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)

2011 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 2011 (the "**Reporting Period**"), which have been prepared in accordance with International Accounting Standards 34 — "Interim Financial Reporting" issued by the International Accounting Standards Board. The Board of Directors of the Bank (the "**Board**") and its Audit Committee have reviewed and adopted the Interim Results.

1. CORPORATE INFORMATION

1.1 Stock Exchanges on which shares of the Bank are listed:

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

1.2 Stock Name and Stock Code:

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

1.3 Secretary to the Board: Du Jianglong

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2. FINANCIAL HIGHLIGHTS

The major interim financial data and indicators of the Group for the six months ended 30 June 2011 prepared under the International Financial Reporting Standards ("**IFRS**") are as follows:

(in millions of RMB, unless otherwise stated)

	As at 30 June 2011	As at 31 December 2010	Increase/ (decrease) (%)
Total assets	**4,347,717**	3,951,593	10.02
Includes: loans and advances to customers	**2,433,056**	2,236,927	8.77
Total liabilities	**4,099,307**	3,727,936	9.96
Includes: due to customers	**3,157,975**	2,867,847	10.12
Shareholders' equity (excluding non-controlling interests)	**247,542**	222,773	11.12
Net assets per share (excluding non-controlling interests, in RMB yuan)	**4.40**	3.96	11.11

	January to June 2011	January to June 2010	Increase/ (decrease) (%)
Net interest income	**49,288**	39,896	23.54
Profit before tax	**33,992**	26,151	29.98
Net profit (excluding non-controlling interests)	**26,396**	20,357	29.67
Basic earnings per share (excluding non-controlling interests, in RMB yuan)	**0.43**	0.36	19.44

	As at 30 June 2011 (%)	As at 31 December 2010 (%)	Change (percentage point)
Return on average total assets[1]	**1.27**	1.08	0.19
Return on average shareholders' equity[2]	**22.45**	20.20	2.25
Cost-to-income ratio[3]	**27.30**	32.11	(4.81)
Impaired loans ratio[4]	**0.98**	1.12	(0.14)
Provision coverage of impaired loans[5]	**213.89**	185.84	28.05
Core capital adequacy ratio	**9.41**	9.37	0.04
Capital adequacy ratio	**12.20**	12.36	(0.16)

Notes:

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

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

3. Refers to certain operating expenses as a percentage of certain net operating income.

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

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

3. CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

3.1 Changes in share capital

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

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

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

1. Shareholdings of the top 10 shareholders

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

Notes:

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

2. The aggregate number of shares held by the nominee, HKSCC Nominees Limited, represents the total number of H shares held by all institutional and individual investors who maintain an account with it as at 30 June 2011. (same applies hereinafter)

3. According to the Bank's register of members kept by Computershare Hong Kong Investor Services Limited, the Hongkong and Shanghai Banking Corporation Limited ("**HSBC**") held 10,482,252,967 H shares of the Bank as at 30 June 2011. In addition, according to the disclosure of interests forms filed with the Stock Exchange of Hong Kong Limited ("**Hong Kong Stock Exchange**") by HSBC Holdings plc, HSBC beneficially held 10,716,204,617 H shares of the Bank as at 30 June 2011, representing 19.05% of the Bank's total share capital. (For details, please refer to "4. Substantial shareholders and holders of interest or short positions required to be disclosed under Divisions 2 and 3 of Part XV of the Hong Kong Securities and Futures Ordinance"). (same applies hereinafter)

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

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

Details of connected relations or concerted actions among the above shareholders:	The Bank is not aware of any connected relations among the above shareholders or whether they are parties acting in concert.

3.3 Shareholdings of the top 10 shareholders subject to sales restrictions and the details of restrictions

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

3.4 Substantial shareholders and holders of interest or short positions required to be disclosed under Divisions 2 and 3 of Part XV of the Hong Kong Securities and Futures Ordinance

As at 30 June 2011, to the knowledge of the Bank's directors, supervisors and chief executive, the substantial shareholders and other persons (other than the directors, supervisors and chief executive of the Bank) who had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the Hong Kong Securities and Futures Ordinance ("**SFO**") are 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	11,471,230,045	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	6,388,888,889[2]	Long position	24.09	11.36
Ministry of Finance of the People's Republic of China	Beneficial owner	3,450,000,000	Long position	13.01	6.13
The Hongkong and Shanghai Banking Corporation Limited	Beneficial owner	10,716,204,617	Long position	40.40	19.05
	Interest of controlled corporations[3]	41,377,660	Long position	0.16	0.07
	Total:	**10,757,582,277**		**40.56**	**19.12**
HSBC Finance (Netherlands)	Interest of controlled corporations[4]	10,757,582,277	Long position	40.56	19.12
HSBC Bank plc	Interest of controlled corporations[5]	50,000	Long position	0.0002	0.0001
HSBC Holdings plc	Interest of controlled corporations[6]	10,757,632,277	Long position	40.56	19.12

Notes:

1. Long positions held other than through equity derivatives.

2. According to the information provided by the National Council for Social Security Fund, the National Council for Social Security Fund held 6,388,888,889 H shares of the Bank as at 30 June 2011, representing 11.36% of total share capital of the Bank and all these shares were held through HKSCC Nominees Limited.

