



YOUR WEALTH MANAGEMENT BANK

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

2014 INTERIM REPORT

Stock Code:03328





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Definitions

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

“Company Law”	Refers to the Company Law of the People’s Republic of China
“Articles of Association”	Refers to the Articles of Association of the Bank of Communications Co., Ltd. as approved by the CBRC
“Securities Law”	Refers to the Securities Law of the People’s Republic of China
“Reporting Period”	Refers to 1 January 2014 to 30 June 2014
“Group”	Refers to the Bank and its subsidiaries
“Bank”	Refers to the Bank of Communications Co., Ltd.
“Ministry of Finance”	Refers to the Ministry of Finance of the People’s Republic of China
“Northeast China”	Includes Liaoning Province, Jilin Province and Heilongjiang Province
“Overseas”	Includes Hong Kong Branch, New York Branch, Singapore Branch, Seoul Branch, Tokyo Branch, Frankfurt Branch, Macau Branch, Ho Chi Minh City Branch, San Francisco Branch, Sydney Branch, Taipei Branch, Bank of Communications (UK) Co., Ltd. and other overseas subsidiaries
“North China”	Includes Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region
“East China”	Includes Shanghai Municipality (excluding the Head Office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province
“Central and South China”	Includes Henan Province, Hunan Province, Hubei Province, Guangdong Province, Hainan Province and Guangxi Autonomous Region
“HSBC”	Refers to The Hongkong and Shanghai Banking Corporation Limited
“Basis point”	Refers to one in ten thousand
“Bocom Insurance”	Refers to China BOCOM Insurance Co., Ltd.
“Bocom International”	Refers to BOCOM International Holdings Company Limited
“Bocom International Trust”	Refers to Bank of Communications International Trust Co., Ltd.
“BoCommLife Insurance”	Refers to BoCommLife Insurance Company Limited
“Bocom Schroder”	Refers to Bank of Communications Schroder Fund Management Co., Ltd.
“Bocom Leasing”	Refers to Bank of Communications Finance Leasing Co., Ltd.
“Shanghai Stock Exchange”	Refers to the Shanghai Stock Exchange
“SSF”	Refers to the National Council for Social Security Fund
“West China”	Includes Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region, Xinjiang Autonomous Region and Tibet Autonomous Region
“Hong Kong Stock Exchange”	Refers to The Stock Exchange of Hong Kong Limited
“Hong Kong Listing Rules”	Refers to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“CBRC”	Refers to the China Banking Regulatory Commission
“CSRC”	Refers to the China Securities Regulatory Commission
“Head Office”	Refers to the Group’s Head Office in Shanghai

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:

	<i>(In millions of RMB unless otherwise stated)</i>		
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
Main Financial Indicator (%)	January to June 2014	January to June 2013	Changes (percentage point)
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 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.

Corporate Information

LEGAL NAME

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

LEGAL REPRESENTATIVE

Niu Ximing

BOARD OF DIRECTORS

Executive Directors

Niu Ximing (Chairman)
Peng Chun (Vice Chairman and President)
Qian Wenhui
Yu Yali

Non-Executive Directors

Hu Huating
Du Yuemei
Wang Taiyin
Peter Wong Tung Shun
Anita Fung Yuen Mei
Ma Qiang
Lei Jun
Zhang Yuxia

Independent Non-executive Directors

Wang Weiqiang
Peter Hugh Nolan
Chen Zhiwu
Choi Yiu Kwan
Liu Tinghuan
Yu Yongshun

BOARD OF SUPERVISORS

Song Shuguang (Chairman)
Lu Jiahui
Tang Xinyu
Teng Tieqi
Gu Huizhong
Dong Wenhua
Li Jin
Gao Zhongyuan
Yan Hong
Chen Qing
Shuai Shi
Du Yarong
Fan Jun

SECRETARY TO THE BOARD OF DIRECTORS AND COMPANY SECRETARY

Du Jianglong

AUTHORISED REPRESENTATIVES

Qian Wenhui
Du Jianglong

COMPANY ADDRESS AND INVESTOR SERVICES

Address: No.188, Yin Cheng Zhong Lu, Pudong
New District, Shanghai, P.R. China

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Website: www.bankcomm.com

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

20 Pedder Street, Central, Hong Kong

NEWSPAPERS AND WEBSITES FOR INFORMATION DISCLOSURE

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

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

PLACES WHERE THE INTERIM REPORT IS AVAILABLE

Head Office of the Bank

AUDITORS

A Share: PricewaterhouseCoopers Zhong Tian LLP
H Share: PricewaterhouseCoopers

HONG KONG LEGAL ADVISER

DLA Piper Hong Kong

PRC LEGAL ADVISER

King & Wood Mallesons

SHARE REGISTRARS AND TRANSFER OFFICE

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

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

LISTING INFORMATION

A Share: Place of Listing: Shanghai Stock Exchange
Stock Name: Bank of Communications
Stock Code: 601328

H Share: Place of Listing: The Stock Exchange of Hong Kong Limited
Stock Name: BANKCOMM
Stock Code: 03328

OTHER INFORMATION

First Registration Date: 30 March 1987

The Query Index of Details of First Registration: State Administration for Industry & Commerce of the People's Republic of China (www.saic.gov.cn)

Registration Date for Changes: 28 October 2013

Registration Authority: State Administration for Industry & Commerce of the People's Republic of China

Business Registration No.: 100000000005954

Tax Registration No.: 31004310000595X

Organisation Code: 10000595-X

Changes in Main Business: None

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.

1. 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. 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.

2. 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%.

BoCom credit card: Easy for More – Convenience and Benefit for You

Since the launching of the first Pacific dual currency credit card, BoCom's credit card business has been focusing on innovation and breakthroughs by using creative new product marketing model in order to improve customer experience. We put great efforts in managing the operations and providing warm services which resulted in improvements of both card holder's satisfaction and profitability. This enabled us to achieve a win-win situation with both the customers and the collaborating counterparties.

➤ **Leading brand marketing: “Red Friday”**

Based on our in-depth understanding over the customer's needs, BoCom credit card “Red Friday” has achieved comprehensive coverage over customers daily life including supermarkets, gas stations, movie theatres, dining and traveling through the continuously operation in the past five years. The supermarket sales campaign “Super Red Friday” has attracted over 2 million customers within one day. The series of marketing activities held by “Red Friday” broke through the traditional bank card marketing model by targeting the customers' essential needs and providing long term and consistent “value-for-money” services. This enabled the brand to achieve strong customer loyalty and established its leading position in the industry.

➤ **Extremely convenient online card issuance: “the card issuance can be as fast as within the same day”**

Closely followed the internet finance trend, BoCom credit card focused on providing the best customer experience by breaking through the traditional operating model and launching the online card issuance service with “the card can be issued the fastest within the same day”. This enabled not only the customers to apply for a credit card online anytime and anywhere, but also achieved to issue the card as fast as within the same day. It provided extreme convenience to the customers. At the same time, it introduced “crowdsourcing” model to creatively promote the customer referral programme, which relied on the word-of-mouth from the existing customers to attract more customers with better creditability.

➤ **Safe and efficient mobile service platform**

The BoCom credit card mobile service platform played a leading role in terms of “LightApp” and “SmartApp”. The advantages of the mobile service platform include using without downloading, taking up no space in the device memory, accessing cross platforms by various mobile terminals in order to provide one-stop service including card application, card issuance, card activation, information query and major applications. It ensured customer information security and achieved the integration between “website+ internet banking”. The launching of mobile platform improved customer experience and provided convenience and value-for-money services to the customers.

3 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 investments

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.

4 “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.

5 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 subsidiary 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. Relying 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%.

Promote the Internationalisation of RMB and be appointed as clearing bank of RMB Business in Seoul.

➤ **The first bank using the funds under the China and South Korea currency swap agreement**

On 30 May 2014, South Korean Won (“KWR”) funds applied from People’s Bank of China (“PBOC”) by the Bank under the China and the Republic of Korea (ROK) currency swap agreement were successfully credited to the Bank, which were used to grant financing to domestic Korean funded enterprises. The Bank was the first domestic bank to use the China and ROK currency swap agreement, and obtained full recognition from regulatory institutions of both countries. During the same month, the Seoul Branch of the Bank used RMB funds under the China and ROK currency swap agreement applied to the Bank of Korea to meet the demand for loans from Korean companies. The use of the funds under China and ROK currency swap agreement would significantly reduce both currencies’ dependence on USD, and accelerate the process of internationalisation of KRW and RMB.

➤ **Be appointed as clearing bank of RMB Business in Seoul**

On 4 July 2014, President Xi Jinping announced Bank of Communications to be the clearing bank of RMB Business in Seoul on China-ROK and Trade Cooperation Forum. It marked the further development of Global RMB clearing services in Chinese banking industry and further improvement of the offshore RMB clearing network system construction. It also had great and far-reaching significance in promoting mutual benefits of China and ROK’s economies and trades, strengthening bilateral financial cooperation, and promoting the internationalisation of the RMB and the construction of offshore RMB center.

Being the clearing bank of RMB Business in Seoul was an important milestone of the further development of the internationalisation strategy of the Bank, and will also further promote the development of cross-border RMB business of the Bank and enhance our overall strength of overseas business. As required by regulatory institutions of both countries, the Bank will take its responsibility as clearing bank of RMB Business in Seoul and deepen its cooperation with financial institutions and financial factor market of ROK, strengthen the innovation of RMB clearing derivative products and services, promote the globalisation of RMB financial assets and product service, and provide better service on economic and trade exchanges between China and ROK to accelerate the process of internationalisation of RMB.

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.

Offshore services

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 RMB 301.729 billion.**

Based 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. BoCommLife 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

1. 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:

	For the six month ended 30 June 2014			(in millions of RMB unless otherwise stated) 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.

	<i>(in millions of RMB)</i>		
	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.

a. 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 and receivables

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.

b. 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.

Management Discussion and Analysis (Continued)

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

	<i>(in millions of RMB)</i>	
	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)

(2) 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	

a. 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.

Management Discussion and Analysis (Continued)

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

	<i>(in millions of RMB unless otherwise stated)</i>			
	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:

		<i>(in millions of RMB unless otherwise stated)</i>	
		30 June 2014	
		Percentage of total loans	
		Loan and advances	
Type of industry		Balances	(%)
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.

b. 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

(in millions of RMB unless otherwise stated)

	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

(in millions of RMB unless otherwise stated)

	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:

<i>(in millions of RMB)</i>		
	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

3. 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.

4. Segment Analysis

(1) Operating results by geographical segments

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

	<i>(in millions of RMB)</i>			
	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	7,004	12,070	6,077	11,169
Northeast China	1,212	3,449	1,666	3,694
East China	15,335	33,674	13,692	30,097
Central and South China	7,333	14,464	8,629	15,509
West China	4,843	8,106	4,946	7,909
Overseas	3,185	4,458	2,593	3,831
Head Office	8,283	14,652	7,457	12,735
Total²	47,195	90,873	45,060	84,944

Notes:

- 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.
- 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:

	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 before tax.

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

	For the six months ended 30 June 2014				Total
	Corporate banking	Personal banking	Treasury business	Other businesses	
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 net 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.

1. 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.

2. 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.

3. 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.

4. 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-category system on credit assets 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.

Management Discussion and Analysis (Continued)

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	<i>(in millions of RMB unless otherwise stated)</i>					
	As at 30 June 2014		As at 31 December 2013		As at 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 to 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* issued by the 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 of 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.

Risk of Credit Business for Inventory Pledge and its Management

The current domestic economy is facing many challenges. Recently, as a result of financial strain, risk event involving global commodity trade financing took place frequently, particularly, the events in Qingdao Harbour and Tianjin Harbour. Some enterprises committed inventory pledge fraud, such as repeated pledge, and greatly damaged banks' credit assets and reputation.

In order to proactively control the credit risk in inventory pledge and some global commodity trades, the Bank enhanced policy management in credit investment guidance at the beginning of the year. In June 2014, the Bank conducted risk inspection on enterprises engaging in iron ore and copper trade. As at the end of May 2014, there are 426 credit customers engaging in copper and iron ore traded, with a credit exposure of RMB39,917 million, non-performing loans balance of RMB120 million/non-performing loan ratio of 0.23%. In July 2014, the Bank thoroughly investigated chattel pledge credit business, from which the Bank concluded that, as at the end of June 2014, excluding the steel trade business, the balance of chattel pledge credit business was RMB9,260 million, among which, exposure balance was RMB7,436 million, non-performing loans balance RMB410 million and non-performing loan ratio 4.43%. The Bank's inventory pledge credit business involved in neither Qingdao Harbour nor Tianjin Harbour.

In spite that the Bank's inventory pledge credit business was controllable, the events in Qingdao Harbour and Tianjin Harbour have reflected commercial banks' management vulnerability in respect of inventory pledge. Targeting at the weakness in management, the Bank improved its inventory pledge from the following aspects: firstly, the Bank learned lessons from experience in respect of inventory pledge, continuously innovated risk investigation methods to find the potential danger on a timely basis; secondly, the Bank strictly control the loan initiation, revoking some approval authorities at certain levels, rejecting credit to any customer with doubtful transactions; thirdly, the Bank controlled collateral admission, rejecting inventories that are difficult to realise and measure, easy to deteriorate, with continuous decline in value and limited application; fourthly, the Bank controlled the access of escrow company, terminated cooperation with some escrow companies, and centralised approval authority to the Head Office; fifthly, the Bank enhanced risk management in chattel pledge credit business to eliminate the weakness in operation by further improving the system.

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.

5. 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.

6. 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 conduction 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.

7. 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.

8. 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 heads 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.

9. 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.

10. 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

1. Capital Adequacy Ratio

Measurement of 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 in accordance with the “Administrative Measures for the Capital of Commercial Banks (Provisional)” issued by the CBRC.

Scope of measurement of capital adequacy ratio

The calculation of capital adequacy ratio encompassed the Group’s domestic and overseas branches and subsidiaries (excluding insurance company).

The calculation result of capital adequacy ratio

The table below sets forth the Group capital adequacy ratios calculated pursuant to the “Administrative Measures for the Capital of Commercial Banks (Provisional)” and “Administrative Measures for the Capital Adequacy Ratio of Commercial Banks” issued by the CBRC, respectively. The Bank’s capital adequacy ratios have fulfilled the regulatory requirements.

Pursuant to the “Administrative Measures for the Capital of Commercial Banks (Provisional)” issued by the CBRC in calculation of relevant ratio^{Note}:

Item	(in millions of RMB unless otherwise stated)	
	As at 30 June 2014	
	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%

Note:

- Pursuant to the “Administrative Measures for the Capital of Commercial Banks (Provisional)”, the above calculation excluded Bocom Insurance and BoCommLife Insurance.
- According to the advanced method on capital management, the credit risk exposure was calculated with the 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.

Pursuant to the “Administrative Measures for the Capital Adequacy Ratio of Commercial Banks” issued by the CBRC in calculation of relevant ratio:

Item	As at 30 June 2014	
	The Group	The Bank
Core Capital Adequacy Ratio	10.75%	10.67%
Capital Adequacy Ratio	13.18%	12.98%

Risk-weighted asset

The table below measures the Group’s risk-weighted assets in accordance with the “Administrative Measures for the Capital of Commercial Banks (Provisional)”. The credit risk exposure was calculated with the basic internal rating-based approach, the market risk exposure was calculated by internal model method, and the operational exposure was calculated by the standardised approach.

The Group

Item	(in millions of RMB)
	As at 30 June 2014
Credit risk weighted asset	3,430,802
Market risk weighted asset	98,141
Operational risk weighted asset	261,911
Additional risk-weighted assets arising from capital application floor and calibration	315,877
Total risk weighted asset	4,106,731

Credit risk exposures

The table below sets forth the Group’s credit risk exposures calculated by internal rating-based method.

The Group

Item	(in millions of RMB)
	As at 30 June 2014 Risk exposure
Credit risk covered by internal rating-based approach	3,815,345
Company risk exposure	2,737,923
Retail risk exposure	1,077,422

The Group

Item	(in millions of RMB)	
	As at 30 June 2014	
Credit risk uncovered by internal rating-based approach	Risk exposure	
On-balance-sheet credit risk exposure	5,198,406	
Include: asset securitisation	3,399,230	
Off-balance-sheet credit risk exposure	5,453	
Counterparty credit risk exposure	89,883	
	1,709,293	

Market risk capital requirement

The table below sets forth the market risk capital requirements of the Group.

The Group

Item	(in millions of RMB)	
	As at 30 June 2014	
Market risk covered by internal rating-based approach	Capital requirement	
Market risk uncovered by internal rating-based	6,809	
Total market risk capital requirement	1,042	
	7,851	

The Group

Item	(in millions of RMB)			
	General VaR value		Special VaR value	
	Average general VaR	Average in the nearest 60 transactions	Average general VaR	Average in the nearest 60 transactions
	value as at period end	value as at period end	value as at period end	value as at period end
Total of all risk categories	921	1,029	921	1,029

Note: The risk is calculated with a holding period of 10 days and at a confidence level of 99%.

Risk exposure from banking book equity investments and the risk returns

The following table shows the information related to the equity investment risk exposure and the potential risk returns of the banking book of the Group.

The Group

Item	(in millions of RMB)	
	As at 30 June 2014	
Equity investment	Outstanding risk exposure	Unrealised potential risk returns^{Note}
	1,427	72

Note: Unrealised potential risk gains or losses are the portion of gains or losses that have been recognised in the statement of financial position but not in the statement of comprehensive income.

2. Capital Management

The issue of eligible tier-2 capital bonds with write-down feature up to RMB40 billion equivalent in domestic and overseas market before the end of 2016 was approved at the 2014 First Extraordinary General Meeting of the Bank held on 12 March 2014. As approved by the CBRC and the People's Bank of China, the Bank issued the aforesaid tier-2 capital bonds in principal amount of RMB28 billion in the inter-bank bond market of the PRC on 18 August 2014. The proceeds will be used to replenish tier-2 capital of the Bank in accordance with the requirements of relevant regulations including the “*Administrative Measures for the Capital of Commercial Banks Commercial Banks (Provisional)*”.

For more information on the Group's capital measurement, please refer to “Supplementary Information on 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.
 - Initiating 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.

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	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

Changes in Share Capital and Shareholdings of Substantial Shareholders (Continued)

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

1. 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.

2. 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	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
HSBC ³	Foreign legal person	—	13,886,417,698	18.70	—	Nil
SSF 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:

- 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".
- 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)
- According to the Bank's register of members, 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 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)
- According to the information provided by 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)

Changes in Share Capital and Shareholdings of Substantial Shareholders (Continued)

3. Shareholdings of the Top 10 Shareholders Not Subject to Sales Restrictions

Name of shareholders	Number of shares held not subject to sales restrictions	Class of shares
Ministry of Finance	12,618,353,049	A Shares
	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> .	

Changes in Share Capital and Shareholdings of Substantial Shareholders (Continued)

4. 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	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	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

Changes in Share Capital and Shareholdings of Substantial Shareholders (Continued)

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

Notes:

- Long positions held other than through equity derivatives.
- To the knowledge of the Bank, as at 30 June 2014, the Ministry of Finance held 4,553,999,999 H shares and 15,148,693,829 A shares of the Bank, representing 6.13% and 20.40% of the total share capital of the Bank, respectively.
- 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.
- 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.
- 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.
- 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.

Directors, Supervisors, Senior Management and Employees

(1) MEMBERS OF THE BOARD OF DIRECTORS

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

(2) MEMBERS OF THE BOARD OF SUPERVISORS

Name	Position	Name	Position
Song Shuguang	Chairman of the Board of Supervisors	Gao Zhongyuan	Supervisor
Lu Jiahui	External Supervisor	Yan Hong	Supervisor
Teng Xinyu	External Supervisor	Chen Qing	Employee Representative Supervisor
Teng Tieqi	Supervisor	Shuai Shi	Employee Representative Supervisor
Gu Huizhong	Supervisor	Du Yarong	Employee Representative Supervisor
Dong Wenhua	Supervisor	Fan Jun	Employee Representative Supervisor
Li Jin	Supervisor		

(3) MEMBERS OF SENIOR MANAGEMENT

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

Directors, Supervisors, Senior Management and Employees (Continued)

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

Name	Position	Class of Shares	Number of shares held at the beginning of the year	Increase in shareholdings during the Reporting Period	Decrease in shareholdings during the Reporting Period	Number of shares held at the end of the Reporting Period	Reason for changes in shareholdings
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

Directors, Supervisors, Senior Management and Employees (Continued)

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
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 Hong Kong Listing Rules, to be notified to the Bank and the Hong Kong Stock Exchange.

(5) 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.

(6) HUMAN RESOURCE MANAGEMENT

1. Basic Information of Employees

As at 30 June 2014, the Bank had a total of 94,403 domestic and overseas employees, of which 92,501 employees were based domestically and 1,902 were local employees in overseas branches.

	Head Office	Northern China	Eastern China	Central and Southern China	Western China	North Eastern China	Overseas
Number of employees	14,792 ^{Note}	11,434	30,196	17,117	9,646	9,316	1,902
Number of outlets	1	348	1,050	597	362	355	54

Note: Number of employees in Head Office includes employees dispatched by agencies.

Among the domestic employees, 35,358 employees held professional and technical qualifications, of which 641 employees held senior professional and technical qualifications, accounting for 0.7% of total domestic employees, 17,267 employees held intermediate professional and technical qualifications, accounting for 18.7% of total domestic employees, and 17,450 employees held junior professional and technical qualifications, accounting for 18.9% of total domestic employees.

The average age of the Bank's domestic employees was 35 years old, with 40,781 employees aged or under the age of 30, accounting for 44.1% of total domestic employees, 26,021 employees between the age of 31 and 40, accounting for 28.1% of total domestic employees, 19,037 employees between the age of 41 and 50, accounting for 20.6% of total domestic employees, and 6,662 employees aged or above the age of 51, accounting for 7.2% of total domestic employees.

