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交通銀行
BANK OF COMMUNICATIONS

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

Stock Code: 3328

A **Heritage** of Banking
Our **Trust** with Future



Annual Report **2007**

Brief Introduction

Bank of Communications Co., Ltd.

Founded in 1908, Bank of Communications Co., Ltd. (the "Bank") is one of the oldest banks in China and one of the earliest note-issuing banks in modern China.

After 1958, while the Hong Kong branch of the Bank continued to operate, the mainland business of the Bank merged with the then People's Bank of China and established the People's Construction Bank of China on the foundation of the Bank.

As a finance reform pilot project, the Bank was reestablished in 1986 with the approval of the State Council and began operations on 1 April 1987. The Bank became China's first state-owned joint-stock commercial bank.

In 1994, the Bank changed from a two-tiered legal structure which separated the head office from the branch offices, to a single legal entity.

In 2004, the Bank implemented a program to reform its shareholding structure. Pursuant to the reform, the Bank has successfully completed its financial reorganization by issuing new shares and disposing of non-performing loans, and attracted mainland and overseas strategic investors such as HSBC, SSF and SAFE Investment.

In June 2005, the Bank successfully issued H-shares and was listed on the Hong Kong Stock Exchange (under the stock name "BANKCOMM" and the stock code 3328) and became the first overseas-listed commercial bank in mainland China.

In May 2007, the Bank successfully issued A shares and was listed on the Shanghai Stock Exchange (under the stock name "Bank of Communications" and the stock code 601328).

The legal Chinese name of the Bank is Bank of Communications Co., Ltd. (交通銀行股份有限公司), also referred to as Bank of Communications (交通銀行); its Head Office is located at No. 188 Yin Cheng Middle Road, Pudong New District, Shanghai and it has a registered capital of RMB48.994 billion. As of the end of 2007, the Group's total assets was RMB2,110.444 billion, an increase of RMB390.961 billion, or an increase of 22.74% over the previous year. The Bank has issued 48,994,383,703 ordinary shares, including 23,064,468,136 H-shares (representing 47.08% of the total ordinary shares), and 25,929,915,567 A shares (representing 52.92% of the total ordinary shares). The Ministry of Finance, HSBC, SSF and SAFE Investment formed the top four shareholders of the Bank, whose shareholding interests were 20.36%, 19.15%, 11.34% and 6.12% respectively.

In 2007, the Bank saw a significant boost in its image and reputation in the marketplace. According to the ranking of the "Top 1000 World Banks 2007" published by the British magazine "The Banker", the Bank's total assets ranking rose to No. 69 and its Tier-1 capital ranking rose to No. 68. The Bank has been awarded as the "No. 1 Brand of Banks in China" by World Brand Lab for three consecutive years and the value of our brand has been widely recognized by the market.

The Bank's management operates on two levels: Head Office and provincial-level branches. There are 100 domestic branches, including 29 provincial branches, seven branches directly managed by Head Office, 64 provincial sub-branches and 2,610 outlets in 156 major cities in mainland China. The Bank has set up eight overseas branches in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt and Macau as well as a representative office in London. As of the end of 2007, the Bank had 68,083 employees.

The Bank is one of the major financial services providers in China. At present, the Bank's business scope covers commercial banking, brokerage services, trust services, finance leases, fund management and insurance. Its wholly-owned subsidiaries include BOCOM International, BOCOM Insurance and BOCOM Leasing. Subsidiaries in which the Bank has a controlling interest include BOCOM Schroder and BOCOM International Trustee. The Bank is also the largest shareholder of CRCB.

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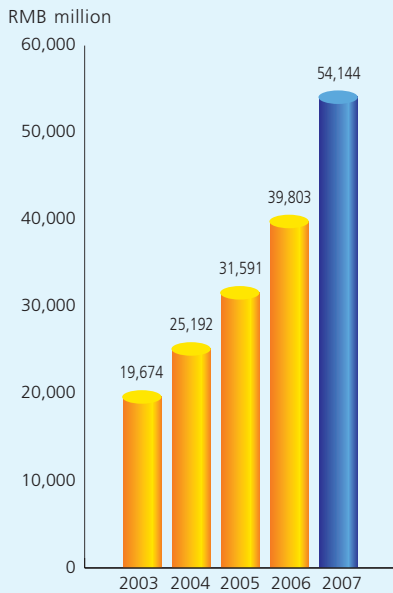
The Bank is the only global commercial bank partner of the 2010 Shanghai World Expo, and will provide high quality financial services to both domestic and foreign customers.

The Bank's strategy is to become a comprehensive and modern first class wealth management bank with comprehensive corporate governance, outstanding competitive advantages, active product innovation, high quality financial services, strict internal management, effective operations and management skills of an international standard; it seeks to be a bank that is leading in development, innovation and competitive ability in the domestic market, and one that will fulfill its corporate social responsibilities.

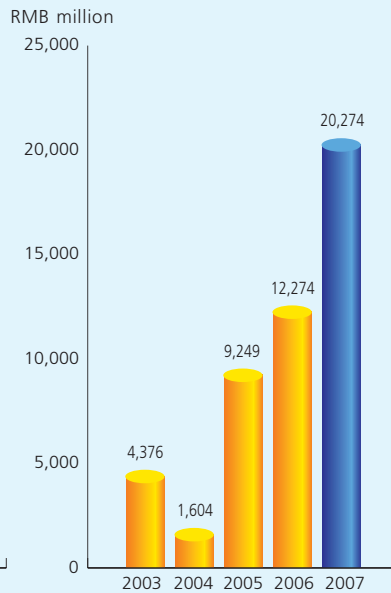
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Financial Highlights

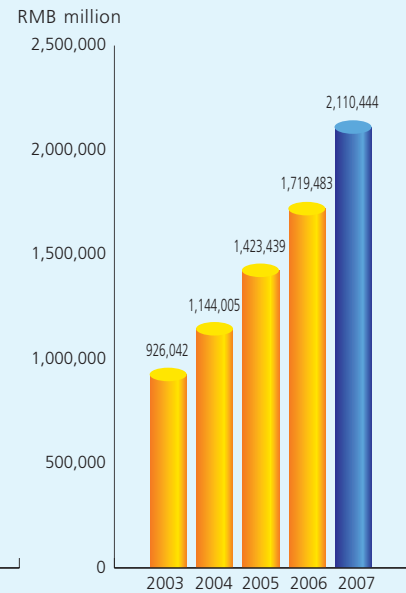
Net interest income



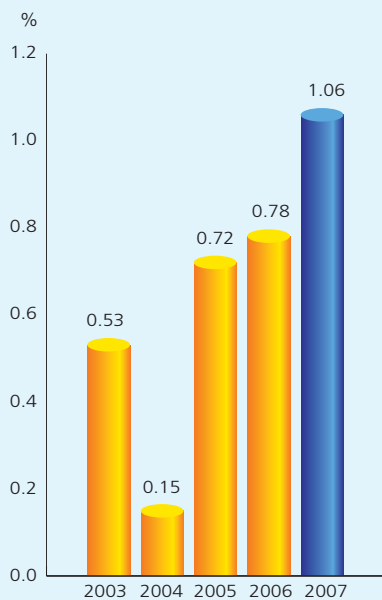
Net profit (Note)



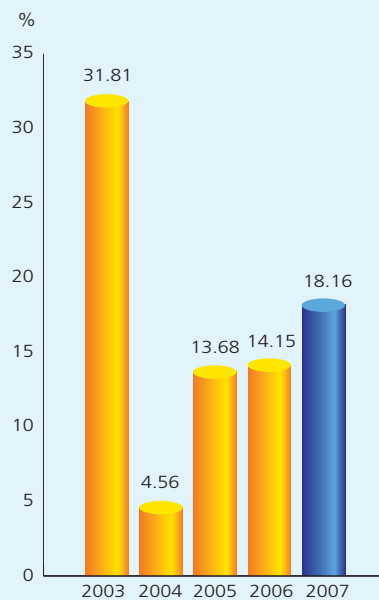
Total assets



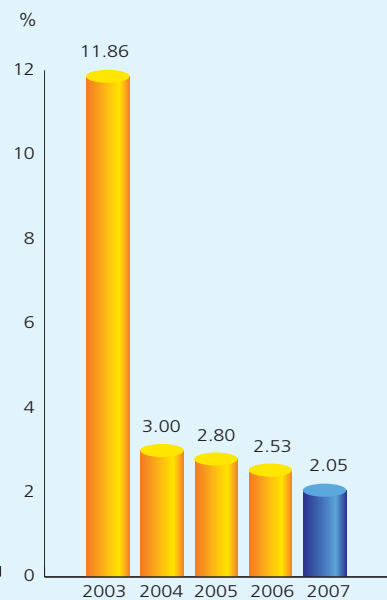
Return on average assets



Return on average shareholders' equity



Impaired loan ratio



Note: eliminate the minority interest.

Items

	2007	2006	2005	2004 after adjustment (Note 1)	2003 after adjustment (Note 1)
Annual Results					RMB million
Net interest income	54,144	39,803	31,591	25,192	19,674
Operating profit before tax	31,114	17,405	12,843	7,750	4,135
Net profit (eliminate the minority interest)	20,274	12,274	9,249	1,604	4,376
As at the end of the year					RMB million
Loans and advances to customers (Note 2)	1,107,500	927,405	771,374	640,058	549,943
Total assets	2,110,444	1,719,483	1,423,439	1,144,005	926,042
Due to customers	1,567,142	1,352,890	1,220,839	1,029,941	874,159
Total liabilities	1,977,123	1,628,988	1,340,293	1,091,902	907,839
Shareholder's equity	133,321	90,495	83,146	52,103	18,203
Shareholder's equity (eliminate the minority interest)	132,903	90,436	83,082	52,103	18,203
Per share					RMB Yuan
Diluted earnings per share	0.42	0.27	0.22	0.06	0.26
Net asset value per share	2.72	1.98	1.82	1.33	1.06
Net asset value per share (eliminate the minority interest)	2.71	1.97	1.81	1.33	1.06
Financial ratios					%
Return on average assets (Note 3)	1.06	0.78	0.72	0.15	0.53
Return on average shareholders' equity (Note 4)	18.16	14.15	13.68	4.56	31.81
Cost-to-income ratio (Note 5)	40.29	47.66	51.24	60.78	57.84
Impaired loan ratio (Note 6)	2.05	2.53	2.80	3.00	11.86
Provision coverage of impaired loan (Note 7)	95.95	72.83	58.39	44.01	51.03
Capital Adequacy Indicator					%
Core capital adequacy ratio (Note 8)	10.27	8.52	8.78	6.77	6.36
Capital adequacy ratio (Note 8)	14.44	10.83	11.20	9.72	7.41

Notes:

- In accordance with the provision of IAS 39 (revised 2003), the Group retrospectively adjusted balance of investment securities as at 1 January 2004 and 2005. Certain originated loans were reclassified to available-for-sale, loans and receivables and financial assets held for trading with retrospective adjustments to revaluation reserve and deferred tax accordingly.
- This is calculated based on loans and advances to customers before provision and including interest.
- This is calculated based on net profit (eliminate the minority interest) for the year divided by the average of total assets at the beginning and the end of the year.
- This is calculated based on net profit (eliminate the minority interest) for the year divided by the average of shareholders' equity balance (eliminate the minority interest) at the beginning and the end of the year.
- This is calculated based on other operating expenses divided by the net operating income (including net interest income, net fee and commission income, dividend income, gains less losses arising from trading activities, gains less losses arising from de-recognition of investment securities and other operating income).
- This is calculated based on the balance of impaired loans at the end of the year divided by total loans before provision.
- This is calculated based on the balance of impairment allowance at the end of the year divided by the balance of impaired loans.
- This is calculated in accordance with the methods of computation stipulated by China Banking Authorities.

