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YOUR WEALTH MANAGEMENT BANK

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)

2014 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors of Bank of Communications Co., Ltd. (the “**Bank**”) is pleased to announce the unaudited consolidated financial information (the “**Interim Results**”) of the Bank and its subsidiaries (the “**Group**”) for the six months ended 30 June 2014 (the “**Reporting Period**”), which has been prepared in accordance with the International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board. The Board of Directors of the Bank (the “**Board of Directors**”) and the Audit Committee of the Board of Directors have reviewed and adopted the Interim Results.

1. CORPORATE INFORMATION

(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

(2) Stock Name and Stock Code:

A Share: Bank of Communications, 601328

H Share: BANKCOMM, 03328

(3) Company Secretary: Du Jianglong

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2. FINANCIAL HIGHLIGHTS

The major interim financial data and indicators of the Group as at 30 June 2014 prepared under the International Financial Reporting Standards (“IFRS”) were as follows:

(in millions of RMB unless otherwise stated)

Major Financial Data	As at 30 June 2014	As at 31 December 2013	Increase/ (decrease) (%)
Total assets	6,283,936	5,960,937	5.42
Include: loans and advances to customers	3,433,769	3,266,368	5.12
Total liabilities	5,841,390	5,539,453	5.45
Include: due to customers	4,375,920	4,157,833	5.25
Shareholders’ equity attributable to shareholders of the parent company	440,503	419,561	4.99
Net assets per share attributable to shareholders of the parent company (in RMB yuan)	5.93	5.65	4.96
Net Capital ¹	523,626	516,482	1.38
Includes: Core Tier 1 Net Capital ¹	439,595	416,961	5.43
Other Tier 1 Capital ¹	9	4	125.00
Tier 2 Capital ¹	84,022	99,517	(15.57)
Risk-weighted assets ¹	4,106,731	4,274,068	(3.92)
	January to June 2014	January to June 2013	Increase/ (decrease) (%)
Net interest income	67,211	65,008	3.39
Profit before tax	47,195	45,060	4.74
Net profit attributable to shareholders of the parent company	36,773	34,827	5.59
Earnings per share attributable to shareholders of the parent company (in RMB yuan)	0.50	0.47	6.38
	January to June 2014	January to June 2013	Changes (percentage point)
Main Financial Indicator (%)			
Cost-to-income ratio ²	25.71	25.20	0.51
Return on average assets	1.21	1.27	(0.06)
Return on average shareholders’ equity	17.10	17.95	(0.85)
	As at 30 June 2014	As at 31 December 2013	Changes (percentage point)
Impaired loans ratio	1.13	1.05	0.08
Provision coverage of impaired loans	204.16	213.65	(9.49)
Capital adequacy ratio ¹	12.75	12.08	0.67
Tier 1 capital adequacy ratio ¹	10.70	9.76	0.94
Core tier 1 capital adequacy ratio ¹	10.70	9.76	0.94

Notes:

1. Calculated pursuant to the “Administrative Measures for the Capital of Commercial Banks (Provisional)” issued by the China Banking Regulatory Commission (“CBRC”). As at the end of June 2014, the Bank has implemented the advanced method of capital management upon receiving approval from regulatory authorities. Therefore the changes in the current period include the impacts from the changes in capital calculation method.
2. Refers to business and administrative expenses against the total of various net incomes.

3. CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

(1) Changes in share capital

As at 30 June 2014, the Bank has issued a total of 74,262,726,645 shares, including 39,250,864,015 A shares, accounting for 52.85%, and 35,011,862,630 H shares, accounting for 47.15%.

1 January 2014				Changes (+/-)				30 June 2014	
	Number of shares	Percentage (%)	Issue of new shares	Bonus shares	Shares transferred from the surplus reserve	Others	Sub-total	Number of shares	Percentage (%)
I. Shares subject to sales restrictions	6,541,810,669	8.81	—	—	—	—	—	6,541,810,669	8.81
1. State-owned shares	4,407,854,231	5.94	—	—	—	—	—	4,407,854,231	5.94
2. Shares held by state-owned legal persons	1,428,571,426	1.92	—	—	—	—	—	1,428,571,426	1.92
3. Shares held by other domestic investors	705,385,012	0.95	—	—	—	—	—	705,385,012	0.95
Include:									
Shares held by domestic non state-owned legal persons	705,385,012	0.95	—	—	—	—	—	705,385,012	0.95
Shares held by domestic natural persons	—	—	—	—	—	—	—	—	—
4. Shares held by foreign investors	—	—	—	—	—	—	—	—	—
II. Shares not subject to sales restrictions	67,720,915,976	91.19	—	—	—	—	—	67,720,915,976	91.19
1. RMB ordinary shares	32,709,053,346	44.04	—	—	—	—	—	32,709,053,346	44.04
2. Domestically-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares	35,011,862,630	47.15	—	—	—	—	—	35,011,862,630	47.15
4. Others	—	—	—	—	—	—	—	—	—
III. Total	74,262,726,645	100.00	—	—	—	—	—	74,262,726,645	100.00

(2) Shareholdings of the shareholders (according to the Bank's register of members maintained at its share registrar)

I. Number of shareholders

As at the end of the Reporting Period, the Bank has 397,268 shareholders, including 355,517 holders of A shares and 41,751 holders of H shares.

II. Shareholdings of the top 10 shareholders

Name of shareholder	Nature of shareholders	Increase/decrease in number of shares held during the Reporting Period	Number of shares held as at the end of the Reporting Period	Shareholding percentage (%)	Number of shares held subject to sales restrictions	Number of shares pledged or frozen ¹
Ministry of Finance of the People's Republic of China	State	—	19,702,693,828	26.53	2,530,340,780	Nil
HKSCC Nominees Limited ²	Foreign legal person	1,296,520	14,902,665,480	20.07	—	Unknown
The Hongkong and Shanghai Banking Corporation Limited ³	Foreign legal person	—	13,886,417,698	18.70	—	Nil
National Council for Social Security Fund ⁴	State	—	3,283,069,006	4.42	1,877,513,451	Unknown
Capital Airports Holding Company	State-owned legal person	—	1,246,591,087	1.68	—	Unknown
Shanghai Haiyan Investment Management Co., Ltd.	State-owned legal person	—	808,145,417	1.09	439,560,439	Unknown
Ping An Life Insurance Company of China, Ltd. — Traditional — high interest rate policy products	Other Domestic entity	—	705,385,012	0.95	705,385,012	Unknown
China FAW Group Corporation	State-owned legal person	—	663,941,711	0.89	439,560,439	Unknown
Yunnan Hongta Group Co., Ltd.	State-owned legal person	—	658,467,013	0.89	219,780,219	Unknown
Luneng Group Co., Ltd.	State-owned legal person	—	571,078,169	0.77	—	Unknown

Notes:

1. Unless otherwise stated, the Bank is not aware of any circumstances where shares held by the above shareholders have been pledged or frozen, or the existence of any connected relationship among the above shareholders, or whether they are parties acting in concert as defined in the “*Measures for the Administration of the Takeover of Listed Companies*”.
2. The aggregate number of shares held by the nominee, HKSCC Nominees Limited, represents the total number of H shares of the Bank held by all institutional and individual investors who maintained an account with it as at 30 June 2014. (Same applies hereinafter)
3. According to the Bank's register of members, The Hongkong and Shanghai Banking Corporation Limited (“**HSBC**”) held 13,886,417,698 H shares of the Bank as at 30 June 2014. In addition, according to the disclosure of interests forms filed with The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) by HSBC Holdings plc, HSBC beneficially held 14,135,636,613 H shares of the Bank as at 30 June 2014, representing 19.03% of the Bank's total share capital. Please refer to “Substantial shareholders and holders of interests or short positions required to be disclosed under Divisions 2 and 3 of Part XV of the Hong Kong Securities and Futures Ordinance” for details of the H shares that deemed to be beneficially owned by HSBC. (Same applies hereinafter)
4. According to the information provided by the National Council for Social Security Fund (“**SSF**”) to the Bank, as at 30 June 2014, other than the shareholdings recorded in the register of members of the Bank, SSF held additional 7,027,777,777 H shares of the Bank, representing 9.46% of the Bank's total share capital, which has been registered under HKSCC Nominees Limited. As at 30 June 2014, SSF held a total of 10,310,846,783 A shares and H shares of the Bank, representing 13.88% of the Bank's total share capital. (Same applies hereinafter)

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

Name of shareholders	Number of shares held not subject to sales restrictions	Class of shares
Ministry of Finance of the	12,618,353,049	A Shares
People's Republic of China	4,553,999,999	H Shares
HKSCC Nominees Limited	14,902,665,480	H Shares
HSBC	13,886,417,698	H Shares
SSF	1,405,555,555	H Shares
Capital Airports Holding Company	1,246,591,087	A Shares
Luneng Group Co., Ltd.	571,078,169	A Shares
Yunnan Hongta Group Co., Ltd.	438,686,794	A Shares
Shanghai Haiyan Investment Management Co., Ltd.	368,584,978	A Shares
Sinopec Finance Co., Ltd.	363,956,733	A Shares
Aviation Industry Corporation of China	310,678,434	A Shares
Details of connected relationship or acting in concert among the above shareholders:	(1) The Bank is not aware of the existence of any connected relationship among the above shareholders, or whether they are parties acting in concert as defined in the “<i>Measures for the Administration of the Takeover of Listed Companies</i>”. (2) The Bank is not aware of the existence of any connected relationship between the top 10 shareholders not subject to sales restrictions and the top 10 shareholders, or whether they are parties acting in concert as defined in the “<i>Measures for the Administration of the Takeover of Listed Companies</i>”.	

IV. Shareholdings of the shareholders subject to sales restrictions

The Bank made the non-public issuance of A shares and H shares in 2012. The shareholders subscribing for the A shares undertook not to transfer such A shares within 36 months from the date of completion of the issuance. These A shares will be listed and commence trading on 23 August 2015 (such date shall be extended to the next trading date in the event of public holidays or non-working days). Please refer to the following table for details.

Name of shareholders	Number of shares held subject to sales restrictions	Percentage of total issued shares subject to sales restrictions (%)	Lock-up period
Ministry of Finance of the People's Republic of China	2,530,340,780	38.68	36 months
SSF	1,877,513,451	28.70	36 months
Ping An Life Insurance Company of China, Ltd. — Traditional — High interest rate policy products	705,385,012	10.78	36 months
China FAW Group Corporation	439,560,439	6.72	36 months
Shanghai Haiyan Investment Management Co., Ltd.	439,560,439	6.72	36 months
China National Tobacco Corporation — Zhejiang Branch	329,670,329	5.04	36 months
Yunnan Hongta Group Co., Ltd.	219,780,219	3.36	36 months

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

As at 30 June 2014, to the knowledge of the Directors, Supervisors and Chief Executive of the Bank, the substantial shareholders and other persons (other than the Directors, Supervisors and Chief Executive of the Bank) who had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the Hong Kong Securities and Future Ordinance (the “SFO”) were as follows:

Name of substantial shareholders	Capacity	Number of A shares	Nature of interest ¹	Approximate percentage of total issued A shares (%)	Approximate percentage of total issued shares (%)
Ministry of Finance of the People’s Republic of China	Beneficial owner	15,148,693,829 ²	Long position	38.59	20.40
SSF	Beneficial owner	1,877,513,451	Long position	4.78	2.53
Name of substantial shareholders	Capacity	Number of H shares	Nature of interest ¹	Approximate percentage of total issued H shares (%)	Approximate percentage of total issued shares (%)
SSF	Beneficial owner	8,433,333,332	Long position	24.09	11.35
Ministry of Finance of the People’s Republic of China	Beneficial owner	4,553,999,999 ²	Long position	13.01	6.13
HSBC	Beneficial owner	14,135,636,613	Long position	40.37	19.03
	Interest of controlled corporations ³	2,674,232	Long position	0.01	0.004
Total:		14,138,310,845		40.38	19.04
HSBC Finance (Netherlands)	Interest of controlled corporations ⁴	14,138,310,845	Long position	40.38	19.04
HSBC Bank plc	Beneficial owner	9,012,000	Long position	0.03	0.01
	Interest of controlled corporations ⁵	63,250	Long position	0.0002	0.0001
Total		9,075,250		0.03	0.01
HSBC Holdings plc	Interest of controlled corporations ⁶	14,147,386,095	Long position	40.41	19.05

Notes:

1. Long positions held other than through equity derivatives.
2. To the knowledge of the Bank, as at 30 June 2014, the Ministry of Finance of the People's Republic of China held 4,553,999,999 H shares and 15,148,693,829 A shares of the Bank, representing 6.13% and 20.40% of the total share capital of the Bank, respectively.
3. HSBC holds 62.14% equity interest in Hang Seng Bank Limited. Pursuant to the SFO, HSBC is deemed to be interested in the Bank's H shares held by Hang Seng Bank Limited.

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

4. HSBC is wholly owned by HSBC Asia Holdings BV and HSBC Asia Holdings BV is, in turn wholly owned by HSBC Asia Holdings (UK) Limited which is wholly owned by HSBC Holdings BV. Furthermore, HSBC Holdings BV is wholly owned by HSBC Finance (Netherlands). Pursuant to the SFO, each of HSBC Asia Holdings BV, HSBC Asia Holdings (UK) Limited, HSBC Holdings BV and HSBC Finance (Netherlands) is deemed to be interested in the 14,138,310,845 H shares held by HSBC.
5. HSBC Trustee (C.I.) Limited holds 63,250 H shares. HSBC Trustee (C.I.) Limited is wholly owned by HSBC Private Bank (C.I.) Limited, which is wholly owned by HSBC Private Banking Holdings (Suisse) SA. Furthermore, HSBC Private Banking Holdings (Suisse) SA is wholly owned by HSBC Europe (Netherlands) BV, which is in turn owned as to 94.90% by HSBC Bank plc. Pursuant to the SFO, each of HSBC Private Bank (C.I.) Limited, HSBC Private Banking Holdings (Suisse) SA, HSBC Europe (Netherlands) BV and HSBC Bank plc is deemed to be interested in the 63,250 H shares held by HSBC Trustee (C.I.) Limited.
6. Both HSBC Finance (Netherlands) and HSBC Bank plc are wholly owned by HSBC Holdings plc. Pursuant to Notes 3, 4, 5, and the SFO, HSBC Holdings plc is deemed to be interested in the 14,138,310,845 H shares held by HSBC and the 9,075,250 H shares held by HSBC Bank plc.

Save as disclosed above, on 30 June 2014, no other person (excluding the Directors, Supervisors and Chief Executive of the Bank) or corporation was recorded in the register required to be kept under Section 336 of the SFO as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(1) Changes in shareholdings of Directors, Supervisors and Senior Management

Name	Position	Class of Shares	Number of shares held at the beginning of the year	Increase in shareholdings during the Reporting Period	Decrease in shareholdings during the Reporting Period	Number of shares held at the end of the Reporting Period	Reason for changes in shareholdings
Niu Ximing	Chairman of the Board of Directors and Executive Director	A Shares	—	106,000	—	106,000	Purchased from secondary market
Peng Chun	Vice chairman of the Board of Directors, Executive Director and President	A Shares	—	100,000	—	100,000	Purchased from secondary market
Song Shuguang	Chairman of the Board of Supervisors	A Shares	—	50,000	—	50,000	Purchased from secondary market
Qian Wenhui	Executive Director and Executive Vice President	A Shares	—	30,000	—	30,000	Purchased from secondary market
Yu Yali	Executive Director, Executive Vice President and Chief Financial Officer	A Shares	—	30,000	—	30,000	Purchased from secondary market
Hu Huating	Non-Executive Director	A Shares	—	30,000	—	30,000	Purchased from secondary market
Du Yuemei	Non-Executive Director	A Shares	—	38,000	—	38,000	Purchased from secondary market
Wang Taiyin	Non-Executive Director	A Shares	—	30,000	—	30,000	Purchased from secondary market
Shou Meisheng	Executive Vice President and Secretary of the Commission for Discipline Inspection	A Shares	—	29,100	—	29,100	Purchased from secondary market
Hou Weidong	Executive Vice President and Chief Information Officer	A Shares	—	30,000	—	30,000	Purchased from secondary market
Zhu Hexin	Executive Vice president	A Shares	—	30,000	—	30,000	Purchased from secondary market
Yang Dongping	Chief Risk Officer	A Shares	94,820	29,600	—	124,420	Purchased from secondary market
Du Jianglong	Secretary to the Board of Directors	A Shares	—	30,000	—	30,000	Purchased from secondary market
Lv Benxian	Corporate Business Director	A Shares	—	30,000	—	30,000	Purchased from secondary market

The Directors, Supervisors and Senior Management have undertaken that the above-mentioned shares they purchased from the secondary market shall be subject to a lock-up period of three years commencing from the date of the purchase.

As at 30 June 2014, save as disclosed above, none of the Bank's Directors, Supervisors or Chief Executive had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required to be recorded in the register as kept pursuant to section 352 of the SFO, or which were required, pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Hong Kong Listing Rules**"), to be notified to the Bank and the Hong Kong Stock Exchange.

(2) Changes in Directors, Supervisors and Senior Management

- I. On 29 April 2014, Mr. Wang Weiqiang tendered his resignation as an Independent Non-executive Director of the Bank and the chairman and a member of the Risk Management Committee of Board of Directors due to other work arrangements; and Mr. Liu Tinghuan tendered his resignation as an Independent Non-executive Director, the chairman and a member of the Personnel and Remuneration Committee of Board of Directors and a member of the Audit Committee of Board of Directors due to other work arrangements. Such resignations will take effect after the new Independent Non-executive Directors being elected at the general meeting of the Bank and their qualifications as Directors of the Bank being approved by the CBRC.
- II. On 30 April 2014, Mr. Jiang Yunbao tendered his resignation as an External Supervisor, the chairman and a member of the Nomination Committee of the Board of Supervisors and a member of the Performance and Due Diligence Committee of the Board of Supervisors due to the reason of age.
- III. On 25 June 2014, as considered and approved at the 2013 Annual General Meeting of the Bank, Mr. Liu Changshun was elected as a Non-executive Director of the Bank, and Ms. Li Jian and Mr. Liu Li were elected as Independent Non-executive Directors of the Bank. The qualifications of the above-mentioned persons as Directors of the Bank are yet to be approved by the CBRC.
- IV. On 25 June 2014, Mr. Hua Qingshan resigned as the Chairman of the Board of Supervisor, a Supervisor, and the chairman and a member of the Performance and Due Diligence Committee of the Board of Supervisors due to the reason of age.
- V. On 25 June 2014, as considered and approved at the 2013 Annual General Meeting of the Bank, Mr. Song Shuguang and Ms. Tang Xinyu were elected as Supervisors of the Bank. In addition, Mr. Song Shuguang was elected as the Chairman of the Board of Supervisors of the Bank at the Fifth Meeting of the Seventh Session of the Board of Supervisors.