3. HSBC holds 62.14% equity interest in Hang Seng Bank Limited. Pursuant to the SFO, HSBC is deemed to hold interest in the Bank's H shares (referred to as "**H Shares**" in this section) held by Hang Seng Bank Limited;

   Hang Seng Bank Limited is deemed to hold interest in the 41,377,660 H Shares held by its wholly-owned subsidiaries. Such 41,377,660 H Shares represent the aggregate of the 41,216,098 H Shares directly held by Hang Seng Bank Trustee International Limited and 161,562 H Shares directly held by Hang Seng Bank (Trustee) Limited.

4. HSBC is wholly-owned by HSBC Asia Holdings BV and HSBC Asia Holdings BV is, in turn wholly-owned by HSBC Asia Holdings (UK) Limited which is wholly-owned by HSBC Holdings BV. Furthermore, HSBC Holdings BV is wholly-owned by HSBC Finance (Netherlands). Pursuant to the SFO, HSBC Asia Holdings BV, HSBC Asia Holdings (UK) Limited, HSBC Holdings BV and HSBC Finance (Netherlands) are each deemed to hold interest in the 10,757,582,277 H Shares where HSBC owned.

5. HSBC Trustee (C.I.) Limited holds 50,000 H Shares. HSBC Trustee (C.I.) Limited is wholly-owned by HSBC Private Bank (C.I.) Limited, which is wholly-owned by HSBC Private Banking Holdings (Suisse) SA. Furthermore, HSBC Private Banking Holdings (Suisse) SA is wholly-owned by HSBC Europe (Netherlands) BV, whose 94.90% of shares are owned by HSBC Bank plc. Pursuant to the SFO, HSBC Private Bank (C.I.) Limited, HSBC Private Banking Holdings (Suisse) SA, HSBC Europe (Netherlands) BV and HSBC Bank plc are each deemed to hold interest in the 50,000 H Shares held by HSBC Trustee (C.I.) Limited.

6. HSBC Finance (Netherlands) and HSBC Bank plc are wholly-owned by HSBC Holdings plc. Pursuant to Note 3, 4 and 5 and the SFO, HSBC Holdings plc is deemed to be interested in the 10,757,582,277 H Shares in which HSBC has an interest and the 50,000 H Shares in which HSBC Bank plc has an interest.

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

4. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

4.1 Changes in shareholdings of directors, supervisors and senior management

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

As at 30 June 2011, none of the Bank's directors, supervisors or chief executive had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO), or which was required to be entered in the register of members pursuant to section 352 of the SFO, or which was required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Listing Rules**"), to be notified to the Bank and the Hong Kong Stock Exchange.

4.2 Changes in directors, supervisors and senior management

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

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

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

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

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

5. MANAGEMENT DISCUSSION AND ANALYSIS

5.1 Group Operation Overview

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

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

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

5.2 Business Review

Business Development — Steady Advancement

The Group proactively responded to dual challenges of national policy adjustments and market changes during the first half of 2011. Seizing new development opportunities, the Group accelerated its pace in business expansion, and achieved a comprehensive and balanced development. At the end of the Reporting Period, the Group's total assets increased by 10.02% from the beginning of the year to RMB4,347,717 million, while the credit portfolio showed a steady and balanced growth, with total outstanding balance of loans and advances to customer (before impairment allowances, same applies hereinafter unless otherwise stated) increased by 8.77% from the beginning of the year to RMB2,433,056 million. Customer deposits increased by 10.12% from the beginning of the year to RMB3,157,975 million and domestic assets-under-management (AUM) balance for individual customers increased by 9.99% from the beginning of the year to RMB1,449,148 million. During the Reporting Period, the financial market business has developed rapidly. The Bank had a total transaction volume reaching RMB5,856.8 billion in the interbank market, increased by 19% as compared with the corresponding period in the prior year. As for the interbank foreign exchange market, total transaction volume amounted to USD262.1 billion, ranking No. 3 among all market makers. Total transaction volume in the proprietary gold trading business increased by 57% as compared with the corresponding period in the prior year to 188.9 tons. In addition, the Bank was granted the gold import and export agency business qualification by the People's Bank of China. Net income from sales of precious metals increased by 62% as compared with the corresponding period in the prior year to RMB186 million. The Bank is one of the pioneering banks selected as a market maker for foreign exchange swap and forward transactions and a trading member of Renminbi to foreign exchange options in the interbank market. It ranked No. 4 among its peers as its accumulated volume of cross-border interbank receipts and payments amounted to RMB64,686 million, and the total offshore assets increased by 138.38% from the beginning of the year to USD5,342 million.