Corporate Information

LEGAL NAME

Bank of Communications Co., Ltd.

LEGAL REPRESENTATIVE

Jiang Chaoliang

DIRECTORS

Executive Directors

Li Jun (Vice Chairman and President)

Peng Chun

Qian Wenhui

Non-executive Directors

Jiang Chaoliang (Chairman)

Zhang Jixiang

Hu Huating

Peter Wong Tung Shun

Laura M. Cha

Li Keping

Gao Shiqing

Yang Fenglin

Independent Non-executive Directors

Xie Qingjian

Ian Ramsay Wilson

Thomas Joseph Manning

Chen Qingtai

Eric Li Ka-cheung

Gu Mingchao

Timothy David Dattels*

* Resigned on 13 March 2008

SUPERVISORS

Hua Qingshan (Chairman)

Guan Zhenyi

Yang Fajia

Wang Lisheng

Li Jin

Liu Qiang

Zheng Li

Jiang Zuqi

Liu Sha

Chen Qing

Li Jun

COMPANY SECRETARY

Zhang Jixiang

AUTHORIZED REPRESENTATIVES

Peng Chun

Zhang Jixiang

COMPANY ADDRESS AND CONTACT INFORMATION FOR INVESTORS

No. 188 Yin Cheng Middle Road

Pudong New District

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People's Republic of China

Tel: 86-21-58766688

Fax: 86-21-58798398

E-mail: investor@bankcomm.com

Website: www.bankcomm.com

PLACE OF BUSINESS IN HONG KONG

20 Pedder Street, Central, Hong Kong

SELECTED NEWSPAPERS AND WEBSITES FOR INFORMATION DISCLOSURE

H shares: HKExnews website of the Hong Kong Stock Exchange
<http://www.hkexnews.hk>

A shares: China Securities Journal, Shanghai Securities News, Securities Times and Shanghai Stock Exchange website www.sse.com.cn

Places where the Annual Report can be obtained: The Head Office of the Bank and principal business locations

AUDITORS

PricewaterhouseCoopers
 Deloitte Touche Tohmatsu CPA Ltd.

SHARE REGISTRARS

H shares: Computershare Hong Kong Investor Services Limited
 Rooms 1712-16, 17th Floor
 Hopewell Centre
 183 Queen's Road East
 Hong Kong

A shares: China Securities Depository and Clearing Corporation Limited, Shanghai Branch
 3/F, China Insurance Building
 No. 166 Lujiazui Dong Road
 Pudong New District
 Shanghai
 People's Republic of China

HONG KONG LEGAL ADVISER

Linklaters

PRC LEGAL ADVISER

King & Wood PRC Lawyers

A SHARES SPONSORS

China Galaxy Securities Company Limited
 CITIC Securities Company Limited
 Haitong Securities Company Limited

LISTING INFORMATION

H Shares: The Stock Exchange of Hong Kong Limited
 Stock Name: BANKCOMM
 Stock code: 3328
 A Shares: Shanghai Stock Exchange
 Stock Name: Bank of Communications
 Stock Code: 601328

OTHER INFORMATION

Initial registration date: 30 March 1987
 Registration change date: 2 August 2007
 Registration agencies: State Administration For Industry & Commerce (SAIC), People's Republic of China
 Business license register No.: 1000001000595
 Tax register No.: 31004310000595X
 Organization code: 10000595-X

This Annual Report is prepared in both Chinese and English and the English version is for reference only. The Chinese text of this Annual Report shall prevail over the English text in case of any inconsistency.

Awards

In January 2007, at the “2006 Wealth Management Products Competition”, the Bank’s Pacific credit card won the “2006 Credit Card Gold Award”, and the Bank’s “Delibao” (得利寶) series of wealth management products clinched the “Best Innovation Award for RMB Financial Products 2006”. This awards ceremony was jointly organized by “Money Weekly”, amoney.com.cn and “Beijing Youth Daily”.

In January 2007, at the “Finance Billboard 2006” hosted by Hexun.com, the Bank won the “Outstanding Service Award of Banking Sector of China 2006”, the “Mobile Dynamic Password” of the e-Banking division of the Bank received the “Outstanding Innovation Award of Banking Sector of China 2006”, and the Bank’s “Finance Express” won the “Outstanding Marketing Award of Banking Sector of China 2006”.

In January 2007, the Bank had the honor of being “Hong Kong’s Top 10 Favorite Listed Companies” in the “2006 Hong Kong’s Top 10 Favorite Listed Companies and Investment Research Companies” co-sponsored by the “Association of International Accountants Hong Kong Branch” and Taifook Securities Group.

In January 2007, in the “3rd Annual China’s Top 10 Influential Brands (2006)” survey co-sponsored by the Marketing Department of the “People’s Daily”, “China United Business News”, “Shopping Guide” and “Brand Magazine Office” and based on recommendations by netizens, the Bank was named as one of the “3rd Annual China’s Top 10 Influential Brands (2006)”. Board chairman Jiang Chaoliang also won the “3rd Annual China Brand Building Practice Innovation Contribution Award (2006)”, and the Bank’s president Li Jun was awarded the honorable title of “3rd Annual China Brand Building Top 10 Outstanding Entrepreneurs (2006)”.

In February 2007, the Bank received the honorable title of “Best Depository Bank in China” at the “3A Bank Capital Transaction Award of 2007”, as awarded by “The Asset”.

In April 2007, the Bank won the prestigious award of “Best Corporate Governance in China in 2007” as awarded by “The Asset”.

In June 2007, the World Brand Lab published the rankings of “China’s Top 500 Brands of 2007”, and the value of the Bank’s brand reached RMB36.728 billion, ranked 20th of the overall rankings and 3rd among bank brands.



In July 2007, the British magazine “The Banker” published the latest rankings of “Top 1,000 Banks in the World in 2007”. The Bank ranked No. 69 in terms of its total assets as at the end of 2006. In terms of Tier-1 capital at the end of 2006, the Bank was ranked No. 68.



In August 2007, the Bank came in 3rd in the “National Commercial Banks Core Competitive Rankings” as published by “The Banker”, and ranked 2nd in the “National Commercial Banks Financial Assessment”. In addition, the Bank also won the “Best Corporate Governance Bank” and the “Best Innovative Management Bank” awards.

In August 2007, the Bank won the “Best IPO IR Award 2007” at the “China Investors Relationship Management Annual Meeting 2007” co-sponsored by Nanjing University and China Securities Journal.

In August 2007, “China Enterprises Union” and “China Entrepreneurs Association” published the latest rankings of “China’s Top 500 Service Enterprises 2007”. The Bank ranked 6th place in the banking industry and 23rd overall.



In November 2007, the Bank was given the “National Top Ten Companies towards the Building of a Harmonious Society” award, and Board chairman Jiang Chaoliang won the “National Top Ten Outstanding Entrepreneurs Leaders towards the Building of a Harmonious Society” at the first “Companies and Individuals towards the Building of a Harmonious Society In China” awards ceremony which was sponsored by “China Association of Policy Science” and supported by the research institutions of 22 central and state ministries.

In November 2007, the Bank received the “Best Wealth Management Award” in the “The 21st Century Asian Financial Annual Meeting and 2007 Asian Bank Competitiveness Rankings”, which was jointly published by the “21st Century Business Herald”, the business school at the Chinese University of Hong Kong and the graduate student division of the PBOC.

In December 2007, the Bank was awarded the “2007 China’s Outstanding e-banking Contribution Award” at the “2007 China’s e-banking Annual Ceremony” organized by the “China Finance Certification Center”.

In December 2007, at the “2007 World Executive Annual Ceremony” co-organized by World Brand Lab and the World Executive Network magazine, the Bank won the “Chinese Brands Annual Award (No.1)” in the bank category for third consecutive year and came in 2nd in the “Most Influential Brand of the Banking Industry in China (TOP 10)” rankings, while the Bank’s Pacific Card was ranked 2nd in the “China’s Most Trusted Top 10 Bank Cards” list. In addition, the wealth management division of the Bank clinched the special award of “China’s Most Trusted Bank Wealth Management Products”.

Chairman's Statement



In 2007, with the support of our shareholders, our customers as well as the community at large, the Group has once again achieved excellent operating results. As of the end of 2007, total assets of the Group reached RMB2,110.444 billion; net profit for the whole year reached RMB20.274 billion and return on average shareholders' equity increased to 18.16%. In the past 3 years, the Group's compound annual growth rates of total assets and net profit reached 22.64% and 132.94%, respectively, and return on average shareholders' equity increased from 13.68% in 2005 to 18.16% in 2007. The growth rate and performance result placed the Bank in the top tier of domestic commercial banks.

With the collective efforts of all employees, the operational performance of the Group enjoyed rapid growth in recent years. Benefiting from favorable macro-economic conditions, the businesses of the Group enjoyed strong development. Especially in 2007, with the benefit of the extraordinary prosperity of China's capital market, the fee-based business of the Group has developed by leaps and bounds and the ratio of non-interest income to total net operating income increased to 13.77%, which made it a significant profit source for the Group. With the support of our customers, our market share of traditional loans and deposits continued to increase. In light of the continuous tightening monetary policy, the Group made significant efforts to adjust its asset and liability structure, expanded interest spread gradually in each quarter so as to stably increase income from funds operation. The ongoing efforts we made to optimize our internal management were effective and further enhanced our productivity.

JIANG Chaoliang
Chairman

What is more exciting is that, based on our strong performance growth and stable operation management, our market image and reputation were boosted significantly. According to the rankings of “Top 1,000 Banks in the World in 2007” published by the British magazine “The Banker”, our total assets ranking rose to No. 69 and Tier-1 capital ranking rose to No. 68, which further strengthened our position in the world’s top 100 banks. We have been awarded the “Chinese Brands Annual Award (No.1)” in the bank category by World Brand Lab for three consecutive years and the value of our brand has been widely recognized by the market.

RETURN TO THE A SHARE MARKET

As the oldest commercial bank in the history of China, the Bank’s development has been deeply rooted in mainland China. It had always been our dream to share the benefits from the Bank’s rapid development with domestic investors by returning to the A share market at an appropriate time. With this wish in mind, the Bank successfully issued 3.19 billion A shares on the Shanghai Stock Exchange and raised about RMB25 billion at the turn of spring and summer in 2007. The Bank’s A shares were enthusiastically pursued by domestic investors and the frozen fund ranked the highest on record for the A share market, which was an exceptional achievement.



Chairman's Statement (Continued)

The successful A share listing set a new milestone in the Group's development history following the H share listing in Hong Kong. The A share listing of the Group not only solved the share redesignation issue, but also completed our joint-stock reform. In addition, we have expanded our shareholder base, enabled more domestic shareholders to enjoy the benefit from the Bank's rapid development and created favorable conditions to further improve our corporate governance and boost market image. More importantly, with the establishment of a financing platform in the A share market, the Group is better positioned to take advantage of the rapid growth of China's economy and grasp golden opportunities for further development.

COMPREHENSIVE OPERATION

In the era of disintermediation in the finance industry, a comprehensive operation is critical for all banks. A successful comprehensive operation connects various financial markets and achieves orderly linkage between banking, insurance, funds and securities businesses. Extended business scope, cross-sale of financial products as well as reform of our management structure contributed to the expansion of business scale. Banks can fulfill the objective to diversify its operational risks through the involvement in various financial markets.