5. MANAGEMENT DISCUSSION AND ANALYSIS

(1) Business Review

As at the end of the Reporting Period, the Group's total assets were RMB6,283.936 billion, representing an increase of 5.42% from the beginning of the year. Total customer deposit amounted to RMB4,375.920 billion, representing an increase of 5.25% from the beginning of the year. Balance of loans and advances to customers (before impairment allowances, hereinafter the same applies unless otherwise stated) was RMB3,433.769 billion, representing a growth of 5.12% from the beginning of the year. Net profit for the first half of the year was RMB36.773 billion, representing a year-on-year growth of 5.59%. Annualised average return on assets (ROAA) and annualised average return on shareholders' equity (ROAE) were 1.21% and 17.10%, increased by 0.10 and 1.52 percentage points, respectively as compared to the whole year of last year. Net interest spread and net interest margin were 2.20% and 2.39%, decreased by 19 and 17 basis points, respectively as compared to the same period of last year. The impaired loans ratio increased by 0.08 percentage point from the beginning of the year to 1.13%. The provision coverage of impaired loans decreased by 9.49 percentage points from the beginning of the year to 204.16%. Capital adequacy ratio and Tier 1 capital adequacy ratio were 12.75% and 10.70%, respectively, which were in compliance with the regulatory requirements.

The Group continued to rank among FORTUNE 500. It ranked No. 217 in terms of operating income, ascended by 26 positions from the prior year. The Group ranked No. 19 among the global top 1,000 banks in terms of Tier 1 Capital based on rating from The Banker, up by 4 positions from the prior year, ranking among top 20 banks for the first time.

I. Corporate Banking

- During the Reporting Period, the profit before tax of the corporate banking business sector of the Group amounted to RMB26.696 billion, representing a year-on-year increase of 2.03%. The net fee and commission income increased by 11.88% year-on-year, to RMB8.953 billion. "Win To Fortune" high end customers increased by 8.64% compared to the same period of last year.
- As at the end of the Reporting Period, the Group's corporate deposit balance increased to RMB2,977.576 billion, representing an increase of 6.27% from the beginning of the year. The corporate loan balance increased by 3.88% from the beginning of the year to RMB2,612.661 billion.
- As at the end of the Reporting Period, the Group's corporate impaired loan balance increased by 12.68% from the beginning of the year to RMB28.427 billion. The impaired loan ratio increased by 0.09 percentage point from the beginning of the year to 1.09%.

Following the “BoCom strategy”, the Group was driven by customer demands and actively developed itself into a professional, efficient, internal growth driven and low capital consumption bank. The Bank widened the “BoCom-HSBC 1+1” collaboration, established off-shore financing platform and accelerated the development of China (Shanghai) Pilot Free Trade Zone (“FTZ”) finance and cross-border collaboration. The intra-group collaborations were carried out with different dimensions to push forward product innovation and encourage close cooperation between the Bank and the corporations. The rapid development of direct financing services increased the total financing scales and effectively met the wealth management demands from the customers. The Bank strengthened the top-level design and took the leading role amongst the state-owned large commercial banks in piloting business unit structure for large customer services. The Bank leveraged the risk structure of small scaled middle office, reinforced risk alert and risk responses mechanism, and strengthened post-lending management to avoid credit risk. Following the trend of internet finance, the Bank accelerated the construction on “Big Data” analysis system in order to achieve rapid information integration and continue on promoting the core competitive edge of the Bank in corporate banking business.

(1) Corporate and institutional business

The Bank promoted the “Win to Fortune Accompanying You” roadshow tours which continuously improved the “Win to Fortune” brand influence. Comprehensive strategic cooperation agreements were signed with leading companies in the industries of telecommunication, agricultural and transportation in order to enhance the support to key customers. The Bank placed emphasis on the marketing of institutional financial services and achieved direct system interface with provincial lottery centres. In addition, the customer deposits from government financial offices and key industries such as railways achieved steady growth. The Bank closely followed the regulatory and market news, captured market opportunities and actively explored the pilot runs for corporate certificate of deposits. The Bank had achieved the leading position in the market share of insurance funds debt investments guarantee business. Taking advantage of the Group synergy, the Bank accomplished the launching of the domestic aircraft landing spot leasing business. The Bank systematically managed the credit funding by establishing funding optimisation goals and clarifying the strategic direction for loan granting. It also placed emphasis on the development of non-credit business, such as accomplishing the first domestic direct financing to the auto industry, and effectively expanded the profit making potential of the Bank. Breakthroughs were achieved with the FTZ finance. The Bank became the first batch of banks to implement the foreign currency funding centralised management project for multi-national companies in the FTZ; it also completed the first commercial factoring transaction in the FTZ. These enabled the Bank to become a role model to its peers.

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

The Bank placed great effort in building its flagship product “POS loans”, established a risk management system covering the entire process and achieved online operation of the entire business cycle. The business district finance was promoted through integrated marketing of “individual revolving loans + individuals short term business loans + Jia Yi Tong”. Technology finance was promoted through exploring the “investment banking linked loans” model and running pilot projects specialising in technology enterprises. As at the end of the Reporting

Period, the MSMEs loan balance of domestic branches amounted to RMB1,262.081 billion, representing an increase of 0.55% from the beginning of the year. The proportion of the balance of MSMEs loans to the Bank's total loan portfolio decreased by 1.58 percentage points from the beginning of the year to 41.27%.

(3) The “One-branch-offering-nationwide-services” industry chain financial services

The Bank closely monitored the demands from the core business of the supply chain as well as the upstream and downstream businesses. Relying on system construction and process innovation, the Bank further expanded the collaboration with the customers along the supply chain. The Bank actively promoted the branding of “Express Receivable Collector” and “Express Bill Discounting” and the leading services in receivable collection. The market application of “Smart Vehicle Financial System” was promoted in order to provide more convenient and more efficient financing services to the auto production and sales companies. The Bank further improved the “one-branch-offering-nationwide-services” business expansion model in order to achieve more in-depth collaboration with corporate customers from auto, medical and high-end equipment production industries at the sales and procurement areas. As at the end of the Reporting Period, there were more than 1,200 the core supply chain networks of domestic branches and more than 10,000 related companies.

(4) Cash management

The Bank has actively pushed forward the global cash management, with the efforts to build a global e-banking platform so as to respond to the new foreign exchange policies and to provide cross-border cash management services to the pilot enterprises. The Bank placed great effort in establishing the cash management platform, Bank@Cross, with breakthroughs at budgeting, bank bills and credit functions, aimed at providing comprehensive and all-rounded cash management system solution to medium and large corporate customers. The Bank improved its electronic channels in order to promote client experience with corporate e-banking, direct connection between the bank and the corporates and, SWIFT Net Bank-corporate Express, and further improve the product functionality of multi-lateral allocation and electronic bills. As at the end of the Reporting Period, the number of e-channel cash management corporate customers amounted to approximately 16,000 and the cash management accounts approximately 80,000.

(5) International settlement and trade finance

During the Reporting Period, the domestic branches' international settlement volume was USD315.654 billion, representing an increase of 12.48% as compared to the same period of last year. The amount of international trade finance was USD17.373 billion; the accumulated amount of import trade finance amounted to USD13.227 billion. The Bank actively provided financial support to enterprises with the aim of globalisation, with the external guarantee balance amounted to USD27.531 billion. Great effort was placed to push forward international factoring and credit insurance financing businesses, in order to provide financing facilities to export-oriented enterprises and improve their risk management capability. As at the end of the Reporting Period, the international factoring volume amounted to USD882 million, representing an increase of 31.84% as compared to the same period of last year, among which, the amount of dual factoring business of Factors Chain International (FCI) amounted to USD694 million, ranked No. 8 among the 269 members.

(6) Investment banking

Closely following the policy changes of local government bonds, the Bank has successfully become the underwriter of a number of projects for local government bonds. The Bank was qualified as bond underwriter of National Development and Reform Commission (“**NDRC**”). It successfully obtained the approval and completed the first batch of corporate bond issuance with aim of effectively resolving the financing difficulties faced by small and medium enterprises, especially small and micro enterprises. The Bank has actively supported the transformation project of shanty town and become the leader of using debt financing tools to finance the transformation projects. The Bank adhered to the financial policy on “focusing on growth and optimising the back book” and steadily pushed forward another round of asset securitisation pilot projects. To actively respond to interest rate liberalisation, the Bank ensured proper book records for inter-bank certificate of deposits. During the Reporting Period, the Group had achieved RMB3.146 billion incomes from the investment banking business, accounted for 18.17% of the total fee and commission income for the Group. The domestic branches completed the lead underwriting for 126 debt financing tools, representing an increase of 68.00% as compared to the same period last year. The lead underwriting amount was RMB198.552 billion, representing an increase of 45.35% as compared to the same period of last year.

(7) Asset custody

To meet the customer demand for multi-dimensional wealth management, the Bank has developed a range of core custody products, such as public offer funds, wealth management for security companies customers, insurance funds, wealth management products, trusts, corporate pension, QDII, QFII, RQFII, etc. and continuously expanded the comprehensive collaboration with domestic and overseas customers. The Bank accelerated the innovative custodian businesses such as developing insurance funds invested in debt securities, leasing funds, assets securitisation, special medical needs funding, employee benefits plans, etc. It continued to maintain its leading position in the pension business with differentiating its pension businesses and providing more in-depth services. Relying on the domestic and overseas custody platform, the international custody business has continued to achieve breakthroughs. The Bank successfully provided custody to a number of RQFII products and actively participated in the Shanghai Qualified Domestic Limited Partners (“**QDLP**”) pilot projects and became the first QDLP product custodian bank. As at the end of the Reporting Period, the amount of assets under custody reached RMB3.74 trillion, representing an increase of 32.76% from the beginning of the year.

II. Personal Banking Business

- During the Reporting Period, the personal banking sector of the Group achieved a profit before tax of RMB5.329 billion, representing a year-on-year decrease of 3.65%, it was mainly due to the assets quality of the loans to the small and medium enterprises in Jiangsu and Zhejiang areas which resulted in higher impairment allowances. The net fee and commission income amounted to RMB5.956 billion, a year-on-year increase of 18.41%. The number of domestic customers increased by 4.92% as compared to the beginning of the year.
- As at the end of the Reporting Period, the Group's personal deposits balance amounted to RMB1,392.976 billion, representing an increase of 3.11% compared to the beginning of the year. The proportion of personal deposit decreased by 0.66 percentage point to 31.83%. The personal loans balance amounted to RMB821.108 billion, representing an increase of 9.29% as compared to the beginning of the year. The proportion of personal loans increased by 0.91 percentage point from the beginning of the year to 23.91%.
- As at the end of the Reporting Period, the Group's balance of personal impaired loans amounted to RMB10.323 billion, representing an increase of 13.68% as compared to the beginning of the year. The personal impaired loans ratio increased by 0.05 percentage point from the beginning of the year to 1.26%.

For the first half of 2014, the Bank emphasised on wealth management brand building and differentiated services, strengthened community marketing and assets allocation, expanded personal deposit business and pushed for comprehensive growth of customers, deposits, assets under management (“AUM”), etc. in order to achieve steady growth of the personal banking business.

(1) Personal deposits and loans

Actively expanding the customer deposits business, the Bank focused on settlement funds from payroll credit, wealth management and “Jia Yi Tong”, increased funding volume and fund size and tried to achieve low cost funding. The Bank launched the innovative product “Tian Tian Li Product A” and encouraged the launching of branch based principle-guaranteed wealth management product “Wen Tian Li”. The Bank further improved the deposit pricing management and pushed forward deposit growth. As at the end of the Reporting Period, the domestic branches' saving deposit amounted to RMB1,269.318 billion, representing an increase of 6.79% from the beginning of the year.

The Bank refined the management strategy over retail loans pricing in order to improve the quality over risk pricing. Efforts were spent on promoting consumption loans. Taking advantage over BoCom E-loan 2.0 which has the competitive edge of electronic streamlining, the Bank extended data analysis in order to become more agile to the market. The Bank imposed policies on mortgage finance to achieve more appropriate pricing. Retail loan asset securitisation business has been pushed forward by accomplishing the transaction structure, formulating the policy and setting up the procedures.

(2) Personal wealth management

The Bank continued to provide specialised services over cross-border financing and private trust to the wealth management customers. During the Reporting Period, over 70 financial service centres were established to provide cross-borders financial services with almost a hundred customer roadshows being held. The Bank continued to build the wealth management brand by expanding into mass media innovative marketing, forming a new mass media marketing system of “Head Office Wechat Bank + OTO Fortune Sub-brand + Outlet Relationship Manager” and holding an extensive public campaign “OTO Fortune Carnival” and strengthened the influence of its brand in major regions. As at the end of the Reporting Period, retail AUM by domestic branches amounted to RMB2,042.588 billion, representing an increase of 7.32% from the beginning of the year. The number of BoCom fortune customers and OTO Fortune customers increased by 5.88% and 11.16%, respectively from the beginning of the year. The number of private banking customers increased by 12.42% since the beginning of the year. Private banking assets under management amounted to RMB273.2 billion, representing an increase of 16.79% from the beginning of the year.

(3) Bank Card

Credit card

On 16 January 2014, the Bank officially launched the new brand campaign “Easy for More” for its credit card, focusing on customer experiences by strengthening customer service and process flow. The Bank worked on transformation and innovation over the card distribution channels in order to achieve rapid development of the new distribution channel and hence improvement over customer size and quality. Large-scale card marketing campaigns such as “Weekly Swipe”, “Super Red Friday” and “Super Red Wine and Dine” were launched in order to promote brand influence and increase card spending. As at the end of the Reporting Period, the number of domestic credit card in use (including quasi-credit cards) increased by 3.19 million from the beginning of the year to 33.39 million. The accumulated spending amounted to RMB515.5 billion during the first half of the year, representing a year-on-year increase of 47.50%. Credit card overdraft balance amounted to RMB191.095 billion, representing an increase of 16.54% since the beginning of the year while the impairment over credit card overdraft was 1.71% which was consistent with the beginning of the year.

Debit card

The Bank continued to enhance the business expansion and product innovation of the Pacific Bank Card business. The Bank collaborated with UnionPay, organising Pacific Bank Card “Step up in Consumption” and IC card “New Year, New SIM” competitions. It also enhanced the market development and marketing activities over the new products such as Pacific Overseas Financial Card, children’s card and Pacific Visual Card. At the same time, the Bank continued to work on product development by launching Pacific Gold Wealth Card, separate IC card for mobile payment and IC card series on endangered animals, organising the development over new products and new applications such as multi-currency debit card and no-media debit card. As at the end of the Reporting Period, the number of domestic Pacific debit card amounted to 99.00 million, representing an increase of 4.23 million since the beginning of the year. The accumulated spending was RMB371.5 billion, representing a year-on-year increase of 20%.

III. Treasury Business

- During the Reporting Period, the treasury business sector of the Group has achieved net interest income of RMB13.515 billion, representing a year-on-year increase of 0.66%.
- During the Reporting Period, the treasury business sector of the Group has achieved profit before tax of RMB14.595 billion, representing a year-on-year increase of 15.53%.

The Group strengthened the research and assessment over the market, captured the market opportunities and promoted the full development of inter-bank business and market business.

(1) Institutional financial service

The Bank placed effort in developing financial factor market and successfully became the agency bank for Shanghai Gold Exchange main board fund transfer system, contracted with Shanghai Clearing House to provide fund depository services and formed strategic alliances with Shanghai Gold Exchange, Dalian Commodity Exchange and Bohai Commodity Exchange. The Bank carried out close collaboration with banks in terms of liability business and agency business. The inter-bank collaboration became increasingly influential. The Bank currently collaborated with 105 banks and 18,691 banking outlets. The inter-bank deposits from rural credit cooperatives and rural commercial banks amounted to RMB24.6 billion, representing an increase of 40.5% from the beginning of the year. The Bank had collaboration with 73 securities companies in terms of financing and securities loans depository business and achieved market coverage of 82.95% and increase in customer base by 20.42% since the beginning of the year. The Bank was in a leading position in terms of the collaboration with futures companies. The futures margin amounted to RMB80.59 billion. The inter-bank wealth management business had a steady growth with sales amounted to RMB338.2 billion.

(2) Money market transactions

The Bank has flexible trading strategies. It expanded its trading market calibre and explored new business potentials. It strove to improve profitability while ensure the liquidity of the Bank. At the same time, the Bank widened the foreign funding utilisation channel and improved the funding utility. During the Reporting Period, the accumulative RMB money market transaction of domestic branches amounted to RMB6.93 trillion, among which RMB5.32 trillion was lent to financial institutions and RMB1.61 trillion was borrowed from financial institutions. The total volume of foreign currency money market transaction was USD92.1 billion.

(3) Trading book business

The Bank continued to innovate and actively participated in the RMB bond trading. During the Reporting Period, RMB bond transaction volume of domestic branches amounted to RMB0.68 trillion. The Bank closely monitored the yield fluctuation and steadily improved the transaction profitability. The Bank had successfully completed the first interest rate swap central clearing transaction as an agency bank. In terms of foreign exchange, during the Reporting Period, the domestic branches have achieved USD330.313 billion in inter-bank market exchange foreign transactions. The Bank was the first batch of banks who became the market maker for RMB vs. GBP direct transactions in the inter-bank foreign exchange market. The Bank responded to the RMB vs. USD exchange fluctuation by seizing the trading opportunities and improved trading profits.