Operating Results: Good Performance

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

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

Lending Structure: Continuous Optimisation

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

Risk Control: Comprehensive Enhancement

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

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

Wealth Management: Customer-oriented Approach

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

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

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

Management Innovation: High Effectiveness

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

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

Channel Structure: Efficient Coordination

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

5.3 Financial Statement Analysis

1. *Income Statement Analysis*

(1) Profit before tax

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

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

(in millions of RMB)

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

(2) Net interest income

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

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

(in millions of RMB unless otherwise stated)

	For the six months ended 30 June 2011			For the six months ended 30 June 2010		
	Average balance	**Interest income/ (expense)**	**Annualised average yield/(cost) ratio (%)**	Average balance	Interest income/ (expense)	Annualised average yield/(cost) ratio (%)
ASSETS						
Balances with central banks	**567,694**	**4,342**	**1.53**	432,198	3,209	1.48
Due from other banks and financial institutions	**195,740**	**3,329**	**3.40**	209,774	1,871	1.78
Loans and advances to customers and receivables	**2,362,704**	**67,555**	**5.72**	1,959,888	49,246	5.03
Includes: Corporate loans and receivables	**1,864,326**	**53,145**	**5.70**	1,513,821	38,809	5.13
Individual loans	**412,443**	**12,068**	**5.85**	315,791	8,525	5.40
Discounted bills	**85,935**	**2,342**	**5.45**	130,276	1,912	2.94
Investment securities	**798,886**	**12,858**	**3.22**	740,045	11,507	3.11
Total interest-bearing assets	**3,877,476[3]**	**87,137[3]**	**4.49**	3,280,769[3]	65,343[3]	3.98
Total non-interest-bearing assets	**178,228**			150,383		
TOTAL ASSETS	**4,055,704[3]**			3,431,152[3]		
LIABILITIES AND SHAREHOLDER'S EQUITY						
Due to customers	**2,876,281**	**23,262**	**1.62**	2,443,005	16,178	1.32
Includes: Corporate deposits	**1,946,872**	**16,416**	**1.69**	1,615,307	10,488	1.30
Individual deposits	**929,409**	**6,846**	**1.47**	827,698	5,690	1.37
Due to other banks and financial institutions	**814,133**	**14,480**	**3.56**	697,540	8,734	2.50
Debt securities issued and others	**65,095**	**1,054**	**3.24**	59,865	1,025	3.42
Total interest-bearing liabilities	**3,707,961[3]**	**37,849[3]**	**2.04**	3,139,274[3]	25,447[3]	1.62
Shareholders' equity and total non-interest-bearing liabilities	**347,743**			291,878		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**4,055,704[3]**			3,431,152[3]		
Net interest income		**49,288**			39,896	
Net interest spread[1]			**2.45[3]**			2.36[3]
Net interest margin[2]			**2.54[3]**			2.43[3]
Net interest spread[1]			**2.53[4]**			2.43[4]
Net interest margin[2]			**2.61[4]**			2.50[4]

Notes:

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

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

3. This eliminates the impact of wealth management products;

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

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

(1) Since the fourth quarter of 2010, the People's Bank of China has raised the benchmark deposit and lending rates several times which caused increases in interest rates during the Reporting Period.

(2) Significant increase in pricing capabilities. During the Reporting Period, the proportion of new RMB loans above benchmark interest rates increased by over 20 percentage points as compared with prior year to 53.2%.

(3) Further optimisation of asset and liability structure. With regards to assets, the proportion of average loans and advances to customers and receivable balances (after impairment allowances) to the average total interest-bearing asset balances increased by 1.19 percentage points to 60.93% as compared with the corresponding period in the prior year.