I am very pleased that our achievements in developing a comprehensive operational framework in 2007 are remarkable. We have reorganized BOCOM International, which is able to conduct investment banking business in Hong Kong directly. This subsidiary has experienced strong development and its trading volume ranked No. 2 in Sino-invested brokers in Hong Kong. We have merged with Hubei International Trustee Investment Ltd. and reorganized it to establish BOCOM

International Trust, which will be an important platform for the Bank to develop into the trustee business and other various businesses. BOCOM Leasing was established at the end of 2007 and added to the Group's business development. BOCOM Schroder achieved a profitable result earlier than expected and became a contributor to the Group's profit. Based on a series of breakthrough development in 2007, the initial framework of a comprehensive financial group structure has been established, with banking as the principal business and supplemented by businesses in securities, insurance, trust, financial leasing and funds.

WEALTH MANAGEMENT

"The wise do not always follow the same method" as folks say. When creativity is an attribute which only individuals with outstanding performance share, then conforming to the rules can be tolerated. But when creativity is an essential factor for survival, relying on the status quo is definitely not the way forward. Looking at today's financial industry, the long-term rapid development of China's economy has led to the explosive growth of corporate and personal wealth. With the frequent changes in the economic environment, we believe that there will be enormous market demand for professional wealth management services. Wealth management will become one of the core businesses of modern financial services, which will eventually lead to changes in business patterns of commercial banks.

Based on the above analysis, we have proposed a strategic concept to build the "Best Wealth Management Bank in China" in 2007. Our network is mainly concentrated in China's most developed regions and wealthy cities with a great concentration of large and medium-sized companies and medium to high-end individual customers. We have taken

advantage of this feature to vigorously promote the reform of our network and centralized the use of our network resources for the delivery of wealth management services to our customers. We have constantly introduced new wealth management products including “OTO Fortune” (沃德财富), “BoCom Fortune” (交银理财) and “Win To Wealth” (蕴通财富) targeted at medium to high-end individuals and corporate customers. Through the integrated use of various financial instruments, the management of corporate and individual customers’ assets, liabilities, income and finance were centralized, thereby achieving an integrated, one-stop customers’ wealth management service.

In 2007, we have made great progress in the field of wealth management. The number of medium to high-end wealth management customers exceeded 1 million, the custodian asset from individual customers reached RMB300 billion, of which 75% of the total business has been contributed by medium to high-end customers, representing 5% of total customers. Wealth management for corporate customers developed steadily as well. Investment banking businesses, such as financial advisory and consulting, have become a new area of profit growth.

INTERNAL MANAGEMENT

As a commercial bank which conducts a risk business, making profit is bound to be an important goal even though it is not the only purpose. We believe that a banking operation also requires the art of management as banks must strike the best balance between risk and profit. Therefore, it is important to establish a healthy and compliant management system.

Based on this concept, we have continued to focus on the development strategy of “Priority of Management, Stability of Operation and Achieved Sustainable Maximum Return for Shareholders” and the continuous optimization of our internal management will continue to be the most important task. We have gradually established a risk management system with checks and balances by vertical management and parallel operations, accelerated the development and application of risk management tools, and transformed risk management from relying on experience to the disciplined usage of information, data and modern risk assessment tools. We have cooperated in the building of the “Process Bank” and centralized the processing of credit authorization, audit, accounting and documentation in our back office. We have greatly enhanced the degree of professionalism and centralization in our operational management. This led to the improvement in our system processing ability and enhanced controls in operational risks, which contributed to significant cost savings and achieved sustainable value growth.

What is particularly exciting is that we have completed the launch of our internal grading system for our corporate business in 2007, which made us the industry benchmark for the implementation of the New Basel Capital Accord. This further strengthened our controls over credit risks in an environment of tightening macro-control. We are very pleased that our key management projects, including the retail business internal grading system, reform of human resources management and management accounting system, have all made satisfactory progress.

Chairman's Statement (Continued)

CORPORATE GOVERNANCE

It has always been our goal to enhance our corporate governance and add more value to our shareholders. In order to comply with the requirement of A share listing in 2007, we have comprehensively amended the Bank's Article of Associations, Procedures for Shareholders' General Meetings and Board of Directors Meetings, and constituted rigorous Authorization Policies in relation to the authorization approvals from Shareholders' General Meetings to the Board of Directors, from the Board of Directors to the President of the Bank, and other relevant authorization management procedures. These procedures have ensured the rules and regulations of our corporate governance strictly comply with domestic and overseas supervisory guidelines and standards. We have frequent communication with world-wide investors through different methods and channels, to share our operational strategies and material progress in reform and development, and to implement changes based on feedback and suggestions from shareholders. This enabled our stakeholders to participate in the Bank's operational management in a proper way. We have continued to be an industry leader in the area of information disclosure. In addition to the disclosures to meet external supervisory requirements, we have initiated the timely disclose of other information that may have a practical impact on the strategic decision-making of shareholders and other relevant stakeholders. What deserves a special mention is that the contents of our quarterly reports, which were prepared based on the standards for interim financial statements, were informative and accurate and were well received by investors.

MANAGEMENT TEAM

The terms of office of the Fourth Session of the Board of Directors expired in 2007. Pursuant to the Bank's Articles of Association, the Fifth Session of the Board of Directors was elected at the Shareholders' General Meeting. The service period of the Fourth Session of the Board of Directors coincided with the critical time when the Bank actively promoted the "Trilogy" of "Reorganization", "Fund Raising" and "Listing" and we have achieved a favorable reform on its institutional mechanism. All Directors worked earnestly and diligently, demonstrated profound professionalism and outstanding ethics and made great contributions to strengthening our corporate governance and improving operational management. Please allow me to hereby express my deep gratitude to all our Directors. In the new session of the Board of Directors, most of the Directors from the Fourth Session have been re-elected, with Mr. Qian Wenhui, Mr. Gu Mingchao, Mr. Yang Fenglin and Mr. Timothy David Dattels joining the Board. They are all elite individuals in their fields, who are full of wisdom and professional experience. We believe that the new session of the Board of Directors can inherit the Bank's outstanding values and operational strategies in order to continuously create value for all shareholders.

In 2007, we also welcomed new joiners to our senior management team. Ms. Yu Yali was promoted to Vice President and concurrently serves as Chief Financial Officer. Mr. Yang Dongping was employed as the Chief Risk Management Officer of the Bank. They have both served in the Bank for a long time and have had a profound understanding of its history,

culture, system, structure, operational management and development strategy. After their joining the team, our senior management team has become more professional and effective. We believe the team is capable to implement all the decisions of the Board of Directors more effectively and promote the Bank's operational management to a new stage.

SOCIAL RESPONSIBILITY

We always consider social responsibility to be a crucial factor in establishing an outstanding corporate image. As the organization moved from a mere sense of legal responsibility to striving towards the higher-level moral principles, it allows the business to become more attractive and social responsibility becomes the cornerstone of successful enterprise operations.

Based on this belief, we became one of the first institutions among the domestic listed companies to establish a Social Responsibility Committee under the Board of Directors and to issue a "Corporate Social Responsibility Report". This enabled us to balance the needs in profit-making and benefiting the community during the process of business development. We have identified various opportunities to grant loans to national key development projects, to economic undeveloped areas and to small enterprises in their early development stage as a way to share our economic prosperity. In 2007, we have supported the China Disabled Persons' Federation to launch "To the Future – BOCOM Disabled Youth Scholarship Program" and is expecting to donate RMB100 million within the next 10 years to support more disabled youth to acquire more techniques. We believe this will not only improve their living conditions, but also contribute to the building of a harmonious community.

COOPERATION WITH HSBC

The strategic cooperation between BOCOM and HSBC has reached 3 years by the end of 2007. In the past three years, an efficient and smooth communication and coordination mechanism has been established, which has continuously strengthened our cooperation. According to the technical support and cooperation plan, HSBC has provided valuable support to the Bank in the aspects of operating concepts, management tools, products and techniques. This has enabled us to share the excellent brand and experiences of HSBC as a world-class international bank and to improve our operational management skills and market influence. Both parties cooperated in the credit card business, international business and RMB fund business, and created a series of well-known financial service brands. In order to better handle the potential competing interests arising from the cooperation and further integrate both parties' resources advantages, we have jointly developed an innovative key customers joint-marketing program and have already successfully led several syndicated loans.

Going forward, we will handle the competing interest arising from the cooperation properly and continue to strengthen our strategic cooperation. According to the framework of the renewed three-year technical cooperation and exchange agreement, we will focus on the goals of "introduce wisdom" and "introduce policy" and shift from unilateral technical support towards bilateral communication and continuous integration of both parties' wisdom and resources. We will further extend our areas of cooperation, and to the extent permitted by law and regulatory policies, we will endeavor to breakthrough in the fields of investment banking, insurance and pension funds and improve the effectiveness of cooperation.

Chairman's Statement (Continued)

OUTLOOK

In the past three years, in order to survive and achieve better development, the Bank took the initiative to adapt itself to the global financial reform and the opening up of the financial market in China, and was the first in the industry to launch a program to reform the shareholding system. With the efforts from the past three years, the overall capability of the Bank has been enhanced significantly and the reform and development efforts have reached a new chapter. As the "Pioneer" and "Explorer" in the new round of reform of state-owned commercial banks, we have successfully achieved the goals of the reform. In this respect, my colleagues and I are very proud of it.

Looking at the current international and domestic economic and financial situation, the Bank will face more opportunities as well as challenges in the future. On the one hand, the middle to long term factors that support China's rapid economic growth, such as urbanization, industrialization, market liberalization and the high proportion of labor force in the total population, will continue to play significant roles, which continue to create a solid foundation for China's economic growth. As the central government's macro-control gradually takes effect, the stability of the national economy will be gradually strengthened, all of which will provide more room for the development of China's banking industry. On the other hand, the domestic capital market is undergoing profound changes - the proportion of direct financing continues to rise, residents' deposits are being diffused by investment in stocks, funds and other investment products, all of which have impacted on the Bank's business scope in the areas of assets and liabilities. With the continuous increase of competitors in the market, we are facing challenges from world-class banks in both the domestic and overseas markets. The negative

impact of the sub-prime crisis in the United States gradually emerge and the worldwide extension of financial risks, which will become potential issues for the future development of the banking industry.

Faced with this situation, we will launch new reform and innovated development strategies, take advantage of opportunities and face challenges confidently. We will strive to promote the establishment of a harmonious bank and continue to focus on the goal of building a first-class publicly owned bank. We will:

- continue to speed up reform and promote fundamental changes of the institutional mechanism. We will continue to enhance corporate governance, strengthen economic capital constraint mechanism and achieve maximum long-term sustainable value for shareholders. We will constantly deepen the reform of budgetary management mechanism, gradually set up value-oriented budgetary management mechanism with the objective of economic profit. We will further improve our product innovation mechanism and strengthen incentive system for innovation so as to constantly improve our core competitiveness through continuous innovation.
- actively promote strategic restructuring and insist on building the Bank as China's best wealth management bank. We will focus on the goal of building the best wealth management bank, integrate business brand and product brand, further enrich the product line of personal and corporate wealth management including "OTO Fortune" (沃德财富), "BoCom Fortune" (交银理财) and "Win To Wealth" (蕴通财富), optimize the


revenue and profit structures of the corporate business, retail business, treasury business, international business, fee-based business and other innovative businesses. We will strengthen our competitive edge over domestic and international banks based on new profit channels and new methods for growth.