(4) Banking book investment

The Bank strengthened its research on macro-economy and monetary policy to accurately identify the market trend, actively widened the types of bond underwritten and bond investments in order to improve the intermediary business income and overall bond profitability. The Bank has appropriately increased its foreign currency bond holding in order to achieve relatively high returns. As at the end of the Reporting Period, the Group's investment in bonds amounted to RMB1,106.629 billion, representing an increase of 3.58% since the beginning of the year. The bond investment yield was 4.28%, representing a year-on-year increase of 58 basis points.

(5) Precious metal business

The Bank actively responded to the “negative spread” market condition by quickly adjusting the transaction strategy. The Bank launched the gold hedging business to fulfill the customer needs regarding to risk management and worked on the launching of the FTZ gold exchange agency service. During the Reporting Period, the accumulative gold T+D transactions amounted to RMB50.340 billion, representing a year-on-year increase of 25.11%. The gold proprietary trading continued to be active in the market and the trading volume amounted to 269.67 tons.

IV. “Trinity” Network Construction

- During the Reporting Period, the annual profit per capita of the Group increased by 8.60% to RMB779.1 thousand as compared with the same period of last year. As at the end of the Reporting Period, the deposit per outlet increased by 4.36% from the beginning of the year to RMB1.581 billion.
- As at the end of the Reporting Period, the number of domestic outlets increased by 23 from the beginning of the year to 2,713, of which 25 were newly opened and 2 were closed due to their low revenue generation.
- As at the end of the Reporting Period, the diversion rate by e-channels increased by 3.38 percentage points from the beginning of the year to 81.71%.
- As at the end of the Reporting Period, the number of domestic branch relationship manager increased by 8.95% to 21,366 as compared with the same period of last year.

Adhering to “BoCom Strategy”, the Bank continued on consummating outlets layout, strengthened the classification management and differentiated construction, and took the strategy of offering physical outlets with features of “making it bigger and more comprehensive or making it smaller and more specialised”. The Bank accelerated the creation of innovative electronic banking products, improved the functions of various electronic e-channels and increased the ability of volume diversion, to actively respond to the challenges from internet finance. The Bank reinforced on formation of strong relationship manager team, increased the number of relationship managers and improved their ability of discharging of duties, improved the relationship manager evaluation mechanism, supported the transformation of self-service sales model, and further enhanced the construction and development of “trinity” service channel which comprises of physical outlets, e-banking and relationship manager.

(1) Physical outlets

The Bank improved the existing network layout for physical outlets, reconstructed existing branches, upgraded outlets, relocated branches and operated physical outlets with distinguishing features so as to improve the outlet products comprehensiveness and business contribution consistently. The Bank further explored outlets with inclusive financing features, set overall standard for site selection and construction and clarified the operation model and policy. By analysing development standards for differentiated outlets, guiding the integration of resources in outlets with lower contributions and focusing on making smaller and more specialised outlets, the Bank improved service ability for the inclusive financing. Moreover, the Bank put efforts on transforming operational model in provincial branches, with reforming sales mechanism and improving the quality of operations effectiveness to fully stimulate the operational vitality in provincial branches. As at the end of the Reporting Period, the number of domestic outlets reached 2,713, covering 224 cities at or above prefecture level, with the

coverage ratio at prefecture and municipal-level cities increased by 2.70 percentage points from the beginning of the year to 67.07%. In particular, the coverage ratio in West China increased by 3.05 percentage points from the beginning of the year to 40.45%.

(2) E-banking

The Bank accelerated innovation, optimised service process and promoted customer experience. Taking advantages of online banking, mobile banking and WeChat banking, the Bank has built an integrated online and offline service system to promote a harmonious development between self-service banking and physical outlets.

During the Reporting Period, for self-service banking, Intelligent Teller Machine (iTM) steadily increased its covering scope, having reached its coverage at 37 provincial branches and the number of machines reached 183. The total number of self-service machine increased by more than 1,400 to 25,000 while the number of self-service outlet increased by 325 to 13,000. The transaction volume and amount of self-service banking increased by 3.36% and 11.78% as compared to the same period of last year to 338 million and RMB661.414 billion, respectively.

For online banking, the Bank integrated the three versions of personal E-banking (SMS PIN code version, standard version and certificate version have merged into one version) fully implemented the smart web shield, and launched compensation analysis function in corporate E-banking. As at the end of the Reporting Period, corporate E-banking customers increased by 7.12% as compared to the beginning of the year, with a year-on-year increase of 52.41% in terms of transaction volume; personal E-banking customers increased by 12.64% as compared to the beginning of the year, with a year-on-year increase of 53.20% in terms of transaction volume.

For mobile banking, the Bank launched Easy-forex bank and Alipay public account after WeChat bank in order to expand customer service channels. As at the end of the Reporting Period, the mobile banking customers increased by 27.58% from the beginning of the year, with a year-on-year increase of 126.16% in terms of transaction volume.

For E-commerce, as at the end of the Reporting Period, registered customers for e-payment increased by 47.16% as compared to the beginning of the year, with a year-on-year increase of 74.64% in terms of transaction volume and 297.17% in terms of transaction amount.

The Bank provided “remote wealth management” service for customers via “95559” hotline. As at the end of the Reporting Period, the number of customers managed by remote relationship managers increased by 178.7%, while the total assets of the customers under management increased by 142.02%, as compared to the same period of last year.

(3) Relationship manager

The Bank strengthened talent training for relationship manager by selecting and cultivating professional talents and elites to promote the establishment of the integrated working platform and performance assessment platform. As at the end of the Reporting Period, the total number of relationship manager in domestic branches increased by 8.95% on a year-on-year basis to 21,366. Among which, the number of the corporate relationship manager increased by 7.57% on a year-on-year basis to 9,507 while retail relationship manager increased by 10.08% on a year-on-year basis to 11,859. The number of employees who obtained certificate such as AFP, CFP, CPB and EFP were 7193, 1437, 22 and 292 respectively.

(4) Customer service

Customer service is the foundation of the Bank's business. The Bank organised competitions such as "My smile accompanying you" with the aim to improve professional service quality and organised activities such as "improve window service quality" to improve service efficiency and attitude. Furthermore, the Bank continued to strengthen consumer rights protection by organising large-scale public educational events such as "Publicity of Financial Knowledge" and "Popularisation of Financial Knowledge". The Bank started to inspect financial consumer rights protection in respect of bank cards business to effectively protect consumer rights. During the Reporting Period, the number of customer complaints received decreased by 52.6% on a year-on-year basis. The Bank was ranked No. 1 in China Retail Banking Satisfaction Study in 2014.

V. *Internationalisation and Universal Operation*

(1) Internationalisation development

- During the Reporting Period, net profits of overseas banking entities increased by 15.93% on a year-on-year basis to RMB2.270 billion, accounted for 6.17% of the Group's net profits, which increased by 0.55 percentage point on a year-on-year basis.
- As at the end of the Reporting Period, the total assets of overseas banking entities of the Group increased by 24.88% from the beginning of the year to RMB649.240 billion, accounted for 10.33% of the Group's total assets, representing an increase of 1.61 percentage points from the beginning of the year.
- As at the end of the Reporting Period, the balance of the impaired loans balance in overseas banking entities increased by 4.43% from the beginning of the year to RMB165 million, and the impaired loan ratio decreased by 0.01 percentage point from the beginning of the year to 0.05%.

In the first half of 2014, the Group continued to promote the internationalisation strategy which further improved the domestic and overseas integrated services, gradually improved overseas service network, pushed forward the rapid development of core businesses such as domestic and overseas synergy business, cross-border RMB business and offshore services. As a result, the cross-border financial service were enhanced in all aspects.

Overseas service network

As at the end of the Reporting Period, the Group set up 12 branches or subsidiaries in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, London, Sydney, San Francisco and Taipei, with total 54 overseas operating locations. The Bank established agency relationship with 1,643 banks over 140 countries and regions. The Bank signed RMB settlement agreements with 114 banks over 26 countries and regions, opened 197 cross-border RMB inter-bank accounts, and opened 72 foreign currency settlement accounts in 17 currencies with 56 overseas financial institutions over 24 countries and regions.

Domestic and overseas synergy business

Domestic and overseas synergy business is a featured and advantageous business of the Group. Replying on the synergy of internationalisation and integration, the Bank integrated the resources of its domestic and overseas branches and subsidiaries, optimised the internal management system, and actively built the global financial service platform and global wealth management platform, to provide high quality and integrated financial service for corporate customers, such as cross-border trade settlement and financing, global funding and asset-liability matching, foreign investments, mergers and acquisitions, and consulting for overseas and cross-border business, mainly supporting the cross-border trade and operation of customers in several industries such as automobile, aviation and heavy industry. During the Reporting Period, the total transaction amount of the synergy business was USD31.714 billion, representing a year-on-year increase of 9.21%; and its accumulated revenue was RMB3,312 million, representing a year-on-year increase of 21.85%.

Cross-border RMB business

In the first half of 2014, cross-border RMB business made great breakthroughs. The Bank successfully signed the first contract on overseas RMB lending business of non-bank financial institution in Shanghai FTZ, and was among the first batch of Chinese-invested enterprise in conducting overseas lending business and foreign debt business dominated in RMB for commercial factoring company. The Bank made breakthroughs with the internationalisation of RMB business. The Bank obtained licence for RMB settlement business in Seoul and was the first bank adopting the currency funding swap agreement between RMB and KRW, which further facilitated economic and trading interaction between China and South Korea. Cross-border RMB investment and finance business made breakthroughs that the Bank was successful in lending the first China-Singapore cross-border RMB loan in Suzhou Industrial Park, effectively supporting the development of real economy. During the Reporting Period, the transaction amount of the cross-border RMB settlement by domestic institutions increased by 30.09% on a year-on-year basis to RMB260,723 million and the transaction amount of the cross-border RMB settlement by overseas institutions increased by 36.10% on a year-on-year basis to RMB209,891 million.

The Bank developed offshore services to strengthen the customer development, so as to promote the increase of customer base. The Bank strengthened deposit restructuring to steadily develop low-cost core liability business. The Bank actively developed non-credit asset business to explore a new channel for earning growth. The Bank strengthened risk prevention, strictly controlled credit risk, compliance risk and liquidity risk management, continuously promoted the quality of the assets. As at the end of the Reporting Period, the total number of the offshore effective customers increased by 21% from the beginning of the year. Offshore international settlement amount reached USD106,665 million, increasing by 39.78% on a year-on-year basis.

(2) Universal operation

- During the Reporting Period, net profits attributable to the parent company from the subsidiaries (excluding Bank of Communications (UK) Co., Ltd.) amounted to RMB1,229 million, representing a year-on-year increase of 21.20%, the proportion of which to the net profit of the Group increased by 0.43 percentage point to 3.34% on a year-on-year basis.
- As at the end of the Reporting Period, the total assets of the subsidiaries (excluding Bank of Communications (UK) Co., Ltd.) increased by 21.05% from the beginning of the year to RMB148.290 billion, the proportion of which to the total assets of the Group increased by 0.30 percentage point to 2.36% from the beginning of the year.
- During the Reporting Period, the total amount of social financing provided by the subsidiaries was RMB301.729 billion.

Base on the business synergy model of “Sector + Segment + Subsidiary”, the Group upgraded the three major competitivenesses of the subsidiaries, development, coordination and competition, focusing on building special features in trading volume, aviation and shipping financing and wealth management. The Group integrated product innovation and group marketing. As the status of subsidiaries continued to rise in their respective industries, they started to play a key role in innovation, getting fully involved in the Group’s product system and reward the main banking business on top of their own growth in profits and asset scale. Subsidiaries and branches achieved linked financing of RMB191,831 million.

- BoCom Leasing innovated and expanded the RMB and foreign currency financing channel, issued USD and RMB bonds, and formed the domestic USD syndicated loan for the first time; BoCom Leasing vigorously promoted the aviation leasing business and achieved breakthrough in self-purchased aircraft leasing business. The fleet size was stably ranked top three in the field. As at the end of the Reporting Period, total leasing assets balance amounted to RMB106,565 million, representing an increase of 19.54% from the beginning of the year.

- BoCom International Trust was granted licence for offshore wealth management trustee business and became the first trustee company with banking background to carry out such business; BoCom International Trust, involving in the Group's product development system, launched the first domestic investment trust business for small and medium innovative enterprise and made important progress in securitisation of credit assets and leasing assets project. The cooperation with insurance funds and annuity achieved breakthrough. As at the end of the Reporting Period, trust asset increased by 23.8% from the beginning of the year to RMB351.26 billion. The trust compensation rate and the ratio of impaired proprietary assets both remained zero. BoCom International Trust continued to be awarded the “Outstanding Trust Company” by *Shanghai Securities News*.
- The role of BoCom International as a sponsor became more prominent, whose research capacities and research specialties were recognised by professional investment institutions and financial media.
- Business diversification strategy of BoCom Schroder was effective. The domestic asset management subsidiary actively brought synergies to the Group, and brought innovation to notes business and brought new business models which involving bank-fund-trust or bank-fund-agency. The Hong Kong subsidiary was granted RQFII (RMB Qualified Foreign Institutional Investors) licence. As at the end of the Reporting Period, AUM of BoCom Schroder reached RMB106.68 billion, representing an increase of 76.65% as compared to the beginning of the year.
- BoCom Insurance's proportional reinsurance business of the mainland property and hull insurance have progressed.
- BoComLife Insurance was assessed as class A in the regulatory evaluation during the first quarter of 2014 by China Insurance Regulatory Commission for the first time. BoComLife Insurance actively involved in the Group's business system. During the Reporting Period, insurance policy “BoCom Andai” has been developed together with the Group provided risk protection to loans of total RMB15.46 billion. Group accident insurance “BoCom Leye” for corporate customers achieved sum assured of RMB22.3 billion.
- Rural banks achieved a steady growth in their business, and actively supported the development of local economy. As at the end of the Reporting Period, total assets of the four rural banks reached RMB5,496 million, decreasing by 8.34% from the beginning of the year. During the Reporting Period, their net profits increased by 43.03% on a year-on-year basis to RMB43.9826 million.

(2) Financial Statements Analysis

I. Analysis on Major Income Statement Items

(1) Profit before tax

During the Reporting Period, the Group's profit before tax increased by RMB2.135 billion or 4.74% as compared with the corresponding period in prior year to RMB47.195 billion. Profit before tax was mainly derived from net interest income and net fee and commission income.

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

	<i>(in millions of RMB)</i>	
	For the six months ended 30 June	
	2014	2013
Net interest income	67,211	65,008
Net fee and commission income	15,701	13,895
Impairment losses on loans and advances to customers	(10,159)	(8,469)
Profit before tax	47,195	45,060

(2) Net interest income

During the Reporting Period, the Group's net interest income increased by RMB2.203 billion as compared with the corresponding period in prior year to RMB67.211 billion. This accounted for 73.96% of the Group's net operating income and was a major component of the Group's income.

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

<i>(in millions of RMB unless otherwise stated)</i>						
	For the six month ended 30 June 2014			For the six month ended 30 June 2013		
	Average balance	Interest income/ (expense)	Annualised average yield/ (cost) (%)	Average balance	Interest income/ (expense)	Annualised average yield/ (cost) (%)
Assets						
Balances with central banks	839,715	6,441	1.53	798,793	6,243	1.56
Due from banks and other financial institutions	476,511	9,773	4.10	418,663	7,045	3.37
Loans and advances to customers and receivables	3,344,422	104,372	6.24	3,120,786	95,095	6.09
Include: Corporate loans and receivables	2,501,360	76,181	6.09	2,421,017	72,514	5.99
Individual loans	755,214	26,091	6.91	607,486	20,694	6.81
Discount bills	87,848	2,100	4.78	92,283	1,887	4.09
Investment securities	1,066,974	22,826	4.28	904,100	16,706	3.70
Total interest-bearing assets	5,626,192 ³	141,728 ³	5.04	5,084,255 ³	122,680 ³	4.83
Total non-interest-bearing assets	224,616			189,748		
TOTAL ASSETS	5,850,808³			5,274,003³		
Liabilities and Shareholders' Equity						
Due to customers	3,939,571	46,079	2.34	3,711,232	38,570	2.08
Include: Corporate deposits	2,660,032	31,157	2.34	2,480,267	25,826	2.08
Individual deposits	1,279,539	14,922	2.33	1,230,965	12,744	2.07
Due to banks and other financial institutions	1,273,807	27,755	4.36	1,074,376	19,679	3.66
Debt securities issued and others	127,050	2,367	3.73	95,269	1,832	3.85
Total interest-bearing liabilities	5,238,988 ³	74,517 ³	2.84	4,722,790 ³	57,672 ³	2.44
Shareholders' equity and non-interest bearing liabilities	611,810			551,213		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	5,850,808³			5,274,003³		
Net interest income		67,211			65,008	
Net interest spread¹			2.20³			2.39³
Net interest margin²			2.39³			2.56³
Net interest spread¹			2.26⁴			2.45⁴
Net interest margin²			2.45⁴			2.62⁴

Notes:

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

During the Reporting Period, the Group's net interest income increased by 3.39% as compared with the corresponding period in prior year. Net interest spread and net interest margin were standing at 2.20% and 2.39%, went down by 19 and 17 basis points, respectively as compared with the corresponding period in prior year. Net interest spread and net interest margin for the second quarter of the year increased by 10 and 11 basis points, respectively as compared with that in the first quarter of the year.