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

(in millions of RMB)

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

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

(i) Interest income

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

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

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

b) Interest income from investment securities

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

c) Interest income from balances with central banks

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

d) Interest income from other banks and financial institutions

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

(ii) Interest expense

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

a) Interest expense due to customers

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

b) Interest expense due to other banks and financial institutions

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

c) Interest expense from debt securities issued and others

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

(3) Net fee and commission income

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

The table below shows 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	
	2011	2010
Investment banking income	**3,119**	1,783
Fee income on settlement and agent services	**2,062**	1,633
Bank card related fee income	**3,111**	2,351
Guarantee and commitment fee income	**820**	616
Commission income on custodian service	**398**	336
Commission income on sales of investment funds	**286**	323
Funds management fee income	**302**	386
Other fee and commission income	**1,245**	882
Total fee and commission income	**11,343**	8,310
Less: Fee and commission expense	**(1,299)**	(1,185)
Net fee and commission income	**10,044**	7,125

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

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

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

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

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

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

(4) Operating costs

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

(5) Impairment losses on loans and advances to customers

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

(6) Income tax

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

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

(in millions of RMB)

	For the six months ended 30 June	
	2011	2010
Current tax expense	**7,372**	5,690
Deferred tax expense	**172**	33

2. *Analysis on Major Balance Sheet Items*

(1) Assets

At the end of the Reporting Period, the Group's total assets increased by RMB396,124 million or 10.02% from the beginning of the year to RMB4,347,717 million.

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

(in millions of RMB unless otherwise stated)

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

a) Loans and advances to customers

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

Loan concentration by industries

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

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

(in millions of RMB, unless otherwise stated)

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

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

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

Loan concentration by borrowers

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

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

(in millions of RMB unless otherwise stated)

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

Loan concentration by geographical locations

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

Loan quality

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

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

(in millions of RMB unless otherwise stated)

	30 June 2011	31 December 2010
Individually assessed impaired loans	**23,935**	24,988
Loans overdue by more than 90 days	**15,875**	16,297
Individually assessed impaired loans to loans and advances to customers (%)	**0.98**	1.12

Loan customer structure

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

b) Investment securities

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

Distribution of the Group's investment securities

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

— By financial assets classification:

(in millions of RMB unless otherwise stated)

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

— By type of issuers:

(in millions of RMB unless otherwise stated)

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

(2) Liabilities

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

Customer deposits

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

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

(in millions of RMB)

	30 June 2011	31 December 2010
Corporate deposits	**2,172,254**	1,954,936
Includes: Corporate demand deposits	**1,145,020**	1,064,528
Corporate time deposits	**1,027,234**	890,408
Individual deposits	**980,584**	906,301
Includes: Individual demand deposits	**411,304**	385,449
Individual time deposits	**569,280**	520,852

3. *Segmental Analysis*

(a) Operating results by geographical segments

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

(in millions of RMB)

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

Notes:

1. Includes interest income, fee and commission income, dividend income, net income from trading activities, net income arising from the de-recognition of investment securities, income from insurance business and other operating income.

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

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

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

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

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

7. Includes overseas subsidiaries and branches in Hong Kong, New York, Singapore, Tokyo, Seoul, Macau, Frankfurt and Ho Chi Minh City. (same applies hereinafter)

8. Includes non-controlling interests.

(b) Deposits and loans and advances by geographical segments

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

(in millions of RMB)

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

Note: Excluding Head Office.

(c) Operating results by business segments

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

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

(in millions of RMB)

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

5.4 Risk Management

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

1) Risk Management Framework

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

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

2) Credit Risk Management

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

a) Risk classification procedures and methodology

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

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

b) **Risk management and control policies**

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

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

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

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

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

Bank effectively enhanced its credit risk management capabilities, by taking early actions on potential risks through risk prevention and mitigation measures.

c) Asset quality and migration status

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

(in millions of RMB unless otherwise stated)

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

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

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

3) Market Risk Management

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

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

a) Market risk management for trading book

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

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

b) Market risk management for banking book

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

c) Market risk analysis

a. Interest rate risk and sensitivity analysis

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

(in millions of RMB)

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

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

(in millions of RMB)

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

b. Foreign currency risk and sensitivity analysis

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

(in millions of RMB)

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

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

(in millions of RMB)

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

4) *Liquidity Risk Management*

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

During the Reporting Period, the Bank maintained tight control over its lending volume and investing activities in debt securities and notes. The Bank also further expanded its deposit business, maintaining relationships with other financial institutions through pricing method and exploring new financing channels, thereby maintaining the Renminbi liquidity. With respect to foreign currency liquidity, the Bank took tighter control on the scale of foreign currency lending and raised the lending rates to ease the demand for foreign currency loans. The Bank strictly adhered to its principle of lending based on deposits received and its approval policies on new loans. In addition, the Bank also strengthened the attraction of foreign currency deposits and interbank deposits, and improved its planning based on the judgments on the exchange rate movements, as well as the demand for foreign currency settlement and foreign currency loans.