Among the domestic employees, 7,761 employees possessed postgraduate or higher academic degrees, accounting for 8.4% of total employees, 59,564 employees possessed undergraduate degrees, accounting for 64.4% of total employees, 20,975 employees possessed college diploma, accounting for 22.7% of total employees, and 4,201 employees possessed secondary vocational school certificate or lower qualifications, accounting for 4.5% of total domestic employees.

At the end of June 2014, there were a total of 2,741 retired employees covered by the Bank's pension scheme.

2. Human Resource Management

The Bank continuously optimised structure and position management system with focus on “BoCom Strategy” and transformation development target. The Bank focused on transformation towards divisional structure, built profit making centres that created profit directly and promoted operation mechanism of marketisation and corporatisation so as to seek new operation and development mode for the transformation development of the Bank. The Bank enhanced the structure adjustment of Head Office and branches, optimised business procedures and improved operation and development system. The Bank built new position management system with features of listing specific qualifications, clearing position sequence, ranking proper grading in order to form bi-channel development of management and profession.

The Bank continued to improve the remuneration system with job positions as the foundation and the labour market rate as the benchmark, in order to optimise the allocation model of remuneration resource and strengthen the self-discipline of incentive scheme. Remuneration incentive is evaluated based on the operation performance after risk adjustment, and system of deferred salaries payment based on performance was built for key personnel. The Bank fully incorporated the control of remuneration to corporate governance and risk control and led to the steady operation and sustainable development. The Bank also cared about its employees’ welfare and future security, and continuously improved the employee welfare system majored in enterprise annuity of “Unified rules for standard operation management”.

The Bank continuously sought to optimise its performance management framework and improved performance evaluation processes for operating team, management and employees at each level, including Divisions of Head Office, provincial branches and overseas institutions. The Bank emphasised quality and effectiveness of direct businesses and strengthened strategy transmission. Management is evaluated based on their performance. The assessment results were linked with remuneration to optimise the guiding effect of performance management.

The Bank made huge efforts to implement the strategy of retaining talents and developing the Bank. It initiated expert team building and planned to cultivate 2,000 experts in eight major fields within 5 years. The Bank optimised professional ranking position system, deepened strategic professional talent training and launched comprehensively the second-round training project for 200 strategic professionals. The Bank made great efforts to retain Senior Management and staff in primary institutions as so to increase their ability and provide trainings for thousands of elite relationship managers, introduced more talents in the market and actively introduced external experts. The Bank explored and implemented campus recruitment project for trainees of Head Office for the first time and built unified management mechanism of campus recruitment so as to achieve process, refined and standardised management.

The Bank held special workshop featured “Strengthen risk management, guarantee transformation development” for more than one hundred heads from various direct institutions, which focused on team building, interest rate liberalisation, risk management etc. so as to enhance capability to guide scientific development. The Bank implemented domestic and overseas specialised trainings for 200 strategic professionals in fields of private bank, investment bank and international business. The Bank prepared scheme of training in rotation for 3,000 key relationship managers from fields of enterprise business, personal finance business and interbank business with 3 years, and launched intensified training for 1,000 relationship managers for year of 2014.

Corporate Governance

During the Reporting Period, the Bank had strictly complied with the relevant laws, regulations and regulatory rules such as the Company Law, the Securities Law and The Commercial Banking Law, and continued to improve the effectiveness of the corporate governance, fully ensuring and safeguarding the legitimate interests and benefits of the domestic and foreign shareholders and other stakeholders.

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

(1) SHAREHOLDERS' GENERAL MEETINGS

During the Reporting Period, the Bank held 2013 Shareholders' Annual General Meeting. 13 Proposals, such as "Work Report of the Board of Directors for 2013", "Report of the Board of Supervisors for 2013", the "Report of the Financial Account for 2013", the "Profit Distribution Plan for 2013" and "Resolution in relation to the Appointment of Auditors for the Year of 2014", were considered and approved at the meeting.

In addition, the Bank held the 2014 First Extraordinary General Meeting. "Proposal in respect of the Issuance of Eligible Tier-2 Capital Bonds with Write-down Features" was considered and approved at the meeting.

(2) BOARD OF DIRECTORS

During the Reporting Period, the Bank's Board of Directors held 4 meetings, with 43 proposals being considered and approved. The Special Committees under the Board of Directors held 14 meetings, and considered 50 proposals or reports. Directors actively attended the meetings, conscientiously considered each proposal or report, fulfilling their duties and effectively utilising to strategic decision-making functions.

1. Continued to Improve Corporate Governance

Firstly, pursuant to the latest regulatory requirements such as the *Guidelines on Corporate Governance of Commercial Banks*, the Board of Directors amended the regulations in respect of the Special Committees under the Board of Directors to further fine tune their responsibilities. Secondly, the Board of Directors adjusted and augmented members for Strategy Committee, Audit Committee and Risk Management Committee, and improved membership structure, giving full play to the professional superiorities and policy consulting functions of each Special Committee. Thirdly, the Board of Directors replenished new members timely to ensure its steady operation.

2. Further Promoted "BoCom Strategy"

Firstly, the Board of Directors extended overseas operating network, considered and approved the application of outlets established in Luxembourg, Rio de Janeiro and Brisbane to steadily develop the overseas expansion strategy of "Expanding the global layout by prioritising the development of Asia-Pacific area with the supportive development in Europe and America". Secondly, through steady development of overseas branches and subsidiaries, comprehensive capabilities in cross-border, cross-industry and inter-market services continued to be improved. Profits attributable to the Group from the overseas banking entities and the controlled subsidiaries increased by 0.98 percentage point to 9.51% year-on-year.

3. Continued to Strengthen the Capital Management

Firstly, the Bank was among the first batch of banks to receive approvals on the implementation of the advanced capital measurement approach, which required further consolidated the operation philosophy of “Capital constraint over business and the balance between risk and return” and improved the application of scientific risk measurement and the transfer of economical management to productivity. Secondly, the Board of Directors developed a plan for issuance of eligible Tier-2 capital bonds with write-down features to further optimise capital structure and lower the financing cost on the basis of keeping continuous qualified capital adequacy ratio.

4. Comprehensively Strengthened Risk Control

Firstly, the Board of Directors strengthened risk management system by considering and approving relevant policies in respect of liquidity risk, country risk and risk case prevention and controls. Secondly, risk management organisation was improved through assessing risks at a more in-depth level and further pushed risk control to the front office to ensure that all businesses were conducted in compliance with laws. Thirdly, the Board of Directors strictly controlled key risk areas by placing high emphasis on industries such as local government financing vehicles, steel trade and real estate. Risk control measures and accountability system were put into practice to mitigate risks.

(3) BOARD OF SUPERVISORS

During the Reporting Period, the Bank’s Board of Supervisors held two meetings. 18 proposals, such as the “Periodic Report”, the “Report of the Financial Account”, the “Profit Distribution Plan”, the “Board of Supervisors’s Appraisal of the Discharge of Duties by the Board of Directors and Senior Management for 2013”, the “Report of Evaluation on Internal Control for 2013”, the “Corporate Social Responsibilities Report for 2013”, “2013 Annual Report of the Board of Supervisors”, “2014 Work Plan of the Board of Supervisors” and “Proposal in respect of the Appointment of Mr. Song Shuguang as the Chairman of Board of Supervisors of Bank of Communications Co., Ltd.”, were considered and approved at these meetings. The Board of Supervisors deepened the evaluation of annual performance on Directors and Senior Management, and submitted to the regulator on a timely basis; it also received work progress reports from Senior Management in respect of off-balance sheet activities and risk management conditions. It was proposed to strengthen and fine tune strategies and comprehensive risk management system concerning off-balance sheet activities, as well as to facilitate supports towards professionals and IT system construction.

All the Supervisors earnestly attended the Board of Supervisor’s meetings, and Special Committees’ meetings. They also joined the Board of Directors’ meetings and other Special Committees’ meetings as observers. They diligently fulfilled their duties to exert positive effects on maintenance of shareholders’ interest and improvement of the management.

(4) SENIOR MANAGEMENT

The Bank’s Senior Management comprises of President, Executive Vice President, Secretary of Discipline Committee, Chief Financial Officer, Chief Information Officer, Chief Risk Officer, Secretary to the Board of Directors, Corporate Business Director and BoCom-HSBC Strategic Cooperation Consultant. During the Reporting Period, Senior Management seriously committed to business, diligently implemented the resolutions of the Board of Directors and worked on the operation and management activities of the Bank in accordance with laws, regulations, the *Articles of Association* and the authorisation of the Board of Directors.

(5) INTERNAL CONTROL

For the first half of 2014, the Bank continued to carry forward the internal control construction and to improve its internal control measures. The internal control system and its operation are stable in general.

1. Further Adjusted and Improved the Organisational Structure

Firstly, the Bank focused on promoting the transformation towards operation by business units and quasi-business units structure, and completed the formation of four business units structure in the Head Office level as well as the establishment of four business centres for quasi-business units. Secondly, the Bank vigorously promoted development of city-level branches transformation and changed the operation model. The focus was shifted from improving the basic layout to enhancing the quality and effectiveness. Thirdly, the Bank improved the organizational structure of retail lending businesses in provincial branches. According to the principle of separation of front office, middle office and back office, the Bank established Retail Lending Business Department to undertake the function of front office.

2. Promoted the Construction of Comprehensive Risk Management

Firstly, the Bank established sound risk responsibility clarification and targeted at full coverage of the Bank's employees. It also clarified and standardised the basic responsibilities of risk prevention and control for staff in all levels, entities and positions. Secondly, the Bank carried out special investigation on risks arising from illegal lending and illegal fund-raising cases. By combining the Bank's own business characteristics and risk control ability, it conducted comprehensive investigation on risks from cases in key business areas. Thirdly, the Bank formulated liquidity risk management policy and liquidity risk emergency response plan, and established liquidity risk management system which matched with the business scale, nature and complexity. Fourthly, the Bank strengthened the management of all kinds of business seals, established the register of business seals and clarified the type and use scope of business seals.

3. Further Strengthened Risk Management and Control on Credit Businesses

Firstly, the Bank formulated annual Credit and Risk Policy Framework and Industry (Regional) Policies and Guidelines on credit. It included the corporate credit, retail credit and non-credit business in the unified investment management and risk management. Secondly, the Bank further strengthened risk management and control on key risk sectors such as small and medium enterprises, clustered customers, bulk commodity trade financing and real estate. Thirdly, the Bank performed the revitalisation of loan assets in retail business, carried out comprehensive investigation on retail customers and developed a list for "reducing the volume of high risk loans and obtaining sufficient buffer".

4. Improved the Internal Control Evaluation and Assessment

Firstly, the Bank incorporated the compliance and internal control management and evaluation indicators into the annual comprehensive performance evaluation in branches and Divisions of Head Office to promote the further improvement of overall internal construction and management. Secondly, the Bank developed the approach for internal control evaluation operation to further standardise the internal control evaluation operation and established a unified scale as a unified measurement model for internal control evaluation. Thirdly, the Bank clarified the business risk rating and classification criteria and managed the business risk at different levels in accordance with the degree of the risk or the seriousness of the problem.

5. Optimised the Non-credit Business Management

Firstly, the Bank further regulated the non-credit business operation for corporate assets. The management of credit risk assessment on non-credit business for corporate assets was unified into a credit management system. Secondly, the Bank issued operational guidelines on investment-banking-type non-credit business to promote the healthy development of investment-banking-type non-credit business in order to effectively manage the business risk.

(6) INVESTOR RELATIONS

In the first half of 2014, facing of the low shares valuation situation of the listed banks, the Bank constantly enhanced control over market value management, consummated control on investor-relationship management and maintained close communications with investors with the aim of stabilising the Bank's market value.

- Purchase the Bank's shares collectively from secondary market by the Directors, Supervisors and Senior Management. In May of this year, some Directors, Supervisors and Senior Management of the Bank collectively purchased the Bank's shares from secondary market, which was the first time among listed banks in China. It manifested the confidence from Senior Management on future development of the Bank, which was well received by the market.
- Stable dividend distribution policy. The cash dividend payout ratio remained at above 30% and dividend yield ratio reached 6% in 2013.
- Keep communications with investors by various means. During the Reporting Period, the Bank held 2013 annual and 2014 first quarterly results release press conferences in Hong Kong and Shanghai, respectively, The Bank also launched domestic and overseas annual result roadshow, participated in 4 investor forums held by famous domestic and overseas investment banks, and received regular visits by analysts and investors for 30 times. Through these activities, the Bank managed to have in-depth communications with approximately 520 investors and analysts. Meanwhile, the Bank continued to interact with and respond to investors regarding their concerns and listen to their suggestions on reform and development and advices on operation management through various channels such as investor's hotline, emails, WeChat platform and SSE e-interaction internet platform.

In the future, the Bank will continue to strengthen the research and analysis on the capital market, pay close attention to the macro-economic and financial trend and regulatory policies, launch innovative market value management measures and enhance communications with investors to consistently increase the Bank's value.

(7) AUDITORS

Pursuant to “The Measures for Financial Enterprises to Select and Employ Accounting Firms by Bidding (Provisional)” issued by Ministry of Finance, financial enterprises are not allowed to employ the same accounting firm for more than ten consecutive years. As a result, the Group did not reappoint Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu CPA LLP as the Group’s external auditor at the 2013 Annual General Meeting of the Bank.

At the 2013 Annual General Meeting of the Bank, the Bank appointed the PricewaterhouseCoopers Zhong Tian LLP as the auditor of the financial statements prepared in accordance with China Accounting Standards and PricewaterhouseCoopers as the auditors of the Bank’s financial statements prepared in accordance with the International Financial Reporting Standards. The engagement term is from the time of approval at the 2013 Annual General Meeting to the closing of the 2014 Annual General Meeting.

Corporate Social Responsibilities

The Bank continued to uphold its belief of “strong harmony and integrity, constant pursuit for excellence and growing with the society”, vigorously performed its corporate social responsibilities in the economic, environmental and social areas, maximised the interests of all stakeholders, including shareholders, clients and employees, and contributed to the harmonious development of China in the economic, social and environmental areas. During the Reporting Period, the Bank was awarded the “Best Social Responsibility Award for Financial Institution” by the China Banking Association for the three consecutive years, and the chairman Mr. Niu Ximing won the “Award for Corporate Social Responsibility Leading Character”; Meanwhile, the Bank’s “Gateway to Tomorrow — Disabled Student Grant Programme” was awarded as the Leading Organisation in the Nationwide Helping the Disabled by the State Council of the People’s Republic of China.

I ECONOMIC RESPONSIBILITY

The Bank implemented the national macro-economic control policies and maximised its influence as a large bank to support the real economy. Meanwhile, the Bank supported small and micro corporations (“SMCs”) and a large variety of financial sectors such as agriculture, science, education, low income housing, etc., to fulfil its corporate social responsibility.

- 1 In order to further strengthen credit management and comprehensive risk management, the Bank has formulated “2014 Credit and Risk Policy Framework” by incorporating its own business development strategy, continuously optimising its allocation of credit resources and further enhancing the coverage and scientific character of its credit policy framework. Besides, the Bank has formulated the credit guidance system, which includes 57 industries and 182 sectors, covering 99.37% of the credit assets, in order to follow the direction of macro-economic transformation, to support the reasonable growth in the national economy and the needs of the real economy, to significantly increase the support to the fields of social security and consumer spending, and to actively explore development opportunities in strategic emerging industries and sectors such as modern agriculture, energy conservation, environmental protection and strategically emerging and new urbanisation. During the Reporting Period, the Bank’s onshore loan growth was mainly driven by the major macro-economic industries and areas such as consumer spending, servicing and manufacturing. The growth rate of the loans to the industries of agriculture, forestry, husbandry and fishing, gas and water, technology and culture, education, health and social work in total continued to be higher than the average growth rate of the total loans. At the end of the Reporting Period, the Bank’s security housing loan balances amounted to RMB31.607 billion, involving 32 provincial branches and 28 provinces, autonomous regions and municipalities, covering affordable housing, public rental housing, low-rent housing commercial housing with price ceiling, reconstruction projects of shanty areas, etc..
- 2 The Bank continued to push forward the business development of SMCs. As at the end of the Reporting Period, the loans balances to SMCs amounted to RMB556.5billion. 357 outlets specialised SMCs businesses were set up. During the Reporting Period, the Bank further expanded its marketing efforts to similar industries, replicated the business district, supply chain and technology financing marketing models to all the branches. Specialised business district financing strategies were tailor made to SMCs from various regions. It encompassed more than ten provinces including Guangdong, Zhejiang and more than ten industries such as clothing wholesale, agricultural wholesale. The Bank tapped on the traditional advantage over corporate business and provided bulk credit support to SMCs along the supply chain of the core companies from industries including automobile, mechanics, department stores and government procurement, etc.. The Bank collaborated with Ministry of Science and Technology, State Intellectual Property Office to support those technological SMCs with relevant skills and patents to explore the new technology financing model of “equity+debt”. Based on the characteristics and needs of the SMCs, the Bank also launched new innovative products such as loans taking operating properties of small enterprises as collaterals, loans taking store operating license as pledges, etc..

(2) ENVIRONMENTAL RESPONSIBILITY

The Bank continued to push forward the “green credit” project and improved on the management mechanism. The steady growth over green credit customers and the loan balances has resulted in increasing proportions of green credit and the proportion of loans to high pollution, high energy consumption and excessive capacity industries has consequently reduced. In the meanwhile, the Bank took various measures to reduce adverse impact on the environment due to its own operations. The Bank’s Youth League Committee has organised “Green BOCOM, Beautiful China” donation activities on reducing haze by growing more trees. The donations will be used to plant 1,900 *mu* of BOCOM trees at Hebei, Shanxi and Inner Mongolia regions as part of the effort to build a beautiful China.

1. The Bank continued to implement the regulatory requirements on green credits, further expanded the green credit business, proactively mitigated the risk of excessive capacity and tried hard to improve the social and environmental performance. During the Reporting Period, the Bank established a “Green Credit Guidance of 2014” which included 57 industries, setting detailed guidelines for green credit from various aspects, including energy consumptions, pollution, soil, health, safety, immigrants settlement, ecological protection, climate change, etc.. The Bank refined its management based on industrial characteristics to ensure more accurate interpretation of the green credit policies during practices.
2. The proportion of customers who are environmental friendly increased. As at the end of the Reporting Period, green customers accounted for 99.58% of the total customers, representing an increase of 0.02 percentage point from the beginning of the year. The loans to green customers accounted for 99.81% of the total loans, among which the loans to green customers characterised by low-carbon consumption, environmental protection and integrated use of natural resources amounted to RMB155.306 billion. In the meanwhile, the Bank strictly followed the publications from environmental protection departments, carried out specialised inspections on the customer environmental risk and continued to tighten the credit policy to customers from high pollution, high energy consumption and excessive capacity industries by improving the credit limit management and reduction in total lending volume. During the Reporting Period, the reduction in loans to high pollution, high energy consumption and excessive capacity industries amounted to RMB5.1 billion.

(3) SOCIAL RESPONSIBILITY

While the Bank carried out steady operations and used good financial performances to return to the shareholders, it also took measures to address the concerns of various stakeholders and achieved new progress in terms of customer services, employee achievements and returns to society.

1. The Bank put in effort to improve service quality and efficiency, continued to push forward standardised, professional and specialised services. It aimed to become the bank with the least complaints, the highest service efficiency and the most prominently standardised, professional and specialised services. According to the 2014 retail banking customer satisfaction ranking published by J.D. Power Asia Pacific, the Bank ranked No. 1 with a total score of 808. In terms of daily complaints management, the Bank studied and analysed customer needs through organising daily meeting to improve customer experience and achieved continuous reduction in customer complaints. During the Reporting Period, complaints accepted have reduced by 52.6% as compared to the same period of last year. While improving customer service, the Bank emphasised on the protection of customer rights through improving the service quality of customer facing employees, service efficiency, service attitude, clear pricing, and risk alert to customers so as to protect customers’ legitimate rights. During the Reporting Period, the Bank has organised public educational events such as “financial knowledge to households”, “broadcast of financial knowledge” to publicise financial knowledge and knowledge on protecting consumer rights as part of the effort to improve the consumer protection awareness of the public.

2. The Bank paid attention to the development and growth of the employees by providing conducive working environment and employee benefits. During the Reporting Period, the Bank had various achievements in terms of organisational structure, internal posting, staff remunerations and employee training. For example, the Bank has pushed forward the transformation towards operation by business units, emphasised on central management by Head Office, piloted the practice of letting business units to manage their employee remunerations and taking advantage of compensation as a way of incentive and constraints. The Bank has also completed the matrix function transformation for the remaining city-level branches, streamlined the organisation and improved efficiency. The Bank has achieved new transformation on branch postings in order to widen the career path of the employees. The Bank built strong expert teams and launched Head Office campus recruitment for graduates before their graduation for the first time. In addition, the Bank took care of the psychological and physical health of the employees and aimed to achieve “Happy to work at BOCOM”. During the Reporting Period, the Bank has launched mobile management platform on “Healthy BOCOM” to provide various health consultation to the employees. There have been accumulatively over 30,000 employees logged onto the platform which accounted for 1/3 of the total employees. The employee helping group continued to work smoothly. The Bank has helped 26 employees with low income or severe sickness by donating RMB224.9 thousands which greatly helped the employees in need. The Bank launched “BOCOM millionaire” campaign for employee caring and security, to provide insurance protections to employees and their immediate families. It has underwritten 179 policies and paid annualised insurance premium amounted to RMB756 thousands. The aggregated sum assured provided to the employees amounted to RMB820 million.
3. The Bank actively participated in social charity projects, provided long-term investment in special education in order to help the less fortunate to improve their living condition and future development and aim to achieve a society with dignity and harmony. During the Reporting Period, with the “Gateway to Tomorrow” — BOCOM award to distinguished disabled students on special education programme entering the sixth implementation phrase, the Bank continuously donated RMB8.60 million to supporting high school and university students from poverty family or disabled, to award distinguished special education instructors and disabled university students and to supplement training programmes to provincial special education outstanding instructors. This is the 12th year of the Bank’s special aids to Gansu Province, Tianzhu Tibetan self-administered county. The accumulative donation amounted to RMB2 million, focusing on the construction of No. 6 warm shelter in Songshan village and helped the farmer to alleviate from poverty. 12 branches have donated RMB2.0008 million to 17 projects and helped the villager in poverty to improve their standard of living.