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

(in millions of RMB)

Comparison between January to June 2014 and January to June 2013 Increase/(decrease) due to			
	Balance	Interest rate	Net increase/ (decrease)
Interest-bearing assets			
Balances with central banks	319	(121)	198
Due from banks and other financial institutions	975	1,753	2,728
Loans and advances to customers and receivables	6,810	2,467	9,277
Investment securities	3,013	3,107	6,120
Changes in interest income	11,117	7,206	18,323
Interest-bearing liabilities			
Due to customers	2,375	5,134	7,509
Due to banks and other financial institutions	3,650	4,426	8,076
Debt securities issued and others	612	(77)	535
Changes in interest expense	6,637	9,483	16,120
Changes in net interest income	4,480	(2,277)	2,203

During the Reporting Period, the Group's net interest income increased by RMB2.203 billion as compared with the corresponding period in prior year, of which the increase of RMB4.480 billion was due to changes in the average balances of assets and liabilities, while the decrease of RMB2.277 billion was due to changes in the average rate of return and average cost ratio.

i. Interest income

During the Reporting Period, the Group's gross interest income increased by RMB18.323 billion or 14.65% as compared with the corresponding period in prior year to RMB143.412 billion.

A. Interest income from loans and advances to customers

Interest income from loans and advances to customers and receivables was mainly contribute to the Group's interest income. During the Reporting Period, interest income from loans and advances to customers and receivables increased by RMB9.277 billion or 9.76% as compared with the corresponding period in prior year to RMB104.372 billion, largely due to the increase in the average balance of loans and advances to customers and receivables by 7.17% and the average yield increased by 15 basis points as compared with the corresponding period in prior year.

B. Interest income from investment securities

During the Reporting Period, interest income from investment securities increased by RMB6.120 billion or 36.63% as compared with the corresponding period in prior year to RMB22.826 billion. This was mainly because the average securities investments increased by 18.02% and the average yield increased significantly by 58 basis points as compared with the corresponding period in prior year.

C. Interest income from balances with central banks

The balances with central banks mainly included balances in statutory reserves and in excess reserves. During the Reporting Period, the average balances with central banks increased by RMB198 million to RMB6.441 billion. The growth of the average balances with central banks was primarily due to increase in average customer deposits increased by 5.12% as compared with the corresponding period in prior year.

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

Total interest income from balances due from banks and other financial institutions increased by RMB2.728 billion or 38.72% as compared with the corresponding period in prior year to RMB9.773 billion. This was mainly driven by the increase in average balance by 13.82% and average yield by 73 basis points.

ii. Interest expense

During the Reporting Period, the Group's interest expense increased by RMB16.120 billion or 26.83% as compared with the corresponding period in prior year to RMB76.201 billion.

A. Interest expense on balances due to customers

Customer deposits were the Group's main source of funding. During the Reporting Period, interest expense on customer deposits increased by RMB7.509 billion or 19.47% as compared with the corresponding period in prior year to RMB46.079 billion. This accounted for 60.47% of total interest expense. The increase in interest expense on customer deposits was mainly due to the increase in average customer deposits by 6.15% as compared with the corresponding period in prior year.

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

During the Reporting Period, interest expense on balances due to banks and other financial institutions increased by RMB8.076 billion or 41.04% as compared with the corresponding period in prior year to RMB27.755 billion, mainly due to the increase in inter-bank liabilities by 18.56% as compared to the same period of last year, and an increase in average cost ratio by 70 basis points as compared with the corresponding period in prior year.

C. Interest expense on bond issuance and others

During the Reporting Period, interest expense on bond issuance and other interest-bearing liabilities increased by RMB535 million or 29.20% as compared with the corresponding period in prior year to RMB2.367 billion, mainly due to an increase in average balance of bond issuance by 33.36%.

(3) Net fee and commission income

Net fee and commission income was a major component of the Group's net operating income. During the Reporting Period, the Group continuously improved the quality and efficiency of its intermediary business, accelerated the transformation of its profit-making model and moved towards a business model with diversified revenue streams. During the Reporting Period, the Group's net fee and commission income increased by RMB1.806 billion or 13.00% as compared with the corresponding period in prior year to RMB15.701 billion. Settlement service, management service and guarantee and commitment business were the main drivers of the Group's intermediary businesses.

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

(in millions of RMB)

	For the six months ended 30 June	
	2014	2013
Settlement service	1,758	1,187
Bank cards	5,118	4,369
Investment banking	3,146	4,153
Guarantee and commitment	2,257	1,880
Management service	3,621	2,749
Agency service	940	1,036
Others	474	175
Total fee and commission income	17,314	15,549
Less: Fee and commission expense	(1,613)	(1,654)
Net fee and commission income	15,701	13,895

Fee income from settlement service increased by RMB571 million or 48.10% as compared with the corresponding period in prior year to RMB1.758 billion, mainly due to the increase in the Group's trade settlement volume.

Fee income from bank card services increased by RMB749 million or 17.14% as compared with the corresponding period in prior year to RMB5.118 billion, mainly due to the substantial increase in card issuance, spending volume as well as transaction volume at self-service facilities.

Fee income from investment banking decreased by RMB1.007 billion or 24.25% as compared with the corresponding period in prior year to RMB3.146 billion, mainly due to the reduction in the Group's income generated from financial advisory services.

Fee income from guarantee and commitment services increased by RMB377 million or 20.05% as compared to the corresponding period in prior year to RMB2.257 billion. This increase was mainly due to the rapid development of the off-balance sheet business in letter of guarantee, acceptance bill and other off-balance sheet businesses.

Fee income from management services increased by RMB872 million or 31.72% as compared with the corresponding period in prior year to RMB3.621 billion, mainly driven by the increase in the fee income from assets custody services, fiduciary wealth management and syndicated loans.

Fee income from agency services decreased by RMB96 million or 9.27% as compared with the corresponding period in prior year to RMB940 million. This was mainly driven by the decrease in the commission income from the Group's bancassurance business.

(4) Operating costs

During the Reporting Period, the Group's operating cost increased by RMB2.778 billion or 13.66% as compared with the corresponding period in prior year to RMB23.116 billion. The cost-to-income ratio of the Group was 25.71%, increased by 0.51 percentage point as compared with the corresponding period in 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 RMB1.690 billion or 19.96% as compared with the corresponding period in prior year to RMB10.159 billion. The increase comprised of (1) collective assessment decreased by RMB481 million as compared with the corresponding period in prior year to RMB4.657 billion; and (2) individual assessment increased by RMB2.171 billion as compared with the corresponding period in prior year to RMB5.502 billion. During the Reporting Period, credit cost ratio increased by 0.06 percentage point as compared with the corresponding period in prior year to 0.59%.

(6) Income tax

During the Reporting Period, the Group's income tax expense increased by RMB158 million or 1.56% as compared with the corresponding period in prior year to RMB10.300 billion. The effective tax rate of 21.82% is lower than the statutory tax rate of 25%, mainly due to the tax exemption on interest income from government bonds held by the Group, according to the relevant tax provisions.

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

	<i>(in millions of RMB)</i>	
	For the six months ended 30 June	
	2014	2013
Current tax	8,561	10,846
Deferred tax	1,739	(704)

II. Analysis on Major Balance Sheet Items

(1) Assets

As at the end of the Reporting Period, the Group's total assets was RMB6,283.936 billion, representing an increase of RMB322.999 billion or 5.42% from the beginning of the year.

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

<i>(in millions of RMB unless otherwise stated)</i>				
	30 June 2014		31 December 2013	
	Balance	Proportion (%)	Balance	Proportion (%)
Loans and advances to customers	3,354,657	53.38	3,193,063	53.57
Investment securities	1,109,090	17.65	1,070,677	17.96
Cash and balances with central banks	932,763	14.84	896,556	15.04
Due from banks and other financial institutions	622,708	9.91	566,429	9.50
Total assets	6,283,936		5,960,937	

i. Loans and advances to customers

During the Reporting Period, the Group reasonably controlled the volume, direction and pace of credit disbursements, which brought a balanced and steady growth in loans. As at the end of the Reporting Period, the Group's total loans and advances to customers increased by RMB167.401 billion or 5.12% from the beginning of the year to RMB3,433.769 billion, among which the increase in RMB loans from domestic branches amounted to RMB128.706 billion or 4.51% from the beginning of the year.

Loans concentration by industry

During the Reporting Period, the Group actively supported the upgrade of industrial structure as well as vigorously promoted the optimisation of its own business structure.

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

(in millions of RMB unless otherwise stated)

	30 June 2014		31 December 2013	
	Balance	Proportion (%)	Balance	Proportion (%)
Mining	99,342	2.89	92,180	2.82
Manufacturing				
— Petroleum and chemical	120,624	3.51	118,958	3.64
— Electronics	79,823	2.32	62,278	1.91
— Steel	40,213	1.17	41,342	1.27
— Machinery	120,720	3.52	115,893	3.55
— Textile and clothing	41,146	1.20	40,757	1.25
— Other manufacturing	249,126	7.26	251,127	7.69
Electricity, gas and water production and supply	132,041	3.85	132,942	4.07
Construction	107,731	3.14	106,004	3.25
Transportation, storage and postal service	392,401	11.43	386,822	11.84
Telecommunications, IT services and software	10,027	0.29	10,445	0.32
Wholesale and retail	383,225	11.16	391,772	11.99
Accommodation and catering	28,979	0.84	26,708	0.82
Financial services	36,349	1.06	32,593	1.00
Real estate	197,476	5.75	201,300	6.16
Services	218,403	6.36	206,910	6.33
Water conservancy, environmental and other public utilities	134,231	3.91	130,777	4.00
Education, science, culture and public health	57,489	1.67	49,174	1.51
Others	69,349	2.02	56,633	1.73
Discounted bills	93,966	2.74	60,443	1.85
Total corporate loans	2,612,661	76.09	2,515,058	77.00
Mortgage loans	509,828	14.84	458,356	14.03
Credit card overdraft	191,095	5.57	163,969	5.02
Medium-term and long-term personal business loans	59,695	1.74	58,548	1.79
Short-term personal business loans	13,941	0.41	24,539	0.75
Car loans	1,420	0.04	1,976	0.06
Others	45,129	1.31	43,922	1.35
Total personal loans	821,108	23.91	751,310	23.00
Gross amount of loans and advances to customers before impairment allowances	3,433,769	100.00	3,266,368	100.00

As at the end of the Reporting Period, the balances of the Group's corporate loans increased by RMB97.603 billion or 3.88% from the beginning of the year to RMB2,612.661 billion. The four most concentrated industries were manufacturing, transportation, storage and postal service and wholesale and retail business and services industries, which accounted for 62.99% of total corporate loans.

As at the end of the Reporting Period, the balances of the Group's personal loans increased by RMB69.798 billion or 9.29% from the beginning of the year to RMB821.108 billion. The proportion of personal loans as a percentage to total loans and advances to customers increased by 0.91 percentage point from the beginning of the year to 23.91%.

Loan concentration by borrowers

As at the end of the Reporting Period, the largest single borrower of the Group accounted for 1.55% of the Group's net capital, and the total loans of top 10 customers accounted for 13.08% of the Group's net capital, which were in compliance with the regulatory requirements.

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

(in millions of RMB unless otherwise stated)

		30 June 2014	
	Type of industry	Loan Balances	Percentage of total loans and advances (%)
Customer A	Transportation, storage and postal service	8,099	0.24
Customer B	Manufacturing — other manufacturing	7,695	0.22
Customer C	Manufacturing — other manufacturing	7,692	0.22
Customer D	Transportation, storage and postal service	7,582	0.22
Customer E	Water conservancy, environmental and other public utilities	7,196	0.21
Customer F	Transportation, storage and postal service	6,811	0.20
Customer G	Transportation, storage and postal service	6,326	0.18
Customer H	Manufacturing — other manufacturing	5,906	0.17
Customer I	Services	5,724	0.17
Customer J	Transportation, storage and postal service	5,456	0.16
Total		68,487	1.99

Loan concentration by geographical locations

The Group's credit customers are mainly concentrated in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta. As at the end of the Reporting Period, the proportion of loans and advances to customers in these three regions accounted for 32.62%, 19.79% and 7.52%, respectively. The loan balance increased by 4.43%, 1.80% and 3.34%, respectively from the beginning of the year.

Loan quality

As at the end of the Reporting Period, the impaired loans ratio was 1.13%, representing an increase of 0.08 percentage point from the beginning of the year. The provision coverage ratio of impaired loans decreased by 9.49 percentage points from the beginning of the year to 204.16%. The provision ratio increased by 0.06 percentage point as compared to the beginning of the year to 2.30%.

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

	<i>(in millions of RMB unless otherwise stated)</i>	
	30 June 2014	31 December 2013
Impaired loans	38,750	34,310
Loans overdue by more than 90 days	39,181	31,814
Percentage of impaired loans to gross amount of loans and advances to customers (%)	1.13	1.05

Loan customer structure

As at the end of the Reporting Period, based on the Bank's internal risk rating system, loans and advances to corporate customers by domestic branches of class 1 to class 8 accounted for 90.58% of total loans and advances to corporate customers and decreased by 2.85 percentage points from the beginning of the year. Loans and advances to corporate customers of class 9 to class 12 accounted for 4.28% and increased by 0.57 percentage point from the beginning of the year. Loans and advances to corporate customers in default category accounted for 1.38% and increased by 0.37 percentage point from the beginning of the year.

ii. Investment securities

As at the end of the Reporting Period, the Group's net balance of investment securities increased by RMB38.413 billion or 3.59% from the beginning of the year to RMB1,109.090 billion. Return on investment securities increased by 58 basis points as compared to the same period of last year to reach a relatively satisfactory level of 4.28%, benefiting from the reasonable allocation and continuous optimization of the investment structure.

Distribution of the Group's investment securities

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

— By financial asset classification for the purpose of holding

	<i>(in millions of RMB unless otherwise stated)</i>			
	30 June 2014		31 December 2013	
	Balance	Proportion (%)	Balance	Proportion (%)
Financial assets at fair value through profit or loss	77,619	7.00	59,083	5.52
Investment securities				
— loans and receivables	147,764	13.32	119,726	11.18
Investment securities				
— available-for-sale	230,303	20.77	221,253	20.66
Investment securities				
— held-to-maturity	653,404	58.91	670,615	62.64
Total	1,109,090	100.00	1,070,677	100.00

— By type of issuers

	<i>(in millions of RMB unless otherwise stated)</i>			
	30 June 2014		31 December 2013	
	Balance	Proportion (%)	Balance	Proportion (%)
Governments and central banks	325,434	29.34	319,452	29.84
Public sector entities	22,040	1.99	18,363	1.72
Banks and other financial institutions	418,023	37.69	450,323	42.05
Corporate entities	343,593	30.98	282,539	26.39
Total	1,109,090	100.00	1,070,677	100.00

Top 10 financial bonds held by the Group

<i>(in millions of RMB unless otherwise stated)</i>				
Bond names	Face value	Annual interest rate (%)	Maturity date	Impairment allowance
2012 banks and non-bank financial institutions bond	3,500	4.30	14/02/2017	—
2013 policy bank bond	3,000	3.89	10/01/2016	—
2012 banks and non-bank financial institutions bond	3,000	4.20	28/02/2017	—
2011 policy bank bond	3,000	3.85	17/02/2021	—
2013 policy bank bond	2,980	4.16	10/01/2018	—
2013 policy bank bond	2,800	4.10	26/02/2020	—
2009 policy bank bond	2,500	3.00	16/07/2016	—
2013 policy bank bond	2,450	3.67	10/05/2016	—
2012 policy bank bond	2,320	3.49	30/05/2017	—
2010 policy bank bond	2,290	3.43	28/10/2020	—

(2) Liabilities

As at the end of the Reporting Period, the Group's total liabilities increased by RMB301.937 billion or 5.45% from the beginning of the year to RMB5,841.390 billion. Among this balance, customer deposits increased by RMB218.087 billion from the beginning of the year which accounted for 74.91% of total liabilities, representing a decrease of 0.15 percentage point from the beginning of the year. Balance due to banks and other financial institutions increased by RMB26.690 billion and accounted for 19.74% of total liabilities, representing a decrease of 0.60 percentage point from the beginning of the year.

Customer deposits

Due to customers was the main source of funding for the Group. As at the end of the Reporting Period, the Group's customer deposits balance increased by RMB218.087 billion or 5.25% from the beginning of the year to RMB4,375.920 billion. In terms of the Group's customer structure, the proportion of corporate customer deposit accounted for 68.05%, representing an increase of 0.66 percentage point from the beginning of the year. The proportion of personal deposits was 31.83%, representing a decrease of 0.66 percentage point from the beginning of the year. In terms of deposit tenure, the proportion of time deposits increased by 1.73 percentage points from the beginning of the year to 56.53%, while the proportion of demand deposits decreased by 1.73 percentage points from the beginning of the year to 43.35%.

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

(in millions of RMB)

30 June 2014 31 December 2013

Corporate deposits	2,977,576	2,801,769
Include: Corporate demand deposits	1,334,538	1,382,914
Corporate time deposits	1,643,038	1,418,855
Personal deposits	1,392,976	1,350,956
Include: Personal demand deposits	562,352	491,353
Personal time deposits	830,624	859,603

III. Analysis on Major Cash Flow Items

As at the end of the Reporting Period, the Group's cash and cash equivalents increased by RMB10.002 billion from the beginning of the year to RMB253.396 billion.

The net cash outflows from operating activities increased by RMB76.569 billion as compared with the corresponding period in prior year to RMB10.241 billion, mainly due to the decrease in the amount of net cash inflow from banks and other financial institutions.

The net cash outflows from investing activities decreased by RMB90.764 billion as compared with the corresponding period in prior year to RMB901 million, mainly due to the decrease in net cash outflows from investment securities.

The net cash inflows from financing activities increased by RMB14.494 billion compared with the corresponding period in prior year to reach RMB20.624 billion, mainly due to the increase in the cash inflow from the issuance of bonds.