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

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

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

(in millions of RMB)

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

5) *Operational Risk Management*

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

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

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

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

6) Anti-Money Laundering ("AML")

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

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

5.5 Strategic cooperation with HSBC

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

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

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

— Exchange of expertise:

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

— Staff training:

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

— Staff exchange programs:

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

— Bilateral cooperation:

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

Further exploration and expansion of business cooperations:

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

— The development of credit card operations jointly managed by the two banks has gained much momentum. Total credit card issuance at the end of June 2011 exceeded 19.41 million, an increase of 2.80 million from the beginning of the year, and the accumulated consumer spending from January to June 2011 reached RMB152.6 billion, representing an increase of 52.6% as compared with the corresponding period of the prior year.

— For the international banking business, the Bank and HSBC cooperated largely on businesses including foreign exchange treasury transactions, foreign currency remittance, L/C notification, trade financing, foreign currency settlement and the treasury business of overseas-branches. Both banks actively seized the opportunities arising from the improvement of China's position in the global economy and the globalisation of domestic enterprises, and strived to provide better global financing and cash management services to customers by leveraging the strong customer base and vast network of the Bank, along with HSBC's expertise in international business.

— For the corporate banking, both banks continued to serve reputable multinational corporations. Both banks worked closely together on syndicated loan projects through joint marketing to key customers on exploring rural financing, IPO and bond underwriting. The second phase of the computer server integration project has been completed, and the third-party account enquiry function has gone online. The stable operation of the new IT system and the successful piloting projects created a good foundation for stronger service capabilities on global cash management when serving multinational companies.

— For the custodian business, both banks have deepened their cooperation and communication, taking advantage of the accelerated development and globalisation of China's capital market. In recent years, cooperation in custodian business has progressed smoothly, mainly in the areas of international bond fund, QFII, QDII, mutual fund, insurance assets, enterprise annuity and Renminbi financial products.

5.6 Outlook

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

6. SIGNIFICANT EVENTS

(1) Profit distribution

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

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

b) Implementation of the cash dividend policy during the Reporting Period

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

The above rules are strictly enforced by the Bank.

(2) Shareholdings in other companies

a) *Holdings of investment securities*

(in RMB unless otherwise stated)

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

Notes:

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

2. Gain/(loss) during the Reporting Period refers to the impact of such investments on the consolidated net profit.

b) *Holdings of shares of unlisted financial institutions*

(in RMB unless otherwise stated)

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

Notes:

1. The data shown in the table above are extracted from the Group's consolidated financial information.

2. Gain/(loss) during the Reporting Period refers to the dividend income arising from equity investments held during the Reporting Period.

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

(in RMB unless otherwise stated)

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

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

(3) Material litigation and arbitration matters

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

(4) Significant related party transactions

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

(5) Audit committee

The Bank has established the Audit Committee in accordance with the requirements under the Listing Rules. The main responsibilities of the Audit Committee are to review the Bank's internal and external audits, examine and approve financial reports, and oversee the implementation of the Bank's internal control policies as well as efficiency and compliance of internal controls. According to the resolution of the 2010 Annual General Meeting and of the Sixth Meeting of the Sixth Session of the Board, the members of the Audit Committee were — Mr. Li Ka-cheung, Eric, Mr. Gu Mingchao, Mr. Choi Yiu-kwan, Ms. Du Yuemei and Mr. Bu Zhaogang. The qualifications of appointment of Mr. Choi Yiu-kwan, Ms. Du Yuemei and Mr. Bu Zhaogang are still subject to the approval of the CBRC. Mr. Li Ka-cheung, Eric, being an Independent Non-executive Director, serves as the Chairman of the Audit Committee. The Audit Committee and senior management reviewed the Bank's accounting policies and practices and discussed on issues relating to internal controls and financial reporting, which includes the review of Interim Results.

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

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

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

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

(8) Compliance with Code on Corporate Governance Practices under the Listing Rules

The Group endeavours to establish a high standard of corporate governance. The Group believes that effective corporate governance is crucial to maximising shareholder value. In order to maintain a high standard of corporate governance, the Bank established a responsible, professional and accountable Board, Supervisory Committee and experienced senior management. The members of the Board and of the Supervisory Committee, except for employee representative supervisors, were elected by the shareholders at the general meetings. The Bank also established five special committees under the Board, namely the Strategy Committee, the Audit Committee, the Risk Management Committee, the Human Resources and Remuneration Committee and the Social Responsibility Committee. None of the Bank's directors is aware of any information that would reasonably indicate that the Bank has not, for any time during the six-month period ended 30 June 2011, been in compliance with the Code Provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

7. UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(1) Unaudited Condensed Consolidated Statement of Comprehensive Income