(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.

Significant Events (Continued)

(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 the disposal of shares obtained as collaterals for loans in the course of 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. As at the end of the Reporting Period, details of the Group's continuing related party transactions are set out in Note 41 to the Unaudited Condensed Consolidated Financial Statements in this report.

Significant Events (Continued)

(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 as well as this interim report.

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 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 has 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 CSRC, 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.

Independent Auditor's Report



pwc

羅兵咸永道

REVIEW REPORT ON CONDENSED INTERIM FINANCIAL INFORMATION TO THE SHAREHOLDERS OF BANK OF COMMUNICATIONS CO., LTD.

(Incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the condensed interim financial statements set out on pages 74 to 154, which comprise the condensed consolidated statement of financial position of Bank of Communications Co., Ltd (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2014 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Bank are responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PriceWaterhouseCoopers

Certified Public Accountants

Hong Kong,
21 August 2014

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Unaudited Condensed Consolidated Financial Statements

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

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

Group	Notes	Six months ended 30 June	
		2014	2013
Interest income		143,412	125,089
Interest expense		(76,201)	(60,081)
Net interest income	4	67,211	65,008
Fee and commission income	5	17,314	15,549
Fee and commission expense	6	(1,613)	(1,654)
Net fee and commission income		15,701	13,895
Dividend income	7	26	61
Net gains arising from trading activities	8	3,410	161
Net gains arising from de-recognition of investment securities	21	130	97
Insurance business income		2,143	688
Other operating income	9	2,197	5,026
Impairment losses on loans and advances to customers	10	(10,159)	(8,469)
Insurance business expense		(2,095)	(595)
Other operating expense	11	(31,424)	(30,820)
Share of profit of an associate		55	8
Profit before tax		47,195	45,060
Income tax	14	(10,300)	(10,142)
Net profit for the period		36,895	34,918
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Available-for-sale financial assets			
Changes in fair value recorded in equity		3,388	254
Changes in fair value reclassified from equity to profit or loss		(100)	(147)
Translation difference on foreign operations		191	(671)
		3,479	(564)
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Actuarial (losses)/gains on pension benefits		(4)	4
Other comprehensive income/(loss) for the period	37	3,475	(560)
Comprehensive income for the period		40,370	34,358

Unaudited Condensed Consolidated Financial Statements (Continued)

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

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

Group	Note	Six months ended 30 June	
		2014	2013
Net profit attributable to:			
Shareholders of the Bank		36,773	34,827
Non-controlling interests		122	91
		36,895	34,918
Total comprehensive income attributable to:			
Shareholders of the Bank		40,250	34,276
Non-controlling interests		120	82
		40,370	34,358
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB yuan)	15	0.50	0.47

The accompanying notes form a part of these consolidated financial statements.

For details of the dividends paid or proposed, please refer to Note 34.

Unaudited Condensed Consolidated Financial Statements (Continued)

Unaudited Condensed Consolidated Statement of Financial Position

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

Group	Notes	As at 30 June 2014	As at 31 December 2013
ASSETS			
Cash and balances with central banks	16	932,763	896,556
Due from banks and other financial institutions	17	622,708	566,429
Financial assets at fair value through profit or loss	18	85,565	73,310
Loans and advances to customers	20	3,354,657	3,193,063
Investment securities — loans and receivables	21	147,764	119,726
Investment securities — available-for-sale	21	230,303	221,253
Investment securities — held-to-maturity	21	653,404	670,615
Investment in an associate	39	399	344
Property and equipment	22	61,241	57,179
Deferred income tax assets	29	14,409	17,224
Other assets	23	180,723	145,238
Total assets		6,283,936	5,960,937
LIABILITIES			
Due to banks and other financial institutions	24	1,153,253	1,126,563
Financial liabilities at fair value through profit or loss	25	18,470	28,640
Due to customers	26	4,375,920	4,157,833
Certificates of deposit issued	27	33,329	24,619
Other liabilities	28	159,083	113,435
Current tax liabilities		5,948	6,107
Deferred income tax liabilities	29	9	18
Debt securities issued	31	95,378	82,238
Total liabilities		5,841,390	5,539,453
EQUITY			
Share capital	32	74,263	74,263
Capital surplus	32	113,383	113,383
Other reserves		203,051	164,585
Retained earnings		49,806	67,330
Equity attributable equity holders 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

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 21st August 2014 and signed on its behalf by:

Chairman of Board: Niu Ximing

Vice Governor and Chief Financial Officer: Yu Yali

The accompanying notes form a part of these consolidated financial statements.

Unaudited Condensed Consolidated Financial Statements (Continued)

Unaudited Condensed Consolidated Statement of Changes in Equity

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

	Share capital Note 32	Capital surplus Note 32	Statutory reserve Note 33	Discretionary reserve Note 33	Other reserves				Retained earnings Note 33,34	Attributable to the shareholders of the Bank	Non-controlling interests	Total
					Statutory general reserve Note 33	Revaluation reserve for available-for-sale financial assets	Translation reserve on foreign operations	Actuarial changes reserve				
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 subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–
Dividends paid	–	–	–	–	–	–	–	–	(19,308)	(19,308)	–	(19,308)
Transfer to reserves	–	–	–	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 subsidiaries	–	–	–	–	–	–	–	–	–	–	176	176
Dividends paid	–	–	–	–	–	–	–	–	(17,823)	(17,823)	–	(17,823)
Transfer to reserves	–	–	31	20,353	27,511	–	–	–	(47,895)	–	–	–
Balance at 30 June 2013	74,263	113,383	24,821	78,510	61,820	(859)	(2,547)	3	46,977	396,371	1,787	398,158

The accompanying notes form a part of these consolidated financial statements.

Unaudited Condensed Consolidated Financial Statements (Continued)

Unaudited Condensed Consolidated Statement of Cash Flows

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

	Notes	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)/provision for 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 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 repossessed 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

Unaudited Condensed Consolidated Financial Statements (Continued)

Unaudited Condensed Consolidated Statement of Cash Flows (Continued)

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

	Notes	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 and certificates of deposit issued		46,503	16,361
Interests paid for 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	38	253,396	250,970
Net cash flows from operating activities include:			
Interest received		118,122	106,494
Interest paid		(68,387)	(51,603)

The accompanying notes form a part of these consolidated financial statements.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

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

1 GENERAL

Bank of Communications Co., Ltd. (the “Bank”) is a commercial and retail bank providing banking services mainly in the People’s Republic of China (“PRC”). The Bank was reorganised into a nation-wide commercial bank on 1 April 1987, in accordance with the approval notice (Guo Fa (1986) No. 81) issued by the State Council of the PRC and the approval notice (Yin Fa (1987) No. 40) issued by the People’s Bank of China (“PBOC”). Headquartered in Shanghai, the Bank operates 222 city-level and above branches in the Mainland China and also operates 12 foreign banking institutions in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, Sydney, San Francisco, Taipei and Bank of Communications (UK) Co., Ltd. The Bank’s shares are listed on both Shanghai Stock Exchange and Hong Kong Stock Exchange.

The principal activities of the Bank and its subsidiaries (collectively referred to as the “Group”) are the provision of corporate and private banking services, treasury business, asset management, trust, insurance, finance lease and other related financial services.

2 BASIS OF PREPARATION AND ACCOUNTING ESTIMATES AND JUDGEMENTS

2.1 Basis of preparation and principal accounting policies

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

2.1.1 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.

2.1.2 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.

3 FINANCIAL RISK MANAGEMENT

Overview

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

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

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

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

3.1 Credit risk

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

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

3.1.1 Measurements of credit risks

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

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

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

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

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.1 Measurements of credit risks (Continued)

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

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

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

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

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

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

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

(b) *Debt instruments*

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

(c) *Derivative instruments*

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.1 Measurements of credit risks (Continued)

(d) Due from banks and other financial institutions

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

3.1.2 Risk limit control and mitigation measures

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

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

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

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

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

(a) Collateral

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

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

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

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

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

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

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.2 Risk limit control and mitigation measures (Continued)

(a) Collateral (Continued)

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

(b) Master netting arrangements

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

3.1.3 Impairment and provision policies

The internal rating system described in Note 3.1.1 focuses more on credit-quality mapping from the inception of lending activities. In contrast, impairment allowances recognised for financial reporting purposes are the losses that have been incurred at the end of the reporting date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

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

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

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

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

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

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

Group	As at 30 June 2014	As at 31 December 2013
Assets		
Balances with central banks	915,268	877,263
Due from banks and other financial institutions	622,708	566,429
Financial assets at fair value through profit or loss (debt securities and derivatives)	85,445	73,203
Loans and advances to customers		
— corporate entities	2,548,656	2,455,136
— individuals	806,001	737,927
Investment securities — loans and receivables	147,764	119,726
Investment securities — available-for-sale (debt securities)	227,962	219,104
Investment securities — held-to-maturity	653,404	670,615
Other financial assets	158,365	137,668
Total	6,165,573	5,857,071
Off-balance sheet exposures		
Guarantees, acceptances and letters of credit	1,018,153	1,059,432
Other credit related commitments	502,473	491,287
Total	1,520,626	1,550,719

The above table represents a worst case scenario of credit risk exposure to the Group as at 30 June 2014 and 31 December 2013, without taking account of any related collaterals or other credit enhancements. For on-balance sheet assets, the exposures above are based on carrying amounts as reported in the statement of financial position.

As shown above, 54% of the total on-balance sheet exposure is derived from loans and advances to customers (2013: 55%).

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

- Mortgage loans, which represent the biggest portion in the individual portfolio, are backed by collaterals;
- 98% of the loans and advances portfolio are neither past due nor impaired (2013: 99%);
- The individually assessed impaired loans to loans and advances to customers is 1.13%. (2013: 1.05%).

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.5 Loans and advances to customers

Group	As at 30 June 2014		As at 31 December 2013	
	Loans and advances to customers	Due from banks and other financial institutions	Loans and advances to customers	Due from banks and other financial institutions
Neither past due nor impaired	3,368,161	622,708	3,217,747	566,417
Past due but not impaired	26,858	—	14,311	12
Individually impaired	38,750	—	34,310	—
Gross	3,433,769	622,708	3,266,368	566,429
Less: Allowance for collectively assessed impairment losses	(60,779)	—	(57,123)	—
Allowance for individually assessed impairment losses	(18,333)	—	(16,182)	—
Net	3,354,657	622,708	3,193,063	566,429

As at 30 June 2014, the Group's total impairment allowances for loans and advances to customers are RMB79,112 million (2013: RMB73,305 million) of which RMB18,333 million (2013: RMB16,182 million) represents those for individually assessed impaired loans and the remaining amount of RMB60,779 million (2013: RMB57,123 million) represents those for collectively assessed impaired loans. Further information about the impairment allowances for loans and advances to customers is provided in Note 20.

As at 30 June 2014, the Group's total loans and advances to customers increased by 5.12% as a result of the continuous increase of market demand in Mainland China. When entering into a new market or new industry, the Group targets at large enterprises or other financial institutions with good credit ratings or customers with sufficient collaterals in order to minimise the potential risk of increased credit risk exposure.

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.5 Loans and advances to customers (Continued)

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

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

Group Neither past due nor impaired	As at 30 June 2014				Total
	Grade 1-8	Grade 9-12	Grade 13-15	Unrated	
Mainland corporate loans and advances					
— Loans	1,754,473	250,688	5,771	2,326	2,013,258
— Discounted bills	25,315	1,341	—	67,248	93,904
— Trade finance	106,041	2,232	171	1,791	110,235
Mainland individual loans and advances	702,220	33,382	321	39,389	775,312
Total	2,588,049	287,643	6,263	110,754	2,992,709
Overseas branches and offshore center					375,452

Group Neither past due nor impaired	As at 31 December 2013				Total
	Grade 1-8	Grade 9-12	Grade 13-15	Unrated	
Mainland corporate loans and advances					
— Loans	1,869,733	131,835	4,168	—	2,005,736
— Discounted bills	25,222	2,522	29	27,413	55,186
— Trade finance	110,961	2,471	40	—	113,472
Mainland individual loans and advances	645,610	33,648	1,143	31,314	711,715
Total	2,651,526	170,476	5,380	58,727	2,886,109
Overseas branches and offshore center					331,638

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.5 Loans and advances to customers (Continued)

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

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

Group	As at 30 June 2014				Total	Fair value of collateral
	Past due up to 30 days	Past due 31–60 days	Past due 61–90 days	Past due over 90 days		
Corporate entities						
– Commercial loans	5,261	3,468	4,448	3,933	17,110	14,822
Individual						
– Mortgages	2,435	499	404	43	3,381	3,837
– Credit Cards	3,583	709	355	–	4,647	–
– Other	694	402	433	191	1,720	1,779
Total	11,973	5,078	5,640	4,167	26,858	20,438
Due from banks and other financial institutions	–	–	–	–	–	–

Group	As at 31 December 2013				Total	Fair value of collateral
	Past due up to 30 days	Past due 31–60 days	Past due 61–90 days	Past due over 90 days		
Corporate entities						
– Commercial loans	1,910	1,628	2,932	–	6,470	6,085
Individual						
– Mortgages	1,748	554	246	–	2,548	2,928
– Credit Cards	2,974	545	312	–	3,831	–
– Other	540	228	694	–	1,462	1,588
Total	7,172	2,955	4,184	–	14,311	10,601
Due from banks and other financial institutions	–	–	–	12	12	16

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

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.5 Loans and advances to customers (Continued)

(c) Loans and advances individually impaired

As at 30 June 2014, individually impaired loans and advances to customers before taking into consideration the collaterals held is RMB38,750 million (31 December 2013: RMB34,310 million).

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

Group	As at 30 June 2014	As at 31 December 2013
Corporate entities	28,427	25,229
Individual	10,323	9,081
Individually impaired loans	38,750	34,310
Fair value of collaterals		
Corporate entities	8,804	7,115
Individual	8,127	4,180
Individually impaired loans	16,931	11,295

No individually impaired due from banks and other financial institutions are held by the Group as at 30 June 2014 and 31 December 2013.

(d) Loans and advances to customers analysed by contractual maturity and security type

Group	As at 30 June 2014	As at 31 December 2013
Unsecured loans	881,606	829,671
Guaranteed loans	953,622	879,144
Collateralised and other secured loans	1,598,541	1,557,553
— Loans secured by property and other immovable assets	1,237,444	1,183,666
— Other pledged loans	361,097	373,887
Gross amount of loans and advances before allowance for impairment	3,433,769	3,266,368

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.5 Loans and advances to customers (Continued)

(e) Geographical risk concentration for loans and advances to customers

Group	As at 30 June 2014		As at 31 December 2013	
		%		%
PRC domestic regions				
— Shanghai	501,598	14.61	415,680	12.73
— Jiangsu	380,658	11.09	373,039	11.42
— Beijing	296,761	8.64	293,880	9.00
— Guangdong	258,250	7.52	249,908	7.65
— Zhejiang	237,989	6.93	236,289	7.23
— Shandong	152,541	4.44	146,947	4.50
— Hubei	121,539	3.54	107,136	3.28
— Henan	109,565	3.19	106,899	3.27
— Others	1,058,776	30.83	1,057,348	32.37
PRC domestic regions total	3,117,677	90.79	2,987,126	91.45
Hong Kong, Macau, Taipei and overseas regions	316,092	9.21	279,242	8.55
Gross amount of loans and advances to customers before allowance for impairment	3,433,769	100.00	3,266,368	100.00

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

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.5 Loans and advances to customers (Continued)

(f) Industry analysis

Group	As at 30 June 2014		As at 31 December 2013	
		%		%
Corporate loans				
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
Telecommunication, IT service 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 institutions	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 services	134,231	3.91	130,777	4.00
Education	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
Individual loans				
Mortgage loans	509,828	14.84	458,356	14.03
Credit card advances	191,095	5.57	163,969	5.02
Medium-term and long-term working capital loans	59,695	1.74	58,548	1.79
Short-term working capital 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 individual loans	821,108	23.91	751,310	23.00
Gross amount of loans and advances before allowance for impairment	3,433,769	100.00	3,266,368	100.00

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

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.6 Investment securities

The table below presents an analysis of investment securities, excluding derivatives, by independent rating agencies designation as at 30 June 2014 and 31 December 2013:

Group	As at 30 June 2014				Total
	Loans and receivables	Available-for-sale (debt securities)	Held-to-maturity	Financial assets at fair value through profit or loss (debt securities)	
RMB securities					
AAA	25	39,970	148,062	30,676	218,733
AA- to AA+	400	24,718	12,759	22,941	60,818
A- to A+	—	298	200	154	652
Unrated(a)	147,339	109,932	490,948	16,846	765,065
Sub-total	147,764	174,918	651,969	70,617	1,045,268
Foreign currency securities					
AAA	—	944	—	830	1,774
AA- to AA+	—	13,091	731	2,405	16,227
A- to A+	—	13,236	360	1,624	15,220
BBB- to BBB+	—	2,649	90	62	2,801
Unrated(a)	—	23,124	254	1,961	25,339
Sub-total	—	53,044	1,435	6,882	61,361
Total	147,764	227,962	653,404	77,499	1,106,629

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.6 Investment securities (Continued)

Group	As at 31 December 2013				
	Loans and receivables	Available-for-sale	Held-to-maturity	Financial assets at fair value through profit or loss	Total
RMB securities					
AAA	801	17,428	130,414	6,047	154,690
AA- to AA+	450	3,083	8,138	764	12,435
A- to A+	—	693	—	—	693
Unrated(a)	118,475	150,114	531,009	44,350	843,948
Sub-total	119,726	171,318	669,561	51,161	1,011,766
Foreign currency securities					
AAA	—	2,276	124	1,703	4,103
AA- to AA+	—	9,934	263	2,874	13,071
A- to A+	—	13,073	94	1,023	14,190
BBB- to BBB+	—	1,229	—	61	1,290
Unrated(a)	—	21,274	573	2,154	24,001
Sub-total	—	47,786	1,054	7,815	56,655
Total	119,726	219,104	670,615	58,976	1,068,421

(a) These unrated debt securities mainly comprise of investments held by the group and the bank, in government bonds and bonds issued by policy banks.

The amount of debt securities subjected to specific allowance assessment as at 30 June 2014 amounted to RMB1,014 million (31 December 2013: RMB1,090 million). As at 30 June 2014, the Group did not hold any collateral with respect to these impaired debt securities and the specific allowance against the debt securities amounted to RMB1,014 million (31 December 2013: 1,090 million). The collective allowance of the debt securities amounted to RMB741 million (31 December 2013: RMB0).

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.7 Derivative instruments

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

Credit risk weighted amounts

Group	As at 30 June 2014	As at 31 December 2013
Derivatives		
– Exchange rate contracts	4,066	6,157
– Interest rate contracts and others	776	399
	4,842	6,556

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

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

3.1.8 Foreclosed assets

Group	As at 30 June 2014	As at 31 December 2013
Business properties	73	55
Others	178	137
Total	251	192

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

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.9 Concentration risk analysis for financial assets with credit risk exposure

Geographical sectors

Group	Mainland China	Hong Kong	Others	Total
As at 30 June 2014				
Financial Assets				
Balances with central banks	866,299	4,283	44,686	915,268
Due from banks and other financial institutions	562,185	12,808	47,715	622,708
Financial assets at fair value through profit or loss (debt securities and derivatives)	76,069	4,653	4,723	85,445
Loans and advances to customers	3,039,703	183,730	131,224	3,354,657
Investment securities				
— loans and receivables	147,764	—	—	147,764
Investment securities — available-for-sale (debt securities)	192,928	2,473	32,561	227,962
Investment securities — held-to-maturity	651,969	107	1,328	653,404
Other financial assets	148,055	9,246	1,064	158,365
	5,684,972	217,300	263,301	6,165,573
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	1,000,825	9,622	7,706	1,018,153
Other credit related commitments	457,369	21,208	23,896	502,473
	1,458,194	30,830	31,602	1,520,626

Group	Mainland China	Hong Kong	Others	Total
As at 31 December 2013				
Financial Assets				
Balances with central banks	851,098	9,374	16,791	877,263
Due from banks and other financial institutions	512,050	44,225	10,154	566,429
Financial assets at fair value through profit or loss (debt securities and derivatives)	59,971	1,692	11,540	73,203
Loans and advances to customers	3,011,540	152,136	29,387	3,193,063
Investment securities				
— loans and receivables	119,726	—	—	119,726
Investment securities — available-for-sale (debt securities)	166,981	757	51,366	219,104
Investment securities — held-to-maturity	669,597	82	936	670,615
Other financial assets	118,398	18,860	410	137,668
	5,509,361	227,126	120,584	5,857,071
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	1,043,262	9,561	6,609	1,059,432
Other credit related commitments	460,177	9,454	21,656	491,287
	1,503,439	19,015	28,265	1,550,719

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk

3.2.1 Overview

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

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

The Group established a management model of “large and small middle offices” for its market risk management, which is a centralised control framework lead by Board of Directors, Supervisors and senior management. The asset liability management department takes the lead in the Bank’s market risk management, while business units such as financial markets department and domestic and overseas branches are the execution units of the Bank’s market risk management policies. The risk management department and the internal audit department are responsible for the independent verification of the market risk assessment models and management system, as well as the internal audit of the Bank.

The Group monitors market risk separately in respect of trading portfolios and Non-trading portfolios. With regard to the interest rate and exchange rate risks of trading book, the Group established an effective limit management system by implementing Value at Risk (VaR). And net interest income sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major tools used by the Group to monitor the market risk of its overall businesses. In addition, through adequate pricing management and asset allocation, the Group strived to maximise its rate of return while keeping its risks under control.

The Group continuously improved the policy system of market risk in 2014. The Board of Directors continues its implementation of the “Stress Testing Plan of Market Risk Trading Accounts for 2012”. The Group conducted the stress tests on historical scenarios and assuming scenarios in the interests of the Group’s major business risk factors. The Group implemented the daily automatic collection system of trading data of overseas branches. The Group conducted the management of risk capital and VaR quota, and formulated the quota allocation plans.