IV. Segment Analysis

(1) Operating results by geographical segments

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

(in millions of RMB)

	For the six months ended 30 June			
	2014		2013	
	Profit before tax	Net operating income ¹	Profit before tax	Net operating income ¹
North China ²	7,004	12,070	6,077	11,169
Northeast China ³	1,212	3,449	1,666	3,694
East China ⁴	15,335	33,674	13,692	30,097
Central and South China ⁵	7,333	14,464	8,629	15,509
West China ⁶	4,843	8,106	4,946	7,909
Overseas ⁷	3,185	4,458	2,593	3,831
Head Office	8,283	14,652	7,457	12,735
Total⁸	47,195	90,873	45,060	84,944

Notes:

1. Includes net interest income, net fee and commission income, dividend income, net gains/(losses) arising from trading activities, net gains/(losses) arising from de-recognition of investment securities, insurance business income, share of result of an associate and other operating income.
2. Includes Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province, Inner Mongolia Autonomous Region; (Same applies hereinafter)
3. Includes Liaoning Province, Jilin Province, 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, Hainan Province, Guangxi Autonomous Region; (Same applies hereinafter)
6. Includes Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region, Xinjiang Autonomous Region and Tibet Autonomous Region; (Same applies hereinafter)
7. Includes Hong Kong Branch, New York Branch, Singapore Branch, Seoul Branch, Tokyo Branch, Frankfurt Branch, Macau Branch, Ho Chi Minh City Branch, San Francisco Branch, Sydney Branch, Taipei Branch and Bank of Communications (UK) Co., Ltd. and other overseas subsidiaries. (Same applies hereinafter)
8. Includes profit or loss of minority interest.

(2) Deposits and loans and advances by geographical segments

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

	<i>(in millions of RMB)</i>			
	30 June 2014		31 December 2013	
	Deposit balance	Loans and advances balance	Deposit balance	Loans and advances balance
North China	656,817	526,522	704,233	517,921
Northeast China	272,284	169,030	272,889	166,065
East China	1,690,356	1,252,095	1,592,514	1,217,836
Central and South China	964,364	630,001	878,557	597,291
West China	505,737	338,653	445,875	315,507
Overseas	284,965	316,092	261,751	279,242
Head Office	1,397	201,376	2,014	172,506
Total	4,375,920	3,433,769	4,157,833	3,266,368

(3) Operating results by business segments

The Group's four main business segments are: corporate banking, personal banking, treasury business and other business. The corporate banking segment was the primary source of profit for the Group, accounting for 53.58% of the Group's net profit.

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

	(in millions of RMB)				
	For the six months ended 30 June 2014				
	Corporate banking	Personal banking	Treasury business	Other businesses	Total
Net interest income	36,009	17,336	13,515	351	67,211
— External net interest income/(expenses)	35,834	15,045	15,981	351	67,211
— Inter-segment interest income/(expenses)	175	2,291	(2,466)	—	—

(3) Risk Management

In the first half of 2014, although facing a significant risk situation, the Bank managed to overcome and achieve satisfactory results by continuing to promote risk management work, constantly improve risk management system and mechanism, strengthen risk awareness and management responsibilities, adhere to risk threshold, standardise all-rounded asset management, refine and strictly enforce various types of risk control measures to ensure stable asset quality through effective risk management.

I. Risk Appetite

The Board of Directors established “stability, balance, compliance and innovation” as the overall risk appetite of the Bank, defined its risk tolerance in the form of return, capital, quality and risk rating, and further set 23 detailed risk limit indicators in six risk areas concerning credit, market, operation, liquidity, interest rate, and country (economic units) risk in order to control the overall risk changes on a regular basis. To implement the business transformation and strengthen risk management requirements, the overdue credit and asset management business ratio, non-standard assets ratio and highly-liquid asset ratio were included in the risk tolerance system this year in order to strengthen the control towards the overall risk of credit business.

During the Reporting Period, the Bank adhered to a strong commitment in compliance operation to implement the external regulatory requirements and strengthen the internal policies constraints. The Bank constantly enhanced risk management to actively support its business development strategy and effectively control the risks for transformation and innovation. Sticking to the pursuit for the stable and balanced development, the Bank strived to maintain a dynamic balance between risk and return to achieve a balanced development among business scale, quality and profitability. In the first half of 2014, the implementation of the Bank’s overall risk appetite was fair as all the indicators were controlled within the tolerance level except the deterioration in loan provision rate. All other risk limit indicators were controlled within limits.

As at the end of June 2014, the Group’s provision rate was 2.30%, which was below the target set at the beginning of the year. The main reason was that facing the asset quality pressures from macroeconomic deceleration and structural adjustment, the Bank therefore seized the favourable opportunities which came from the government policy on bulk disposal of non-performing loans to increase amount written-off, actively expedited the disposal of non-performing loans, and utilised the provision for losses to improve non-performing loan structure. We believe that realising the full risk exposure, increasing loans written-off and provision for impairment losses and accelerating of disposal of risky assets are in line with regulatory requirements for dynamic provisioning during the economic downturn. It is also conducive to strengthen our asset quality and financial basis for reducing the impact from the economic restructuring to the Bank.

II. Risk Management Framework

The Board of Directors has the ultimate responsibility and decision-making authority for the Bank's risk management. The Bank monitors and controls the Bank-wide risk management matters through its delegation of the Risk Management Committee. The Bank's Senior Management established a "1+3+2" Risk Management Committee, which the Enterprise Risk Management Committee is dedicated to implementing the Board's risk management strategy and risk appetites. According to the principle of "going horizontal to the edges, going vertical to the bottom, and covering all aspects", the Enterprise Risk Management Committee is responsible for completing the management system, optimising the working system, standardising the management policies, and performing evaluations on the effectiveness of risk management function in an all-around way. Three sub-committees have been established under the Enterprise Risk Management Committee, namely the Credit Risk Management Committee, the Market and Liquidity Risk Management Committee, and the Operational Risk Management and Compliance (Anti Money-Laundering) Committee. Two business review committees, namely the Credit/Non-credit Review Committee and the High-risk Assets Review Committee have also been established and performed their respective duties. Each tier-1 branch, oversea branch and subsidiary, while according to the actual operation and management needs, correspondingly established simplified and practical risk management committees referring to the above framework mentioned. The Bank ensured the full implementation of risk management procedures through the mechanism of "leadership and execution, supervision and reporting" between the Risk Management Committee and sub-committees, and among committees of the Head Office and branches, forming a unified and coordinated risk management system.

During the Reporting Period, the Bank further regulated the operation mechanism and process of each Risk Management Committee, enriched decision-making and supervisory functions of Risk Management Committee, strengthened risk controls in important businesses, areas and systems, clarified requirements of presiding meetings of the "Leaders", and strengthened their risk management responsibilities. In the first half of 2014, from the Head Office level, the Risk Management Committee and its sub-committees held 10 meetings, and more than 40 items have been discussed and resolved.

During the Reporting Period, the Bank focused on promoting business risk compliance constructions in small-scale middle offices, published specific opinions to standardise structural framework, function orientation and management system of small-scale middle offices for business risk compliance, and raised fundamental construction principles and requirements on an overall basis. The small-scale middle offices for corporate business risk compliance had been established and started to operate. Design and demonstration of small-scale middle offices for electronic bank business risk compliance were initiated. Risk management department had closer daily communication and collaboration with risk compliance small-scale middle offices for retail loan business, asset management business, market business, asset custody business and personal finance business.

III. Risk Management Tool

The Bank valued great importance to the establishment of risk management tools, information systems and econometric models. During the Reporting Period, the Bank continued to refine the management and control requirements of various risks by implementing all-round investigations and primary operation review of various risks, and strengthening real risk control through information system so as to continuously improve the effectiveness of risk management.

During the Reporting Period, the Bank's advanced methods of capital management had officially been approved by regulatory authorities, making the Bank one of the first batch of commercial banks implementing advanced methods of capital management at the Bank level and the Group level. This showed that the risk measurement, capital management and capital management of the Bank had reached practice standards of international advanced banks, which was in a leading position domestically. With almost ten years' endeavour, the Bank had established a complete system for implementation of advanced methods of capital management, and obtained first-mover advantage in terms of policy procedure building, module developing and managing, data accumulation and specification, system design and implementation, business management and assessment application, independent verification and audit, professional training and others. With approval from regulatory authorities, the Bank can adopt primary internal rating-based approach for enterprise risk exposures, retail risk exposures, market risks and standard approach for operation risks to measure capital requirements.

During the Reporting Period, the Group continued to optimise the econometric models and management systems which covering credit risk, market risk, operational risk and other risks. The Group consistently implemented monitoring and analysis of model operation, properly launched model optimisation, completed comprehensive and independent verification of credit and market risk econometric systems, stably improved upgrading and R&D of advanced methods, implemented pressure tests, and extensively and deeply applied econometric results in customer access, quota management, risk monitoring and control and performance appraisal. The operation principle of "capital constraint business and the balance between risk and return" was further consolidated.

IV. Credit Risk Management

Credit risk is one of the major risks the Bank faces, mainly distributed to loan business, treasury business, international business, on-balance-sheet wealth management and direct investment business. The Bank adopted stringent requirements on the management concentrating on investment guidance, investigation and reporting, business review and approval, fund distribution, duration management, overdue non-performing loans management and other aspects, so that the Bank managed to control credit risk within acceptable range to achieve a balance between risk and return.

During the Reporting Period, the Bank focused on optimising credit policy system. It formulated *Outline of Credit and Risk Policy of Bank of Communications for 2014*, which became programmatic guidance for the Bank to correctly grasp credit and risk management policies under complicated situations. The Bank published *Industry (Region) Policy and Investment Guidance of Bank of Communications for 2014* and *Retail Loan Investment Guidance for 2014*, guiding the Bank to scientifically grasp concrete business investment and propel optimisation and adjustment of asset structure. During the Reporting Period, the credit structure was continued to be optimised, and growth of total loans in the aspects of people's livelihood and consumption upgrading like agriculture, forestry, husbandry and fishing, gas and water, technology and culture, education, hygiene and social affairs were higher than the average growth of all loans. For industries with excess production capacity as well as property industry, the Bank further extended and deepened quota by strongly controlling credit availability amount and propelling structure optimisation.

During the Reporting Period, the Bank continued to strengthen the management and control in key areas. It implemented comprehensive risk investigation in property, financing platform, chains (circles) of guarantee, notes business, coals and coal trade, and global commodity trade and financing, innovated investigation means, deepened investigations, provided management and control suggestions and supervised the implementation of such suggestions. The Bank played an active role in facing emergency risk events and mitigating potential risks. The Bank made solid progress in the special work of "revitalising stock assets, reducing the volume of high risk loans and obtaining sufficient buffer", which achieved remarkable results.

During the Reporting Period, the Bank continued to promote the building of centralised credit granting management framework, refined and optimised procedures of credit-like business. Credit risk review procedures for assets connection and wealth management as well as direct investment business were centralised and refined. Approval process, business reporting and approving procedure were shortened, and business efficiency was increased. The Bank also standardised and strengthened management over credit equivalent business and risk assessment monitoring.

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

During the Reporting Period, the Bank steadily implemented fully-covered asset risk classification, gradually extended the classification ranging from credit assets on and off balance sheet to credit-like assets including wealth management, direct investment, long forward, liquidity support and entrusted loans, and non-credit assets covering debt securities, money market instruments and fixed assets. The standardised classification of risk asset was continuously enhanced.

As at the end of June 2014, the balance of non-performing loans of the Group was RMB38,750 million/1.13%, increased by RMB4,440 million/0.08 percentage point from the beginning of the year. As at the end of June 2014, the breakdown of the Group's five categories of loan classification stipulated by the Chinese banking regulatory authorities were as follows:

Categories	30 June 2014		31 December 2013		31 December 2012	
	Balance	Proportion (%)	Balance	Proportion (%)	Balance	Proportion (%)
Pass	3,320,420	96.70	3,173,011	97.14	2,851,980	96.76
Special mention	74,599	2.17	59,047	1.81	68,324	2.32
Total performing loan balance	3,395,019	98.87	3,232,058	98.95	2,920,304	99.08
Sub-standard	14,940	0.44	13,778	0.42	13,269	0.46
Doubtful	15,399	0.45	13,586	0.42	9,793	0.33
Loss	8,411	0.24	6,946	0.21	3,933	0.13
Total non-performing loan balance	38,750	1.13	34,310	1.05	26,995	0.92
Total	3,433,769	100.00	3,266,368	100.00	2,947,299	100.00

As at the end of June 2014, the Bank's loan migration rates stipulated by the Chinese banking regulatory authorities were as follows:

Loan migration rates (%)	January–June 2014	2013	2012
Pass	1.29	1.58	2.00
Special mention	18.43	23.18	7.99
Sub-standard	36.71	37.02	36.61
Doubtful	23.86	17.96	22.63

Note: Data calculated pursuant to the *Notice on the Distribution of the Regulatory Indicator and Calculation Formula for Off field Investigation* released by CBRC.

For the first half of 2014, the change of the Bank's asset quality was affected by the spreading of risks from steel trade businesses and privately-owned SMEs, mainly located in Jiangsu and Zhejiang regions, which are clearly featured. However, the Bank considered it as a regional and non-systematic issue arising from the national economy slowdown and business structure transformation amid overcapacity threats and small enterprises with low risk absorption.

For the first half of 2014, the Bank continued to strengthen steel trade risk mitigation via Head Office Management Working Group. The Bank implemented a collection management programme by adopting difference disposal plans for specific account. In the first half year, the Bank accumulatively reduced the risk loans in steel trade industry amounting to RMB2,100 million.

Excluding the steel trade factors, the Bank's asset qualities are generally stable, and the result of risk management basically reached expectations, especially in aspects of local government financing vehicles, real estate, etc. The Bank continued to implement list management for local government financing vehicles, stipulated management and control targets by branches, monitored the variation of balances and repayment on monthly basis, and accelerated the exit from high-risk, low-yield customers and district and county-level local government financing vehicles. As at the end of June 2014, the balance of loans still managed as government financing vehicles was RMB195,246 million/370 accounts, which were RMB3.998 million/24 accounts less than that at the beginning of the year. Among these, the balance of non-performing loans was RMB7.75 million/0.004%, which decreased by RMB1.25 million/0.0005 percentage point from the beginning of the year. The Bank implemented proportion control for real estate loans, enhanced the list management of the real estate development companies and improved collateral ratio management. At the end of June 2014, the balance of real estate loans was RMB197,476 million/5.75%, decreased by RMB3,824 million/0.41 percentage point from the beginning of the year. Non-performing loans balance was RMB189 million and non-performing loan ratio was 0.10%, decreased by RMB92 million/0.04 percentage point, respectively from the beginning of the year.

For the first half of 2014, the Bank made efforts to strengthen collection of non-performing loans, and actively eliminated the negative impacts arising from the increase of non-performing loans. The Bank reduced on-balance-sheet non-performing assets by RMB13,167 million in total (including batch sale of impaired loan portfolio), among which RMB12,922 million non-performing loans were collected. The Bank collected total non-performing assets in cash by RMB5,443 million accumulatively, and the quality of collection was continuously improved. Meanwhile, the accumulative write-offs of non-performing loans reached RMB4,039 million.

Nowadays, the macro economy is tending towards stability by "a mild stimulation", but the foundation of transformation and restructuring is still not solid. In the future, the changes in the Bank's asset qualities would still depend on the economic restructuring progress, as well as the recovery progress of the financial environment in Jiangsu and Zhejiang regions which are characterised by peer to peer lending and guarantee chains as the main features. During this process, the inertial growth of non-performing assets would still appear.

V. Market Risk Management

The market risks exposed by the Bank primarily included interest rate risk and foreign exchange risk. Through establishing a market risk management system with clarified duties and responsibilities, sound policies and procedures, completed measurement system and timely monitoring and analysis, the Bank used quota management, risk hedging and a variety of methods to control the market risks within the acceptable range and maximised profit at the same time. With regard to the management of market risk of the trading book, the Bank implemented an effective monitoring and quota management system via Value at Risk (VaR). With regard to the interest rate risk of the banking book, the Bank conducted its monitoring activities via gap analysis and net interest income simulations. In addition, through adequate pricing management and asset allocation, the Bank strove to keep its risks under control.

During the Reporting Period, the Bank strengthened the market risk management system. The Bank has systematically amended the policies and procedures in order to comply with regulatory requirements and adjusted to market changes. The amendments include system operating procedures and fair value measurements, etc..

During the Reporting Period, the Bank continued to improve the construction of market risk management information system. The system upgrades and maintenance were reinforced. It also continued to improve the accuracy of the collection of market data and research on the formation and changes in market risk capitalisation under internal modelling.

During the Reporting Period, the Bank strengthened the risk analysis and monitoring over debt securities investments. Based on the changes in market prices, the Bank adjusted debt securities investment strategies and investment portfolio; regularly monitored the repayment ability of bonds issuers in order to prevent and mitigated risks in a timely basis.

VI. Liquidity Risk Management

The Bank's liquidity management aims to maintain a safe and stable operation of the Bank, preventing the liquidity crisis and ensuring the smooth and orderly conductions of business.

The Board of Directors of the Bank annually examines and approves liquidity risk preferences, continuously focuses on the situation of liquidity risk and regularly obtained the relevant management reports. The Bank established an effective liquidity risk management and governance structure, and the management team could continuously manage the liquidity risks through accurate identifications, measurements and monitoring. Facing domestic and overseas macroeconomic and market environment changes, the Bank effectively carried out prudent management and control of liquidity risk.

During the Reporting Period, the Bank reinforced the forecast and evaluation over domestic and overseas financial situations and closely monitored the directions of open market operations by People's Bank of China and the market conditions. It improved the ability to forecast liquidity and adjusted the liquidity management strategy on a timely basis through liquidity management working group. It dynamically balanced and allocated the non-credit funding, in order to effectively improve the development over funding sources and utilisation. The Bank further improved the liquidity risk management system by setting liquidity management policies for the subsequent policy making. The Bank actively carried out the emergency plan drills on liquidity risks on overnight RMB and overseas banks, in order to ensure the stability and safety of liquidity.

VII. Operational Risk Management

The Bank endures operational risks since they are inevitable, and it required large-scale investments in order to carry on the effective management of operational risks. The Bank emphasises on reasonable control for the investment cost and opportunity cost of the operational risk management.