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

	Three months ended 30 June		Six months ended 30 June	
	2011	2010	**2011**	2010
Interest income	**46,248**	34,342	**88,084**	65,833
Interest expense	**(20,695)**	(13,476)	**(38,796)**	(25,937)
Net interest income	**25,553**	20,866	**49,288**	39,896
Fee and commission income	**5,759**	4,235	**11,343**	8,310
Fee and commission expense	**(671)**	(579)	**(1,299)**	(1,185)
Net fee and commission income	**5,088**	3,656	**10,044**	7,125
Dividend income	**41**	7	**59**	25
Net gains arising from trading activities	**38**	1	**649**	784
Net gains arising from de-recognition of investment securities	**71**	76	**146**	161
Insurance business income	**216**	102	**320**	313
Other operating income	**823**	837	**1,671**	1,232
Impairment losses on loans and advances to customers	**(2,687)**	(2,660)	**(5,807)**	(5,272)
Insurance business expense	**(169)**	(66)	**(201)**	(271)
Other operating expenses	**(12,175)**	(10,153)	**(22,177)**	(17,842)
Profit before tax	**16,799**	12,666	**33,992**	26,151
Income tax	**(3,662)**	(2,730)	**(7,544)**	(5,723)
Net profit	**13,137**	9,936	**26,448**	20,428

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

	Three months ended 30 June		Six months ended 30 June	
	2011	2010	**2011**	2010
Other comprehensive income				
Available-for-sale ("AFS") financial assets				
Changes in fair value recorded in equity	**(541)**	(101)	**(206)**	401
Changes in fair value reclassified from equity to profit or loss	**(82)**	(86)	**(157)**	(184)
Translation differences on foreign operations	**(86)**	(144)	**(158)**	(181)
Other comprehensive (loss)/income for the period	**(709)**	(331)	**(521)**	36
Total comprehensive income for the period	**12,428**	9,605	**25,927**	20,464
Net profit attributable to:				
Shareholders of the Bank	**13,116**	9,906	**26,396**	20,357
Non-controlling interests	**21**	30	**52**	71
Total comprehensive income attribute to:				
Shareholders of the Bank	**12,416**	9,592	**25,894**	20,428
Non-controlling interests	**12**	13	**33**	36
Basic earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan) (Restated)	**0.19**	0.18	**0.43**	0.36

(2) Unaudited Condensed Consolidated Statement of Financial Position

(In millions of RMB)

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

(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 AFS securities	Other Reserves: Translation reserve on foreign operations	Retained earnings*	Non-controlling interests	Total
Balance at 1 January 2010	48,994	44,404	9,949	15,987	18,456	1,001	(989)	26,046	577	164,425
Net profit	—	—	—	—	—	—	—	20,357	71	20,428
Changes in fair value recorded in equity	—	—	—	—	—	423	—	—	(22)	401
Changes in fair value reclassified from equity to profit or loss	—	—	—	—	—	(171)	—	—	(13)	(184)
Translation difference on foreign operations	—	—	—	—	—	—	(181)	—	—	(181)
Total comprehensive income	—	—	—	—	—	252	(181)	20,357	36	20,464
Establishment and acquisition of new subsidiaries	—	—	—	—	—	—	—	—	145	145
Acquisition of non-controlling interests	—	(29)	—	—	—	—	—	—	(16)	(45)
Capital increase in a subsidiary	—	—	—	—	—	—	—	—	113	113
Dividends paid and accrued	—	—	—	—	—	—	—	(4,899)	(53)	(4,952)
Transfer to reserve	—	—	—	15,285	5,506	—	—	(20,791)	—	—
A share rights issued	3,806	13,194	—	—	—	—	—	—	—	17,000
Balance at 30 June 2010	52,800	57,569	9,949	31,272	23,962	1,253	(1,170)	20,713	802	197,150
Balance at 1 January 2011	56,260	69,465	13,780	31,272	23,962	(589)	(1,318)	29,941	884	223,657
Net profit	—	—	—	—	—	—	—	26,396	52	26,448
Changes in fair value recorded in equity	—	—	—	—	—	(190)	—	—	(16)	(206)
Changes in fair value reclassified from equity to profit or loss	—	—	—	—	—	(154)	—	—	(3)	(157)
Translation difference on foreign operations	—	—	—	—	—	—	(158)	—	—	(158)
Total comprehensive income	—	—	—	—	—	(344)	(158)	26,396	33	25,927
Establishment of new subsidiaries	—	—	—	—	—	—	—	—	21	21
Dividends paid and accrued	—	—	—	—	—	—	—	(1,125)	(70)	(1,195)
Transfer to reserve	—	—	—	16,968	5,132	—	—	(22,100)	—	—
Balance at 30 June 2011	**56,260**	**69,465**	**13,780**	**48,240**	**29,094**	**(933)**	**(1,476)**	**33,112**	**868**	**248,410**

* Included RMB5,626 million as of 30 June 2011 to be distributed as stock dividend stipulated in Note 8.