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

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

3.2.2 VaR

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

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

Items	Six months ended 30 June 2014			
	30 June 2014	Average	Maximum	Minimum
VaR of trading portfolios	216	312	480	189
— Interest Rate Risk	144	107	144	85
— Foreign exchange risk	210	328	494	198

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.2 VaR (Continued)

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

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

3.2.3 Sensitivity tests

Interest rate sensitivity test

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

The table below illustrates the impact of coming year net interest income of the Group at each period/year end, by the parallel shift of 100 basis point of interest rate structure of interest bearing assets and liabilities.

Group	Expected change in net interest income	
	Six months ended 30 June 2014	Year ended 31 December 2013
+100 basis points parallel shift in all yield curves	19,972	12,600
- 100 basis points parallel shift in all yield curves	(19,972)	(12,600)

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

Group	Change of other comprehensive income	
	As at 30 June 2014	As at 31 December 2013
+100 basis points parallel shift in all yield curves	(2,862)	(2,574)
- 100 basis points parallel shift in all yield curves	3,041	2,729

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

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.3 Sensitivity tests (Continued)

Foreign exchange sensitivity test

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

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

Group	Expected change in net profit/(loss)	
	Six months ended 30 June 2014	Year ended 31 December 2013
5% appreciation of RMB	(5,076)	(1,300)
5% depreciation of RMB	5,095	1,300

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

Group	Change of other comprehensive income	
	As at 30 June 2014	As at 31 December 2013
5% appreciation of RMB	(680)	(872)
5% depreciation of RMB	680	872

3.2.4 Interest rate risk

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

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

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

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

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

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

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.4 Interest rate risk (Continued)

Group	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 30 June 2014							
Assets							
Cash and balances with central banks	909,637	—	—	—	—	23,126	932,763
Due from banks and other financial institutions	372,080	145,794	95,635	5,168	—	4,031	622,708
Financial assets at fair value through profit or loss	8,398	9,136	12,443	38,519	9,003	8,066	85,565
Loans and advances to customers	1,370,655	587,223	1,340,288	43,536	12,955	—	3,354,657
Investment securities — loans and receivables	2,510	5,548	68,398	45,739	25,569	—	147,764
Investment securities — available-for-sale	30,547	36,828	62,167	70,269	28,151	2,341	230,303
Investment securities — held-to-maturity	22,137	32,221	81,724	332,618	184,704	—	653,404
Other assets	25,970	37,350	53,210	2,744	347	137,151	256,772
Total assets	2,741,934	854,100	1,713,865	538,593	260,729	174,715	6,283,936
Liabilities							
Due to banks and other financial institutions	(362,924)	(209,635)	(380,106)	(195,541)	(5,047)	—	(1,153,253)
Financial liabilities at fair value through profit or loss	(1,871)	(2,337)	(3,166)	(3,686)	—	(7,410)	(18,470)
Due to customers	(2,333,310)	(506,617)	(548,799)	(982,251)	—	(4,943)	(4,375,920)
Other liabilities	(7,726)	(12,863)	(15,563)	(31,012)	(73,036)	(153,547)	(293,747)
Total liabilities	(2,705,831)	(731,452)	(947,634)	(1,212,490)	(78,083)	(165,900)	(5,841,390)
Total interest sensitivity gap	36,103	122,648	766,231	(673,897)	182,646	8,815	442,546

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.4 Interest rate risk (Continued)

Group	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2013							
Assets							
Cash and balances							
with central banks	869,635	—	—	—	—	26,921	896,556
Due from banks and other financial institutions	362,669	74,321	123,348	6,079	—	12	566,429
Financial assets at fair value through profit or loss	4,741	9,546	19,590	18,029	7,070	14,334	73,310
Loans and advances to customers	1,323,106	518,140	1,279,260	54,175	18,382	—	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	31,625	48,577	65,567	49,455	23,880	2,149	221,253
Investment securities — held-to-maturity	21,166	38,897	95,828	320,660	194,064	—	670,615
Other assets	28,134	28,669	27,393	2,652	—	133,137	219,985
Total assets	2,674,596	721,055	1,644,447	475,855	268,431	176,553	5,960,937
Liabilities							
Due to banks and other financial institutions	(646,737)	(254,712)	(87,128)	(135,559)	(2,427)	—	(1,126,563)
Financial liabilities at fair value through profit or loss	(945)	(4,284)	(3,559)	(3,177)	—	(16,675)	(28,640)
Due to customers	(2,368,930)	(551,556)	(782,626)	(448,400)	—	(6,321)	(4,157,833)
Other liabilities	(396)	(6,531)	(19,768)	(34,567)	(48,677)	(116,478)	(226,417)
Total liabilities	(3,017,008)	(817,083)	(893,081)	(621,703)	(51,104)	(139,474)	(5,539,453)
Total interest sensitivity gap	(342,412)	(96,028)	751,366	(145,848)	217,327	37,079	421,484

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.5 Foreign exchange risk

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

Group	RMB	US dollar	HK dollar	Others	Total
As at 30 June 2014					
Assets					
Cash and balances with central banks	797,400	113,729	16,013	5,621	932,763
Due from banks and other financial institutions	520,611	89,773	1,114	11,210	622,708
Financial assets at fair value through profit or loss	72,801	9,392	1,979	1,393	85,565
Loans and advances to customers	2,937,908	308,020	96,340	12,389	3,354,657
Investment securities					
— loans and receivables	147,764	—	—	—	147,764
Investment securities — available-for-sale	177,078	26,878	15,684	10,663	230,303
Investment securities — held-to-maturity	651,969	577	158	700	653,404
Other assets	244,193	3,180	8,667	732	256,772
Total assets	5,549,724	551,549	139,955	42,708	6,283,936
Liabilities					
Due to banks and other financial institutions	(941,030)	(177,435)	(24,826)	(9,962)	(1,153,253)
Financial liabilities at fair value through profit or loss	(4,517)	(7,557)	(6,118)	(278)	(18,470)
Due to customers	(4,019,723)	(181,832)	(139,371)	(34,994)	(4,375,920)
Other liabilities	(261,453)	(20,065)	(1,840)	(10,389)	(293,747)
Total liabilities	(5,226,723)	(386,889)	(172,155)	(55,623)	(5,841,390)
Net position	323,001	164,660	(32,200)	(12,915)	442,546
Financial guarantees and credit related commitments	1,250,051	226,311	19,655	24,609	1,520,626

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.5 Foreign exchange risk (Continued)

Group	RMB	US dollar	HK dollar	Others	Total
As at 31 December 2013					
Assets					
Cash and balances with central banks	862,639	18,516	10,036	5,365	896,556
Due from banks and other financial institutions	485,983	74,415	2,041	3,990	566,429
Financial assets at fair value through profit or loss	63,776	6,207	1,783	1,544	73,310
Loans and advances to customers	2,830,533	267,601	81,920	13,009	3,193,063
Investment securities					
— loans and receivables	119,726	—	—	—	119,726
Investment securities					
— available-for-sale	173,521	23,471	14,145	10,116	221,253
Investment securities					
— held-to-maturity	669,561	814	—	240	670,615
Other assets	200,755	7,710	10,418	1,102	219,985
Total assets	5,406,494	398,734	120,343	35,366	5,960,937
Liabilities					
Due to banks and other financial institutions	(986,866)	(114,274)	(19,652)	(5,771)	(1,126,563)
Financial liabilities at fair value through profit or loss	(2,667)	(18,381)	(6,066)	(1,526)	(28,640)
Due to customers	(3,827,025)	(173,792)	(125,967)	(31,049)	(4,157,833)
Other liabilities	(204,558)	(12,015)	(2,534)	(7,310)	(226,417)
Total liabilities	(5,021,116)	(318,462)	(154,219)	(45,656)	(5,539,453)
Net position	385,378	80,272	(33,876)	(10,290)	421,484
Financial guarantees and credit related commitments	1,282,925	223,701	17,900	26,193	1,550,719

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.6 Other price risk

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

3.3 Liquidity risk

3.3.1 Overview

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

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, matured deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The Board of Directors set limits on the minimum proportion of funds to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover different levels of unexpected withdrawals. In addition, the Bank limits its loan to deposit ratio at below 75% as required by the PBOC. As at 30 June 2014, 20% (31 December 2013: 20%) of the Bank's total RMB denominated customer deposits and 5% (31 December 2013: 5%) of the total foreign currency denominated customer deposits must be deposited with the PBOC.

3.3.2 Liquidity risk management process

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

- Enhance weighting of core deposits as a percentage of liabilities, so as to improve the stability of liabilities;
- Monitor and manage liquidity position bank-wide by implementing a series of indicators and restrictions;
- Liquidity position management and cash utilization functions are centralized by the Headquarters;
- Maintain an appropriate level of central bank reserves, overnight inter-bank transactions, highly liquid debt investment, actively involved in capital management through open market, monetary market and bond market in order to ensure optimal financing capability at market places;
- Minimize liquidity risks by proper matching of asset maturity structures and multi-level liquidity portfolio.

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.2 Liquidity risk management process (Continued)

The Group monitors and reports cash flow measurement and projections made for the next day, week and month separately, as these are key time periods for liquidity risk management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities (Notes 3.3.3 – 3.3.4).

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

3.3.3 Non-derivative financial instruments cash flows

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

Group As at 30 June 2014	On Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Undated	Total
Liabilities									
Due to banks and other financial institution	(170,979)	(187,595)	(210,199)	(400,306)	(230,596)	(6,654)	–	–	(1,206,329)
Non-derivative financial liabilities at fair value through profit or loss	–	(967)	(408)	(4,095)	(5,851)	–	–	–	(11,321)
Due to customers	(2,713,455)	(428,607)	(247,211)	(577,624)	(485,955)	(4,363)	–	–	(4,437,215)
Certificates of deposit issued	–	(4,493)	(7,678)	(15,390)	(7,137)	–	–	–	(34,698)
Debts securities issued	–	(1,402)	(91)	(2,858)	(39,740)	(89,061)	–	–	(133,152)
Other financial liabilities	(42,580)	(3,377)	(24,739)	(1,167)	(6,662)	(2,069)	–	–	(80,594)
Total liabilities	(2,927,014)	(626,441)	(490,326)	(981,440)	(775,941)	(102,147)	–	–	(5,903,309)
Assets									
Cash and balances with central banks	159,403	–	–	–	–	–	–	773,360	932,763
Due from banks and other financial institutions	93,638	283,493	147,505	100,071	5,954	–	–	–	630,661
Non-derivative financial assets at fair value through profit or loss	–	3,039	7,485	15,030	54,410	10,050	–	120	90,134
Loans and advances to customers	–	377,150	366,043	1,096,769	1,046,939	1,434,433	50,919	–	4,372,253
Investment securities – loans and receivables	–	2,751	6,664	73,500	55,694	30,153	–	–	168,762
Investment securities – available-for-sale	–	8,164	11,376	54,396	140,321	46,860	1,141	2,341	264,599
Investment securities – held-to-maturity	–	11,342	18,634	89,040	431,531	227,663	–	–	778,210
Other financial assets	26,628	3,045	4,640	20,155	74,369	13,188	1,039	–	143,064
Assets held for managing liquidity risk	279,669	688,984	562,347	1,448,961	1,809,218	1,762,347	53,099	775,821	7,380,446

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.3 Non-derivative financial instruments cash flows (Continued)

Group As at 31 December 2013	On Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Undated	Total
Liabilities									
Due to banks and other financial institution	(140,085)	(224,007)	(260,839)	(108,795)	(455,867)	(19,271)	—	—	(1,208,864)
Non-derivative financial liabilities									
at fair value through profit or loss	—	(236)	(2,120)	(4,388)	(5,520)	—	—	—	(12,264)
Due to customers	(1,878,048)	(568,646)	(559,381)	(810,418)	(562,796)	(10,015)	—	—	(4,389,304)
Certificates of deposit issued	—	(5,873)	(7,938)	(6,700)	(4,520)	—	—	—	(25,031)
Debt securities issued	—	—	(1,448)	(14,448)	(39,949)	(55,550)	—	—	(111,395)
Other financial liabilities	(29,016)	(39)	(73)	(2,411)	(4,979)	(3,798)	—	(939)	(41,255)
Total liabilities	(2,047,149)	(798,801)	(831,799)	(947,160)	(1,073,631)	(88,634)	—	(939)	(5,788,113)
Assets									
Cash and balances with central banks	161,445	—	—	—	—	—	—	735,316	896,761
Due from banks and other financial institutions	80,245	282,858	75,097	128,289	6,911	—	12	—	573,412
Non-derivative financial assets									
at fair value through profit or loss	—	1,957	7,679	20,014	29,114	9,980	—	107	68,851
Loans and advances to customers	—	335,840	362,960	1,074,503	1,045,129	1,300,701	45,447	—	4,164,580
Investment securities									
— loans and receivables	—	33,570	2,954	41,350	27,606	29,349	35	—	134,864
Investment securities									
— available-for-sale	—	7,466	18,318	48,119	130,975	49,853	1,238	2,149	258,118
Investment securities									
— held-to-maturity	—	9,973	23,882	99,038	422,293	238,039	—	—	793,225
Other financial assets	21,903	4,074	4,516	17,794	64,780	11,134	1,124	—	125,325
Assets held for managing liquidity risk									
	263,593	675,738	495,406	1,429,107	1,726,808	1,639,056	47,856	737,572	7,015,136

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

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.4 Derivative financial instruments cash flows

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

(a) *Derivative settled on a net basis*

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

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

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

Group As at 30 June 2014	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Derivative financial instruments held for trading						
– Foreign exchange contracts	3	3	286	63	–	355
– Interest rate contracts and others	108	39	441	537	55	1,180
Total	111	42	727	600	55	1,535
Liabilities						
Derivative financial instruments held for trading						
– Foreign exchange contracts	(4)	(1)	(298)	(29)	(4)	(336)
– Interest rate contracts and others	(137)	(167)	(805)	(776)	(99)	(1,984)
Total	(141)	(168)	(1,103)	(805)	(103)	(2,320)

Group As at 31 December 2013	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Derivative financial instruments held for trading						
– Foreign exchange contracts	27	4	318	9	–	358
– Interest rate contracts and others	110	111	445	338	24	1,028
Total	137	115	763	347	24	1,386
Liabilities						
Derivative financial instruments held for trading						
– Foreign exchange contracts	(8)	(1)	(237)	–	–	(246)
– Interest rate contracts and others	(129)	(120)	(445)	(739)	(52)	(1,485)
Total	(137)	(121)	(682)	(739)	(52)	(1,731)

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.4 Derivative financial instruments cash flows (Continued)

(b) Derivative settled on a gross basis

The Group's foreign exchange derivative financial instruments that will be settled on a gross basis include: currency forward, currency swaps, cross currency interest rate swaps

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

Group As at 30 June 2014	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivative financial instruments held for trading						
– Foreign exchange derivative contracts						
– Outflow	(147,696)	(132,178)	(685,165)	(86,622)	(102)	(1,051,763)
– Inflow	148,474	132,090	685,797	86,416	102	1,052,879

Group As at 31 December 2013	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivative financial instruments held for trading						
– Foreign exchange derivative contracts						
– Outflow	(342,820)	(360,705)	(618,924)	(62,151)	–	(1,384,600)
– Inflow	342,074	360,242	618,594	62,156	–	1,383,066

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.5 Maturity analysis

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

Group As at 30 June 2014	On Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Undated	Total
Assets									
Cash and balances with central banks	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

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.5 Maturity analysis (Continued)

Group As at 31 December 2013	On Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Undated	Total
Assets									
Cash and balances with central banks	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	282,546	662,438	465,204	1,293,218	1,345,454	1,088,399	26,237	797,441	5,960,937
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	(2,053,012)	(803,730)	(837,850)	(933,334)	(839,649)	(71,878)	–	–	(5,539,453)
Net amount on liquidity gap	(1,770,466)	(141,292)	(372,646)	359,884	505,805	1,016,521	26,237	797,441	421,484

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.6 Off-balance sheet items

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

Group	Less than 1 year	1-5 years	Over 5 years	Total
As at 30 June 2014				
Loan commitments and credit related commitments	352,722	65,438	84,313	502,473
Guarantees, acceptances and letters of credit	868,096	112,551	37,506	1,018,153
Operating lease commitments	1,717	4,683	1,479	7,879
Capital expenditure commitments	2,424	751	3	3,178
Total	1,224,959	183,423	123,301	1,531,683
As at 31 December 2013				
Loan commitments and credit related commitments	320,261	81,174	89,852	491,287
Guarantees, acceptances and letters of credit	919,317	103,054	37,061	1,059,432
Operating lease commitments	1,907	4,600	1,231	7,738
Capital expenditure commitments	2,314	717	3	3,034
Total	1,243,799	189,545	128,147	1,561,491

3 FINANCIAL RISK MANAGEMENT (Continued)

3.4 Fair values of financial assets and liabilities

(a) **Determination of fair value and valuation techniques**

Some of the Group's financial assets and liabilities are measured at fair value or with fair value disclosed for financial reporting purposes. The Board of Directors of the Bank has set up certain process to determine the appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the process and the determination of fair value are reviewed by the board of directors periodically.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages internal or external qualified valuers to perform the valuation. The management works closely with the qualified valuers to establish the appropriate valuation techniques and inputs to the model. The management reports the findings to the board of directors of the Bank on a timely basis to explain the cause of fluctuations in the fair value of the financial assets and liabilities.

The fair value of financial instruments with quoted prices for identical instruments in active markets is determined by the open market quotations. And those instruments are classified as level 1, which include listed equity securities and debt instruments on exchanges (for example, Hong Kong Stock Exchange).

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

The valuation techniques used by the Group include the discounted cash flow model for loans and advances to customers, due to customers, debt securities which are not quoted in active markets and certain derivatives (i.e. interest rate swap, forward contract etc.) and Black Scholes model for option based derivatives. The main parameters used in discounted cash flow model include recent transaction prices, relevant interest yield curves, foreign exchange rates, prepayment rates, counterparty credit spreads and those used in Black Scholes model include relevant interest yield curves, foreign exchange rates, volatilities, counterparty credit spreads and others.

If those parameters used in valuation techniques for financial instruments held by the Group, which are substantially observable and obtainable from active open market, the instruments are classified as level 2. This level includes the over-the-counter derivative instruments, due to customers, unquoted certificates of deposit issued, debt securities issued, and debt instruments traded in inter-bank market.

For loans and advances to customers and certain debt securities classified as investment securities — loans and receivables, the fair value are determined based on discounted cash flow model by using the unobservable discount rates that reflect the credit risk and discount for lack of liquidities. Thus, loans and advances to customers and those debt securities are classified as level 3.

For unlisted equities (private equity) held by the Group, the fair value of these financial instruments may be based on unobservable inputs, and those instruments have been classified by the Group as level 3. Management determines the fair value of those financial instruments using a variety of techniques, including using valuation models that incorporate unobservable inputs such as discounts for lack of marketability. The fair value measurement of these instruments will change accordingly if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.4 Fair values of financial assets and liabilities (Continued)

(b) Financial instruments not measured at fair value

The table below summarises the carrying amounts and fair values with obvious variances of those financial assets and liabilities not presented on the statement of financial position at their fair values.

Group	As at 30 June 2014		As at 31 December 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and advances to customers	3,354,657	3,354,580	3,193,063	3,193,270
Investment securities				
— loans and receivables	147,764	147,335	119,726	119,134
— held-to-maturity	653,404	645,600	670,615	642,109
Financial liabilities				
Due to customers	(4,375,920)	(4,385,571)	(4,157,833)	(4,161,703)
Certificates of deposit issued	(33,329)	(33,361)	(24,619)	(24,639)
Debt securities issued	(95,378)	(93,872)	(82,238)	(79,051)

Fair value hierarchy of financial instruments not measured at fair value

Group	Level 1	Level 2	Level 3	Total
As at 30 June 2014				
Financial Assets				
Loans and advances to customers	—	—	3,354,580	3,354,580
Investment securities				
— loans and receivables	—	25,864	121,471	147,335
— held-to-maturity	1,784	643,816	—	645,600
Financial Liabilities				
Due to customers	—	(4,385,571)	—	(4,385,571)
Certificates of deposit issued	—	(33,361)	—	(33,361)
Debt securities issued	—	(93,872)	—	(93,872)

Group	Level 1	Level 2	Level 3	Total
As at 31 December 2013				
Financial Assets				
Loans and advances to customers	—	—	3,193,270	3,193,270
Investment securities				
— loans and receivables	—	25,267	93,867	119,134
— held-to-maturity	1,246	640,863	—	642,109
Financial Liabilities				
Due to customers	—	(4,161,703)	—	(4,161,703)
Certificates of deposit issued	(10,893)	(13,746)	—	(24,639)
Debt securities issued	—	(79,051)	—	(79,051)

The carrying amounts and fair values of those financial assets and liabilities such as due from/to banks and other financial institutions are approximately the same as the interest rates of most of these assets and liabilities are instantaneously adjusted to changes in interest rates set by the PBOC and other regulatory bodies.

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.4 Fair values of financial assets and liabilities (Continued)

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

The table below summarises the information about the fair value hierarchy of these financial assets and financial liabilities measured at fair value on a recurring basis. The determination (in particular, the valuation techniques and inputs used) of the fair value of these financial assets and financial liabilities are disclosed in 3.4(a).