The Bank has established management policy system for operational risk, clarified operational risk management basis, and determined and regulated the work process related to operational risks and the control of self-assessment, loss data collection, key risk factors monitoring and management of operational risk events.

During the Reporting Period, the Bank continued to enhance the level of operational risk management. The Bank uses data-mining to identify operational risk events and emphasises on monitoring and following up on classic cases. The Bank continued to improve the initial risk assessment over business cycles, the self-assessment over key processes and re-assessment, focusing and controlling on weak links, subsequently designed and carried out action plans. The key risk indicator system has been continuously improved, which lead the branches to reinforce their unique risk index monitoring. Special inspections have been carried out on granting new overdue loans, temporary advances to bank guarantees/certificate of deposits.

VIII. Legal Compliance and Anti-money Laundering

The Bank strove to establish a sound legal compliance management system that runs smoothly, operates efficiently, manages across industries and borders, and provides a variety of methods and tools and high quality services in a fully and monitored environment, The Bank also targeted to achieve a thorough management process of legal compliance including identification, prevention, monitoring, alert, settlement, resolution, inspection and supervision for legal and compliance risks, as well as to provide strong legal support and protection for the innovation, transformation and development of the Bank, making sure the compliance of the operation.

During the Reporting Period, the Bank continued to improve its regulatory compliance risk management quality by focusing on key businesses, management innovation and ad-hoc events management, etc.. The Bank emphasised on the regulatory compliance culture and the relative training. It carried out “branch head give speeches on compliance” activity as part of the promotion of compliance culture. The Bank has developed a training plan that was all-rounded, focusing on different levels and pin-pointing at key areas which was conducted to all compliance offices and all business lines. The Bank explored the establishment of cross-border and cross-industry compliance risk management system within the Group. Seminars on the comprehensive operation have been carried out as an attempt to establish the compliance risk monitoring system for overseas branches and subsidiaries.

During the Reporting Period, the Bank further carried out the anti-money laundering activities. The Bank has issued “Notice on Preventing Foreign Internet Hacker Fraud and Money Laundering Activities” and carried out money laundering inspection on all foreign customers at the Group level. The Bank has launched experimental work on anti-money laundering suspicious transactions. The Bank explored the possibilities of two pilot projects on centralised dealing with money laundering fraud cases at branch level and at financial service centre level by selecting some branches for the pilot projects.

IX. Reputational Risk Management

The Bank continued to improve the reputational risk management system, in order to effectively lower the risk of negative comments from stakeholders on the Bank caused by operational management, other behaviours and external events, and properly handled different types of reputational risk events.

During the Reporting Period, the Bank has steadily pushed forward reputational risk management, improved the reputational risk management mechanism, and standardised the reputational risk management process. The Bank also coordinated all entities in the Group to actively detect risks, analyse and conclude on the risk events, and listen to the recommendations from customers and the public. The Bank’s reputational risk is under control.

X. Cross-industry, Cross-border Risk

Through the establishment of cross-industry, cross-border risk management system with “unified management, clarified responsibilities, complete system tools, IT support, risk quantification, and balance sheet management”, the Bank promoted subsidiaries and overseas banking entities, taking into account both the Group’s unified requirements and their respective regulatory requirements during risk management, in order to prevent extra risks during cross-industry and cross-border operations.

During the Reporting Period, the Bank continued to improve the cross-industry and cross-border synergy management mechanism. The Bank actively promoted the marketing synergies, management synergies and risk control synergies. The cross-industry and cross-border business risk management process has been evaluated in order to improve the information sharing among all participating parties. The Bank carried out inspections on related risks and the respective risk management and increased synergies in terms of risk assets disposals. The Bank set forth country risk management policy, specifying the basis guidance and process for country risk assessment, measurement and limit management.

During the Reporting Period, the Group did not detect any insider trading that would damage the sustainable operation in respect of regulatory arbitrage, risk transfer, transactions without genuine purposes and non-market-based approaches.

(4) Information on Capital Adequacy Ratio

As at the end of June 2014, the Group has received approval from regulators to use advanced method to calculate capital adequacy based on *Administrative Measures for the Capital of Commercial Banks (Provisional)* issued by the CBRC.

The table below sets forth the Group capital adequacy ratios calculated using *Administrative Measures for the Capital of Commercial Banks (Provisional)* and Administrative Measures for the Capital Adequacy Ratio of Commercial Banks issued by the CBRC.

(in millions of RMB unless otherwise stated)

As at 30 June 2014

The Group has adopted “*Administrative Measures for the Capital of Commercial Banks (Provisional)*” issued by the CBRC in calculation of relevant ratio^{Note:}:

Item	The Group	The Bank
Net Core Tier 1 Capital	439,595	420,020
Net Tier 1 Capital	439,604	420,020
Net Capital	523,626	503,892
Core Tier 1 Capital Adequacy Ratio	10.70%	10.52%
Tier 1 Capital Adequacy Ratio	10.70%	10.52%
Capital Adequacy Ratio	12.75%	12.62%

The Group has adopted “Administrative Measures for the Capital Adequacy Ratio of Commercial Banks” issued by the CBRC in calculation of relevant ratio:

Item	The Group	The Bank
Core Capital Adequacy Ratio	10.75%	10.67%
Capital Adequacy Ratio	13.18%	12.98%

Notes:

1. Pursuant to the “*Administrative Measures for the Capital of Commercial Banks (Provisional)*”, the above calculation excluded Bocom Insurance and BoCommLife Insurance.
2. According to the advanced method on capital management, the credit risk calculation method changed from weighted-average method to basic internal rating-based approach, market risk calculation method changed from standard approach to internal model method, and the operational risk calculation method changed from basic indicator method to the standardised approach. The change in calculation method had certain impacts on the capital adequacy ratio.

(5) Strategic Corporation with HSBC

In the first half of 2014, the Bank continued to closely communicate with HSBC, the overseas strategic partner of the Bank among Senior Management. Both banks increased their interactions by optimising the communication mechanism, and further expanding the areas of cooperation in order to achieve positive collaborative results.

1. Smooth communication among the top management. In the first half of 2014, top management from the Bank and HSBC maintained close and seamless communications through various ways including 1 summit meeting, 2 executive chairman regular meetings, and 3 informal meetings where the management would discuss the results of cooperation in 2013, set and quantify future cooperation targets for 2014 and further explore the potential new cooperation areas in order to deepen bilateral strategic cooperation.
2. Innovative and completed cooperation mechanism. Both banks summarised the previous collaboration experience and successful cases to improve the cooperation mechanism and continuously increase the effectiveness of cooperation.
 - Initialling key employees interflow mechanism for the strategic cooperation. To continue and deepen the cooperation of “1+1” global financial service program, “1+1” Staff Interflow Mechanism was established between the Bank and HSBC during the year for the first time. Selected key employees of related business lines were stationed at HSBC for interaction and management trainings, with understanding the differences on client bases, products, channels and risk culture to enhance the mutual trust between the teams and smoothen the subsequent processes of the programme.
 - Focusing on targeted customers to organise collaborative sales for the first time. Both banks co-organised an activity, namely “Assisting Chinese funded enterprises to expand overseas presence”, for the first time so as to recommend to potential customers the “1+1” co-services brand, domestic and overseas network service, whole batch of products and services, successful collaboration cases, etc. The activity resulted in desirable promotional effect and boosted the popularity of “BoCom-HSBC 1+1” brand effectively.

- Establishing the collaboration mechanism for key areas. After concluding the experience of cooperative marketing in Hong Kong, both banks strengthened their daily communication in other overseas locations in order to obtain a substantive breakthrough in business cooperation.
3. Enhancement on business corporation. Both banks fully utilized the complementary advantages on their clients, products and channels, and closely monitored the regulatory developments, to give priority to cooperate with each other and continually expanded cooperation area.
- A developing trend in credit card business. As at the end of the Reporting Period, the number of the domestically registered credit cards (including quasi-credit card) in use of the Bank increased by 3.19 million from the beginning of the year to 33.39 million.
 - Stable and deepen general business cooperation. During the first half of the year, the US dollar settlement for both banks rose more than 100% as compared with corresponding period in prior year, Precious metal transactions increased by 60% as compared with corresponding period in prior year and trust under custody increased by 50% as compared with corresponding period in prior year. The cooperation results were further consolidated.
4. Development of Technical Cooperation and Exchange (TCE). During the first half of the year, both banks jointly implemented 24 technical corporation projects and shared the philosophy and technical experiences on the areas including strategic development for commercial banking, risk management, human resource management, wealth management, cost controlling, rental business and development in the FTZ. Meanwhile, training programmes were launched by HSBC for our supervisors, management trainees and personals from investment banking to support our professional expertise development.

With the accumulated effort, in the 10th anniversary of the strategic cooperation, both banks are having a new start and will continually work hand in hand to attain greater collaborative outgrowth by enhancing their communication and collaboration, taking the opportunity of actively seizing in globalisation of Chinese enterprises and RMB business cooperation, and the corporation opportunity brought from Shanghai-Hong Kong Stock Connect and the establishment of Shanghai FTZ.

(6) Outlook

In the second half of the 2014, we will continue to focus on “innovation and reform, transformation and development” with concentration on its comparative advantages in key aspects. We will focus on the following aspects: (1) concentrate on the goals to increase return on assets, increase non-interest income, increase asset quality, reduce loan-to-deposit ratio, reduce the liability cost and reduce capital consumption. The Bank will continue to promote restructuring and development, and achieve a profit growth with low capital input and low-cost expansion; (2) continue to carry forward the “Second Round of Reform” to strengthen the capacity of operations and profitability of both Head Office and branches, seize the opportunity for the period of rapid development in asset management and innovate the profit model; (3) proactively introduce innovative risk management, techniques, and implement stringent policies covering credit granting and risk management in order to maintain the overall stability of total asset quality; (4) further refine the customers’ orientation to fully implement the tailored promotion, develop the cross-selling, increase the customers’ comprehensive value, and dedicate to becoming the best service bank in China; (5) capture the geographical advantage and first-mover advantage brought by the major reform initiatives of our government such as the Shanghai FTZ, and improve the integrated cross-border, cross-industry and inter-market service capabilities.

6. SIGNIFICANT EVENTS

(1) Profit Distribution

1. Implementation of the Profit Distribution Plan during the Reporting Period

The profit distribution plan of the Bank for the year of 2013 was considered and approved at the 2013 Annual General Meeting of the Bank held on 25 June 2014. Based on the total issued shares of 74.263 billion shares as at 31 December 2013, a cash dividend of RMB0.26 (tax inclusive) per share was distributed, totalling RMB19.308 billion.

2. Proposal on Payment of Interim Dividend and Proposal on Conversion of Capital Reserve into Share Capital

The Bank will not distribute an interim dividend or convert any capital reserve into share capital for the six months ended 30 June 2014.

3. Implementation of the Bank’s Cash Dividend Distribution Policy during the Reporting Period

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

(2) Shareholdings in Other Companies

1. Holdings of Equity Interest in Other Listed Companies

(in RMB unless otherwise stated)

Stock code	Stock short name	Initial investment amount	Percentage of equity interest in the company (%)	Book value as at the end of the Reporting Period	Gains/(losses) during the Reporting Period	Changes in owners' equity during the Reporting Period	Accounting items	Source of shares
600068	CGGC	134,200,800.00	1.42	183,088,500.00	—	(12,337,500.00)	Investment securities — available-for-sale	Foreclosed assets
02196	FOSUN PHARMA	90,657,079.40	1.06	97,843,970.22	2,431,913.53	6,176,076.36	Investment securities — available-for-sale	Equity investment
02318	PING AN	12,745,382.26	0.01	12,904,303.79	8,429,726.66	158,961.22	Investment securities — available-for-sale	Equity investment
V	Visa Inc.	6,121,851.85	—	30,160,763.74	—	(1,423,784.81)	Investment securities — available-for-sale	Equity investment
000709	HEBEI STEEL CORP	3,144,211.20	0.01	882,086.40	—	(66,393.60)	Investment securities — available-for-sale	Foreclosed assets
00552	CHINACOMSERVICE	2,720,859.41	0.04	2,692,769.83	—	(36,349.78)	Investment securities — available-for-sale	Equity investment
01666	TONG REN TANG	2,286,670.70	0.04	2,227,991.25	—	(119,350.34)	Investment securities — available-for-sale	Equity investment
00874	BAIYUNSHAN PH	1,989,960.89	0.05	1,801,528.89	—	(163,874.31)	Investment securities — available-for-sale	Equity investment
600556	GBP	1,536,396.00	0.13	2,222,652.88	—	389,220.32	Investment securities — available-for-sale	Foreclosed assets
00006	POWER ASSETS	1,431,896.07	—	1,774,347.23	—	159,756.72	Investment securities — available-for-sale	Equity investment
02823	X ISHARES A50	1,305,217.36	—	1,339,639.10	—	34,421.74	Investment securities — available-for-sale	Equity investment
06837	HAITONG SEC	1,221,974.00	0.01	1,240,118.52	—	18,144.51	Investment securities — available-for-sale	Equity investment
	Others	4,258,955.35		2,427,803.27	—	(191,800.47)		
Total		263,621,254.49		340,606,475.12	10,861,640.19	(7,402,472.44)		

Notes:

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

2. Holdings of Equity Interest in Unlisted Financial Institutions

(in RMB unless otherwise stated)

Name of institution	Initial investment amount	Number of shares held	Percentage of equity interest in the company (%)	Book value as at the end of the Reporting Period	Gains/(losses) during the Reporting Period	Changes in owners' equity during the Reporting Period	Accounting items	Source of shares
Jiangsu Changshu Rural Commercial Bank Co., Ltd.	489,500,000.00	101,340,337	10.00	489,500,000.00	19,001,313.12	—	Investment securities — available-for-sale	Equity investment
Bank of Tibet Co., Ltd.	300,000,000.00	300,000,000	20.00	398,638,018.67	54,686,400.00	—	Investment in an associate	Equity investment
China UnionPay 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
Shaanxi Coal and Chemical Industry Group Finance Corporation	100,000,000.00	N/A	10.00	100,000,000.00	7,080,636.23	—	Investment securities — available-for-sale	Equity investment
Total	1,155,750,000.00			1,254,388,018.67	80,768,349.35	—		

3. *Purchases and Disposal of Shares of Other Listed Companies*

(in RMB unless otherwise stated)

	Number of shares held as at the beginning of the Reporting Period	Number of shares purchased/ (disposed) during the Reporting Period	Number of shares held as at the end of the Reporting Period	Cost of purchase	Gain from disposal
Purchase	48,200	11,646,300	11,694,500	144,311,501.06	—
Disposal	18,281,576	(17,675,576)	606,000	—	57,562,003.53

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

(3) **Material Litigation and Arbitration and Issues Questioned by the Media Generally**

During the Reporting Period, the Bank had not been involved in any material litigation or arbitration, or issues questioned by the media generally.

(4) **Significant Related Party Transactions**

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

(5) **Implementation of Undertakings**

In the process of the non-public issuance of A shares and H shares of the Bank in 2012, the subscribers of the A shares undertook not to transfer such A shares within 36 months from the date of completion of the issuance. Please refer to the section headed “Changes in Share Capital and Shareholdings of Substantial Shareholders” for details.

As at the end of the Reporting Period, the subscribers had fulfilled their undertakings.

(6) **Audit Committee**

The Bank has established an Audit Committee under the Board of Directors in accordance with the requirements of the Hong Kong Listing Rules. The main responsibilities of the Audit Committee are to review the Bank’s internal and external audits, examine and approve financial reports, and oversee the implementation of the Bank’s internal control policies, as well as their efficiency and compliance. As at the end of the Reporting Period, the members of the Audit Committee are Mr. Yu Yongshun, Ms. Du Yuemei, Mr. Wang Taiyin, Ms. Zhang Yuxia, Mr. Choi Yiu Kwan and Mr. Liu Tinghuan. Mr. Yu Yongshun, an Independent Non-executive Director, serves as the chairman of the Audit Committee. The Audit Committee and Senior Management reviewed the Bank’s accounting policies and practices and discussed on issues relating to internal controls and financial reporting, and also reviewed the interim results.

The Board of Directors has nominated each of Ms. Li Jian and Mr. Liu Li as a member of the Audit Committee (such appointments shall take effect upon the qualifications of the aforesaid persons as Directors of the Bank being approved), to ensure that the Audit Committee comprises of a majority of Independent Non-executive Directors. The appointments of Ms. Li Jian and Mr. Liu Li as Independent Non-executive Directors of the Bank have been approved by the 2013 Annual General Meeting of the Bank, and their qualifications as Directors of the Bank are still subject to the approval by the CBRC. In addition, Mr. Liu Tinghuan tendered his resignation as an Independent Non-executive Director, a member of the Audit Committee, and the Chairman and a member of the Personnel and Remuneration Committee with effect from the appointment of the successor taking effect.

(7) Purchase, Sale or Redemption of the Bank's Shares

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

(8) Securities Transactions by Directors, Supervisors and Senior Management

The Bank requires that the Directors, Supervisors and Senior Management of the Bank should strictly adhere to the “Rules on the Administration of Shares held by Directors, Supervisors and Senior Management Personnel of Listed Companies and the Changes of Such Shares” issued by the China Securities Regulatory Commission, the “Model Code for Securities Transactions by Directors of Listed Issuers” as set out in Appendix 10 to the Hong Kong Listing Rules and “the Measures on the Administration of Shares held by Directors, Supervisors and Senior Management Personnel of Bank of Communications Co., Ltd. and the Changes of Such Shares”. The Bank has made specific enquiries of all the Directors, Supervisors and Senior Management of the Bank and all of them confirmed that they had complied with the above-mentioned rules during the Reporting Period.

(9) Compliance with the Corporate Governance Code under the Hong Kong Listing Rules

During the Reporting Period, the Bank had complied with the code provisions contained in the “Corporate Governance Code” as set out in Appendix 14 to the Hong Kong Listing Rules. Details are stated in the Bank's interim report.