- further promote a comprehensive operation, and proactively take advantage of synergetic development. We will not only focus on the development of key banking business, but also seek opportunities to breakthrough in other fields. To the extent permitted by laws and regulatory policies, we are looking forward to connecting the channels of the money market, capital market and insurance market, so as to construct a versatile financial group based on the banking business. Meanwhile, we will also focus on the overall global strategic goal of the Bank, integrate corporate culture of the Group and establish a long-term effective synergetic development mechanism. In addition, we will constantly promote the firewall construction between the Bank and its subsidiaries and strictly avoid potential risks to ensure the healthy development of a comprehensive operation.
- further strengthen our risk management and constantly improve quality of the development. We will follow macro-economic trends and the direction of economic structure adjustment and clarify the strategy of risk management. We will use prudent risk preferences to restrain the pace of development in order to achieve long-term maximization of overall value. We

will further strengthen IT development and constantly upgrade our information technology to reinforce its important role in overall operation and risk management. Furthermore, we will pay attention to the financial risk in the context of economic globalization to ensure our development can withstand the test of a complete economic cycle.

2008 is the 100th year anniversary of the Bank. I am truly honored to witness this special moment with all of you. It was a century ago that we opened our doors and it has been two decades since we fulfilled our development. Today, the Bank is playing an active role in the global financial market with the wisdom accumulated over 100 years. Let us work together, explore a bright future, achieve great accomplishments and further contribute to the brilliance of the Bank's centenary!

Chairman



JIANG Chaoliang

President's Statement

In 2007, the senior management earnestly implemented the spirit of macro-control policies stipulated by the government and comprehensively executed the strategic plans stipulated by the Board. The Bank achieved favorable operating results by relying on its staff, by capturing the golden opportunities arising from the stable growth of the global economy as well as the favorable and rapid development of the China's economy, and by overcoming the impacts from the volatile international financial market.

As of 31 December 2007, the Group's total assets, deposit balance (including interest) and loan balance (before provision and including interest) reached RMB2,110.444 billion, RMB1,567.142 billion, and RMB1,107.5 billion, respectively, representing an increase of 22.74%, 15.84% and 19.42%, respectively, as compared with the beginning of the year. The Group realized a net profit of RMB20.274 billion, representing an increase of 65.18%, as compared with the previous year. Return on average assets (ROAA) and return on average shareholders' equity (ROAE) reached 1.06% and 18.16%, respectively, representing an increase of 0.28 percentage points and 4.01 percentage points, respectively, as compared with the previous year. These core indicators maintained at relatively higher levels as compared to the industry as a whole.

BUSINESS DEVELOPMENT HIGHLIGHTS

- Corporate business abided by the Bank's prominent core development strategy and has achieved good results. Traditional deposit and loan business maintained the momentum of rapid development and has achieved a greater market share.

The development of the business such as “Win To Accounts” (贏通賬戶), syndicated loan, “Smart Declaration Online Tax Payment Service” (報關一點通) and domestic factoring have maintained favorable momentum. Revenue from investment banking business has increased by 1.2 times. In 2007, third-party depository business made a breakthrough by cooperating with 74 securities companies, the number of accounts opened reached 3.33 million, thereby upgrading the Bank's market position in relation to its interbank and securities settlement business. The Bank was the first to introduce the national centralized transfer system for banks and futures companies, which further strengthened our competitive advantage over other banks and futures companies.

- The results from the transformation of our retail business continued to emerge. Strategies including products innovation, channels improvement and team building were further enhanced. The Bank received favorable market response on its promotion of business such as the “Delibao Qi Cai” (得利寶七彩) wealth management product, “Xin Gu Sui Xin Da” (新股隨心打) and “Ji Jin Ding Tou” (基金定投). By taking advantage of the Bank's superior outlets and channels, our incremental market share of domestic RMB savings deposits in China accounted for more than 8%. The sales of private wealth management products reached RMB245.5 billion, representing 5.63 times of the previous year, with our market share increased by 2

percentage points. The headcount of our retail business grew by more than 50%, and a mechanism for cross-selling was established. The total number of debit card and Quasi-credit card issued reached 51.22 million, increased by 9.88 million. The cumulative number of credit cards issued exceeded 5 million, representing an increase of over 3 million cards from the previous year.

- Return from treasury operation increased significantly. Operating income from treasury operation increased by 52.63% by capturing favorable opportunities in the market of increasing interest rates, strengthening treasury operation as well as optimizing asset allocation. Benefiting from the vigorous development of China's capital market and by focusing on the utilization of the IPO subscription funds received from and remained after the IPO, the Bank achieved operating income of RMB680 million. The Bank's establishment of the Shibor system placed the Bank in a leading position in

LI Jun
President



President's Statement (Continued)

the industry. The implementation of the linkage between pricing of various business products with Shibor has enhanced interest rate sensitivity of the Bank's market pricing.

- The development of international business reached a new stage. Annual transaction volume of international settlement reached USD159.1 billion, higher than the increase in China's import and export trades for the same period by 13.5 percentage points. The Bank accelerated the development of its businesses such as trade financing, corporate foreign exchange wealth management, "Manjinbao" (滿金寶) and settlement by overseas branches. It is worth mentioning that in 2007, the Bank successfully established a 24-hour cross time zones foreign exchange operating system, being the second Chinese-funded commercial bank to link foreign exchange transactions in Asia, Europe, and the Americas and to provide customers with round the clock foreign exchange services as well as settlement and clearance services in China.

OPERATION WITH DISTINCTIVE FEATURE

- Leading advantage in the wealth management segment was preliminary established. The Bank focused on the improvement of our wealth management system as well as its service channels in order to achieve our strategic goal of "building a first-class public bank and China's best wealth management bank". The Bank's "Win To Wealth" (滙通財富) in corporate business, and "OTO Fortune" (沃德財富) and "BoCom Fortune" (交銀理財) in retail business, all are our unique branded wealth management products or services. The Bank has approximately 200 outlets that offered "OTO Fortune" (沃德財富), which covered most of our major targeted wealth management customers.
- Our comprehensive operation has made substantive progress. In 2007, the Group established BOCOM International Trust and BOCOM Leasing, preliminary established a comprehensive operating platform. In order to strengthen and expand our competitive advantages, the Bank accelerated in improving management and control of its subsidiaries through areas such as system improvement, budget analysis and risk management. The Bank also vigorously promoted the business linkages among the Head Office, subsidiaries, domestic branches as well as overseas branches, attributed to the initial formation of the synergetic development mechanism. In 2007, subsidiaries of the Bank contributed RMB503 million of net profit.
- Our globalization strategy progressed smoothly. As of the end of 2007, the amount of assets of overseas branches of the Bank reached USD17.363 billion, and achieved net profit of USD120 million. These two indicators ranked the Bank in the top three Chinese-funded commercial banks.

REMARKABLE BUSINESS PERFORMANCE

- Our interest spread further increased. The Bank has strengthened its monitoring analysis on the implementation of interest rate contributing to the quarterly increase in the level of interest spread. In 2007, the annual net interest spread and net interest margin was 2.79% and 2.86%, respectively, representing an increase of 9 basis points and 11 basis points, respectively, as compared with the previous year.
- Operating cost was well controlled. Despite the rapid growth in revenue, the Bank implemented effective cost management leading to a decline of the cost to income ratio from 47.66% in the previous year to 40.29% in the current year, representing a decrease of 7.37 percentage points. The ratio was maintained at a relatively favorable level as compared with the industry as a whole.
- Contribution from the revenue from fee-based business significantly increased. In response to market changes and customers' demands, the Bank established new services items on a timely basis and effectively enhanced the earning capabilities of the fee-based business. In 2007, non-interest income doubled, accounting for 13.77% of total income and representing an increase of 4.57 percentage points as compared with the previous year.

CONTINUOUSLY STRENGTHENING OUR FOUNDATION FOR DEVELOPMENT

- Capabilities for implementing the spirit of macro-control policies were further enhanced. Based on the continuous enhancement of the macro-control policies by the government, the Bank employed differentiated management measures including allocating internal credit resources to target customers and core business. The rate of increase of loans to small enterprises and personal loans was higher than the average rate of increase of total loans.
- Our institutional network was further strengthened. The Bank established a provincial branch in Ningxia and four provincial sub-branches in economically developed prefectural-level cities in mainland China. The Bank has also successfully established overseas branches in Frankfurt and Macau, reaching a total of seven overseas branches. The Bank fully implemented the network planning and construction standards, as well as continuously enlarging its efforts in combining and reforming of the Bank's outlets. In 2007, the Bank established 31 new outlets and renovated, adjusted and upgraded 772 outlets, further promoting the Bank's external image and overall functionality.

President's Statement (Continued)

- The market influence over e-banking business continued to increase. The Bank has upgraded its e-banking system and expanded its capacity and has also successfully established the nation-wide centralized customer service centre. The Bank's value of e-banking transaction reached RMB24.8 trillion. E-banking distribution volume accounted for 29.70% of corporate money transfer limit, 43.30% of personal money transfer limit and 78.30% of fund sales, respectively.
- Development of the Bank's processing capability was continuously enhanced. The Bank implemented centralized management of parameters, reformed the management method of chops, vouchers and passwords, adjusted transaction authorizations as well as integrated the business vouchers. Ahead of other banks, the Bank introduced several advanced system including anti-counterfeit seals of bills, cash cashier, drop-in receivable collection, networked enquiry system for personal identification information, as well as management of accounting operational risks. We are the only domestic bank in China to employ anti-counterfeit seal card and e-seal at counters of all outlets, to shift from separate management of chops, vouchers and password to separate management of chops and vouchers, to advance anti-counterfeit technology on cheques and settlement vouching, as well as to use the bills and seal examination results as the basis for recording transactions.
- Continued enhancement of the development of our IT system. The establishment of a local data backup center in Cao He Jing in Shanghai further enhanced the information security policy and the operational management system. The Bank passed the special examination conducted by BSI's international examination team, becoming the first domestic financial institution with ISO20000 authentication.

INTENSIFIED RISK MANAGEMENT AND INTERNAL CONTROL DEVELOPMENT

- Rapid promotion of the development of a comprehensive risk management system. The Bank improved and optimized its risk management system for group customers and related customers. We strictly regulated the review of the calculation of provisions, and successfully ensured consistency between the classification of non-performing loans and impairment loans. In 2007, the total amount of non-performing loans and its proportion to total loans both declined for four consecutive years. The provision coverage reached 95.95%, representing an increase of 23.12 percentage points as compared with the end of the previous year.
- Risk management technology was further enhanced. The Bank became the first bank in China to implement centralized on-line risk measurement for corporate business by promoting the application of advanced risk management tools such as assets risk management system and internal grading system.
- Collection of non-performing loans has made favorable progress. By expanding the collection scope of

the Head Office, revising asset preservation practices of each branch and adjusting management roles on non-performing personal loan, the Bank enhanced the centralization and specialization in assets preservation management. During the year, the total collection and reduction of non-performing assets amounted to RMB13.4 billion.

- Management of internal controls continued to strengthen. Through the implementation of internal control inspection, appointment of the accountant-in-chief remote monitoring and instant warning of accounting risks, as well as IT system risk review, the Bank continued to intensify its inspection and prevention efforts to ensure operational security.

In summary, the Bank made remarkable achievements in 2007. These achievements were contributed from the prosperous performance of China's macro-economy, the proper leadership by the Chinese government, the trust and support of public shareholders and the society, as well as the diligence and efforts of all employees of the Bank. The exchange and cooperation with our strategic partner, HSBC, has reached an optimal phase, which is beneficial to both parties. On behalf of our senior management, I would like to express my gratitude to our friends and to all the employees of the Group.