Group	Level 1	Level 2	Level 3	Total
As at 30 June 2014				
Financial assets at fair value through profit or loss				
Debt securities				
– Governments and central banks	2,480	3,287	–	5,767
– Public sector entities	–	2,030	–	2,030
– Banks and other financial institutions	3,092	15,383	–	18,475
– Corporate entities	641	50,586	–	51,227
Equity securities and fund investments ⁽¹⁾	120	–	–	120
Derivatives				
– Foreign exchange contracts	–	6,841	–	6,841
– Interest rate contracts and others	–	1,105	–	1,105
	6,333	79,232	–	85,565
Investment securities				
– available-for-sale				
Debt securities				
– Governments and central banks	3,697	27,119	–	30,816
– Public sector entities	–	3,285	–	3,285
– Banks and other financial institutions	9,741	121,036	–	130,777
– Corporate entities	1,312	61,772	–	63,084
Equity securities and fund investments ⁽¹⁾	1,271	–	1,070	2,341
	16,021	213,212	1,070	230,303
Total Assets	22,354	292,444	1,070	315,868
Financial liabilities at fair value through profit or loss				
Short position of securities held for trading	(1,192)	–	–	(1,192)
Certificates of deposit issued	–	(9,868)	–	(9,868)
Derivatives				
– Foreign exchange contracts	–	(5,635)	–	(5,635)
– Interest rate contracts and others	–	(1,775)	–	(1,775)
Total Liabilities	(1,192)	(17,278)	–	(18,470)

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.4 Fair values of financial assets and liabilities (Continued)

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

Group	Level 1	Level 2	Level 3	Total
As at 31 December 2013				
Financial assets at fair value through profit or loss				
Debt securities				
— Governments and central banks	1,832	5,135	—	6,967
— Public sector entities	—	2,250	—	2,250
— Banks and other financial institutions	3,307	11,127	—	14,434
— Corporate entities	132	35,193	—	35,325
Equity securities and fund investments ⁽¹⁾	107	—	—	107
Derivatives				
— Foreign exchange contracts	—	12,723	—	12,723
— Interest rate contracts and others	—	1,504	—	1,504
	5,378	67,932	—	73,310
Investment securities				
— available-for-sale				
Debt securities				
— Central governments and central banks	2,352	27,455	—	29,807
— Public sector entities	375	1,275	—	1,650
— Banks and other financial institutions	20,016	110,780	—	130,796
— Corporate entities	1,380	55,471	—	56,851
Equity securities and fund investments ⁽¹⁾	1,080	—	1,069	2,149
	25,203	194,981	1,069	221,253
Total Assets	30,581	262,913	1,069	294,563
Financial liabilities at fair value through profit or loss				
Short position of securities held for trading	(1,164)	—	—	(1,164)
Certificates of deposit issued	—	(10,801)	—	(10,801)
Derivative				
— Foreign exchange contracts	—	(14,261)	—	(14,261)
— Interest rate contracts and others	—	(2,414)	—	(2,414)
Total Liabilities	(1,164)	(27,476)	—	(28,640)

(1) Based on the nature, characteristics and risk, the Group discloses this type of investment separately.

There were no transfers between Level 1 and 2 during the period.

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.4 Fair values of financial assets and liabilities (Continued)

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

Reconciliation of level 3 items

Group	Debt securities — corporate entities	Equity investments — unlisted	Total
Balance at 1 January 2014	—	1,069	1,069
Total gains or losses			
— Losses	—	—	—
— Other comprehensive income	—	—	—
Additions	—	1	1
Disposals	—	—	—
Balance at 30 June 2014	—	1,070	1,070
Total losses for the period included in consolidated statement of profit or loss and other comprehensive income for assets/liabilities held at 30 June 2014	—	—	—

Group	Debt securities — corporate entities	Equity investments — unlisted	Total
Balance at 1 January 2013	11	1,145	1,156
Total gains or losses			
— Losses	(11)	—	(11)
— Other comprehensive income	—	—	—
Additions	—	15	15
Disposals	—	(91)	(91)
Balance at 31 December 2013	—	1,069	1,069
Total losses for the period included in consolidated statement of profit or loss and other comprehensive income for assets/liabilities held at 31 December 2013	(11)	—	(11)

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

4 NET INTEREST INCOME

Group	Six months ended 30 June	
	2014	2013
Interest income		
Balances with central banks	6,441	6,243
Due from banks and other financial institutions	9,773	7,045
Loans and advances to customers	104,372	95,095
Investment in debt securities	22,826	16,706
	143,412	125,089
Interest expense		
Due to banks and other financial institutions	(27,755)	(19,679)
Due to customers	(46,079)	(38,570)
Subordinated debts and other debts issued	(1,956)	(1,620)
Certificates of deposits issued	(411)	(212)
	(76,201)	(60,081)
Net interest income	67,211	65,008

For six months ended 30 June 2014, interest income of the Group includes RMB1,522 million (six months ended 30 June 2013: RMB454 million) of interest income accrued on investment securities 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 certificates of deposit 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 receivables.

Group	Six months ended 30 June	
	2014	2013
Interest income on listed investments in securities	6,865	4,959
Interest income on unlisted investments in securities	15,961	11,747
	22,826	16,706

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

5 FEE AND COMMISSION INCOME

Group	Six months ended 30 June	
	2014	2013
Settlement service	1,758	1,187
Bank card	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
	17,314	15,549

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

6 FEE AND COMMISSION EXPENSE

Group	Six months ended 30 June	
	2014	2013
Settlement and agent service	155	170
Bank card	1,337	1,337
Others	121	147
	1,613	1,654

Group	Six months ended 30 June	
	2014	2013
Fee expense, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss	35	33

7 DIVIDEND INCOME

Group	Six months ended 30 June	
	2014	2013
Available-for-sale equity investments — unlisted	26	61

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

8 NET GAINS ARISING FROM TRADING ACTIVITIES

Group	Six months ended 30 June	
	2014	2013
Foreign exchange	2,509	(541)
Interest rate instruments and others	(339)	185
Trading securities	1,240	517
	3,410	161

Net gains on foreign exchange includes gains or losses from spot and forward contracts, currency swaps, cross currency interest rate swaps, currency options and the translation of foreign currency monetary assets and liabilities into RMB.

Net gains on interest rate instruments and others include the gains or losses from securities held for trading, interest rate swaps, interest rate options and other derivatives.

Net gains arising from trading activities for the six months ended 30 June 2014 include a gain of RMB1 million (six months ended 30 June 2013: a gain of RMB11 million) in relation to fair value change of financial liabilities designated at fair value through profit or loss.

9 OTHER OPERATING INCOME

Group	Six months ended 30 June	
	2014	2013
Profit on sale of property and equipment	78	2
Revaluation of investment property	—	11
Income from sales of franchised precious metal merchandise	1,037	4,421
Other miscellaneous income	1,082	592
	2,197	5,026

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

10 IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

Group	Six months ended 30 June	
	2014	2013
Loans and advances to customers (Note 20.2)		
— Collectively assessed losses provision	4,657	5,138
— Individually assessed losses provision	5,502	3,331
	10,159	8,469

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

11 OTHER OPERATING EXPENSE

Group	Six months ended 30 June	
	2014	2013
Staff costs (Note 12)	11,343	9,800
General and administrative expenses	5,753	5,357
Business tax and surcharges	6,478	5,920
Depreciation of property and equipment (Note 22)	2,561	2,066
Operating lease rental expenses	1,338	1,140
Supervision fee to regulators	119	137
Amortisation of intangible assets	128	123
Impairment of finance lease receivables	177	229
Impairment of investment securities ((1), Note 21)	723	9
Professional fees	15	7
Amortisation of land use rights	13	12
Reversal of litigation expenses	(50)	18
Impairment of other receivables	55	11
Others	2,771	5,991
	31,424	30,820

(1) Net impairment losses on investment securities

Group	Six months ended 30 June	
	2014	2013
Loans and receivables (Note 21)	723	(2)
Available-for-sale (Note 21)	—	11
Total	723	9

12 STAFF COSTS

Group	Six months ended 30 June	
	2014	2013
Salaries and bonuses	8,038	6,986
Pension costs	1,970	1,019
Housing benefits and subsidies	46	31
Other social security and benefit costs	1,289	1,764
	11,343	9,800

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Group	Six months ended 30 June	
	2014	2013
Salary	4	4

No director waived or agreed to waive any emoluments during the periods.

For the six months ended June 2014, RMB375,000 was accrued for independent non-executive directors' emolument six months ended 30 June 2013: RMB500,000).

On 18 November 2005, the Board of Directors resolved to grant certain cash settled share appreciation rights ("SARs") to several senior executives of the Bank under a long-term incentive plan. According to the resolution, the initial grant of SARs was targeted at senior executives of the Bank as at 23 June 2005. The exercise price of each SAR is HK\$2.50, which was the issue price of the H share at the time of its initial public offering. The amount of the initial grant of the SARs was 7.558 million shares. The SARs was valid for a period of ten years from 23 June 2005, with a two-year vesting period.

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(Continued)

On 3 November 2006, the Board of Directors resolved to grant certain cash settled SARs to several senior executives of the Bank under its long-term incentive plan. According to the resolution, the grant of SARs was targeted at senior executives of the Bank as at 3 November 2006. The exercise price of each SAR is HK\$6.13, which was the closing price of the Group's H share on the granting date. The amount of the grant of the SARs was 2.724 million shares. The SARs was valid for a period of ten years from 3 November 2006, with a two-year vesting period.

For the six months ended June 2014 and 2013, no cash settled SARs were exercised.

Group	Six months ended 30 June 2014 Number of shares (In millions of shares)	Year ended 31 December 2013 Number of shares (In millions of shares)
Outstanding at the beginning of the period	11	11
Granted in the period	—	—
Outstanding at the end of the period	11	11

14 INCOME TAX

Group	Six months ended 30 June	
	2014	2013
Current tax		
— PRC enterprise income tax	8,383	10,410
— Hong Kong profits tax	14	274
— Overseas taxation	164	162
Deferred income tax (Note 29)	8,561	10,846
	1,739	(704)
	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:

	Six months ended 30 June	
	2014	2013
Profit before tax	47,195	45,060
Tax calculated at a tax rate of 25%	11,799	11,265
Effect of different tax rates in other countries (or regions)	10	35
Tax effect arising from income not subject to tax (1)	(1,550)	(1,226)
Tax effect of expenses not deductible for tax purposes (2)	41	68
Income tax expense	10,300	10,142

(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.

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

15 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	36,773	34,827
Number of ordinary shares in issue (expressed in millions)	74,263	74,263
Basic and diluted earnings per share (expressed in RMB per share)	0.50	0.47

16 CASH AND BALANCES WITH CENTRAL BANKS

Group	As at 30 June 2014	As at 31 December 2013
Cash	17,495	19,293
Balances with central banks other than mandatory reserve deposits	141,908	141,947
Included in cash and cash equivalents (Note 38)	159,403	161,240
Mandatory reserve deposits	773,360	735,316
	932,763	896,556

The Group is required to place mandatory reserve deposits with central banks. The mandatory reserve deposits are calculated based on the eligible deposits from customers. Mandatory reserve deposits with central banks are not available for use by the Group in its day-to-day operations.

	As at 30 June 2014	As at 31 December 2013
Mandatory reserve rate for deposits denominated in RMB	20.00%	20.00%
Mandatory reserve rate for deposits denominated in foreign currencies	5.00%	5.00%

17 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Group	As at 30 June 2014	As at 31 December 2013
Due from banks and other financial institutions	122,997	97,415
Included in cash and cash equivalents (Note 38)	93,993	82,154
Securities purchased under reverse repurchase agreements	129,730	182,614
Loans purchased under reverse repurchase agreements	120,121	89,343
Placement with and loans to banks	176,542	125,701
Placement with and loans to other financial institutions	73,318	71,356
	622,708	566,429

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Group	As at 30 June 2014	As at 31 December 2013
Derivative financial instruments (Note 19)	7,946	14,227
Government bonds		
– Listed in Hong Kong	1,305	1,308
– Listed outside Hong Kong	2,601	1,548
– Unlisted	1,861	4,111
Other debt securities		
– Listed in Hong Kong	2,743	1,840
– Listed outside Hong Kong	5,608	2,486
– Unlisted – corporate entities	49,260	34,753
– Unlisted – public sector	1,693	1,265
– Unlisted – banking sector	12,428	11,665
Equity securities		
– Listed in Hong Kong	120	107
– Listed outside Hong Kong	–	–
	85,565	73,310

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

Group	As at 30 June 2014	As at 31 December 2013
Securities-Financial assets at fair value through profit or loss		
– Governments and central banks	5,767	6,967
– Public sector entities	2,030	2,250
– Banks and other financial institutions	18,578	14,541
– Corporate entities	51,244	35,325
	77,619	59,083

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

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

As at 30 June 2014, RMB11,422 million trading securities of the Group were pledged to third parties and stock exchanges under repurchase agreements and short-selling arrangements (31 December 2013: RMB5,694 million).

19 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative instruments are utilised by the Group for trading or hedging purposes:

Currency forwards are contracts between two parties to buy or sell certain currencies at a specified future date at a predetermined price. The party agreeing to buy the underlying currency in the future assumes a long position, and the party agreeing to sell the currency in the future assumes a short position. The price agreed upon is called the delivery price, which is equal to the forward price at the time the contract is entered into.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

19 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency at a predetermined price or to receive an interest payment based on a variable interest rate and pay a fixed interest rate or vice versa. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer (over the counter market).

The notional amounts of certain types of financial instruments provide a reference of the amounts recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

Group As at 30 June 2014	Contractual/notional amount	Fair values	
		Assets	Liabilities
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)

Group As at 31 December 2013	Contractual/notional amount	Fair values	
		Assets	Liabilities
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 amounts and the fair values of the Group's derivative financial instruments outstanding at period/year end. These instruments, comprising foreign exchange and interest rate derivatives allow the Group and their customers to transfer, modify or reduce their foreign exchange and interest rate risks.

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

Notional amounts of derivative financial instruments by original currency:

Group	As at	As at
	30 June 2014	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

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

19 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Hedge accounting

Included in the derivative financial instruments above are those designated as hedging instruments by the Group and Bank as follows:

Group As at 30 June 2014	Contractual/notional amount	Fair values	
		Assets	Liabilities
Derivative financial instruments designated as hedging instruments in fair value hedges-interest rate swaps	8,931	10	(266)
Total	8,931	10	(266)

Group As at 31 December 2013	Contractual/notional amount	Fair values	
		Assets	Liabilities
Derivative financial instruments designated as hedging instruments in fair value hedges-interest rate swaps	7,124	21	(252)
Total	7,124	21	(252)

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 consider that the interest rate swaps are highly effective hedging instruments.

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

Group	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	16	(207)
Net losses from fair value hedges	(4)	(9)

20 LOANS AND ADVANCES TO CUSTOMERS

20.1 Loans and advances to customers

Group	As at 30 June 2014	As at 31 December 2013
Loans and advances to customers	3,433,769	3,266,368
Less: allowance for collectively assessed impairment losses	(60,779)	(57,123)
allowance for individually assessed impairment losses	(18,333)	(16,182)
	3,354,657	3,193,063

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

20 LOANS AND ADVANCES TO CUSTOMERS (Continued)

20.2 Movements in allowance for losses on loans and advances

Group	Six months ended 30 June 2014		Six months ended 30 June 2013	
	Collectively assessed	Individually assessed	Collectively assessed	Individually assessed
Balance at the beginning of the period	57,123	16,182	55,187	12,484
Net impairment allowances for loans charged to profit or loss (Note 10)	4,657	5,502	5,138	3,331
— Impairment allowances for loans	4,657	6,783	5,138	4,536
— Reversal of impairment allowances for loans	—	(1,281)	—	(1,205)
Recoveries of loans written-off in previous years	—	214	—	119
Unwind of discount on allowances during the period	—	(626)	—	(707)
Loans written off during the year as uncollectible	—	(4,039)	—	(4,823)
Other transfer (out)/in	(1,090)	1,090	(3,466)	3,466
Exchange difference	89	10	(121)	(17)
Balance at the end of the period	60,779	18,333	56,738	13,853

Group	Six months ended 30 June 2014		Six months ended 30 June 2013	
	Corporate	Individual	Corporate	Individual
Balance at the beginning of the period	59,922	13,383	58,869	8,802
Net impairment allowances for loans	7,489	2,670	5,718	2,751
— Impairment allowances for loans	8,678	2,762	6,635	3,039
— Reversal of impairment allowances for loans	(1,189)	(92)	(917)	(288)
Recoveries of loans written-off in previous years	91	123	62	57
Unwind of discount on allowances during the period	(517)	(109)	(595)	(112)
Loans written off during the period as uncollectible	(3,077)	(962)	(4,301)	(522)
Exchange difference	91	8	(137)	(1)
Balance at the end of the period	63,999	15,113	59,616	10,975

20.3 Individually assessed loans with impairment

Group	As at 30 June 2014		As at 31 December 2013	
	Gross amount of impaired loans before allowance for impairment	Allowance for individually assessed impaired loans	Gross amount of impaired loans before allowance for impairment	Allowance for individually assessed impaired loans
Corporate	28,427	(11,319)	25,229	(10,166)
Individual	10,323	(7,014)	9,081	(6,016)
	38,750	(18,333)	34,310	(16,182)

Group	As at 30 June 2014	As at 31 December 2013
Individually assessed impaired loans to loans and advances to customers	1.13%	1.05%

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

21 INVESTMENT SECURITIES

Group	As at 30 June 2014	As at 31 December 2013
Securities — loans and receivables debt securities — at amortised cost		
— Unlisted	148,522	119,761
Impairment allowance	(758)	(35)
Loans and receivables securities (net)	147,764	119,726
Securities — available-for-sale debt securities — at fair value		
— Listed in Hong Kong	9,033	6,628
— Listed outside Hong Kong	57,383	45,281
— Unlisted	161,546	167,195
Debt securities	227,962	219,104
Equity securities and fund investments — at fair value		
— Listed in Hong Kong	109	44
— Listed outside Hong Kong	1,161	300
— Unlisted	1,071	1,805
Equity securities and fund investments	2,341	2,149
Securities — available-for-sale total	230,303	221,253
Include: Fair value of listed securities — available-for-sale	67,686	52,253
Securities — held-to-maturity — at amortised cost		
— Listed outside Hong Kong	259,472	257,378
— Unlisted	393,932	413,237
Held-to-maturity investments	653,404	670,615
Include: Fair value of listed held-to-maturity investments	257,197	251,082

As at 30 June 2014, listed investment securities of the Group at fair value of RMB65,700 million (31 December 2013: RMB160,416 million) were pledged to third parties under repurchase agreements.

As at 30 June 2014, the Group holds bond issued by the PBOC amounting to RMB119 million (31 December 2013: Nil). The related interest rate on such bonds as at 30 June 2014 was 3.37%.

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

Group	Six months ended 30 June	
	2014	2013
Net gains arising from de-recognition of investment securities		
— available-for-sale	130	97

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

21 INVESTMENT SECURITIES (Continued)

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

Group	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Allowance for impairment losses				
As at 1 January 2014	(35)	(1,248)	—	(1,283)
Reversal	(741)	—	—	(741)
Provision for impairment	18	—	—	18
Transfer out ⁽¹⁾	—	128	—	128
Exchange differences	—	(31)	—	(31)
As at 30 June 2014	(758)	(1,151)	—	(1,909)

Group	Loans and receivables	Available-for-sale	Held-to-maturity	Total
Allowance for impairment losses				
As at 1 January 2013	(4)	(1,443)	—	(1,447)
Reversal	—	(11)	—	(11)
Provision for impairment	2	—	—	2
Transfer out ⁽¹⁾	—	122	—	122
Exchange differences	—	33	—	33
As at 30 June 2013	(2)	(1,299)	—	(1,301)

(1) Transfer out was caused by the disposal or redemption of those impaired securities.

Investment securities are analysed by issuer as follows:

Group	As at 30 June 2014	As at 31 December 2013
Securities — loans and receivables		
— Governments and central banks	565	638
— Banks and other financial institutions	26,558	56,136
— Corporate entities	120,641	62,952
	147,764	119,726
Securities — available-for-sale		
— Governments and central banks	30,816	29,807
— Public sector entities	3,285	1,650
— Banks and other financial institutions	132,065	132,511
— Corporate entities	64,137	57,285
	230,303	221,253
Securities — held-to-maturity		
— Governments and central banks	288,286	282,040
— Public sector entities	16,725	14,463
— Banks and other financial institutions	240,822	247,135
— Corporate entities	107,571	126,977
	653,404	670,615

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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21 INVESTMENT SECURITIES (Continued)

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

Group	As at 30 June 2014	As at 31 December 2013
Available-for-sale, at fair value — Unlisted	16,995	13,086

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

Group	As at 30 June 2014	As at 31 December 2013
Within 3 months	3,154	1,440
3 months to 12 months	5,429	2,698
1 year to 5 years	8,412	8,948
	16,995	13,086

22 PROPERTY AND EQUIPMENT

Group	Land and Buildings	Construction in Progress	Equipment	Transportation Equipment	Property Improvement	Total
Cost						
As at 1 January 2014	36,482	13,261	19,073	8,044	4,828	81,688
Additions	343	1,853	875	3,701	57	6,829
Disposals	(164)	(23)	(93)	(12)	(11)	(303)
Transfers in/(out)	1,363	(1,393)	—	—	30	—
As at 30 June 2014	38,024	13,698	19,855	11,733	4,904	88,214
Accumulated depreciation						
As at 1 January 2014	(9,084)	—	(12,919)	(738)	(1,768)	(24,509)
Charge for the year	(858)	—	(1,208)	(218)	(277)	(2,561)
Disposals	30	—	56	5	6	97
As at 30 June 2014	(9,912)	—	(14,071)	(951)	(2,039)	(26,973)
Net book value						
As at 30 June 2014	28,112	13,698	5,784	10,782	2,865	61,241

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

22 PROPERTY AND EQUIPMENT (Continued)

Group	Land and Buildings	Construction in Progress	Equipment	Transportation Equipment	Property Improvement	Total
Cost						
As at 1 January 2013	33,550	7,714	17,337	4,270	4,222	67,093
Additions	1,595	7,464	3,472	3,816	506	16,853
Disposals	(270)	(154)	(1,736)	(42)	(56)	(2,258)
Transfers in/(out)	1,607	(1,763)	—	—	156	—
As at 31 December 2013	36,482	13,261	19,073	8,044	4,828	81,688
Accumulated depreciation						
As at 1 January 2013	(7,926)	—	(11,833)	(485)	(1,313)	(21,557)
Charge for the year	(1,249)	—	(2,370)	(282)	(463)	(4,364)
Disposals	91	—	1,284	29	8	1,412
As at 31 December 2013	(9,084)	—	(12,919)	(738)	(1,768)	(24,509)
Net book value						
As at 31 December 2013	27,398	13,261	6,154	7,306	3,060	57,179

With exception to the Hong Kong branch and subsidiaries, all other land and buildings are located outside Hong Kong.

