2012

As at the date of this announcement, the directors of the Bank are Mr. Hu Huaibang, Mr. Niu Ximing, Mr. Qian Wenhui, Ms. Yu Yali, Mr. Zhang Jixiang, Mr. Hu Huating*, Ms. Du Yuemei*, Mr. Wong Tung Shun, Peter*, Ms. Fung Yuen Mei, Anita*, Mr. Ma Qiang*, Mr. Lei Jun*, Dr. Li Ka-cheung, Eric#, Mr. Gu Mingchao#, Mr. Wang Weiqiang#, Mr. Peter Nolan#, Mr. Chen Zhiwu#, and Mr. Choi Yiu Kwan#.*

* *Non-executive directors*

\# *Independent non-executive directors*