(4) Unaudited Condensed Consolidated Statement of Cash Flows

	(in millions of RMB)	
	Six months ended 30 June	
	2011	2010
Cash flows from operating activities:		
Profit before tax:	**33,992**	26,151
Adjustments for:		
Impairment of loans and advances to customers	**5,437**	5,060
Impairment of finance lease receivables	**118**	68
(Reversal of)/provision for impairment of other receivables	**(16)**	6
Insurance contracts reserve	**201**	271
Impairment of investment securities	**5**	78
Depreciation of property and equipment	**1,654**	1,485
Amortisation of deferred assets	**228**	195
Amortisation of land use rights	**15**	17
Amortisation of intangible assets	**91**	118
Interest income from investment securities	**(12,858)**	(11,507)
Net gains arising from de-recognition of investment securities	**(146)**	(161)
Net (gains)/losses on disposal of property and equipment	**(65)**	28
Increase in revaluation of investment property	**(54)**	(13)
Interest expense on debt securities issued	**981**	993
Dividend income	**(59)**	(25)
Operating cash flows before movements in operating assets and liabilities	**29,524**	22,764
Net increase in mandatory reserve deposits	**(70,786)**	(62,386)
Net increase in due from other banks and financial institutions	**(96,345)**	(76,870)
Net decrease/(increase) in financial assets at fair value through profit or loss	**27**	(15,729)
Net increase in loans and advances to customers	**(196,743)**	(233,239)
Net increase in other assets	**(17,916)**	(18,138)
Net increase in due to other banks and financial institutions	**61,643**	14,442
Net increase in financial liabilities at fair value through profit or loss	**6,760**	1,790
Net increase in due to customers	**290,128**	330,876
Net increase in other liabilities	**10,928**	18,364
Net increase in business tax payable	**371**	90
Income tax paid	**(7,171)**	(5,112)
Net cash generated/(used) in operating activities	**10,420**	(23,148)

(in millions of RMB)

	Six months ended 30 June	
	2011	2010
Cash flows from investing activities:		
Acquisition of subsidiary, net of cash paid	**—**	(173)
Purchase of investment securities	**(144,522)**	(209,142)
Disposal or redemption of investment securities	**140,418**	173,840
Dividends received	**59**	25
Interest received from investment securities	**12,298**	11,541
Acquisition of intangible assets and deferred assets	**(183)**	(230)
Disposal of land use rights	**—**	2
Purchase and construction of property and equipment	**(2,204)**	(2,215)
Disposal of property and equipment	**246**	123
Net cash generated/(used) in investing activities	**6,112**	(26,229)
Cash flows from financing activities:		
Cash received from A share rights issued, net	**—**	17,125
Issuance cost paid for A share rights issued	**—**	(5)
Interest paid on debt securities issued	**(997)**	(1,046)
Dividends paid to shareholders of the Bank	**—**	(4,901)
Capital contribution by non-controlling interests	**21**	186
Acquisition of non-controlling interests	**—**	(45)
Dividends paid to non-controlling interests	**(10)**	(8)
Net cash (used)/generated in financing activities	**(986)**	11,306
Effect of exchange rate changes on cash and cash equivalents	**(142)**	(933)
Net increase/(decrease) in cash and cash equivalents	**15,404**	(39,004)
Cash and cash equivalents at the beginning of the period	**156,899**	168,498
Cash and cash equivalents at the end of the period	**172,303**	129,494
Supplementary Information		
Interest received	**86,214**	64,987
Interest paid	**(36,844)**	(22,855)

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

1 Basis of Preparation and Accounting Estimates and Judgments

This unaudited condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board.

This unaudited condensed consolidated interim financial information of the Bank and its subsidiaries should be read in conjunction with the 2010 annual financial statements.

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

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

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

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

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

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

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

2 *Net Interest Income*

(in millions of RMB)

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

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

3 *Fee and Commission Income*

(in millions of RMB)

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

(in millions of RMB)

	Six months ended 30 June	
	2011	2010
Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss	**140**	102
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	**472**	336

4 *Impairment Losses on Loans and Advances to Customers*

(in millions of RMB)

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

5 *Income Tax*

(in millions of RMB)

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

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

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

(in millions of RMB)

	Three months ended 30 June		Six months ended 30 June	
	2011	2010	**2011**	2010
Profit before tax	**16,799**	12,666	**33,992**	26,151
Tax calculated at a tax rate of 25%	**4,200**	3,167	**8,498**	6,538
Effect of different tax rates in other countries (or region)	**(6)**	(5)	**(9)**	4
Tax effect arising from income not subject to tax (1)	**(595)**	(446)	**(1,073)**	(871)
Tax effect of expenses that are not deductible for tax purposes (2)	**63**	14	**128**	52
Income tax expense	**3,662**	2,730	**7,544**	5,723

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

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

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.