	As at 30 June 2014	As at 31 December 2013
Net book value of land and buildings of Hong Kong branch and subsidiaries	240	208

The Group recognised the leasehold land in Hong Kong branch and subsidiaries as finance lease and accounted for it as “land and buildings” and is depreciated over the shorter of the useful life of the buildings and the land’s lease term.

As at 30 June 2014, property and equipment for which registration was not completed amounted to RMB1,602 million (2013: RMB872 million). However, this registration process does not affect the rights of the Group to these assets.

The net book value of land and buildings is analysed based on the remaining lease terms as follows:

Group	As at 30 June 2014	As at 31 December 2013
Held in Hong Kong		
on long-term lease (over 50 years)	170	173
on medium-term lease (10–50 years)	70	35
on short-term lease (less than 10 years)	—	—
	240	208
Held outside Hong Kong		
on long-term lease (over 50 years)	19	18
on medium-term lease (10–50 years)	26,395	25,645
on short-term lease (less than 10 years)	1,458	1,527
	27,872	27,190
	28,112	27,398

As at 30 June 2014, the net book value of aircraft and vessel leased out by the Group under operating lease arrangements was RMB10,514 million (31 December 2013: RMB7,018 million).

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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23 OTHER ASSETS

Group	As at 30 June 2014	As at 31 December 2013
Interest receivable	33,447	29,809
Settlement accounts	17,918	17,788
Other receivables	28,288	3,754
Less: impairment allowance ^(e)	(569)	(531)
Land use rights ^(a)	697	691
Leasehold improvement	546	619
Intangible assets ^(b)	922	770
Foreclosed assets	251	192
Rental deposits	211	236
Goodwill ^(f)	322	322
Investment properties ^(c)	196	194
Finance lease receivables ^(d)	99,073	88,254
Less: impairment allowance ^(e)	(1,583)	(1,406)
Others	1,004	4,546
	180,723	145,238

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

Group	As at 30 June 2014	As at 31 December 2013
Held outside Hong Kong		
on medium-term lease (10–50 years)	689	675
on short-term lease (less than 10 years)	8	16
	697	691

- (b) Intangible assets

Group	Software
Cost	
As at 1 January 2014	2,109
Additions	280
Disposals	—
As at 30 June 2014	2,389
Accumulated amortisation	
As at 1 January 2014	(1,339)
Amortisation expense	(128)
Disposals	—
As at 30 June 2014	(1,467)
Carrying amounts	922

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

23 OTHER ASSETS (Continued)

(b) Intangible assets (Continued)

Group	Software
Cost	
As at 1 January 2013	1,867
Additions	243
Disposals	(1)
As at 31 December 2013	2,109
Accumulated amortisation	
As at 1 January 2013	(1,093)
Amortisation expense	(247)
Disposals	1
As at 31 December 2013	(1,339)
Carrying amounts	770

(c) Investment properties

Group	Six months ended 30 June 2014	Year ended 31 December 2013
Balance at the beginning of the Period	194	182
Transfer to owner-occupied property	—	—
Gains on property revaluation	—	18
Effect of foreign currency exchange difference	2	(6)
Balance at the end of the period	196	194

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

Investment properties are held by Hong Kong Branch. The valuation of these investment properties as at 30 June 2014 were performed by RHL Appraisal Limited, independent qualified professional valuers not connected to the Group, based on open market price. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the period.

As at 30 June 2014, fair value hierarchies of the investment properties of the Group are as follows:

	Level 1	Level 2	Level 3	Fair value as at 30 June 2014
Commercial property units located in Hong Kong	—	196	—	196

There were no transfers between Level 1 and 2 during the period.

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

Group	As at 30 June 2014	As at 31 December 2013
Held in Hong Kong		
on long-term lease (over 50 years)	56	55
on medium-term lease (10–50 years)	140	139
	196	194

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

23 OTHER ASSETS (Continued)

(d) Finance lease receivables

Group	As at 30 June 2014	As at 31 December 2013
Minimum finance lease receivables		
Within 1 year (inclusive)	27,840	25,868
1 year to 5 years (inclusive)	74,369	64,779
Over 5 years	13,427	11,134
	115,636	101,781
Gross investment in finance leases	115,636	101,781
Unearned finance income	(16,563)	(13,527)
Net investment in finance leases	99,073	88,254
The net investment in finance leases is analysed as follows:		
Within 1 year (inclusive)	22,294	21,908
1 year to 5 years (inclusive)	64,602	56,198
Over 5 years	12,177	10,148
	99,073	88,254
The allowance for uncollectible finance lease receivable	(1,583)	(1,406)
Net finance lease receivables	97,490	86,848

(e) Impairment allowance

Group	As at 1 January 2014	Amounts accrued	Reversal	Write-off	As at 30 June 2014
Other receivables	(531)	(55)	2	15	(569)
Finance lease receivables	(1,406)	(177)	—	—	(1,583)
Total	(1,937)	(232)	2	15	(2,152)

Group	As at 1 January 2013	Amounts accrued	Reversal	Write-off	As at 31 December 2013
Other receivables	(539)	(32)	—	40	(531)
Finance lease receivables	(829)	(577)	—	—	(1,406)
Total	(1,368)	(609)	—	40	(1,937)

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

23 OTHER ASSETS (Continued)

(f) Goodwill

Group	As at 1 January 2014	Addition during the year	Decrease during the year	As at 30 June 2014	Impairment allowance
Bank of Communications International Trust Co., LTD.	200	—	—	200	—
BoComm Life Insurance Company Limited	122	—	—	122	—
Total	322	—	—	322	—

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

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

24 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Group	As at 30 June 2014	As at 31 December 2013
Loans from central banks	7,558	5,871
Deposits from other banks	319,386	248,541
Deposits from other financial institutions	506,545	507,567
Loans from banks and other financial institutions	233,253	209,216
Financial instruments sold under repurchase agreements	86,511	155,368
Total	1,153,253	1,126,563

25 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Group	As at 30 June 2014	As at 31 December 2013
Derivative financial instruments (Note 19)	7,410	16,675
Short position of securities held for trading	1,192	1,164
Certificates of deposit issued	9,868	10,801
Total	18,470	28,640

Except for certificates of deposit issued which are designated as at fair value through profit or loss, the financial liabilities at fair value through profit or loss include financial liabilities held for trading and derivatives designated and effective as hedging instruments.

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

25 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

Financial liabilities designated as at fair value through profit or loss

Group	As at 30 June 2014	As at 31 December 2013
Difference between carrying amount and maturity amount		
— Fair value	9,868	10,801
— Amount payable at maturity	9,824	10,750
Total	44	51

For the six months ended 30 June 2014 and year ended 31 December 2013, there were no significant changes in the fair value of the Group's financial liabilities designated as at fair value through profit or loss that were attributable to the changes in credit risk.

26 DUE TO CUSTOMERS

Group	As at 30 June 2014	As at 31 December 2013
Corporate demand deposits	1,334,538	1,382,914
Corporate fixed-term deposits	1,643,038	1,418,855
Individual demand deposits	562,352	491,353
Individual fixed-term deposits	830,624	859,603
Other deposits	5,368	5,108
	4,375,920	4,157,833
Including:		
— Pledged deposits held as collateral	628,127	594,655

27 CERTIFICATES OF DEPOSIT ISSUED

Certificates of deposit were issued by branches of the Bank in Frankfurt, Hong Kong, New York, Singapore, and Sydney.

28 OTHER LIABILITIES

Group	As at 30 June 2014	As at 31 December 2013
Interest payable	66,458	59,812
Settlement accounts	30,315	17,178
Staff compensation payable	3,692	5,673
Business and other tax payable	3,384	3,604
Insurance contracts reserve	4,580	2,649
Deposits received for finance leases	7,103	6,288
Provision for outstanding litigation ^(a)	328	378
Provision for unsettled obligation ^(a)	89	89
Dividends payable	19,374	66
Others	23,760	17,698
Total	159,083	113,435

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

28 OTHER LIABILITIES (Continued)

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

Group	As at 1 January 2014	Amounts accrued during the year	Amounts reversed during the year	Amounts paid during the year	As at 30 June 2014
Provision for outstanding litigation	378	42	(92)	—	328
Provision for unsettled obligation	89	—	—	—	89
	467	42	(92)	—	417

Group	As at 1 January 2013	Amounts accrued during the year	Amounts reversed during the year	Amounts paid during the year	As at 31 December 2013
Provision for outstanding litigation	389	63	(74)	—	378
Provision for unsettled obligation	92	—	(3)	—	89
	481	63	(77)	—	467

29 DEFERRED INCOME TAX

Deferred income taxes are calculated on all temporary differences using an effective tax rate of 25% for the six months ended 30 June 2014 (for the six months ended 30 June 2013: 25%) for transactions in PRC. Deferred income taxes are calculated on all temporary differences using an effective tax rate of 16.5% (for the six months ended 30 June 2013: 16.5%) for transactions in Hong Kong.

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

Group	Six months ended 30 June	
	2014	2013
Balance at the beginning of the period	17,206	12,496
Charge to profit or loss	(1,739)	704
Charge to other comprehensive income		
Change in fair value of available-for-sale financial assets — unhedged	(1,069)	(29)
Actuarial changes on pension benefits	2	(1)
Balance at the end of the period	14,400	13,170

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

29 DEFERRED INCOME TAX (Continued)

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

Group	As at 30 June 2014	As at 31 December 2013
Deferred income tax liabilities		
Change in fair value of available-for-sale financial assets	(122)	(36)
Other temporary differences	(554)	(70)
	(676)	(106)
Deferred income tax assets		
Impairment allowances for loans	12,313	12,412
Impairment allowances for investments	308	310
Impairment allowances for other assets	175	232
Unpaid salaries and bonuses	532	942
Retirement supplementary pension payable	119	121
Outstanding litigation and unsettled obligation	104	117
Change in fair value of available-for-sale financial assets	785	1,763
Other temporary differences	740	1,415
	15,076	17,312
Net deferred income tax assets	14,400	17,206

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

Group	As at 30 June 2014	As at 31 December 2013
Deferred income tax assets	14,409	17,224
Deferred income tax liabilities	(9)	(18)

The deferred tax credit to profit or loss comprises the following temporary differences:

Group	Six months ended 30 June 2014	2013
Impairment allowances for loans:		
Additional impairment allowances for loans	167	1,460
Prior year written-off amounts which are approved to be deductible in current year	(266)	(158)
Sub-total	(99)	1,302
Impairment allowances for investments	(2)	(30)
Impairment allowances for other assets	(57)	(15)
Outstanding litigation and unsettled obligation	(13)	3
Unpaid salaries and bonuses	(410)	(570)
Retirement supplementary pension payable	(4)	(23)
Other temporary differences	(1,154)	37
	(1,739)	704

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

30 RETIREMENT BENEFIT OBLIGATIONS

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees' basic salary for the period. The Group currently has no additional significant cost for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. The Group's contributions to these pension plans are charged to the unaudited condensed consolidated statement of profit or loss and other comprehensive income in the period to which they relate.

The Group pays supplementary retirement benefits to employees in Mainland China, who retired before 31 December 2008. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits, which are estimated by using key parameters such as inflation rate and mortality ratio, are discounted to their present values. The discount rate is the yield on government bonds at the end of reporting date, the maturity dates of which approximate to the terms of the Group's obligations. Actuarial gains and losses and changes in actuarial assumptions are recognised in other comprehensive income, and amendments to pension plan are recognised in profit or loss in the period of a plan amendment. The amounts recognised in the statement of financial position represent the present value of unfunded obligations.

Employees who retire after 1 January 2009 can voluntarily participate in an Annuity Plan. The Bank contributes to the Annuity Plan based on certain percentage of the employees' gross salary and recognised in profit or loss as incurred.

Retirement benefit obligations of the Group in locations other than Mainland China, which are immaterial to the Group, are made in accordance with the relevant local policies and regulations.

The amounts recognised in profit or loss is as follows:

Group	Six months ended 30 June	
	2014	2013
Expenses incurred for retirement benefit plans	1,312	787
Expenses reversed for supplementary retirement benefits	(15)	(33)
Expenses incurred for corporate annuity plan	264	265
Total	1,561	1,019

	As at 30 June 2014	As at 31 December 2013
Statement of financial position obligations for — pension benefits	474	483

Amounts recognised in comprehensive income in respect of the supplementary retirement benefits are as follows:

Group	Six months ended 30 June	
	2014	2013
Components of defined benefit costs recognised in profit or loss	(15)	(33)
Components of defined benefit costs recognised in other comprehensive income	6	(18)
Total	(9)	(51)

The supplementary retirement benefits plan exposes the Group to actuarial risks such as interest risk, longevity risk and inflation risk. A decrease in the government bond yield will increase the present value of unfunded obligations. The present value of unfunded obligations is calculated by reference to the best estimate of the mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability. The present value of unfunded obligations is also measured by future payment standards, which are determined by inflation rate. Hence, an increase in inflation rate will increase the present value of the unfunded obligations.

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

30 RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

The principle actuarial assumptions regarding interest risk and inflation risk used by the Group are discount rate and inflation rate, which were 4.39% and 2.25% respectively as at 30 June 2014. In the meantime, assumptions regarding future mortality rate are set based on published statistics by China Insurance Regulatory Commission. As at 30 June 2014, an average longevity of a pensioner retiring at age 60 for male is 22.20 years while a pensioner retiring at age 55 for female is 29.52 years.

The average duration of the supplementary retirement benefits plan at 30 June 2014 is 15.44 years (2013: 15.84 years).

The Group expects to make a contribution of RMB39 million (2013: RMB39 million) to the supplementary retirement benefits plan during the next financial year.

31 DEBT SECURITIES ISSUED

Details of the Group's subordinated debts and other debts issued

Group	As at 30 June 2014	As at 31 December 2013
Fixed rate subordinated bond — 2022 ^(a)	16,000	16,000
Fixed rate subordinated bond — 2019 ^(b)	11,500	11,500
Fixed rate subordinated bond — 2024 ^(b)	13,500	13,500
Fixed rate subordinated bond — 2026 ^(c)	26,000	26,000
Fixed rate bond — 2014 ^(d)	—	700
Fixed rate bond — 2015 ^(d)	300	300
Fixed rate bond — 2023 ^(e)	3,070	3,038
Fixed rate bond — 2018 ^(f)	10,000	10,000
Fixed rate bond — 2016 ^(g)	800	800
Fixed rate bond — 2018 ^(g)	400	400
Fixed rate bond — 2017 ^(h)	4,307	—
Fixed rate bond — 2017 ⁽ⁱ⁾	200	—
Fixed rate bond — 2021 ^(j)	396	—
Fixed rate bond — 2016 ^(k)	1,500	—
Fixed rate bond — 2019 ^(l)	278	—
Fixed rate bond — 2019 ^(m)	3,070	—
Fixed rate bond — 2017 ⁽ⁿ⁾	2,057	—
Fixed rate bond — 2017 ^(o)	1,000	—
Fixed rate bond — 2019 ^(o)	500	—
Fixed rate bond — 2021 ^(o)	500	—
	95,378	82,238

During the six months ended 30 June 2014 and year ended 31 December 2013, the Group did not default on principal, interest or redemption amounts with respect to its debt securities issued.

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

The first type of this subordinated bond is, in principal, amounting to RMB16 billion with a maturity of 15 years and a fixed coupon rate of 4.13% for the first ten years, payable annually. The Group has an option to redeem these bonds at face value on 8 March 2017. If the Group does not exercise this option, the bonds would bear interest at a fixed rate of the original coupon rate plus 3% for the remaining five years.

The second type of the subordinated bond was, in principal, amounting to RMB9 billion with a maturity of 10 years, payable annually. The Group has an option to redeem the bonds at face value on 8 March 2012. On 8 March 2012, the Group exercised the redemption option and redeemed the principal amount of RMB9 billions of this type of subordinated bonds.

31 DEBT SECURITIES ISSUED (Continued)

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

- (b) The Group issued subordinated bonds amounting to RMB25 billion on 1 July 2009 in China's inter-bank bond market:
- The first type of subordinated bond, which was, in principal, amounting to RMB11.50 billion with a maturity of 10 years and a fixed coupon rate of 3.28% for the first five years, payable annually. The Group has an option to redeem these bonds at face value on 3 July 2014. If the Group does not exercise this option, these bonds would bear interest at a fixed rate of the original coupon rate plus 3% for the remaining five years.
- The second type of subordinated bond, which was, in principal, amounting to RMB13.50 billion with a maturity of 15 years and a fixed coupon rate of 4% for the first ten years, payable annually. The Group has an option to redeem these debts at face value on 3 July 2019. If the Group does not exercise this option, these bonds would bear interest at a fixed rate of the original coupon rate plus 3% for the remaining five years.
- (c) On 21 October 2011, the Group issued subordinated bonds in China's inter-bank bond market, which was, in principal, amounting to RMB26 billion with a maturity of 15 years and a fixed coupon rate of 5.75%, payable annually. The Group has an option to redeem these debts at face value on 24 October 2021.
- (d) The Group issued term bonds amounting to RMB1 billion on 8 March 2012 in Hong Kong. The first type of term bond, which was, in principal, amounting to RMB0.7 billion with a maturity of 2 years and a fixed coupon rate of 2.98%. The second type of term bond, which was, in principal, amounting to RMB0.3 billion with a maturity of 3 years and a fixed coupon rate of 3.10%.
- (e) On 6 March 2013, Azure Orbit International Finance Limited, a subsidiary of the Group issued term debts in Hong Kong, which was, in principal, amounting to USD0.5 billion with a maturity of 10 years and bears a fixed coupon rate of 3.75%, payable semi-annually. The issue price of the bonds was 99.678% of the face value. The term bonds are guaranteed by the Bank's Hong Kong Branch. These bonds could be redeemed prior the maturity date under certain circumstances. These bonds were listed in Hong Kong Stock Exchange on 7 March 2013.
- (f) The Group issued term bonds on 26 July 2013 in China's inter-bank bond market, which was, in principal, amounting to RMB10 billion with a maturity of 5 years and bears a fixed coupon rate of 4.37%, payable annually.
- (g) The Group issued term bonds amounting to RMB1.2 billion on 10 December 2013 in Taiwan, of which, RMB800 million with a maturity of 3 years and RMB0.4 billion with a maturity of 5 years. The fixed coupon rates for those bonds are 3.40% and 3.70%, respectively.
- (h) On 15 January 2014, the Bank's Hong Kong Branch issued medium-term bank notes amounting to USD0.7 billion with a maturity of 3 years which have a fixed coupon rate of 2.125%, payable semi-annually. The issued medium-term bank notes were listed on the Hong Kong Stock Exchange on 16 January 2014.
- (i) On 17 January 2014, Bank of Communication Financial Leasing Co., Ltd., a subsidiary of the Group issued a RMB0.2 billion term bonds with a maturity of 3 years. The term bonds will be matured on 17 January 2017 with a fixed coupon rate of 6.1%, payable annually.
- (j) On 14 February 2014, the Bank's Hong Kong Branch issued a HKD0.5 billion term bonds with a maturity of 7 years by private placement. The term debts have a fixed coupon rate of 4.00%, payable semi-annually, starting from 24 February 2014.
- (k) On 21 March 2014, the Group issued RMB1.5 billion bank notes with a maturity of 2 years. The bank notes have a fixed coupon rate of 3.3%, payable semi-annually. The bonds were listed on the Hong Kong Stock Exchange on 21 March 2014.
- (l) On 2 April 2014, the Bank's Hong Kong Branch issued fixed-rate bonds, which has a face value of HKD0.35 billion, by private placement, with a maturity of 5 years and a fixed coupon rate of 3.20%, payable quarterly.
- (m) On 25 April 2014, Azure Orbit II International Finance Limited, a subsidiary of the Group issued fixed-rate bank notes amounting to USD0.5 billion with a maturity of 5 years and a fixed coupon rate of 3.375%, payable semi-annually. The bank notes are guaranteed by the Bank's Macao Branch and the issue price is 99.941% of the face value. The notes were listed on the Hong Kong Stock Exchange on 28 April 2014.

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

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31 DEBT SECURITIES ISSUED (Continued)

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

- (n) On 26 June 2014, the Bank's Hong Kong Branch issued bonds amounting to SF0.3 billion with a coupon rate of 0.875%, payable annually.
- (o) On 23 June 2014, the Bank's Hong Kong Branch issued renminbi Formosa bond amounting RMB2 billion to Taiwan institutional investors, of which interests are payable annually. The Bank's Hong Kong Branch and HSBC Bank (Taiwan) Limited acted as global coordinators in this transaction. This transaction comprised of RMB1 billion bonds with a maturity of 3 years, RMB500 million bonds with a maturity of 5 years and RMB500 million bonds with a maturity of 7 years. The fixed coupon rates of the above bonds are 3.45%, 3.85% and 4.15%, respectively.

32 SHARE CAPITAL AND CAPITAL SURPLUS

Group	Number of shares (in millions)	Ordinary shares of RMB1 each (RMB million)	Capital surplus (RMB million)	Total (RMB million)
As at 1 January 2014	74,263	74,263	113,383	187,646
As at 30 June 2014	74,263	74,363	113,383	187,746

Group	Number of shares (in millions)	Ordinary shares of RMB1 each (RMB million)	Capital surplus (RMB million)	Total (RMB million)
As at 1 January 2013	74,263	74,263	113,383	187,646
As at 31 December 2013	74,263	74,263	113,383	187,646

The shareholding structure of the Bank's as at 30 June 2014 and 31 December 2013 are as follows:

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

As at 30 June 2014 and 31 December 2013, the Group capital surplus is listed as follows:

Group	As at 30 June 2014	As at 31 December 2013
Share premium	112,769	112,769
Property revaluation gain designated by MOF	472	472
Donation of Non-cash assets	145	145
Acquisition of Non-controlling interests	(29)	(29)
Others	26	26
Total	113,383	113,383

33 RESERVES AND RETAINED EARNINGS

Pursuant to the relevant PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the Directors and are subject to the resolutions to be passed at the General Meeting.