In 2008, China's banking sector will be facing a more complex and dynamic operational and management environment. Based on the outline of the Bank's reform, development and innovation plan for the next three years, the senior management has formulated comprehensive business development and risk management plans. Our next task is to ensure implementation of the plans and achievement of the goals. We are confident in capturing the opportunities and meeting the challenges, and to continuously maintain strong and rapid business development, enhance sustainable growth in the wealth management function, as well as realize solid and stable risk management. The Group is also confident that it will generate favorable operating results to reward those who have trusted and supported the Group and to embrace the Bank's 100th year anniversary.

President

A stylized handwritten signature in black ink, consisting of several fluid, interconnected strokes.

LI Jun

Chairman of the Board of Supervisors



HUA Qingshan

Chairman of the Board of Supervisors

Management Discussion and Analysis

During 2007, China's economy maintained a steady and rapid development; macro-economy continued to develop well; capital markets were unprecedentedly active; the profits of the enterprises and individual wealth increased significantly – these provide good opportunities for the development of the Group. Macro-control measures brought various impacts on the economy and the market environment. The Group faced new challenges, resulting from the intensified competition in the industry, the increased market volatility and the changes in the needs of the customers. The Group actively responded to the changes in the macro-economy and in the market and further deepened its strategic transformation. In addition, the Group adjusted and optimized its business strategies, deepened its internal reform, and speeded up its development of new businesses. Through these, the Group achieved a good and fast development in its various businesses.

1 OPERATION OVERVIEW

As of 31 December 2007, the Group's total assets were RMB2,110.444 billion, representing an increase of 22.74% as compared with the same at the beginning of the year. The Group realized a net profit of RMB20.274 billion, representing an increase of 65.18% as compared to the Group's net profit of the previous year. Return on average assets was 1.06% and return on average shareholders' equity was 18.16%, representing an increase of 0.28 percentage points and 4.01 percentage points, respectively, compared to the figures of the previous year. The capital adequacy ratio and core capital adequacy ratio (according to the formula promulgated by the PRC banking regulatory authorities, same meaning below unless otherwise stated) were 14.44% and 10.27% respectively, representing an increase of 3.61 percentage points and 1.75 percentage points, respectively, when compared to the same at the beginning of the year.

Management Discussion and Analysis (Continued)

2 BUSINESS REVIEW

Various businesses developed rapidly, and the main indicators fully honored the promises to the market.

During the reporting period, the Group further increased its efforts to develop its businesses, and various businesses developed rapidly. As at the end of the reporting period, the Group's total assets was RMB2,110.444 billion, representing an increase of 22.74% as compared with the same at the beginning of the year; loans and advances to customers (before provision and including interest, same meaning below unless otherwise stated) amounted to RMB1,107.5 billion, representing an increase of 19.42% as compared with the same at the beginning of the year; customer deposits (including interest, same meaning below unless otherwise stated) amounted to RMB1,567.142 billion, representing an increase of 15.84% as compared with the same at the beginning of the year.

Benefiting from a continuous and rapid development of the business during the past three years since our listing (the Group was listed in Hong Kong on 23 June 2005), various indicators of the Group achieved an advanced level in the domestic industry, which fully honored the promises made to the market at the time when the Group was first listed. As at the end of the reporting period, the return on assets and return on shareholders' equity of the Group were 0.96% and 15.25%, respectively, representing an increase of 0.25 percentage points and 1.68 percentage points, respectively, as compared to the same in the previous year, and an increase of 0.82 percentage points and 12.17 percentage points, respectively, as compared to the same in 2004, which shows that there was a continuous improvement in operational results. The percentage of retail business income was 13.76%, representing an increase of 1.40 percentage points as compared to the same in the previous year, and an increase of 3.66 percentage points as compared to the same in 2004. The balance of retail loan reached RMB172.474 billion, representing an increase of 36.75% as compared to the end of the previous year, and the proportion of the retail loan increased by 1.97 percentage points compared to the same at the end of the previous year and by 2.17 percentage points as compared to the same in 2004. This represents a remarkable transformation in the retail business. The impaired loan ratio decreased by 0.48 percentage points from 2.53% at the end of last year to 2.05%, representing a decrease of 0.95 percentage points as compared to the same at the end of 2004. This represents a continuous improvement in the quality of assets. The cost-to-income ratio reached 40.29%, a decrease of 7.37 percentage points as compared to that in the previous year, and a decrease of 20.49 percentage points as compared to the same in 2004, which shows a significant enhancement in the efficiency of the operation.

Business structure continues to optimize; the quality of the business and the level of interest margin improved consistently.

The credit orientation and customer structure of the Group were further optimized. Loans in competitive industries such as transportation, energy and infrastructure, mid and long-term loans with high return, loans to small enterprises and personal loans, all grew rapidly. At the end of the reporting period, the proportion of personal loans and domestic RMB mid- to long-term loans increased by 1.97 percentage points and 6.44 percentage points, respectively, as compared to the same at the beginning of the year. The proportion of domestic corporate loans with grade 1-5 increased by 2.47 percentage points as compared to the same at the beginning of the year.

Taking advantage of the rising interest rates in the market, the Group increased the proportion of bond assets in its treasury operation, focusing on the investment in national bonds and short-term credit coupons with higher credit ratings, and further optimizing the structure of its treasury operation. This significantly increased the rate of return on funds. At the end of the reporting period, RMB bond investment accounted for 25.58% in the total RMB funds of the Bank, representing an increase of 3.38 percentage points, as compared to the same at the beginning of the year.

The Group adjusted its liabilities structure actively, and developed the low costs current deposits and due to other banks and financial institutions. The Group controlled its cost of liabilities effectively. At the end of the reporting period, the Group's current deposits accounted for 59.16% of its total customer deposits, which represented an increase of 7.39 percentage points, when compared with the same at the end of last year. The balance of due to other banks and financial institutions accounted for 16.82% of its total liabilities, representing an increase of 2.33 percentage points when compared to the same at the end of previous year.

As a result of the continuous optimization of the portfolio of the assets and the liabilities and benefiting from the positive effects of various structural interest rise by the central bank, the Group's net interest income increased substantially and reached RMB54.144 billion, representing an increase of 36.03% as compared with the same in the previous year. The net interest spread and net interest margin were 2.79% and 2.86%, respectively, representing an increase of 9 basis points and 11 basis points when compared to that in the previous year. This shows a significant increase in the interest spreads.

Management Discussion and Analysis (Continued)

Fee-based business achieves a significant growth, and revenue structure continues to optimize.

The Group continued to improve its revenue structure, and actively expanded its fee-based business, resulting in a rapid growth of its net fee and commission income. During the reporting period, the Group realized RMB7.095 billion of net fee and commission income, representing an increase of 137.21% as compared to the same in the previous year. This significantly exceeded the growth of net interest income. The net fee and commission income accounted for 11.30% of the net operating income, representing an increase of 4.48 percentage points when compared to the same in the previous year. The Bank realized RMB8.645 billion of non-interest income, an increase of 114.25% as compared to the same in the previous year. The non-interest income accounted for 13.77% of the net operating income, an increase of 4.57 percentage points as compared to the same in the previous year.

The Group seized opportunities in the rapid development of the capital markets, and expanded its fee-based business relating to the capital market. During the reporting period, the Group's fee income derived from its sale of funds reached RMB2.191 billion, representing an increase of RMB2.032 billion as compared to the same in the previous year and was 13.78 times the same in the previous year. This accounted for 26.57% of total fee and commission income, representing an increase of 22.15 percentage points as compared to the same in the previous year.

The Group continued to develop its traditional fee-based business. Its Pacific Credit Card business recorded an increase both in terms of card volume and the average spending amount per card. Revenue derived from the credit cards business reached RMB2.017 billion, representing an increase of 79.77%. The total transaction volume of international settlement was USD159.1 billion, representing an increase of 37% when compared to the same in the previous year, and 13.5 percentage points higher than the growth of the imports and exports of the foreign trade of the country in the same period.

In addition, the Group actively developed new type of business, and expanded the source of its fee-based business income. As at the end of the reporting period, the value of assets under the Group's custody reached RMB567.934 billion, representing an increase of 1.99 times when compared to the same in the previous year. The income derived from its custodian business was RMB530 million, an increase of 2.71 times when compared to the same in the previous year. The development of the investment banking business such as mainland enterprises IPO, short-term financing bonds, financial creditors underwriting and financial advisory service grew rapidly. The income derived from investment banking business was RMB338 million, representing an increase of 1.2 times when compared to the same in the previous year. The impact of the e-banking market continued to increase. The value of e-banking transaction for the year reached RMB24.8 trillion.

Leading position as a wealth management bank has been established on a preliminary basis, and strategic transformation has further been deepened.

The Group continued its strategic restructuring, taking the leading position in establishing and promoting its wealth management banking business among its peers in China.

The Bank gradually introduced its wealth management service brands including "Win To Wealth" ("蕴通财富") for corporate customers, "OTO Fortune" ("沃德财富") for high-income individual customers, and "BoCom Fortune" ("交银理财") for mid-income individual customers and a series of wealth management products such as "Delibao" ("得利宝"). This basically establishes a framework for the wealth management banking business.

The Group actively improved its wealth management banking channels. As at the end of the reporting period, "OTO Fortune" outlets reached nearly 200, and the layout of its network effectively covered its major targeted wealth management clients. The Group also established a 24-hour cross time zone foreign exchange operating system. The Group is the second Chinese bank to integrate the foreign exchange transactions among Asia, Europe and America with all-day operation.

Management Discussion and Analysis (Continued)

The Group actively expanded its business in respect of the mid to high income customers, whose contribution is ever-increasing. It became the driving force for business development. As at the end of the reporting period, the newly increased assets of the individual mid to high income customers amounted to RMB159.7 billion, accounting for 92.70% of all newly increased individual assets managed by the Group.

Active business and product innovation. Differentiation operation strategy achieved remarkable achievements.

During the reporting period, the Group seized the market hot spots, and developed new business and products. This gradually increased the differentiation and strengthened the Group's competitive advantages.

For business between bank and futures companies, the Group was the first bank to launch a national centralized fund transfer system between bank and futures companies and 80 companies has registered with this system. The Group successfully obtained the qualification as the sole custodian bank qualification for the futures investors' protection fund, and is actively preparing itself to become one of the first batch of financial futures special clearing member units. So far as investment banking is concerned, the Group accelerated its development of mainland enterprises IPOs, short-term financing bonds, financial creditors underwriting and financial advisory service. The Group acted as the lead underwriter of China's first financial bonds, and underwrote the offerings of three out of the first seven financial bonds. The Group's market share in the financial bonds underwriting business was the largest. In respect of the retail business, the Bank launched a series of new financial products such as Delibao (“得利寶”), “Xin Gu Sui Xin Da” (“新股隨心打”) and “Ji Jin Ding Tou” (“基金定投”). The sales of Delibao (“得利寶”) over the year were RMB37.4 billion. In respect of promoting market-oriented interest rates, the Group led its peers in the industry by the introduction of the Shibor system, which linked the market-oriented pricing products such as discounted bills, interbank financing, currency swap and negotiated deposits with Shibor. In its custodian business, the Group launched and acted as a custodian of the first debt assets-backed products in the domestic insurance assets management industry.

Promote establishment of distribution channels and development of workflow process to continually improve standard of service.

The Group further enhanced service capacity and service quality through speeding up the development of outlets, increasing investment in self-service equipment, enhancing service supervision, and building a centralized customer service center. The Group established a provincial branch in Ningxia and four provincial sub-branches in prefectural-level cities where the economies are well developed. 31 new outlets were newly established. The Group also renovated and upgraded 772 outlets, and installed 2,000 new self-service machines. The total number of self-service machines reached approximately 9,000. The number of domestic self-service outlets reached 2,476. Centralized customer service center was built and was operating smoothly. The customers' call completion rate during daytime was over 90%, and there were significant improvements in the network distribution and the service environment.