7. FINANCIAL REPORTS

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

	<i>(in millions of RMB)</i>		
	Three months ended 30 June	Six months ended 30 June	
	2014	2013	2014
			2013
Interest income	73,606	63,875	143,412
Interest expense	(38,677)	(30,898)	(76,201)
Net interest income	34,929	32,977	67,211
Fee and commission income	8,852	7,814	17,314
Fee and commission expense	(790)	(853)	(1,613)
Net fee and commission income	8,062	6,961	15,701
Dividend income	—	24	26
Net gains arising from trading activities	422	(263)	3,410
Net gains arising from de-recognition of investment securities	95	26	130
Insurance business income	1,529	309	2,143
Other operating income	906	2,648	2,197
Impairment losses on loans and advances to customers	(4,752)	(3,356)	(10,159)
Insurance business expense	(1,562)	(253)	(2,095)
Other operating expense	(16,592)	(16,902)	(31,424)
Share of result of an associate	31	6	55
Profit before tax	23,068	22,177	47,195
Income tax	(4,931)	(5,009)	(10,300)
Net profit for the period	18,137	17,168	36,895
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Investment securities — available-for-sale			
Changes in fair value recorded in equity	2,015	(747)	3,388
Changes in fair value reclassified from equity to profit or loss	(55)	(73)	(100)
Translation difference on foreign operations	37	(592)	191
	1,997	(1,412)	3,479
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Actuarial (losses)/gains on pension benefits	(16)	(2)	(4)
Other comprehensive income/(loss) for the period	1,981	(1,414)	3,475
Total comprehensive income for the period	20,118	15,754	40,370

(1) Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income (continued)

	<i>(in millions of RMB)</i>		
	Three months ended 30 June		Six months ended 30 June
	2014	2013	2014
			2013
Net profit attributable to:			
Shareholders of the Bank	18,083	17,121	36,773
Non-controlling interests	54	47	122
	<u>18,137</u>	<u>17,168</u>	<u>36,895</u>
			<u>34,918</u>
Total comprehensive income attributable to:			
Shareholders of the Bank	20,055	15,717	40,250
Non-controlling interests	63	37	120
	<u>20,118</u>	<u>15,754</u>	<u>40,370</u>
			<u>34,358</u>
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)	<u>0.25</u>	<u>0.23</u>	<u>0.50</u>
			<u>0.47</u>

(2) Unaudited Condensed Consolidated Statement of Financial Position

(in millions of RMB)

	As at 30 June 2014	As at 31 December 2013
ASSETS		
Cash and balances with central banks	932,763	896,556
Due from banks and other financial institutions	622,708	566,429
Financial assets at fair value through profit or loss	85,565	73,310
Loans and advances to customers	3,354,657	3,193,063
Investment securities — loans and receivables	147,764	119,726
Investment securities — available-for-sale	230,303	221,253
Investment securities — held-to-maturity	653,404	670,615
Investment in an associate	399	344
Property and equipment	61,241	57,179
Deferred income tax assets	14,409	17,224
Other assets	180,723	145,238
Total assets	6,283,936	5,960,937
LIABILITIES		
Due to banks and other financial institutions	1,153,253	1,126,563
Financial liabilities at fair value through profit or loss	18,470	28,640
Due to customers	4,375,920	4,157,833
Certificates of deposit issued	33,329	24,619
Other liabilities	159,083	113,435
Current tax liabilities	5,948	6,107
Deferred income tax liabilities	9	18
Debt securities issued	95,378	82,238
Total liabilities	5,841,390	5,539,453
EQUITY		
Share capital	74,263	74,263
Capital surplus	113,383	113,383
Other reserves	203,051	164,585
Retained earnings	49,806	67,330
Total equity attributable to shareholders of the Bank	440,503	419,561
Non-controlling interests	2,043	1,923
Total equity	442,546	421,484
Total equity and liabilities	6,283,936	5,960,937

(3) Unaudited Condensed Consolidated Statement of Changes in Equity

(in millions of RMB)

	Share capital	Capital surplus	Statutory reserve	Discretionary reserve	Statutory general reserve	Other Reserves		Actuarial changes reserve	Retained earnings	Attributable to the shareholders of the Bank	Non-controlling interests	Total
						Revaluation reserve for available for-sale financial assets	Translation reserve on foreign operations					
Balance at 1 January 2014	74,263	113,383	30,999	78,510	62,757	(4,928)	(2,779)	26	67,330	419,561	1,923	421,484
Net profit for the period	—	—	—	—	—	—	—	—	36,773	36,773	122	36,895
Other comprehensive income	—	—	—	—	—	3,290	191	(4)	—	3,477	(2)	3,475
Total comprehensive income	—	—	—	—	—	3,290	191	(4)	36,773	40,250	120	40,370
Capital increase in a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—
Dividends paid and accrued	—	—	—	—	—	—	—	—	(19,308)	(19,308)	—	(19,308)
Transfer to reserve	—	—	—	26,732	8,257	—	—	—	(34,989)	—	—	—
Balance at 30 June 2014	74,263	113,383	30,999	105,242	71,014	(1,638)	(2,588)	22	49,806	440,503	2,043	442,546
Balance at 1 January 2013	74,263	113,383	24,790	58,157	34,309	(975)	(1,876)	(1)	77,868	379,918	1,529	381,447
Net profit for the period	—	—	—	—	—	—	—	—	34,827	34,827	91	34,918
Other comprehensive income	—	—	—	—	—	116	(671)	4	—	(551)	(9)	(560)
Total comprehensive income	—	—	—	—	—	116	(671)	4	34,827	34,276	82	34,358
Capital increase in a subsidiary	—	—	—	—	—	—	—	—	—	—	176	176
Dividends paid and accrued	—	—	—	—	—	—	—	—	(17,823)	(17,823)	—	(17,823)
Transfer to reserve	—	—	31	20,353	27,511	—	—	—	(47,895)	—	—	—
Balance at 30 June 2013	74,263	113,383	24,821	78,510	61,820	(859)	(2,547)	3	46,977	396,371	1,787	398,158

(4) Unaudited Condensed Consolidated Statement of Cash Flows*(in millions of RMB)***Six months ended 30 June****2014****2013****Cash flows from operating activities:**

Profit before tax	47,195	45,060
Adjustments for:		
Impairment losses on loans and advances to customers	10,159	8,469
(Reversal of)/impairment losses on foreclosed assets	(28)	46
Unwind of discount on allowances during the period	(626)	(707)
Impairment of finance lease receivables	177	229
Provision for impairment of other receivables	55	11
Insurance contracts reserve	2,082	395
Impairment of investment securities	723	9
(Reversal of)/provision for outstanding litigation and unsettled obligation	(50)	18
Depreciation of property and equipment	2,561	2,066
Amortisation of rent and renovation	213	244
Share of result of an associate	(55)	(8)
Net losses from fair value hedges	4	9
Amortisation of land use rights	13	12
Amortisation of intangible assets	128	123
Interest income from investment in debt securities	(21,304)	(16,252)
Net gains arising from de-recognition of investment securities	(130)	(97)
Net (gains)/losses on disposal of property and equipment	(69)	1
Increase in revaluation of investment property	—	(11)
Interest expense on subordinated debts securities and other debts issued	1,956	1,620
Interest expense on certificates of deposit issued	336	126
Dividend income	(26)	(61)
Reversal of impairment allowances on unpossessed assets	(4)	—
Operating cash flows before movements in operating assets and liabilities	43,310	41,302
Net increase in mandatory reserve deposits	(38,044)	(49,608)
Net increase in due from banks and other financial institutions	(44,440)	(32,998)
Net increase in financial assets at fair value through profit or loss	(12,255)	(1,069)
Net increase in loans and advances to customers	(171,127)	(258,822)
Net increase in other assets	(35,485)	(23,375)
Net increase in due to banks and other financial institutions	26,690	170,363
Net (decrease)/increase in financial liabilities at fair value through profit or loss	(10,170)	5,973
Net increase in due to customers	218,087	224,898
Net increase in other liabilities	22,133	799
Net (decrease)/increase in business tax payable	(220)	248
Income tax paid	(8,720)	(11,383)
Net cash (used in)/from operating activities	(10,241)	66,328

(4) Unaudited Condensed Consolidated Statement of Cash Flows (continued)*(in millions of RMB)***Six months ended 30 June****2014 2013****Cash flows from investing activities:**

Purchase of investment securities	(193,860)	(238,158)
Disposal or redemption of investment securities	178,523	136,211
Dividends received	26	61
Interest received from investment securities	21,156	15,315
Acquisition of intangible assets and other assets	(739)	(393)
Disposal of intangible assets and other assets	179	—
Purchase and construction of property and equipment	(6,369)	(4,961)
Disposal of property and equipment	183	260

Net cash used in investing activities**(901)** (91,665)**Cash flows from financing activities:**

Proceeds from debt securities issued	46,503	16,361
Interest paid on debt securities issued	(1,170)	(835)
Capital contribution by non-controlling interests	—	176
Repayment of debts securities issued	(24,709)	(9,572)

Net cash from financing activities**20,624** 6,130**Effect of exchange rate changes on cash and cash equivalents****520** (1,421)**Net increase/(decrease) in cash and cash equivalents****10,002** (20,628)**Cash and cash equivalents at the beginning of the period****243,394** 271,598**Cash and cash equivalents at the end of the period****253,396** 250,970**Net cash flows from operating activities include:**

Interest received	118,122	106,494
Interest paid	(68,387)	(51,603)

(5) Notes to the Unaudited Condensed Consolidated Financial Statements

1. Basis of preparation

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

These unaudited condensed consolidated financial statements of the Group should be read in conjunction with the 2013 annual consolidated financial statements.

Except as described below, the group’s accounting policies applied in preparing these unaudited condensed consolidated financial statements are consistent with those policies applied in preparing the financial reports as at 31 December 2013.

New and revised IFRSs effective by 1 January 2014 applied by the Group

Amendment to IFRS 10, IFRS 12 and IAS 27	Investment Entities
Amendment to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendment to IAS 36	Impairment of Assets – Recoverable Amount for Non-Financial Assets
Amendment to IAS 39	Financial Instruments Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levis

The adoption of these new standards and amendments does not have a significant impact on the operating results, comprehensive income, or financial position of the Group.

Standards and amendments that are not yet effective and have not been adopted by the Group

		Effective for annual period beginning on or after
Amendment to IFRS 19 (Revised)	Employee benefits on defined benefit plans	1 July 2014
IFRS (Revised)	Annual Improvements to IFRSs 2010–2012 Cycle	1 July 2014
IFRS (Revised)	Annual Improvements to IFRSs 2011–2013 Cycle	1 July 2014
Amendment to IFRS 11	Accounting for acquisitions of interests in joint operation	1 January 2016
IFRS 14	Regulatory deferral accounts	1 January 2016
IFRS 15	Revenue from Contracts with Customers	1 January 2017
IFRS 9	Financial Instruments	1 January 2018

The Group is considering the impact of IFRS 9 on the consolidated financial statements.

Except the above mentioned impact of IFRS 9, the adoption of the above new IFRSs and amendments to IFRSs issued but not yet effective is not expected to have a material effect on the Group's operating results, financial position or other comprehensive income.

2 *Net interest income*

(in millions of RMB)

	Three months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
Interest income				
Balances with central banks	3,248	3,171	6,441	6,243
Due from banks and other financial institutions	5,047	3,789	9,773	7,045
Loans and advances to customers	53,270	48,247	104,372	95,095
Investment in debt securities	12,041	8,668	22,826	16,706
	73,606	63,875	143,412	125,089
Interest expense				
Due to banks and other financial institutions	(13,364)	(10,300)	(27,755)	(19,679)
Due to customers	(24,098)	(19,656)	(46,079)	(38,570)
Subordinated debts and other debts issued	(1,016)	(828)	(1,956)	(1,620)
Certificates of deposits issued	(199)	(114)	(411)	(212)
	(38,677)	(30,898)	(76,201)	(60,081)
Net interest income	34,929	32,977	67,211	65,008

For six months ended 30 June 2013, interest income of the Group includes RMB1,522 million (six months ended 30 June 2013: RMB454 million) of interest income accrued on debt securities classified as financial assets at fair value through profit or loss.

For six months ended 30 June 2014, interest expense of the Group includes RMB75 million (six months ended 30 June 2013: RMB86 million) of interest expense accrued on certificate of deposits issued classified as financial liabilities designated at fair value through profit or loss.

For six months ended 30 June 2014, interest income of the Group includes RMB626 million (six months ended 30 June 2013: RMB707 million) of interest income accrued on impaired loans and advances to customers.

(in millions of RMB)

Six months ended 30 June

2014 **2013**

Interest income on listed investments	6,865	4,959
Interest income on unlisted investments	15,961	11,747
	<u>22,826</u>	<u>16,706</u>

3 Fee and commission income

(in millions of RMB)

Six months ended 30 June

2014 **2013**

Settlement service	1,758	1,187
Bank cards	5,118	4,369
Investment banking	3,146	4,153
Guarantee and commitment	2,257	1,880
Management service	3,621	2,749
Agent service	940	1,036
Others	474	175
	<u>17,314</u>	<u>15,549</u>

(in millions of RMB)

Six months ended 30 June

2014 **2013**

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	<u>431</u>	<u>376</u>
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	<u>963</u>	<u>873</u>

4 *Impairment losses on loans and advances to customers*

(in millions of RMB)

Loans and advances to customers	Three months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
— Collectively assessed losses provision	1,246	2,004	4,657	5,138
— Individually assessed losses provision	3,506	1,352	5,502	3,331
	4,752	3,356	10,159	8,469

5 *Income Tax*

(in millions of RMB)

	Three months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
Current tax				
— PRC enterprise income tax	5,107	6,309	8,383	10,410
— Hong Kong profits tax	(124)	136	14	274
— Overseas taxation	79	64	164	162
	5,062	6,509	8,561	10,846
Deferred income tax	(131)	(1,500)	1,739	(704)
	4,931	5,009	10,300	10,142

The provision for enterprise income tax in PRC is calculated based on the statutory rate of 25% (2013: 25%) of the assessable income of the Bank and each of the subsidiaries established in PRC. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions.

The taxation on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Group at 25% (2013: 25%). The major reconciliation items are as follows:

	<i>(in millions of RMB)</i>			
	Three months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
Profit before tax	<u>23,068</u>	<u>22,177</u>	<u>47,195</u>	<u>45,060</u>
Tax calculated at a tax rate of 25%	5,767	5,544	11,799	11,265
Effect of different tax rates in other countries (or regions)	3	11	10	35
Tax effect arising from income not subject to tax ⁽¹⁾	(839)	(589)	(1,550)	(1,226)
Tax effect of expenses that are not deductible for tax purposes ⁽²⁾	<u>—</u>	<u>43</u>	<u>41</u>	<u>68</u>
Income tax expense	<u><u>4,931</u></u>	<u><u>5,009</u></u>	<u><u>10,300</u></u>	<u><u>10,142</u></u>

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

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

6 Basic and Diluted 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 year. There were no potentially ordinary shares outstanding during the six months ended 30 June 2014 and 2013.

	Six months ended 30 June	
	2014	2013
Net profit attributable to shareholders of the Bank (expressed in millions of RMB)	<u>36,773</u>	<u>34,827</u>
Number of ordinary shares in issue (expressed in millions)	<u>74,263</u>	<u>74,263</u>
Basic and Diluted earnings per share (expressed in RMB yuan)	<u>0.50</u>	<u>0.47</u>

7 *Derivative financial instruments*

(in millions of RMB)

	Contractual/ notional amount	Fair value	
		Assets	Liabilities
As at 30 June 2014			
Foreign exchange contracts	1,145,720	6,841	(5,635)
Interest rate contracts and others	516,620	1,105	(1,775)
Total amount of derivative instruments recognised	1,662,340	7,946	(7,410)

(in millions of RMB)

	Contractual/ notional amount	Fair value	
		Assets	Liabilities
As at 31 December 2013			
Foreign exchange contracts	1,462,736	12,723	(14,261)
Interest rate contracts and others	587,446	1,504	(2,414)
Total amount of derivative instruments recognised	2,050,182	14,227	(16,675)

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

Contractual/notional amount of derivative financial instruments by original currency

(in millions of RMB)

	As at 30 June 2014	As at 31 December 2013
RMB	857,502	1,075,990
US dollar	636,627	790,521
HK dollar	92,315	106,796
Others	75,896	76,875
Total	1,662,340	2,050,182

Hedge accounting

As at 30 June 2014 and 31 December 2013, included in the derivative financial instruments above are those designated as hedging instruments by the Group as follows:

	Contractual/ notional amount	<i>(in millions of RMB)</i> Fair value	
		Assets	Liabilities
As at 30 June 2014			
Derivative financial instruments designated as hedging instruments in fair value hedges			
— Interest rate swaps	<u>8,931</u>	<u>10</u>	<u>(266)</u>
Total	<u><u>8,931</u></u>	<u><u>10</u></u>	<u><u>(266)</u></u>

	Contractual/ notional amount	<i>(in millions of RMB)</i> Fair value	
		Assets	Liabilities
As at 31 December 2013			
Derivative financial instruments designated as hedging instruments in fair value hedges			
— Interest rate swaps	<u>7,124</u>	<u>21</u>	<u>(252)</u>
Total	<u><u>7,124</u></u>	<u><u>21</u></u>	<u><u>(252)</u></u>

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

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

(in millions of RMB)

	As at 30 June 2014	As at 30 June 2013
(Losses)/gains on hedging instruments	(20)	198
Gains/(losses) on hedged items attributable to the hedge risk	<u>16</u>	<u>(207)</u>
Net losses from fair value hedges	<u>(4)</u>	<u>(9)</u>

8 Dividends

(in millions of RMB)

	Six months ended 30 June 2014	2013
Declared to shareholders of the Bank in the period	<u>19,308</u>	<u>17,823</u>

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

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

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

The distribution of cash dividends of RMB0.26 (before tax) per share, amounting to RMB19,308 million based on the total 74,263 million shares (RMB1 per share) as at 31 December 2013 was proposed by the Board of Directors of the Bank on 30 March 2014, and then approved by shareholders in the Annual General Meeting on 25 June 2014.