Pursuant to the relevant PRC regulations, the Bank is required to appropriate 10% of its net profit for the year (Note 34) to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Pursuant to “Administrative Measures for the Provisioning of Financial Enterprises” (Cai Jin [2012] No. 20), the Bank is required to transfer a certain amount of its net income to the statutory general reserve through its profit appropriation. It is determined based on the overall unidentified loss exposure; normally no lower than 1.5% of the ending balance of risk assets, with permission for gradual achievement within 5 years, starting from the year of 2012. The statutory general reserve is an integral part of equity interest but not subject to dividend distribution. Such statutory general reserve is recognised in the statement of financial position upon approval by the shareholders at the Annual General Meeting. Regulatory reserve of the Hong Kong branch required by the Hong Kong Monetary Authority is also included in above statutory general reserve.

In accordance with the relevant PRC legislation, after the statutory reserve has been transferred from the net distributable profit of the Bank, discretionary reserve is recognised upon approval by the shareholders at the General Meeting.

The appropriation of profits to the Bank’s discretionary surplus reserve was proposed by the Board and approved by the shareholders in general meetings. Subject to the approval by the shareholders, the discretionary surplus reserve may be used to offset accumulated losses of the Bank, if any, and may be converted into capital.

On 25 June 2014, the shareholders at the 2013 Annual General Meeting approved the following profit appropriation of 2013:

	Amount arising from the prior year
Statutory reserve	6,017
Statutory general reserve	8,111
Discretionary reserve	26,732
	40,860

34 DIVIDENDS

	Six months ended 30 June	
	2014	2013
Stocks and cash dividends paid to shareholders of the Bank in the year	19,308	17,823

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:

- (1) Making up cumulative losses from prior years, if any;
- (2) Allocations to the Non-distributable statutory reserve of 10% of the net profit of the Bank as determined under the relevant PRC accounting standards;
- (3) Allocations to statutory general reserve;
- (4) Allocations to the discretionary reserve if approved by the Annual General Meeting. These funds form part of the shareholders’ equity.

The cash dividends are recognised in the 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.

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35 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 its customers:

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

Capital expenditure commitments

Group	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
	3,178	3,034

Operating lease commitments

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

Group	As at 30 June 2014	As at 31 December 2013
Within 1 year	1,717	1,907
Beyond 1 year but no more than 2 years	1,726	1,523
Beyond 2 years but no more than 3 years	1,266	1,249
Beyond 3 years but no more than 5 years	1,691	1,828
More than 5 years	1,479	1,231
	7,879	7,738

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

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

Operating lease commitments (Continued)

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:

Group	As at 30 June 2014	As at 31 December 2013
Within 1 year	1,135	765
Beyond 1 year but no more than 2 years	1,138	765
Beyond 2 years but no more than 3 years	1,138	765
Beyond 3 years but no more than 5 years	2,235	1,503
More than 5 years	4,524	2,940
	10,170	6,738

Commitments on security underwriting and bond acceptance

The Bank is entrusted by the MOF to underwrite certain Certificates-type Treasury Bonds and Saving-type Treasury Bonds. The investors of Certificates Type Treasury Bonds and Saving Type Treasury Bonds have early redemption rights 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. Provision for litigation losses as advised by in-house or external legal professionals is disclosed in Note 28. The total outstanding claims against the Group (defendant) by a number of third parties at the end of the years are summarised as follows:

Group	As at 30 June 2014	As at 31 December 2013
Outstanding claims	1,026	1,153
Provision for outstanding litigation (Note 28)	328	378

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

36 COLLATERALS

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

Group	Pledged Assets		Related Liabilities	
	As at 30 June 2014	As at 31 December 2013	As at 30 June 2014	As at 31 December 2013
Trading securities	11,422	5,694	10,884	4,806
Investment securities	62,308	161,602	60,196	151,726
	73,730	167,296	71,080	156,532

The Group accepts collaterals under reverse repurchase agreements, which are permitted for sale or re-pledge. As at 30 June 2014, the fair value of such collaterals amounted to RMB2,092 million (31 December 2013: RMB1,870 million). All pledges are conducted under standard and normal business terms. As at 30 June 2014 and 31 December 2013, the Group did not sell or re-pledge any received collaterals.

37 OTHER COMPREHENSIVE INCOME/(LOSS)

Group	Six months ended 30 June 2014		
	Before tax amount	Tax benefit (expense)	Net of tax amount
Other comprehensive income			
Investment securities — available-for-sale	4,385	(1,097)	3,288
Changes in fair value recorded in equity	4,517	(1,129)	3,388
Changes in fair value reclassified from equity to profit or loss	(132)	32	(100)
Translation difference on foreign operations	191	—	191
Actuarial gains on pension benefits	(6)	2	(4)
Other comprehensive income for the period	4,570	(1,095)	3,475

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

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

38 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Analysis of the balance of cash and cash equivalents

For the purposes of the consolidated statements of cash flows, cash and cash equivalents comprise the following balances with original maturities of less than or equal to 90 days used for the purpose of meeting short-term cash commitments:

	As at 30 June 2014	As at 30 June 2013
Cash and balances with central banks (Note 16)	159,403	148,168
Due from banks and other financial institutions (Note 17)	93,993	102,802
	253,396	250,970

39 INVESTMENT IN AN ASSOCIATE

Group	As at 30 June 2013	As at 31 December 2013
Investment cost	300	300
Share of post-acquisition profit	99	44
Investment in an associate	399	344

The Group's investment in an associate is Bank of Tibet Co., Ltd., which was registered in Tibet of the PRC and established at 30 December 2011. The registered capital of the entity is RMB1,500 million, and the principal activities of the entity are banking activities. The Group held 20% of equity interest in this associate as at 30 June 2014 (31 December 2013: 20%).

40 TRANSFERS OF FINANCIAL ASSETS

40.1 Financial assets sold under repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Group does not have the ability to use during the term of the arrangements, are not derecognised from the financial statements but regarded as "collateral" for the secured lending from these because the Group retains substantially all the risks and rewards of these securities. In addition, it recognises a financial liability for cash received. For all these arrangements, the counterparties have recourse not only to the transferred financial assets.

As at 30 June 2014 and 31 December 2013, the Group enters into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as "financial instruments sold under repurchase agreements" (Note 24).

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

40 TRANSFERS OF FINANCIAL ASSETS (Continued)

40.1 Financial assets sold under repurchase agreements (Continued)

The following table provides a summary of carrying amounts related to transferred financial assets that are not derecognised and associated liabilities:

As at 30 June 2014	Financial assets at fair value through profit or loss	Investment securities — available-for-sale	Investment securities — held-to-maturity
Carrying amount of transferred assets	11,257	26,281	51,084
Carrying amount of associated liabilities	11,092	24,547	50,872

As at 31 December 2013	Financial assets at fair value through profit or loss	Investment securities — available-for-sale	Investment securities — held-to-maturity
Carrying amount of transferred assets	3,865	24,392	136,738
Carrying amount of associated liabilities	3,642	22,669	129,057

40.2 Asset securitisation

The Bank enters into securitisation transactions in the normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors.

In November 2012, the Bank transferred a pool of credit assets portfolio recognised as loans and advances to customers with a carrying amount of RMB3,034 million into a structured entity named as “The First Phase of 2012 Bank of Communications Credit Asset-backed Securitisation Trust”, which was set up by Zhonghai Trust Co., Ltd as the trustee. The structured entity issued certain credit asset-backed securities. The Bank obtained cash and subordinated tranche notes amount to RMB164 million issued by the structured entity in exchange. No gain or loss was recognised as the selling price equaled to the carrying amount of the assets transferred. Although the Bank does not own more than half of the voting power, the structured entity is part of the Group due to the Bank’s 62% holding of the subordinated tranche notes issued by it.

The structured entity transferred some credit risk, prepayment and interest rate risk on the transferred credit assets to other investors while the Group retained some credit risk through holding the subordinated tranche notes. The terms of the transfer agreement prevented the structured entity from selling or transferring those loans unless default occurred on the credit assets and thus the Group has retained control of the transferred loans. As the Group neither transfers nor retains substantially all the risks and rewards of ownership of the transferred loans and it has retained control of them, it continues to recognise the transferred credit assets to the extent of its continuing involvement in them. As at 30 June 2014 and 31 December 2013, the carrying amount of the continuing involvement asset that the Group recognises in respect of its continuing involvement is RMB134 million and the carrying amount of the associated continuing involvement liabilities is RMB134 million.

When the Bank transfers credit assets as part of the securitisation transaction, it does not have the ability to use the transferred credit assets during the term of the arrangement. By setting up the structured entity, the credit assets securitised are isolated from other assets held by the Bank. As per contract for the first phase of 2012 Bank of Communications Credit Asset-backed Securitisation, the credit assets securitised are not part of liquidate assets when the Group is legally dissolved, revoked or declared bankrupt.

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

41 RELATED PARTY TRANSACTIONS

(a) Transactions with the MOF

As at 30 June 2014, the MOF holds 19,703 million (31 December 2013: 19,703 million) shares in the Bank, which represents 26.53% (31 December 2013: 26.53%) of total share capital of the Bank. The Group enters into banking transactions with the MOF under normal course of business and they mainly include the purchase and redemption of investment securities issued by the MOF and the deposits from the MOF.

The volumes and outstanding balances of the related party transactions at the year end, and related income and expenses for the years are summarised as follows:

(1) Treasury bonds issued by the MOF

	Six months ended 30 June	
	2014	2013
Purchase during the period	76,490	93,600
Redemption during the period	(80,835)	(77,035)
Interest income	4,548	4,926

	As at 30 June 2014	As at 31 December 2013
Outstanding balance of treasury bonds at the beginning of the period/year	273,357	253,502
Outstanding balance of treasury bonds at the end of the period/year	267,462	273,357
Maturity range of the bonds	9 months–50 years	1 year–50 years
Interest rate range of the bonds	2.38%–6.15%	1.43%–6.15%

(2) Deposits

	As at 30 June 2014	As at 31 December 2013
Fixed-term deposits	32,549	11,746
Maturity range of fixed-term deposits	3 months–60 months	3 months–6 months
Interest rate range of fixed-term deposits	2.85%-5.225%	2.86%-6.30%

(3) Interest expense

	Six months ended 30 June	
	2014	2013
Interest expense	524	722

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

41 RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with National Council for Social Security Fund

As at 30 June 2014, National Council for Social Security Fund holds 10,311 million (31 December 2013: 10,311 million) shares in the Bank, which represents 13.88% (31 December 2013: 13.88%) of total share capital of the Bank. The Group enters into transactions with National Council for Social Security Fund under normal course of business and they mainly include deposits which are carried out under normal commercial terms and paid at market rates.

The volumes and outstanding balances at the year end, and related interest expenses for the years are summarised as follows:

Deposits

	Six months ended 30 June	
	2014	2013
Outstanding balance at the beginning of the period	58,600	42,100
Deposited during the period	7,340	10,432
Repaid during the period	(6,540)	(9,432)
Outstanding balance at the end of the period	59,400	43,100
Interest expense	1,491	1,003

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

As at 30 June 2014, HSBC holds 13,886 million (31 December 2013: 13,886 million) shares in the Bank, which represents 18.70% (31 December 2013: 18.70%) of total share capital of the Bank. Transactions between the Group and HSBC are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

(1) Due from HSBC

	Six months ended 30 June	
	2014	2013
Outstanding at the beginning of the period	478	2,865
Granted during the period	352,128	91,970
Repaid during the period	(352,141)	(92,186)
Outstanding at the end of the period	465	2,649
Interest income	—	20

(2) Due to HSBC

	Six months ended 30 June	
	2014	2013
Outstanding at the beginning of the period	25,162	16,769
Deposited during the period	18,915	17,081
Repaid during the period	(22,534)	(19,154)
Outstanding at the end of the period	21,543	14,696
Interest expense	123	97

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

41 RELATED PARTY TRANSACTIONS (Continued)

(c) Transactions with The Hongkong and Shanghai Banking Corporation Limited (“HSBC”) (Continued)

(3) Investment securities issued by HSBC

	Six months ended 30 June	
	2014	2013
Interest income	19	20

	As at 30 June 2014	As at 31 December 2013
Outstanding balance	1,228	1,326

(4) Derivative transactions

	As at 30 June 2014	As at 31 December 2013
Notional amount of derivative transactions	110,433	106,650
Fair value of derivative transactions	(128)	(404)

(d) Transactions with directors and senior management

The Group enters into transactions with directors and senior management under the normal course of business and they mainly include loans and deposits, which are carried out under commercial terms and paid at market rates. The volumes during and outstanding balances six months ended 30 June 2014 and 2013 are summarised as follows:

(1) Loans

	Six months ended 30 June	
	2014	2013
Outstanding at the beginning of the period	—	2
Granted during the period	—	1
Repayment during the period	—	(2)
Outstanding at the end of the period	—	1

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

(2) Deposits

	Six months ended 30 June	
	2014	2013
Outstanding at the beginning of the period	6	9
Deposited during the period	2	2
Repaid during the period	(4)	(5)
Outstanding at the end of the period	4	6

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

41 RELATED PARTY TRANSACTIONS (Continued)

(e) Transactions with associate

As at 30 June 2014, The Group holds 20% (31 December 2013: 20%) of total share capital of Bank of Tibet Co., Ltd. Transactions between the Group and Bank of Tibet Co., Ltd. are carried out under normal commercial terms and paid at market rates. Details of transaction volumes and outstanding balances are summarised below:

(1) Due to Bank of Tibet Co., Ltd.

	Six months ended 30 June	
	2014	2013
Outstanding at the beginning of the period	3,075	—
Deposited during the period	—	2,251
Repaid during the period	(501)	—
Outstanding at the end of the period	2,574	2,251
Interest expense	66	14

(f) Transactions with state-owned entities in PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the Government through its authorities, affiliates or other organizations (collectively the “state-owned entities”). During the period, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, lending and deposit taking, taking and placing of interbank balances, entrusted lending and the provision of intermediary services, the sale, purchase, underwriting and redemption of bonds issued by other state-owned entities, and the sale, purchase, and leasing of properties and other assets.

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

42 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 services. The Group’s operating segments are decided upon location of the assets, as the Group’s branches mainly serve local customers.

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

- (1) Northern China — Including the following provinces: Beijing, Tianjin, Hebei, Shanxi, and Inner Mongolia;
- (2) North Eastern China — Including the following provinces: Liaoning, Jilin, and Heilongjiang;
- (3) Eastern China — Including the following provinces: Shanghai (excluding Head Office), Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;
- (4) Central and Southern China — Including the following provinces: Henan, Hunan, Hubei, Guangdong, Guangxi, and Hainan;
- (5) Western China — Including the following provinces: Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang;
- (6) Head Office;
- (7) Overseas — Including overseas subsidiaries and the following branches: Hong Kong, New York, Singapore, Seoul, Tokyo, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, London and Taipei.

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

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

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

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

42 SEGMENTAL ANALYSIS (Continued)

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

Group	Six months ended 30 June 2014								Group Total
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Head Office	Overseas	Eliminations	
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 income³	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/(losses) arising from trading activities	262	26	493	181	133	1,973	342	—	3,410
Net gains/(losses) arising from de-recognition of investment securities	—	—	41	71	—	6	12	—	130
Insurance business income	—	—	2,124	—	—	—	19	—	2,143
Share of profit of an associate	—	—	—	—	—	55	—	—	55
Other operating income	347	100	833	398	197	217	105	—	2,197
Total operating revenue	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 year	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 income	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 expense	(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 interest income	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	—	—
Group	As at ended 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)

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

42 SEGMENTAL ANALYSIS (Continued)

Operating segment information (Continued)

Group	Six months ended 30 June 2013								Group Total
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Head Office	Overseas	Eliminations	
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 income³	9,194	2,967	22,312	11,160	6,198	10,328	2,849	—	65,008
Fee and commission income	1,389	436	5,796	3,409	1,308	2,491	720	—	15,549
Fee and commission expense	(314)	(47)	(646)	(306)	(135)	(129)	(77)	—	(1,654)
Net fee and commission income	1,075	389	5,150	3,103	1,173	2,362	643	—	13,895
Dividend income	—	—	—	—	—	59	2	—	61
Net gains/(losses) arising from trading activities	58	40	12	77	1	(117)	90	—	161
Net gains/(losses) arising from de-recognition of investment securities	—	—	14	—	—	(18)	101	—	97
Insurance business income	—	—	669	—	—	—	19	—	688
Share of profit of an associate	—	—	—	—	—	8	—	—	8
Other operating income	842	298	1,940	1,169	537	113	127	—	5,026
Total operating revenue	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 year	4,545	1,242	10,207	6,445	3,699	6,843	1,937	—	34,918
Depreciation and amortisation	(315)	(168)	(885)	(399)	(249)	(392)	(37)	—	(2,445)
Acquisition cost of property and equipment and intangible assets	(286)	(150)	(1,737)	(2,370)	(399)	(898)	(79)	—	(5,919)
¹ Include									
External interest income	16,392	5,076	39,052	19,049	9,748	31,529	4,243	—	125,089
Inter-segment interest income	18,278	4,701	29,566	16,904	7,424	1,760	853	(79,486)	—
² Include									
External interest income	(13,599)	(3,264)	(21,687)	(11,527)	(4,272)	(3,715)	(2,017)	—	(60,081)
Inter-segment interest income	(11,877)	(3,546)	(24,619)	(13,266)	(6,702)	(19,246)	(230)	79,486	—
³ Include									
External net interest income	2,793	1,812	17,365	7,522	5,476	27,814	2,226	—	65,008
Inter-segment net interest income/(expense)	6,401	1,155	4,947	3,638	722	(17,486)	623	—	—
Group	As at ended 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)

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

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

42 SEGMENTAL ANALYSIS (Continued)

Geographical information

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

(a) 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.

The group's business segment information is summarised below:

Group	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 profit 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
Group	As at 30 June 2014				
Total assets	2,685,513	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)

Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2014

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

42 SEGMENTAL ANALYSIS (Continued)

Business Information (Continued)

Group	Six month ended 30 June 2013				Total
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Businesses	
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 profit 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

Group	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.

43 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

On 17 July 2014, the Bank's Hong Kong Branch issued bonds with face value SGD100 million and 3 years maturity, coupon rate 2.10%, 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 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%.

Unaudited Supplementary Financial Information

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

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Unaudited Supplementary Financial Information (Continued)

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

1 CAPITAL ADEQUACY RATIO

At the end of June, the Group has received approval from the regulators and has implemented the advanced method of capital management for calculating capital adequacy ratio according to Administrative Measures for the Capital of Commercial Banks (Provisional) issued by the CBRC. As at 30 June 2014, the Group and the Bank's capital adequacy ratios according to Administrative Measures for the Capital of Commercial Banks (Provisional) issued by the CBRC are as follows:

Item	As at 30 June 2014	
	Group	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 Ratio	12.75%	12.62%

2 LIQUIDITY RATIOS

The liquidity ratios that the Bank submitted to the Regulators are calculated in accordance with the formula promulgated by CBRC.

Group	As at 30 June 2014	As at 31 December 2013
Liquidity ratios:	55.96%	47.83%

3 CURRENCY CONCENTRATIONS

Group As at 30 June 2014	US dollar	HK dollar	Others	Total
Spot assets	537,046	133,733	39,928	710,707
Spot liabilities	(389,083)	(172,073)	(55,472)	(616,628)
Forward purchases	554,341	72,848	31,837	659,026
Forward sales	(530,442)	(15,043)	(11,813)	(557,298)
Net option position	(1,195)	—	(8)	(1,203)
Net long/(short) position	170,667	19,465	4,472	194,604
Net structural position	14,210	6,093	2,294	22,597

Group As at 31 December 2013	US dollar	HK dollar	Others	Total
Spot assets	453,607	113,078	38,698	605,383
Spot liabilities	(308,945)	(137,014)	(61,671)	(507,630)
Forward purchases	653,941	66,785	487,449	1,208,175
Forward sales	(644,686)	(9,736)	(492,431)	(1,146,853)
Net option position	(1,120)	7	(9)	(1,122)
Net long/(short) position	152,797	33,120	(27,964)	157,953
Net structural position	12,386	7,430	2,225	22,041

Unaudited Supplementary Financial Information (Continued)

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

3 CURRENCY CONCENTRATIONS (Continued)

The net options position is calculated using the model user approach as set out by CBRC. The net structural position of the Group includes the structural positions of the Bank's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

- Investments in fixed assets and premises, net of depreciation charges
- Capital and statutory reserves of overseas branches
- Investments in overseas subsidiaries and related companies; and
- Loan capital.

4 CROSS-BORDER CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as cross-border claims.

Cross-border claims include loans and advances to customers, balances and placements with banks and other financial institutions, trade bills and certificates of deposit and investment securities.