At the same time, the Group actively promotes the functional banking implementation. The Group implemented the bank-wide centralised management with data centralised core accounting system as the important business parameter. The Group became the first bank in China adopting a centralized encrypted remittance service. This saved more than 1,000 back-office staff and effectively reduced the operating costs and operating risk and improved the service efficiency remarkably.

Breakthrough in internationalisation and comprehensive operations. Creating a basic cross-market operation.

The Group accelerated its expansion in overseas business and its overseas strategic operations. As a result of its active preparation, the Group officially opened its Frankfurt and Macau branches on 22 October 2007 and 1 November 2007, respectively. There are 7 overseas branches in total. All the overseas branches are operating well. At the end of the reporting period, the assets of the overseas branches reached USD17.363 billion, representing a growth of 20.38% as compared to the beginning of the year. The net profit was USD120 million, representing a growth of 10.09% as compared to the same in the previous year.

Management Discussion and Analysis (Continued)

The Group promoted a comprehensive business, and accelerated its activities in investment and mergers and acquisitions. The Group set up two subsidiaries, namely BOCOM International Trust and BOCOM Leasing. The Group, which made strategic investment in CRCB, was the first listed bank in the country to invest in a rural financial institution. Business of subsidiaries grew rapidly that BOCOM Schroder, BOCOM Insurance and BOCOM International delivered good business results, contributing RMB503 million to the net profit of the Group during the reporting period.

Based on the effective implementation of internationalisation and comprehensive strategy, the Group has set up a continually improving cross market business structure with its core business in the country and continuous expansion of its overseas operations; and a core commercial banking business supplemented by other financial organisations.

The comprehensive risk management was further promoted. Internal control and risk management capabilities were steadily improved.

During the reporting period, the Group further promoted a comprehensive risk management. The Group created innovative risk management tools, and speeded up our compliance to the standards under new Basel. The Group successfully launched various risk management tools, such as asset risk management system and internal rating method. The Group implemented “full consolidation” management over its subsidiaries, and strengthened the Group’s overall risk management. The Group strengthened its collection and disposal of non-performing assets, and enhanced concentration and specialization of foreclosed assets. Non-performing assets of RMB13.4 billion were collected or disposed in the year. The Group further enhanced its internal control through the implementation of various systems and measures such as internal control scouts, appointment of the responsible accountants, distant remote monitoring of risks in accounting process with real-time alarm notification, and IT system risk inspections.

As a result of its sound risk management and internal control, the Group did not invest in US sub-prime mortgage bonds and was not directly affected by the sub-prime mortgages crisis. At the same time, the Group further enhanced the quality of its loans. The amount of its impaired loans continued to decline, and the impairment loan ratio further declined to 2.05%. The provision coverage was 95.95%, representing an increase of 23.12 percentage points from the end of the previous year. The provision coverage for impaired loans reached 142.82% when the statutory general provision of RMB10.636 billion was taken into account.

Budget management and cost control continued to be strengthened and the level of profitability increased significantly.

While the Group achieved a rapid growth in various businesses, it continued to intensify its efforts on budget management and cost control. During the reporting period, operating expenses of the Group amounted to RMB25.295 billion, representing an increase of 21.06% as compared with that of the previous year. The increase in the operating expenses is significantly less than that of the net operating income. The cost to income ratio reached 40.29%, representing a decrease of 7.37 percentage points as compared with that of the previous year. Operational efficiency further enhanced. Benefiting from the substantial growth in revenue and effective cost control, the Group's profitability significantly improved and realised a net profit of RMB20.274 billion during the reporting period, representing an increase of 65.18% from the previous year or an increase of 76.52% as compared to the previous year if the impact of the one-time income tax charge of RMB1.392 billion is not taken into account. The level of profitability reached a record high.

A successful return to the A share market and the issue of subordinated debt further enhanced the capital and financial strength.

The Group implemented its capital plan orderly, thus resulting a more comprehensive capital replenishment mechanism. During the reporting period, the Group successfully returned to the A share market raising RMB24.750 billion and at the same time issued subordinated debt of RMB25 billion in the inter-bank market for the first time. The total capital was increased and the capital structure was improved. As at the end of the reporting period, the capital adequacy ratio reached 14.44%, representing an increase of 3.61 percentage points compared with that at the beginning of the year. The core capital adequacy ratio reached 10.27%, representing an increase of 1.75 percentage points as compared to that at the beginning of the year. The capital adequacy ratio increased remarkably as compared to the beginning of the year. As both capital and financial strength are improving, the market capitalisation of the Group has been increasing and reached approximately RMB700 billion as at the end of the reporting period, ranking the Group within the top 20 among global banks.

Management Discussion and Analysis (Continued)

Achievements in reform and development won wide recognition. Both market image and reputation have been enhanced considerably.

Since the listing of the Group, the achievements in reform and development of the Group over these three years won wide recognition both domestically and internationally, and our market image and reputation have been enhanced considerably. The Group was awarded the “Best Bank in China” by authoritative international financial magazines “Euromoney”. The Bank was named as the “Best Corporate Governance Bank” and the “Best Innovative Management Bank” by the magazine “The Banker”. The Bank received the “Best Wealth Management Award” at “The 21st Century Asian Financial Annual Meeting and 2007 Asian Bank Competitiveness Rankings”. The “Delibao” series of financing products received the “Best Innovation Award for RMB Financial Products” presented by the magazine “Money Weekly” and the Group was awarded by World Brand Lab with the honorable title of “Chinese Brands Annual Award (No.1)” in the bank category for the third consecutive year.

3 FINANCIAL RESULTS

3.1 Operating profit before tax

For the year ended 31 December 2007, operating profit before tax was RMB31.114 billion, representing an increase of RMB13.709 billion or 78.76% over the last year. The operating profit before tax derived mainly from net interest income and net fee and commission income.

The table below shows certain information of the Group’s operating profit before tax for the periods indicated:

	<i>(in millions of RMB)</i>	
	As of 31 December	
	2007	2006
Net interest income	54,144	39,803
Net fee and commission income	7,095	2,991
Impairment losses on loans and advances	(6,380)	(5,538)
Operating profit before tax	31,114	17,405

3.2 Net interest income

For the year ended 31 December 2007, the Group realized net interest income of RMB54.144 billion, representing an increase of RMB14.341 billion or 36.03% as compared with the previous year.

The table below sets forth the principal components of the Group's interest income, interest expense and the associated net interest margin and net interest spread for the periods indicated:

<i>(in millions of RMB, except percentages)</i>		
As of 31 December		
	2007	2006
Interest Income		
Balances with central banks	3,438	2,096
Due from other banks and financial institutions	5,971	4,863
Loans and advances to customers	65,417	46,599
Investment securities	15,493	10,985
Total interest income	90,319	64,543
Interest expense		
Due to other banks and financial institutions	(10,182)	(5,425)
Due to customers	(25,993)	(19,315)
Total interest expense	(36,175)	(24,740)
Net interest income	54,144	39,803
Net interest spread <i>(Note 1)</i>	2.79% <i>(Note 3)</i>	2.70% <i>(Note 3)</i>
Net interest margin <i>(Note 2)</i>	2.86% <i>(Note 3)</i>	2.75% <i>(Note 3)</i>

Notes:

1. This represents the difference between the average yield on the Group's total average interest-earning assets and the average cost of the Group's total average interest-bearing liabilities.
2. This represents the ratio of net interest income to average interest-earning assets.
3. This eliminates the impact of wealth management products.

Net interest spread and net interest margin increased as compared with the previous year. The main reasons are: (1) the asset and liability structure has been further optimized. The proportion of the medium and long term loans, retail loans and loans to small enterprises increased, and the proportion of current deposits also increased continuously; (2) the PBOC has revised the benchmark loan interest rate for six times, and such revision was favorable to the increase in return on loans and advances to customers. Return on loans and advances to customers increased by 63 basis points as compared to the previous year.

Management Discussion and Analysis (Continued)

The table below shows the average daily balances and interest rates of the Group's interest-earning assets and interest-bearing liabilities for the dates indicated:

	<i>(in millions of RMB, except percentages)</i>					
	2007			As of 31 December		
	Average balance <i>(Note 1)</i>	Interest income	Average Yield/ (cost)	Average balance <i>(Note 1)</i>	2006 Interest expense	Average yield/ (cost)
Assets						
Cash and balances with central banks	230,754	3,438	1.49%	146,190	2,096	1.43%
Due from other banks and financial institutions	170,501	5,971	3.50%	142,158	4,863	3.42%
Loans and advances to customers	1,033,547	65,417	6.33%	818,166	46,599	5.70%
Of which: corporate loan	833,761	53,171	6.38%	629,514	37,557	5.97%
retail loan	143,856	9,046	6.29%	115,254	6,559	5.69%
discount bill	55,930	3,200	5.72%	73,398	2,483	3.38%
Investment securities and others	468,799	15,493	3.30%	351,993	10,985	3.12%
Total interest earning assets	1,890,040 <i>(Note 2)</i>	89,658 <i>(Note 2)</i>	4.74%	1,446,109 <i>(Note 2)</i>	64,005 <i>(Note 2)</i>	4.42%
Non interest earning assets	89,867			71,814		
Total assets	1,979,907 <i>(Note 2)</i>			1,517,923 <i>(Note 2)</i>		
Liabilities and shareholders' equity						
Due to customers	1,503,688	25,993	1.73%	1,248,240	19,315	1.55%
Of which: Corporate deposits	999,427	16,382	1.64%	810,976	12,122	1.49%
Retail deposits	504,261	9,611	1.91%	437,264	7,193	1.64%
Due to other banks and financial institutions	297,787	8,690	2.92%	155,499	4,851	3.12%
Subordinated bonds	32,445	1,492	4.60%	12,000	574	4.78%
Total interest bearing liabilities	1,820,359 <i>(Note 2)</i>	35,514 <i>(Note 2)</i>	1.95%	1,403,341 <i>(Note 2)</i>	24,202 <i>(Note 2)</i>	1.72%
Shareholders' equity and non interest bearing liabilities	159,548			114,582		
Total liabilities and shareholders' equity	1,979,907 <i>(Note 2)</i>			1,517,923 <i>(Note 2)</i>		

Notes:

- Daily average balance calculated under the Generally Accepted Accounting Principles of the People's Republic of China and adjusted in accordance with International Financial Reporting Standards.
- This eliminates the impact of wealth management products.

The table below shows the changes in the Group's interest income and interest expense due to changes in transaction volume and interest rates. Transaction volume and interest rate variance have been calculated based on movements in average balances over these periods and changes in interest rates on interest-earning assets and interest-bearing liabilities.