(in millions of RMB)

	Six months ended 30 June	
	2011	2010 (Restated)
Profit attributable to shareholders of the Bank	**26,396**	20,357
Weighted average number of ordinary shares in issue	**61,886**	56,377
Basic earnings per share (expressed in RMB per share)	**0.43**	0.36

The ordinary shares as of 30 June 2011 and 2010 were adjusted by taking into the consideration of stock dividends declared in Note 8.

7 Derivative Financial Instruments

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

(in millions of RMB)

	Contract/ notional Amount	Fair values	
		Assets	Liabilities
As at 30 June 2011			
Foreign exchange contracts	**617,829**	**2,963**	**(3,087)**
Interest rate contracts	**301,276**	**1,457**	**(2,084)**
Total amount of derivative instruments recognised	**919,105**	**4,420**	**(5,171)**

(in millions of RMB)

	Contract/ notional Amount	Fair values	
		Assets	Liabilities
As at 31 December 2010			
Foreign exchange contracts	549,996	3,450	(3,397)
Interest rate contracts	235,596	1,281	(1,753)
Total amount of derivative instruments recognised	785,592	4,731	(5,150)

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

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

Credit risk weighted amounts

(in millions of RMB)

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

Notional amounts of derivative financial instruments by original currency

(in millions of RMB)

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

8 Dividends

(in millions of RMB)

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

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

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

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

(c) Allocations to statutory general reserve;

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

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

On 30 March 2011, the resolution of the Fifth Meeting of the Sixth Session of the Board was approved at the Annual General Meeting on 28 June 2011, that the Bank transferred a total of RMB5,132 million to the statutory general reserve. Based on the share capital of 56,260 million shares (each with face value of RMB1) as at 31 December 2010, the Bank was to issue its A share and H share shareholders. A profit appropriation was also approved as follows: (i) a ten-for-one stock dividend, amounting to RMB5,626 million, (ii) cash dividend of RMB0.20 (before tax) per every 10 shares, amounting to RMB1,125 million, and (iii) a transfer of RMB16,968 million to discretionary reserve. The registration date for the above stock and cash dividends is 18 July 2011. The actual distribution date is 18 August 2011.

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

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)

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

Capital expenditure commitments

(in millions of RMB)

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

Operating lease commitments

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

(in millions of RMB)

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

Commitments on security underwriting and bond acceptance

(in millions of RMB)

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

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

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

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

Legal proceedings

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

(in millions of RMB)

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

10 Segmental Analysis

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

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

(in millions of RMB)

Six months ended 30 June 2011	**Head Office**	**Northern China**	**North Eastern China**	**Eastern China**	**Central & 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	**1,207**	**2,904**	**974**	**4,215**	**2,636**	**899**	**199**	**(13,034)**	**—**
Total income	**23,396**	**18,034**	**5,216**	**38,269**	**18,636**	**8,076**	**3,679**	**(13,034)**	**102,272**
Profit before tax	**6,365**	**2,467**	**1,246**	**11,934**	**7,304**	**3,361**	**1,315**	**—**	**33,992**

Six months ended 30 June 2010	Head Office	Northern China	North Eastern China	Eastern China	Central & Southern China	Western China	Overseas	Eliminations	Group Total
External income	18,450	11,107	2,884	25,170	11,529	5,243	2,275	—	76,658
Inter-segment income	728	2,722	906	3,572	2,428	797	94	(11,247)	—
Total income	19,178	13,829	3,790	28,742	13,957	6,040	2,369	(11,247)	76,658
Profit before tax	4,509	2,404	712	9,818	5,422	2,384	902	—	26,151

11 *Liquidity Risk*

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

(in millions of RMB)

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

(in millions of RMB)

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

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 2011 Interim Report which is prepared in accordance with International Financial Reporting Standards. The full report is published and accessible to shareholders and investors on the Hong Kong Stock Exchange HKExnews website www.hkexnews.hk and the Bank's website www.bankcomm.com. The 2011 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 who are interested to understand the Interim Results in details should read the full Interim Report. The Interim Report, prepared in accordance with International Financial Reporting Standards, is expected to be despatched to the holders of H shares in September 2011.

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

Shanghai, the PRC
18 August, 2011

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

* *Non-executive directors*
\# *Independent non-executive directors*