9 Financial guarantees and credit related commitments, other commitments and contingent liabilities

Financial guarantees and credit related commitments

The following tables indicate the contractual amounts of the Group's financial guarantees and credit related commitments which the Group has committed to extend to customers:

(in millions of RMB)

	As at 30 June 2014	As at 31 December 2013
Letters of guarantees	343,590	376,222
Letters of credit	56,503	70,380
Acceptances	618,060	612,830
Loan commitments with an original maturity of		
— Under 1 year	326,867	288,860
— 1 year and over	175,606	202,427
	<u>1,520,626</u>	<u>1,550,719</u>

Capital expenditure commitments

(in millions of RMB)

	As at 30 June 2014	As at 31 December 2013
Authorised but not contracted for	102	154
Contracted but not provided for	3,076	2,880
	<u>3,178</u>	<u>3,034</u>

Operating lease commitments

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

(in millions of RMB)

	As at 30 June 2014	As at 31 December 2013
Within 1 year	1,717	1,907
Beyond 1 year and not more than 2 years	1,726	1,523
Beyond 2 years and not more than 3 years	1,266	1,249
Beyond 3 years and not more than 5 years	1,691	1,828
More than 5 years	1,479	1,231
	<u>7,879</u>	<u>7,738</u>

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

(in millions of RMB)

	As at 30 June 2014	As at 31 December 2013
Within 1 year	1,135	765
Beyond 1 year and not more than 2 years	1,138	765
Beyond 2 years and not more than 3 years	1,138	765
Beyond 3 years and not more than 5 years	2,235	1,503
More than 5 years	4,524	2,940
	<u>10,170</u>	<u>6,738</u>

Commitments on security underwriting and bond acceptance

The Bank is entrusted by the Ministry of Finance of People's Republic of China ("MOF") to underwrite certain Certificates-type Treasury Bonds and Saving-type Treasury Bonds. The investors of Certificates Type Treasury Bonds and Saving Type Treasury Bonds have early redemption right while the Bank has the obligation to buy back those Certificates Type Treasury Bonds and Saving Type Treasury Bonds. The redemption price is the principal value of the Certificates Type Treasury Bond or Saving Type Treasury Bond plus unpaid interest till redemption date. As at 30 June 2014, the principal value of the Treasury Bonds that the Bank had the obligation to buy back amounted to RMB48,460 million (31 December 2013: RMB42,361 million).

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

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

As at 30 June 2014, there was no unexpired commitment on security underwriting of the Group which was irrevocable and announced to the public (31 December 2013: Nil).

Legal proceedings

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

	<i>(in millions of RMB)</i>	
	As at 30 June 2014	As at 31 December 2013
Outstanding claims	<u>1,026</u>	<u>1,153</u>
Provision for outstanding litigations	<u>328</u>	<u>378</u>

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.

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

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

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

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

Operating segment information

(in millions of RMB)

Six months ended 30 June 2014	North China	Northeast China	East China	Central and South China	West China	Head Office	Overseas	Eliminations	Total
Interest income ¹	38,586	10,818	75,591	39,195	19,446	42,397	7,337	(89,958)	143,412
Interest expense ²	(28,599)	(7,959)	(51,184)	(28,350)	(12,902)	(33,023)	(4,142)	89,958	(76,201)
Net interest income ³	9,987	2,859	24,407	10,845	6,544	9,374	3,195	—	67,211
Fee and commission income	1,748	506	6,345	3,283	1,384	3,195	853	—	17,314
Fee and commission expense	(274)	(42)	(569)	(321)	(152)	(187)	(68)	—	(1,613)
Net fee and commission income	1,474	464	5,776	2,962	1,232	3,008	785	—	15,701
Dividend income	—	—	—	7	—	19	—	—	26
Net gains arising from trading activities	262	26	493	181	133	1,973	342	—	3,410
Net gains arising from de-recognition of investment securities	—	—	41	71	—	6	12	—	130
Insurance business income	—	—	2,124	—	—	—	19	—	2,143
Share of result of an associate	—	—	—	—	—	55	—	—	55
Other operating income	347	100	833	398	197	217	105	—	2,197
Net operating income	12,070	3,449	33,674	14,464	8,106	14,652	4,458	—	90,873
Impairment losses on loans and advances to customers	(996)	(580)	(6,352)	(1,651)	(454)	—	(126)	—	(10,159)
Insurance business expense	—	—	(2,083)	—	—	—	(12)	—	(2,095)
Other operating expense	(4,070)	(1,657)	(9,904)	(5,480)	(2,809)	(6,369)	(1,135)	—	(31,424)
Profit before tax	7,004	1,212	15,335	7,333	4,843	8,283	3,185	—	47,195
Income tax	(1,651)	(285)	(3,887)	(1,858)	(1,151)	(680)	(788)	—	(10,300)
Net profit for the period	5,353	927	11,448	5,475	3,692	7,603	2,397	—	36,895
Depreciation and amortisation	(340)	(172)	(793)	(423)	(299)	(854)	(34)	—	(2,915)
Acquisition cost of property and equipment and intangible assets	(409)	(184)	(1,048)	(397)	(591)	(787)	(4,157)	—	(7,573)
¹ Include									
External interest	18,586	5,561	43,517	20,486	11,332	37,489	6,441	—	143,412
Inter-segment interest income	20,000	5,257	32,074	18,709	8,114	4,908	896	(89,958)	—
² Include									
External interest	(16,898)	(3,984)	(25,509)	(14,407)	(5,341)	(6,318)	(3,744)	—	(76,201)
Inter-segment interest expense	(11,701)	(3,975)	(25,675)	(13,943)	(7,561)	(26,705)	(398)	89,958	—
³ Include									
External net	1,688	1,577	18,008	6,079	5,991	31,171	2,697	—	67,211
Inter-segment net interest income/ (expense)	8,299	1,282	6,399	4,766	553	(21,797)	498	—	—
As at 30 June 2014									
Total assets	1,098,844	336,879	2,404,927	1,263,517	623,922	2,853,781	655,989	(2,953,923)	6,283,936
Total liabilities	(1,096,612)	(335,069)	(2,365,960)	(1,248,437)	(616,561)	(2,480,634)	(652,040)	2,953,923	(5,841,390)

(in millions of RMB)

Six months ended 30 June 2013	North China	Northeast China	East China	Central and South China	West China	Head Office	Overseas	Eliminations	Total
Interest income ¹	34,670	9,777	68,618	35,953	17,172	33,289	5,096	(79,486)	125,089
Interest expense ²	(25,476)	(6,810)	(46,306)	(24,793)	(10,974)	(22,961)	(2,247)	79,486	(60,081)
Net interest income ³	9,194	2,967	22,312	11,160	6,198	10,328	2,849	—	65,008
Fee and commission income	1,389	436	5,796	3,409	1,308	2,491	720	—	15,549
Fee and commission expense	(314)	(47)	(646)	(306)	(135)	(129)	(77)	—	(1,654)
Net fee and commission income	1,075	389	5,150	3,103	1,173	2,362	643	—	13,895
Dividend income	—	—	—	—	—	59	2	—	61
Net gains arising from trading activities	58	40	12	77	1	(117)	90	—	161
Net gains/(losses) arising from de-recognition of investment securities	—	—	14	—	—	(18)	101	—	97
Insurance business income	—	—	669	—	—	—	19	—	688
Share of result of an associate	—	—	—	—	—	8	—	—	8
Other operating income	842	298	1,940	1,169	537	113	127	—	5,026
Net operating income	11,169	3,694	30,097	15,509	7,909	12,735	3,831	—	84,944
Impairment losses on loans and advances to customers	(873)	(350)	(5,593)	(1,359)	(269)	(10)	(15)	—	(8,469)
Insurance business expense	—	—	(583)	—	—	—	(12)	—	(595)
Other operating expense	(4,219)	(1,678)	(10,229)	(5,521)	(2,694)	(5,268)	(1,211)	—	(30,820)
Profit before tax	6,077	1,666	13,692	8,629	4,946	7,457	2,593	—	45,060
Income tax	(1,532)	(424)	(3,485)	(2,184)	(1,247)	(614)	(656)	—	(10,142)
Net profit for the period	4,545	1,242	10,207	6,445	3,699	6,843	1,937	—	34,918
Depreciation and amortisation	(315)	(168)	(885)	(399)	(249)	(392)	(37)	—	(2,445)
Acquisition cost of property and equipment and intangible assets	(286)	(150)	(1,737)	(2,370)	(399)	(898)	(79)	—	(5,919)
¹ Include									
External interest	16,392	5,076	39,052	19,049	9,748	31,529	4,243	—	125,089
Inter-segment interest income	18,278	4,701	29,566	16,904	7,424	1,760	853	(79,486)	—
² Include									
External interest	(13,599)	(3,264)	(21,687)	(11,527)	(4,272)	(3,715)	(2,017)	—	(60,081)
Inter-segment interest expense	(11,877)	(3,546)	(24,619)	(13,266)	(6,702)	(19,246)	(230)	79,486	—
³ Include									
External net	2,793	1,812	17,365	7,522	5,476	27,814	2,226	—	65,008
Inter-segment net interest income/(expense)	6,401	1,155	4,947	3,638	722	(17,486)	623	—	—
As at 31 December 2013									
Total assets	1,072,948	320,689	2,161,482	1,079,016	525,861	2,671,088	525,636	(2,395,783)	5,960,937
Total liabilities	(1,073,420)	(320,646)	(2,137,131)	(1,064,310)	(518,092)	(2,306,617)	(515,020)	2,395,783	(5,539,453)

Geographical information

(in millions of RMB)

	Six months ended 30 June 2014	As at 30 June 2014 Non-current assets ^(Note)	Six months ended 30 June 2013	As at 31 December 2013 Non-current assets ^(Note)
	Revenue		Revenue	
PRC	168,173	62,915	145,358	60,503
Other countries	514	93	1,321	120
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>168,687</u>	<u>63,008</u>	<u>146,679</u>	<u>60,623</u>

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

Business Information

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

(in millions of RMB)

	Six months ended 30 June 2014				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Businesses	Total
External net interest income	35,834	15,045	15,981	351	67,211
Internal net interest income/ (expense)	175	2,291	(2,466)	—	—
Net interest income	36,009	17,336	13,515	351	67,211
Net fee and commission income	8,953	5,956	44	748	15,701
Dividend income	—	—	—	26	26
Net gains/(losses) arising from trading activities	858	(12)	2,496	68	3,410
Net gains arising from de-recognition of investment securities	—	—	130	—	130
Insurance business income	—	—	—	2,143	2,143
Other operating income	473	1,291	2	431	2,197
Impairment losses on loans and advances to customers	(7,489)	(2,670)	—	—	(10,159)
Insurance business expense	—	—	—	(2,095)	(2,095)
Other operating expense					
— depreciation and amortisation	(877)	(1,839)	(64)	(135)	(2,915)
— others	(11,231)	(14,733)	(1,528)	(1,017)	(28,509)
Share of result of an associate	—	—	—	55	55
Profit before tax	26,696	5,329	14,595	575	47,195
Capital expenditure	1,756	3,682	128	270	5,836

As at 30 June 2014

Total assets	2,685,313	853,386	2,678,495	66,742	6,283,936
Total liabilities	(3,279,514)	(1,313,189)	(1,224,217)	(24,470)	(5,841,390)

(in millions of RMB)

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

As at 31 December 2013

Total assets	2,705,877	678,175	2,548,512	28,373	5,960,937
Total liabilities	(2,984,897)	(1,359,811)	(1,191,545)	(3,200)	(5,539,453)

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

11 Liquidity risk

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

(in millions of RMB)

	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Undated	Total
As at 30 June 2014									
Assets									
Cash and balances with central banks	159,403	—	—	—	—	—	—	773,360	932,763
Due from banks and other financial institutions	93,644	282,467	145,794	95,635	5,168	—	—	—	622,708
Financial assets at fair value through profit or loss	—	3,514	7,466	17,191	47,245	10,029	—	120	85,565
Loans and advances to customers	—	354,681	346,173	985,310	740,081	877,493	50,919	—	3,354,657
Investment securities — loans and receivables	—	2,510	5,548	67,797	46,340	25,569	—	—	147,764
Investment securities — available for-sale	—	7,154	9,993	48,392	122,937	39,486	—	2,341	230,303
Investment securities — held-to-maturity	—	9,186	13,755	69,774	362,843	197,846	—	—	653,404
Other assets	60,288	4,748	7,464	32,994	74,369	13,188	1,039	62,682	256,772
Total assets	313,335	664,260	536,193	1,317,093	1,398,983	1,163,611	51,958	838,503	6,283,936
Liabilities									
Due to banks and other financial institution	(170,979)	(186,415)	(207,906)	(380,292)	(202,564)	(5,097)	—	—	(1,153,253)
Financial liabilities at fair value through profit or loss	—	(1,631)	(1,092)	(8,332)	(6,990)	(425)	—	—	(18,470)
Due to customers	(1,908,667)	(426,206)	(506,617)	(548,799)	(982,251)	(3,380)	—	—	(4,375,920)
Other liabilities	(153,547)	(7,726)	(12,863)	(15,263)	(27,465)	(76,883)	—	—	(293,747)
Total liabilities	(2,233,193)	(621,978)	(728,478)	(952,686)	(1,219,270)	(85,785)	—	—	(5,841,390)
Net amount on liquidity gap	(1,919,858)	42,282	(192,285)	364,407	179,713	1,077,826	51,958	838,503	442,546

	On Demand	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2013									
Assets									
Cash and balances with central banks	161,240	—	—	—	—	—	—	735,316	896,556
Due from banks and other financial institutions	80,170	282,499	74,321	123,348	6,079	—	12	—	566,429
Financial assets at fair value through profit or loss	—	4,933	10,853	23,878	25,377	8,162	—	107	73,310
Loans and advances to customers	—	318,032	331,461	970,541	756,316	790,958	25,755	—	3,193,063
Investment securities — loans and receivables	—	33,520	2,905	33,461	24,805	25,035	—	—	119,726
Investment securities — available-for-sale	—	6,814	16,914	42,275	112,273	40,828	—	2,149	221,253
Investment securities — held-to-maturity	—	8,233	18,101	80,637	355,437	208,207	—	—	670,615
Other assets	41,136	8,407	10,649	19,078	65,167	15,209	470	59,869	219,985
Total assets	<u>282,546</u>	<u>662,438</u>	<u>465,204</u>	<u>1,293,218</u>	<u>1,345,454</u>	<u>1,088,399</u>	<u>26,237</u>	<u>797,441</u>	<u>5,960,937</u>
Liabilities									
Due to banks and other financial institution	(140,011)	(220,872)	(254,577)	(99,768)	(396,326)	(15,009)	—	—	(1,126,563)
Financial liabilities at fair value through profit or loss	—	(3,950)	(5,826)	(11,006)	(7,503)	(355)	—	—	(28,640)
Due to customers	(1,877,544)	(560,725)	(550,802)	(775,771)	(382,991)	(10,000)	—	—	(4,157,833)
Other liabilities	(35,457)	(18,183)	(26,645)	(46,789)	(52,829)	(46,514)	—	—	(226,417)
Total liabilities	<u>(2,053,012)</u>	<u>(803,730)</u>	<u>(837,850)</u>	<u>(933,334)</u>	<u>(839,649)</u>	<u>(71,878)</u>	<u>—</u>	<u>—</u>	<u>(5,539,453)</u>
Net amount on liquidity gap	<u>(1,770,466)</u>	<u>(141,292)</u>	<u>(372,646)</u>	<u>359,884</u>	<u>505,805</u>	<u>1,016,521</u>	<u>26,237</u>	<u>797,441</u>	<u>421,484</u>

12 Subsequent Event

On 17 July 2014, the Bank's Hong Kong Branch issued bonds with the face value of SGD100 million and 3 years maturity, coupon rate 2.1%, which will be matured on 24 July 2017.

On 18 August 2014, the Group issued Tier 2 capital bonds with the face value of RMB28,000 million. The term of the bond is 10 years (redeemable by the Issuer at the end of the 5th year, subject to terms and conditions. After exercising the redemption option, the Group's capital should fulfill CBRC's requirement on regulatory capital. The Issuer has the option to redeem all or partial of the bonds at once based on its face value on the first day after the end of the 5th interest bearing year, i.e. 19 August 2019 upon receiving CBRC's approval), interest payable annually (interest accrual starting from the end of the payment date and interest accrual starts on 19th of August of each interest bearing year). The bond has fixed coupon rate of 5.80%.

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 2014 Interim Report prepared in accordance with the IFRSs. The full report will be published on the Hong Kong Stock Exchange *HKExnews* website www.hkexnews.hk, as well as the Bank's website www.bankcomm.com for shareholders' and investors' inspection. The 2014 Interim Report, which is prepared in accordance with the PRC GAAP, will be available on the Shanghai Stock Exchange website www.sse.com.cn and the Bank's website www.bankcomm.com. Investors should read the full Interim Report for details of the Interim Results. The Interim Report, prepared in accordance with the IFRSs, is expected to be dispatched to the holders of H shares in September 2014.

By order of the Board of Directors
Bank of Communications Co., Ltd.
Niu Ximing
Chairman of the Board of Directors

Shanghai, the PRC
21 August 2014

As at the date of this announcement, the Directors of the Bank are Mr. Niu Ximing, Mr. Peng Chun, Mr. Qian Wenhui, Ms. Yu Yali, Mr. Hu Huating, Ms. Du Yuemei*, Mr. Wang Taiyin*, Mr. Wong Tung Shun, Peter*, Ms. Fung Yuen Mei, Anita*, Mr. Ma Qiang*, Mr. Lei Jun*, Ms. Zhang Yuxia*, Mr. Wang Weiqiang[#], Mr. Peter Hugh Nolan[#], Mr. Chen Zhiwu[#], Mr. Choi Yiu-kwan[#], Mr. Liu Tinghuan[#] and Mr. Yu Yongshun[#].*

* *Non-executive Directors*

[#] *Independent Non-executive Directors*