	2007 vs 2006			<i>(in millions of RMB)</i> 2006 vs 2005		
	Increase/(decrease) due to			Increase/(decrease) due to		
	Volume	Interest rate	Net increase/(decrease)	Volume	Interest rate	Net increase/(decrease)
Interest-Earning Assets						
Cash and balances with central banks	1,212	130	1,342	305	(24)	281
Due from other banks and financial institutions	970	138	1,108	880	607	1,487
Loans and advances to customers	12,267	6,551	18,818	6,440	3,855	10,295
Investment securities and other	3,645	863	4,508	2,651	149	2,800
Change in interest income	18,094	7,682	25,776	10,276	4,587	14,863
Interest-Bearing Liabilities						
Due to customers	3,953	2,725	6,678	2,760	1,550	4,310
Due to other banks and financial institutions	4,439	(600)	3,839	1,695	629	2,324
Subordinated Bonds	978	(60)	918	(10)	27	17
Changes in interest expenses	9,370	2,065	11,435	4,445	2,206	6,651

Management Discussion and Analysis (Continued)

3.3 Net Fee and Commission

For the period ended 31 December 2007, the Group achieved net fee and commission income of RMB7.095 billion, representing an increase of RMB4.104 billion or 137.21% compared to the previous year. The increase was primarily due to the following reasons: (i) sales of funds increased substantially. In 2007, commission income from fund sales accounted for 26.57% of the total fee and commission income, representing an increase of 22.15 percentage points compared to the previous year; (ii) the Pacific Credit Card business recorded simultaneous increases in card volume and consumption per card, giving rise to robust growth in card business income. Revenue from bank card business increased by 79.77% as compared to the previous year and its proportion reached 24.46%; (iii) the scale of and the revenue from the custodian assets increased rapidly. The scale of custodian assets reached RMB567.934 billion, representing an increase of 1.99 times from the previous year, while the bank realized custodian business income of RMB530 million, representing an increase of 2.71 times as compared to the previous year; (iv) the development of mainland enterprises IPO, short-term financing bonds, financial creditors underwriting and financial advisory are all accelerated. Revenue from investment banking operations reached RMB338 million, representing an increase of 1.2 times as compared to the previous year.

The table below sets forth the components and structures of the Group's fees and commission income for the periods indicated:

	<i>(in millions of RMB)</i>	
	As of 31 December	
	2007	2006
Settlement and agent service commission income	1,744	1,124
Bank card annual fee and commission income	2,017	1,122
Guarantee and commitment commission income	399	329
Custodian commission income	530	143
Fund sales commission income	2,191	159
Funds management commission income	614	118
Other commission income	750	599
	8,245	3,594

3.4 Other operating expenses

For the year ended 31 December 2007, other operating expenses of the Group amounted to RMB25.295 billion, representing an increase of RMB4.4 billion or 21.06% from the previous year.

The cost-to-income ratio of the Group continued its descending trend, from 47.66% in previous year to 40.29% of the reporting period, representing a decrease of 7.37 percentage points. The decrease was mainly due to a substantial increase in net operating income by 43.23%, which exceeded the 21.06% increase in operating costs. A series of cost control measures also contributed to these satisfactory results.

3.5 Impairment losses on loans and advances

The Group's impairment losses on loans and advances consisted of impairment losses on impaired loans and advances to customers (less recovery of loans previously written off) and the provisions for due from other banks and financial institutions as well as securities purchased under resale agreements.

The impairment losses on loans and advances increased from RMB5.538 billion in the previous year to RMB6.380 billion of the reporting period. The credit cost ratio reached 0.58%, representing a decrease of 0.02 percentage points from the last year.

3.6 Income tax

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

	<i>(in millions of RMB)</i>	
	As of 31 December	
	2007	2006
Current Tax	9,643	7,139
Deferred Tax	1,069	(2,003)

For the period ended 31 December 2007, the Group and its subsidiaries which were established in the PRC are subject to the PRC statutory tax rate of 33%. The Group's Hong Kong branch and its subsidiaries in Hong Kong were subject to tax rate of 17.5% for the period ended 31 December 2007. The Group's overseas branches were subject to the income tax rates of the respective jurisdictions where they were located.

Management Discussion and Analysis (Continued)

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"), which is effective from 1 January 2008. Under the new CIT Law, the corporate income tax rate decreases from 33% to 25%. According to the International Accounting Standards No.12, the deferred tax assets and deferred tax liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. As a result of the change in the applicable tax rate, the Group suffered from a one-time increase of income tax of RMB1.392 billion for the period ended 31 December 2007.

4 ASSETS

As of 31 December 2007, the Group's total assets amounted to RMB2,110.444 billion, achieving an increase of RMB390.961 billion or 22.74% from the beginning of the year. The four principal components of the Group's assets were loans and advances to customers (after provision), investment securities, cash and balances with central banks and due from other banks and financial institutions, representing 51.45%, 25.88%, 12.39% and 7.40% of the Group's total assets, respectively.

The table below sets forth the outstanding balance of the principal components of the Group's total assets at the dates indicated:

	<i>(in millions of RMB)</i>	
	As of 31 December	
	2007	2006
Loans and advances to customers		
corporate loans <i>note</i>	900,536	725,892
retail loans <i>note</i>	172,474	126,128
discounted bills <i>note</i>	31,480	72,805
interest receivables	3,010	2,580
Loans and advances to customers		
before provision	1,107,500	927,405
Impairment losses on loans and advances	(21,776)	(17,098)
Loans and advances to customers	1,085,724	910,307
Assets held for trading	19,445	12,995
Investment securities	546,096	387,873
Cash and balances with central banks	261,433	253,941
Due from other banks and financial institutions	156,110	118,623

Note: No provision has been made for impairment losses on corporate loans, retail loans and discounted bills.

4.1 Loan Business

The Group adheres to the China's macro-control policies, strictly controlled its credit scale and rationally adjusted the pace of loan authorization so as to keep its loan business growing at an appropriate rate while capturing the good opportunities to further optimize its loan portfolio. As at 31 December 2007, the Group's total outstanding loans and advances to customers amounted to RMB1,107.5 billion, representing an increase of RMB180.095 billion or 19.42% from the beginning of the year. The loans to deposits ratio (excluding any interest receivable and interest payable) reached 71.00%, achieving an increase of 2.20 percentage points from the beginning of the year. Customer loans other than discounted bills (excluding any interest receivable) became the major component contributing to the surge of customer loans and advances. Such loans increased by RMB220.990 billion or 25.94% from the beginning of the year. Retail loans increased by RMB46.346 billion or 36.75% from the beginning of the year, which both were higher than the average increase of loans.

(1) *Industry Concentration*

In accordance with the country's energy saving and industrial emission reduction policy, the Group has revised its bank-wide loan authorization guidelines twice and issued seven policies covering industries including real estate, infrastructure construction, education and hospital. The Group has also implemented differentiated loan authorization management procedures in each domestic and overseas branch, namely "one branch one policy". The Group focused its credit resources on key business sectors such that its loan distribution can accommodate economic dynamics, industry structure upgrade and energy saving and environmental protection policies. In 2007, the Group increased its support to small and medium enterprises, energy saving and environment protection enterprises, independent innovation enterprises and "three rural" enterprises particularly. The increase in loans granted to these enterprises were much higher than the Bank's average increase in total loans. At the same time, the Group strictly controlled its lending to industries such as real estate, iron and steel. In addition, loans to customers in "high energy consumption and high emission" industries reduced by RMB7.8 billion.

Management Discussion and Analysis (Continued)

The table below sets forth the industry distribution of loans and advances to customer of the Group as of the dates indicated:

<i>(in millions of RMB, except percentages)</i>				
As at 31 December				
	2007		2006	
Corporate loans				
Manufacturing				
– Petroleum and chemical	50,245	4.54%	41,227	4.45%
– Electronics	30,823	2.78%	26,917	2.90%
– Steel	29,345	2.65%	26,448	2.85%
– Machinery	38,725	3.50%	25,592	2.76%
– Textile	24,170	2.18%	20,420	2.20%
– Other manufacturing	123,860	11.18%	100,141	10.80%
Transportation	120,484	10.88%	93,035	10.03%
Trading	98,172	8.86%	81,945	8.84%
Services	99,617	8.99%	79,630	8.59%
Real estate	78,080	7.05%	65,962	7.11%
Utilities	85,457	7.72%	63,289	6.82%
Construction	48,805	4.41%	35,961	3.88%
Educations and scientific research	26,993	2.44%	25,521	2.75%
Post and telecommunications	11,078	1.00%	11,456	1.24%
Agriculture	2,609	0.24%	2,440	0.26%
Non-banking financial institutions	13,792	1.25%	13,020	1.40%
Others	18,281	1.65%	12,888	1.39%
Corporate loans total	900,536	81.32%	725,892	78.27%
Mortgage loans	112,941	10.20%	83,417	9.00%
Medium-term and long-term working capital loans	22,709	2.05%	17,626	1.90%
Short-term working capital loans	11,333	1.02%	10,321	1.11%
Car loans	4,534	0.41%	3,932	0.42%
Credit card advances	7,929	0.72%	2,054	0.22%
Loans secured by deposits	–	–	1,284	0.14%
Others	13,028	1.17%	7,494	0.81%
Individual loans total	172,474	15.57%	126,128	13.60%
Discounted bills	31,480	2.84%	72,805	7.85%
Interest receivables	3,010	0.27%	2,580	0.28%
	34,490	3.11%	75,385	8.13%
Gross amount of loans and advances to customers before allowance for impairment	1,107,500	100.00%	927,405	100.00%

(2) Borrower Concentration

Under the existing PRC banking regulations, the total outstanding credit exposure to a single group customer must not exceed 15% of the net regulatory capital of a bank whereas the total outstanding loans to a single borrower shall not exceed 10% of the net regulatory capital. The Group currently complies with these regulatory requirements.

The table sets forth the loan balances to the top 10 single borrowers of the Group during the periods indicated:

<i>(in millions of RMB, except percentages)</i>			
As at 31 December 2007			
	Industry	Loan Balance	Proportion to total loans
Customer A	Construction	4,379	0.40%
Customer B	Electricity	4,250	0.38%
Customer C	Transportation and Warehouse	4,145	0.37%
Customer D	Manufacturing	4,000	0.36%
Customer E	Services	3,361	0.30%
Customer F	Manufacturing	3,084	0.28%
Customer G	Post and telecommunications	3,050	0.28%
Customer H	Transportation and warehouse	3,012	0.27%
Customer I	Transportation and warehouse	3,000	0.27%
Customer J	Transportation and warehouse	2,980	0.27%
Top 10 customers total		35,261	3.18%

(3) Geographical Concentration

The Group's loans and advances to customers were concentrated in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta regions. Loans to borrowers from the above regions accounted for 65.44% of the total loans and advances to customers outstanding (excluding interest receivable) as of 31 December 2007.

Management Discussion and Analysis (Continued)

(4) *Loan Quality*

The Group continued to focus on risk management of key procedures. The Group has also expedited the progress of building its overall risk management framework and successfully introduced various risk management tools such as asset risk management system and corporate business internal grading system to further enhance its risk management techniques. Through its efforts, the Group further improved its loan quality. As at 31 December 2007, the impaired loan ratio was 2.05%, representing a decrease of 0.48 percentage points from the end of the previous year; the credit-cost ratio was 0.58%, representing a decrease of 0.02 percentage points from the previous year; the provision coverage of impaired loans increased from 72.83% as at the end of the previous year to 95.95%, representing an increase of 23.12 percentage points as compared to the end of the previous year. Taking into account the statutory and general reserves of RMB10.636 billion, the Group's provision coverage of impaired loans stood at 142.82%.

A loan is impaired if there is objective evidence that not all amounts due would be recovered under the original contract terms of such loan. The table below sets forth certain information of the Group's individually identified impaired loans and loans overdue by more than 90 days as of the dates indicated:

	<i>(in millions of RMB, except percentages)</i>	
	31 December 2007	31 December 2006
Individually identified impaired loans	22,694	23,477
Loans overdue by more than 90 days	19,708	19,768
Loans with impairment to gross loans balance (percentage)	2.05%	2.53%

The Group has adopted two methods to assess impairment for loan portfolios: individually assessed method and collectively assessed method. The Group first assesses whether objective evidence of individual impairment exists for all loans. If the Group determines that objective evidence of impairment exists for an individually assessed loan, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimate future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognized in the profit and loss account. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, it collectively assesses the loan in the loan portfolios with similar credit risk characteristics for impairment. Future cash flows in loan portfolios that are collectively evaluated for impairment are estimated on the basis of the contractual cash flow and historical loss experience for assets with similar credit risk characteristics, and adjusted according to the actual situation.