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

	Bank and other financial institutions	Public sector entities	Others	Total
As at 30 June 2014				
Asia Pacific excluding Mainland China	107,548	32,113	259,418	399,079
– of which attributed to Hong Kong	68,814	22,428	193,442	284,684
North and South America	22,196	853	25,249	48,298
Africa	182	–	–	182
Europe	16,540	3,414	4,852	24,806
	146,466	36,380	289,519	472,365

	Bank and other financial institutions	Public sector entities	Others	Total
As at 31 December 2013				
Asia Pacific excluding Mainland China	71,194	28,801	193,370	293,365
– of which attributed to Hong Kong	43,300	25,573	171,346	240,219
North and South America	33,464	945	19,547	53,956
Africa	–	–	5	5
Europe	14,788	3,128	1,276	19,192
	119,446	32,874	214,198	366,518

Unaudited Supplementary Financial Information (Continued)

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

5 OVERDUE AND RESCHEDULED ASSETS

5.1 Gross amount of overdue loans

Group	As at 30 June 2014	As at 31 December 2013
Gross loans and advances to customers which have been overdue for:		
– within 3 months	23,333	14,313
– between 3 and 6 months	9,155	7,284
– between 6 and 12 months	13,040	9,888
– over 12 months	16,986	14,642
	62,514	46,127
Percentage:		
– within 3 months	0.68%	0.44%
– between 3 and 6 months	0.27%	0.22%
– between 6 and 12 months	0.38%	0.30%
– over 12 months	0.49%	0.45%
	1.82%	1.41%

Group	As at 30 June 2014	As at 31 December 2013
Gross amounts for due from banks and other financial institutions:		
– within 3 months	—	—
– between 3 and 6 months	—	—
– between 6 and 12 months	—	—
– over 12 months	—	12
	—	12
Percentage:		
– within 3 months	—	—
– between 3 and 6 months	—	—
– between 6 and 12 months	—	—
– over 12 months	—	0.01%
	—	0.01%

As at 30 June 2014 and 31 December 2013, balances of overdue trade bills which have been included in the gross overdue loans and advances to customers are:

Group	As at 30 June 2014	As at 31 December 2013
– within 3 months	—	8
– between 3 and 6 months	11	—
– between 6 and 12 months	7	4
– over 12 months	28	30
	46	42

Unaudited Supplementary Financial Information (Continued)

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

5 OVERDUE AND RESCHEDULED ASSETS (Continued)

5.2 Overdue and rescheduled loans

Group	As at 30 June 2014	As at 31 December 2013
Total rescheduled loans and advances to customers	1,795	2,255
Including: rescheduled loans and advances to customers overdue above 3 months	817	748
Percentage of rescheduled loans and advances to customers overdue above 3 months in total loans	0.02%	0.02%

6 SEGMENTAL INFORMATION OF LOANS

6.1 Impaired loans by geographical area

Group	As at 30 June 2014		As at 31 December 2013	
	Impaired loans	Allowances for individually assessed impaired loans	Impaired loans	Allowances for individually assessed impaired loans
PRC domestic regions				
– Northern China	2,928	(1,506)	3,019	(1,443)
– North Eastern China	2,305	(1,050)	2,095	(803)
– Eastern China	27,629	(12,895)	23,781	(11,402)
– Central and Southern China	4,274	(1,955)	3,979	(1,691)
– Western China	1,310	(687)	1,183	(644)
	38,446	(18,093)	34,057	(15,983)
Hong Kong, Macau, Taipei and overseas regions	304	(240)	253	(199)
	38,750	(18,333)	34,310	(16,182)

6.2 Overdue loans and advances to customers by geographical area

Group	As at 30 June 2014			As at 31 December 2013		
	Overdue loans	Allowances for individually assessed impaired loans	Allowances for collectively assessed impaired loans	Overdue loans	Allowances for individually assessed impaired loans	Allowances for collectively assessed impaired loans
PRC domestic regions						
– Northern China	6,274	(1,493)	(288)	4,734	(1,409)	(58)
– North Eastern China	3,290	(1,036)	(147)	2,678	(740)	(26)
– Eastern China	39,245	(12,789)	(1,247)	30,072	(11,099)	(256)
– Central and Southern China	10,279	(1,946)	(538)	6,140	(1,637)	(62)
– Western China	2,991	(685)	(106)	2,060	(628)	(21)
	62,079	(17,949)	(2,326)	45,684	(15,513)	(423)
Hong Kong, Macau, Taipei and overseas regions	435	(135)	(35)	443	(196)	–
	62,514	(18,084)	(2,361)	46,127	(15,709)	(423)
Fair value of collaterals	36,719	–	–	4,734	–	–

Unaudited Supplementary Financial Information (Continued)

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

7 LOANS AND ADVANCES TO CUSTOMERS

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

	As at 30 June 2014			As at 31 December 2013		
		%	Amount covered by collaterals		%	Amount covered by collaterals
<i>Hong Kong</i>						
Corporate loans						
Manufacturing						
— Petroleum and chemical	—	—	—	—	—	—
— Electronics	745	0.40	16	874	0.49	14
— Textile and clothing	450	0.24	15	440	0.25	8
— Other manufacturing	2,980	1.61	520	2,542	1.44	431
Electricity, gas and water production and supply	—	—	—	1,090	0.62	—
Construction	10,109	5.46	829	10,569	5.98	663
Transportation, storage and postal service	11,334	6.12	6,190	12,267	6.94	6,670
Telecommunication, IT service and software	357	0.19	3	356	0.20	—
Wholesale and retail	84,094	45.39	6,410	81,597	46.15	8,870
Accommodation and catering	—	—	—	412	0.23	256
Financial institutions	22,114	11.94	5,165	21,747	12.30	4,613
Real estate	12,412	6.70	10,293	12,114	6.85	9,722
Services	357	0.19	200	—	—	—
Education	—	—	—	4	0.00	—
Others	20,324	10.97	1,328	12,592	7.13	1,439
Total corporate loans	165,276	89.21	30,969	156,604	88.58	32,686
Individual loans						
Mortgage loans	9,778	5.28	9,775	9,746	5.51	9,742
Short-term working capital loans	36	0.02	34	34	0.02	31
Credit card advances	89	0.05	—	121	0.07	—
Others	10,086	5.44	9,460	10,297	5.82	9,690
Total individual loans	19,989	10.79	19,269	20,198	11.42	19,463
Gross amount of loans and advances before allowance for impairment	185,265	100.00	50,238	176,802	100.00	52,149
<i>Outside Hong Kong</i>	3,248,504			3,089,566		

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

The ratio of collateral loan to the total loan of the Group is 47% as at 30 June 2014 (31 December 2013: 48%).

Unaudited Supplementary Financial Information (Continued)

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

7 LOANS AND ADVANCES TO CUSTOMERS (Continued)

7.2 Allowance on loans and advances by loan usage

Group	As at 30 June 2014		As at 31 December 2013	
	Impaired loans	Allowance for individually assessed impaired loans	Impaired loans	Allowance for individually assessed impaired loans
Corporate	28,427	(11,319)	25,229	(10,166)
Individuals	10,323	(7,014)	9,081	(6,016)
	38,750	(18,333)	34,310	(16,182)
Fair value of collateral	16,931	Not Applicable	11,295	Not Applicable

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

The amount of new provisions charged to statement of profit or loss and other comprehensive income, and the amount of loans and advances written off during the years are disclosed below:

Group	Six months ended 30 June 2014			Six months ended 30 June 2013		
	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years
Corporate	7,489	(3,077)	91	5,718	(4,301)	62
Individuals	2,670	(962)	123	2,751	(522)	57
	10,159	(4,039)	214	8,469	(4,823)	119

Supplementary Information on Capital Adequacy Ratio

Appendices 1 to 4 are disclosed in accordance with the Appendix 2 “Notice on Enhancing Disclosure Requirements for Composition of Capital” of the “Notice on Issuing Regulatory Documents on Capital Regulation for Commercial Banks” (Yin Jian Fa [2013] No. 33) issued by the CBRC.

APPENDIX 1: GROUP BALANCE SHEET (ACCOUNTING AND REGULATORY CONSOLIDATION)

Group	(in millions of RMB)	
	Balance sheet of the accounting consolidation	Balance sheet of the regulatory consolidation
Assets:		
Cash and balances with central banks	932,763	932,763
Deposits with banks and non-bank financial institutions	122,997	121,144
Placements with banks and non-bank financial institutions	249,860	249,860
Financial assets at fair value through profit or loss	77,619	77,193
Positive fair value of derivatives	7,946	7,946
Financial assets held under resale agreements	249,851	249,841
Interest receivable	33,447	33,327
Loans and advances to customers	3,354,657	3,357,628
Available-for-sale financial assets	229,447	227,906
Held-to-maturity investments	653,404	652,344
Debt securities classified as receivables	147,764	146,194
Investments to subsidiaries	1,255	2,656
Fixed assets	47,543	47,501
Land use rights	693	693
Deferred tax assets	14,409	14,407
Goodwill	322	200
Intangible assets	926	916
Other assets	159,033	150,524
Total assets	6,283,936	6,273,043
Liabilities:		
Borrowings from central banks	7,558	7,558
Deposits from banks and non-bank financial institutions	825,931	826,503
Placements from banks and non-bank financial institutions	233,253	232,064
Financial liabilities held for trading	11,060	11,060
Financial assets sold under repurchase agreements	86,511	85,842
Deposits from customers	4,375,920	4,379,561
Negative fair value of derivatives	7,410	7,410
Debt securities issued	128,708	122,567
Accrued staff costs	3,692	3,674
Taxes payable	9,304	9,280
Interest payable	66,458	66,402
Deferred tax liabilities	9	9
Provisions	417	417
Other liabilities	85,159	78,056
Total liabilities	5,841,390	5,830,403

Supplementary Information on Capital Adequacy Ratio (Continued)

APPENDIX 1: GROUP BALANCE SHEET (ACCOUNTING AND REGULATORY CONSOLIDATION) (Continued)

Group	(in millions of RMB)	
	Balance sheet of the accounting consolidation	Balance sheet of the regulatory consolidation
Equity:		
Share capital	74,263	74,263
Capital reserve	111,767	111,779
Surplus reserve	136,241	136,241
General reserve	71,014	71,014
Retained earnings	49,806	50,301
Exchange reserve	-2,588	-2,525
Minority interests	2,043	1,567
Total equity	442,546	442,640

Note: Prepared under China Accounting Standards.

APPENDIX 2: ELABORATED BALANCE SHEET UNDER REGULATORY CONSOLIDATION

Group	(in millions of RMB)	
	Balance sheet of the regulatory consolidation	Code ^{Note}
Assets		
Cash and deposits with central banks	932,763	
Deposits with banks and non-bank financial institutions	121,144	
Placements with banks and non-bank financial institutions	249,860	
Financial assets held for trading	77,193	
Positive fair value of derivatives	7,946	
Financial assets held under resale agreements	249,841	
Interest receivable	33,327	
Loans and advances to customers	3,357,628	
Available-for-sale financial assets	227,906	
Held-to-maturity investments	652,344	
Debt securities classified as receivables	146,194	
Investments to subsidiaries	2,656	
Of which: investments in common equity of financial institutions being controlled but outside the scope of regulatory consolidation	1,363	a
Of which: core tier 1 capital from minority capital investments to unconsolidated financial institutions	154	b
Of which: core tier 1 capital from majority capital investments to unconsolidated financial institutions	1,064	c
Fixed assets	47,501	
Land use rights	693	d
Deferred tax assets	14,407	e
Of which: deferred tax assets arising from operating losses which is expected to off-set against future profits	—	f
Of which: Other deferred assets relying on the Bank's future profits	14,407	g
Intangible assets	916	h
Goodwill	200	i
Other assets	150,524	
Total assets	6,273,043	

Supplementary Information on Capital Adequacy Ratio (Continued)

APPENDIX 2: ELABORATED BALANCE SHEET UNDER REGULATORY CONSOLIDATION

(Continued)

Group	Balance sheet of the regulatory consolidation	(in millions of RMB)	Code ^{Note}
Liabilities:			
Borrowings from central banks	7,558		
Deposits from banks and non-bank financial institutions	826,503		
Placements from banks and non-bank financial institutions	232,064		
Financial liabilities held for trading	11,060		
Financial assets sold under repurchase agreements	85,842		
Deposits from customers	4,379,561		
Negative fair value of derivatives	7,410		
Debt securities issued	122,567		
of which: recognised in Tier 2 capital	53,600		j
Accrued staff costs	3,674		
Taxes payable	9,280		
Interest payable	66,402		
Deferred tax liabilities	9		k
Of which: deferred liabilities relating to goodwill	—		l
Of which: deferred liabilities relating to other intangible assets	—		m
Provisions	417		
Other liabilities	78,056		
Total liabilities	5,830,403		
Equity:			
Share capital	74,263		
Of which: those to be included in core Tier 1 capital	74,263		n
Of which: those to be included in other Tier 1 capital	—		o
Capital reserve	111,779		p
Surplus reserve	136,241		q
General reserve	71,014		r
Retained earnings	50,301		s
Exchange reserve	-2,525		t
Minority interests	1,567		
Of which: minority interest given recognition in common equity Tier 1 capital	1,001		u
Of which: minority interest given recognition in other equity Tier 1 capital	9		v
Of which: minority interest given recognition in Tier 2 capital	31		w
Total equity	442,640		

Note: The code is used for matching the items in the group's composition of capital.

Supplementary Information on Capital Adequacy Ratio (Continued)

APPENDIX 3: GROUP'S COMPOSITION OF CAPITAL

Group		<i>(in millions of RMB unless otherwise stated)</i>		
	Items	Amount	Code	
Common Equity Tier 1 capital:				
1	Qualifying common share capital	74,263		n
2	Retained earnings	257,556		
2a	Surplus reserve	136,241		q
2b	General reserve	71,014		r
2c	Retained earnings	50,301		s
3	Accumulated other comprehensive income and undisclosed reserves	109,254		
3a	Capital reserve	111,779		p
3b	Others	-2,525		t
4	Amount given recognition in Common Equity Tier 1 capital (Only applicable to unlisted companies, while banks of joint-stock companies to be completed with "0")	—		
5	Minority interest given recognition in Common Equity Tier 1 capital	1,001		u
6	Common Equity Tier 1 capital before regulatory adjustment	442,074		
Common Equity Tier 1 capital: Regulatory adjustment				
7	Prudent valuation adjustment	—		
8	Goodwill (excluding deferred tax liabilities)	200		i-l
9	Other intangible assets (excluding land use rights) (excluding deferred tax liabilities)	916		h-m
10	Net deferred tax assets relying on future profits and arising from operating losses	—		f
11	Cash-flow hedge reserves	—		
12	Gaps of loan loss provisions	—		
13	Gains from sales of asset securitisation	—		
14	Unrealised profit/loss arising from the changes in own credit risks on fair values of liability	—		
15	Net defined-benefit pension assets (excluding deferred tax liabilities)	—		
16	Direct or indirect investments in own shares	—		
17	Reciprocal cross-holdings in common equity	—		
18	Non-significant investments in capital of financial institutions outside the scope of regulatory consolidation	—		
19	Significant investments in capital of financial institutions outside the scope of regulatory consolidation	—		
20	Mortgage-servicing rights	—		
21	Other deferred tax assets relying on the Bank's future profitability	—		
22	Significant investments in the capital of financial institutions outside the scope of regulatory consolidation and other deferred tax assets that rely on the Bank's future profitability after all regulatory adjustment (amount exceeding the 15% threshold)	—		
23	of which: significant investments in the capital of financial institutions	—		
24	of which: Mortgage-servicing rights	—		
25	of which: Other deferred tax assets that rely on the Bank's future profitability	—		
26a	Investments in common equity of financial institutions being controlled but outside the scope of regulatory consolidation	1,363		a
26b	Gaps of common equity of financial institutions being controlled but outside the scope of regulatory consolidation	—		
26c	Total regulatory adjustments to Common Equity Tier 1 capital	—		
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	—		
28	Total regulatory adjustment in Common Equity Tier 1 capital	2,479		
29	Common Equity Tier 1 capital	439,595		

Supplementary Information on Capital Adequacy Ratio (Continued)

APPENDIX 3: GROUP'S COMPOSITION OF CAPITAL (Continued)

Group	Items	(in millions of RMB unless otherwise stated) Amount	Code
Additional Tier 1 capital:			
30	Directly issued qualifying Additional Tier 1 capital instruments including related stock surplus	—	
31	of which: classified as equity	—	
32	of which: classified as liabilities	—	
33	of which: Instruments not given recognition in other Tier 1 capital after the transition period		
34	Minority interest given recognition in other Tier 1 capital	9	v
35	of which: Portions not given recognition in other Tier 1 capital after the transition period	—	
36	Other Tier 1 capital before regulatory adjustment	9	
Additional Tier 1 capital: regulatory adjustments			
37	Directly or indirectly investments in own other Tier 1 instruments	—	
38	Reciprocal cross-holdings in other Tier 1 instruments	—	
39	Non-significant investments in the capital of financial institutions outside the scope of regulatory consolidation	—	
40	Significant investments in the other Tier 1 capital of financial institutions outside the scope of regulatory consolidation	—	
41a	Investments in other Tier 1 capital of financial institutions being controlled but outside the scope of regulatory consolidation	—	
41b	Gaps of other Tier 1 capital of financial institutions being controlled but outside the scope of regulatory consolidation	—	
41c	Other deductions from other Tier 1 capital	—	
42	Regulatory adjustments applied to other Tier 1 due to insufficient Tier 2 to cover deductions	—	
43	Total regulatory adjustments to other Tier 1 capital	—	
44	Additional Tier 1 capital	9	
45	Tier 1 capital (Common Equity Tier 1 capital + other Tier 1 capital)	439,604	
Tier 2 capital:			
46	Directly issued qualifying Tier 2 instruments plus stock surplus	53,600	j
47	of which: Portions not given recognition in Tier 2 capital after the transition period	—	
48	Minority interest given recognition in Tier 2 capital	31	w
49	of which: Portions not given recognition after the transition period	—	
50	Provisions in Tier 2	30,391	
51	Tier 2 capital before regulatory adjustments	84,022	
Tier 2 capital: Regulatory adjustments			
52	Directly or indirectly investments in own Tier 2 instruments	—	
53	Reciprocal cross-holdings in Tier 2 instruments	—	
54	Non-significant investments in capital of financial institutions outside the scope of regulatory consolidation	—	
55	Significant investments in the Tier 2 capital of financial institutions outside the scope of regulatory consolidation	—	
56a	Investments in Tier 2 capital of financial institutions being controlled but outside the scope of regulatory consolidation	—	
56b	Gaps of Tier 2 capital of financial institutions being controlled but outside the scope of regulatory consolidation	—	
56c	Other deductions from Tier 2 capital	—	
57	Total regulatory adjustments in Tier 2 capital	—	
58	Tier 2 capital	84,022	
59	Total capital (Tier 1 capital + Tier 2 capital)	523,626	
60	Total risk-weighted assets	4,106,731	

Supplementary Information on Capital Adequacy Ratio (Continued)

APPENDIX 3: GROUP'S COMPOSITION OF CAPITAL (Continued)

Group	Items	(in millions of RMB unless otherwise stated) Amount	Code
Capital adequacy ratio and reserve capital requirements			
61	Common Equity Tier 1 ratio	10.70%	
62	Tier 1 Capital adequacy ratio	10.70%	
63	Total Capital adequacy ratio	12.75%	
64	Specific buffer requirements of regulators	3.50%	
65	of which: capital conservation buffer requirements	2.50%	
66	of which: countercyclical buffer requirements	0.00%	
67	of which: Additional buffer requirements of Global systemically important Banks	1.00%	
68	Common Equity Tier 1 capital available to meet buffers as a percentage of risk-weighted assets	4.75%	
Domestic minimum regulatory capital requirements			
69	Common Equity Tier 1 Capital adequacy ratio	5%	
70	Tier 1 Capital adequacy ratio	6%	
71	Total Capital adequacy ratio	8%	
Amounts below the threshold deductions			
72	Non-significant investments in the capital of other financial institutions outside of the scope of regulatory consolidation	154	b
73	Significant investments in the capital of other financial institutions outside of the scope of regulatory consolidation	1,064	c
74	Mortgage-servicing rights (net of deferred tax liabilities)	—	
75	Other deferred tax assets relying on the Bank's future profitability (net of deferred tax liabilities)	14,398	e-k
Limit of provisions in Tier 2 capital			
76	Provisions actually made in respect of exposures subject to risk-weighted approach	8,090	
77	Provisions eligible for inclusion in Tier 2 capital under risk-weighted approach	7,498	
78	Provisions actually made in respect of exposures subject to internal ratings-based approach	71,022	
79	Provisions eligible for inclusion in Tier 2 capital under internal ratings-based approach	22,893	
Capital instruments subject to phase-out arrangements			
80	Amount given recognition in current-period Common Equity Tier 1 capital due to transitional arrangements	—	
81	Amount not given recognition in current-period Common Equity Tier 1 capital due to transitional arrangements	—	
82	Amount given recognition in current-period other Tier 1 capital due to transitional arrangements	—	
83	Amount not given recognition in current-period other Tier 1 capital due to transitional arrangements	—	
84	Amount given recognition in current-period Tier 2 capital due to transitional arrangements	53,600	
85	Amount not given recognition in current-period Tier 2 capital due to transitional arrangements	13,400	

Supplementary Information on Capital Adequacy Ratio (Continued)

APPENDIX 4: MAIN FEATURES OF QUALIFIED REGULATORY CAPITAL INSTRUMENTS

1	Issuer	Bank of Communications	Bank of Communications
2	Unique identifier	3328	601328
3	Governing law(s)	China Hong Kong/Hong Kong “Securities and Futures Ordinance”	China/Securities law of China
	Regulatory treatment		
4	Transitional rules under the <i>Measures for Capital Management of Commercial Banks (Provisional)</i>	Common Equity Tier 1 capital	Common Equity Tier 1 capital
5	Post-transitional rules under the <i>Measures for Capital Management of Commercial Banks (Provisional)</i>	Common Equity Tier 1 capital	Common Equity Tier 1 capital
6	Eligible at Bank/Group level	Bank and Group level	Bank and Group level
7	Instrument type	Equity instruments	Equity instruments
8	Amount recognised in regulatory capital (In millions of RMB, as at the latest reporting date)	89,498	97,534
9	Par value of instrument	35,012	39,251
10	Accounting classification	Share capital and capital reserve	Share capital and capital reserve
11	Original date of issuance	2005/6/23	2007/4/24
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	No maturity date	No maturity date
14	Issuer call subject to prior supervisory approval	No	No
15	Optional call date, contingent call dates and redemption amount	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A
	Coupons/dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	N/A	N/A
19	Existence of a dividend stopper	N/A	N/A
20	Fully discretionary, partially discretionary or mandatory dividends	Totally at discretion	Totally at discretion
21	Existence of incentive to redeem	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	non-convertible	non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down feature	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Ranking after depositors, normal creditors and sub-ordinated debt and other tier 1 capital holders	Ranking after depositors, normal creditors and sub-ordinated debt and other tier 1 capital holders
36	Non-compliant transitioned features	No	No
	If yes, specify non-compliant features	N/A	N/A



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