As at 31 December 2007, the total impairment allowances for loans of the Group was RMB21.776 billion, representing an increase of RMB4.678 billion from the pervious year. In 2007, the amount of impairment allowances for loans made reached RMB6.615 billion, which was higher than that of 2006, being RMB5.748 billion, and the main reason was the rapid growth of the loan business.

The table sets forth movement in provisions for impaired loans of the Group as of the dates indicated:

	<i>(in millions of RMB)</i>	
	As at 31 December	
	2007	2006
Balance at the beginning of the year	17,098	12,601
Impairment allowances for loans charged to profit and loss account	10,349	8,980
Reversal of impairment allowances for loans	(3,734)	(3,232)
Unwind of discount on allowances	(654)	–
Loans written off during the year as uncollectible	(1,121)	(1,147)
Exchange differences	(162)	(104)
Balance at the end of the year	21,776	17,098

Management Discussion and Analysis (Continued)

(5) Customer Structure

The Group strengthened the limits on comprehensive contribution indicators for its loan business to constantly optimize the customers' structure. As at 31 December 2007, corporate customers of the Group's domestic branches were classified based on the 10-class credit rating system. The outstanding loan balances to class 1 to class 5 high quality customers amounted to 74.37% of the total outstanding loan balance, increased by 2.47 percentage points from the beginning of the year; the outstanding loan balances to class 6 to class 7 customers amounted to 19.56% of the total outstanding loan balance, decreased by 1.04 percentage points from the beginning of the year; the outstanding loan balances to class 8 to class 10 customers amounted to 2.33%, increased by 0.13 percentage points from the beginning of the year.

4.2 Treasury Business

Benefiting from the increase in market interests, the Group strengthened its fund management, optimized the structure of its treasury operation, enhanced its internal control and risk management, and the revenue from its fund management business has been increasing. With liquidity and security as prior concerns, the Group has further enhanced the efficiency of its fund management. As at 31 December 2007, the Group's average balance of investment securities amounted to RMB468.799 billion, increased by RMB116.806 billion or 33.18% from the previous year; the yield rate of investment securities reached 3.30%, increased by 18 basis points from the last year, which has effectively improved the profitability of the Group's assets.

5 LIABILITIES

As at 31 December 2007, the total liabilities of the Group reached RMB1,977.123 billion, increased by RMB348.135 billion or 21.37% from the beginning of the year. Customer deposits of the Group accounted for 79.26% of the total liabilities of the Group. The principal sources of funds were from corporate and individual deposits. The deposit structure of the Group was sound, which provided the Group with a stable funding source. During the reporting period, the amount of corporate deposits increased by 21.66% and accounted for 63.81% of the total deposits; the amount of individual deposits increased by 6.16% and accounted for 34.55% of the total deposits, thereby providing a stable funding source for loan and investment business.

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

	<i>(in millions of RMB)</i>	
	31 December 2007	31 December 2006
Corporate deposits	1,000,040	822,009
including: Corporate current deposits	699,289	512,030
Corporate saving deposits	7,785	6,151
Corporate time deposits	292,966	303,828
Individual deposits	541,446	510,034
including: Individual current deposits	227,796	188,299
Individual saving deposits	14,295	14,183
Individual time deposits	299,355	307,552

6 BUSINESS OF THE MAJOR SUBSIDIARIES AND INVESTED ENTITIES

During the reporting period, the Group established BOCOM International Trust and BOCOM Leasing and invested in CRCB. In 2007, BOCOM Schroder, BOCOM International and BOCOM Insurance (both BOCOM International and BOCOM Insurance are located in Hong Kong) achieved sound operating results and contributed significantly to the growth of the Group's profit.

- (1) BOCOM Schroder: It was established in August 2005 with registered capital of RMB200 million. The company is owned as to 65% by the Bank. During the reporting period, the assets managed by BOCOM Schroder grew from RMB292 million at the beginning of the year to RMB892 million and the net profit of the company reached RMB364 million.

Management Discussion and Analysis (Continued)

- (2) BOCOM International Trust: It is a subsidiary acquired by the Bank in September 2007 and was originally established by the change of name of Hubei International Trust Investment Company Limited. It has a registered capital of RMB1.2 billion and is the first domestic trust company to be controlled by a commercial bank. The Bank's investment in the company amounted to RMB1.22 billion and holds 85% of its shares. The business scope of the company covers 11 major business categories including fund trust, asset trust, real estate trust and property trust.
- (3) BOCOM Leasing: It was established in December 2007 and was wholly-owned by the Bank with registered capital of RMB2 billion. The business scope of the Company mainly covers leasing of electricity, telecommunications and leasing of heavy equipment such as ships, aircrafts and other engineering equipments.
- (4) BOCOM International: In May 2007, the Group established BOCOM International and its subsidiaries including BOCOM Asset Management Limited, BOCOM International Securities Limited and BOCOM International (Asia) Limited upon the business restructuring and integration of BOCOM Securities Company Limited. The business scope of BOCOM International principally covers investment banking, stock brokerage as well as stock trading and investment. After the restructuring, the brokerage and investment banking businesses grew rapidly and the growth of the financing business has become a focal point. The company achieved a net profit of HKD225 million, increased by 2.63 times as compared with that of the previous year.
- (5) BOCOM Insurance: It was established in November 2000 and is principally engaged in the provision of property and accident insurance products. In June 2007, the company was renamed as China BOCOM Insurance Company Limited (formerly known as China Communications Insurance Company Limited). The company actively developed its liability insurance business, and by adapting the dynamics of the Hong Kong capital market, optimized its assets structure. Investment income increased rapidly. The company achieved a net profit of HKD51.03 million, representing an increase of 45.37% from the previous year.
- (6) CRCB: The Bank invested RMB380 million in CRCB, which represents 10% stake in CRCB, and became the largest shareholder of CRCB. In November 2007, the Group entered into the strategic cooperation agreement and technical support and business cooperation agreement with CRCB. The Bank obtained the formal approval for the acquisition from CBRC on 24 December 2007. The Bank has become the first major commercial bank in the PRC to strategically invest in a rural commercial bank.

The table below sets forth the shareholding and financial positions of the Bank's major subsidiaries and invested entities during the reporting period:

Name of Major Subsidiaries	Registered Capital	Investment		Financial Position as at 31 December 2007		
		Amount of Investment	Percentage of Shareholding	Total assets	Total liabilities	Net Assets
Bank of Communications Schroder Fund Management Co., Ltd	RMB200	RMB130	65%	RMB892.06	RMB223.18	RMB668.88
Bank of Communications International Trust Co., Ltd	RMB1,200	RMB1,220	85%	RMB1,275.44	RMB49.85	RMB1,225.59
Bank of Communications Financial Leasing Co., Ltd	RMB2,000	RMB2,000	100%	RMB2,006.15	RMB7.06	RMB1,999.09
BOCOM International Holdings Company Limited	HKD1,000	HKD800	100%	HKD3,832.01	HKD2,434.03	HKD1,397.98
China BOCOM Insurance Company Limited	HKD400	HKD400	100%	HKD602.79	HKD74.63	HKD528.16
Jiangsu Changshu Rural Commercial Bank Co., Ltd.	RMB518	RMB380	10%	RMB28,707.27	RMB26,854.25	RMB1,853.02

7 CAPITAL ADEQUACY RATIO

As at 31 December 2007, the capital adequacy ratio of the Group was 14.44% and the core capital adequacy ratio was 10.27%, representing an increase of 3.61 percentage points and 1.75 percentage points from the end of the previous year, respectively. During the reporting period, the Group implemented its capital plan orderly. In the first half of 2007, the Group successfully issued subordinated debt in the amount of RMB25 billion and raised RMB24.750 billion through A share listing. The capital of the Group has been effectively replenished. As a result, the capital adequacy ratio of the Group improved significantly as compared to the beginning of the year. In addition, the Group endeavoured to maintain solid and sound operation and this also helped to enhance the capital adequacy ratio.

The capital adequacy ratio is calculated in accordance with the guidelines promulgated by CBRC and based on the methods of computation stipulated by the regulatory authorities.

Management Discussion and Analysis (Continued)

8 SEGMENTAL OPERATING RESULTS

8.1 Segmental operating results by geographical segments

A geographical segment refers to a specific economic environment under which the Group operates and which gives rise to potential risks and returns that are different from other environments in which the Group operates.

The table below sets forth the net profit and the total revenue from each of the Group's geographical segments during the periods indicated:

	<i>(in millions of RMB)</i>			
	As at 31 December			
	2007	2006		
	Net profit/(loss)	Total ^(Note 1) revenue	Net profit/(loss)	Total ^(Note 1) revenue
Northern China	2,950	16,717	1,888	11,383
Northeastern China	829	6,002	(770)	4,907
Eastern China	7,144	36,813	4,809	25,502
Central and Southern China	4,313	18,702	2,361	12,751
Western China	1,376	7,412	1,011	5,642
Overseas	960	8,450	797	6,241
Head Office	2,844	19,483	2,173	12,090
Eliminations	(14)	(13,465)	–	(9,335)
Total	20,402	100,114	12,269	69,181

Notes:

1. Including interest income, fee and commission income, dividend income, gains less losses arising from trading activities, gains less losses from de-recognition of investment securities and other operating income.
2. Including minority interests.

8.2 Segmental deposit/loan results by geographical segments

The table below sets forth the deposit balance and loan balance from each of the Group's geographical segments as of the dates indicated:

	<i>(in millions of RMB)</i>			
	31 December 2007		31 December 2006	
	Deposit Balance	Loan Balance	Deposit Balance	Loan Balance
Northern China	270,655	209,844	224,698	164,116
Northeastern China	132,207	64,102	126,292	58,739
Eastern China	605,658	440,670	507,109	369,300
Central and Southern China	324,907	222,589	284,003	182,059
Western China	150,311	93,660	132,305	81,658
Head Office	636	9,110	123	12,056
Overseas	71,225	64,515	69,647	56,897
Total	1,555,599	1,104,490	1,344,177	924,825

Notes:

1. Deposit balance excludes interest payable.
2. Loan balance excludes interest receivable.

Management Discussion and Analysis (Continued)

8.3 Segmental operating results by business segments

The Group's business is mainly divided into four segments: corporate banking, retail and private banking, treasury operation and other businesses. Corporate banking segment remained the primary source of profit for the Group and accounted for 83.08% of the Group's total operating profit before tax. The table below shows the operating results of each of the Bank's business segments for the periods indicated:

	<i>(in millions of RMB)</i>		
	As at 31 December		
	2007	2006	2007
	Total	Total	Operating
	Revenue	Revenue	profit
			before tax
Corporate Banking	60,479	41,254	25,848
Retail and Private Banking	13,772	8,548	5,628
Treasury Operation	25,405	18,512	1,940
Other businesses	458	867	(2,302)
Total	100,114	69,181	31,114

9 RISK MANAGEMENT

The Group actively promotes its comprehensive risk management and continuously improves its internal control systems to ensure the Group's secure and sound operation under a reasonable level of risk.

The Bank's board of directors is responsible for the Group's overall risk management strategy, the supervision of the Group's risk management and internal control systems, and the overall risk assessment of the Group. In accordance with the risk management strategies determined by the Board, the senior management develops and facilitates the implementation of appropriate risk management policies, systems and procedures. In 2007, the Bank established the role of Chief Risk Management Officer to assist the governor in leading the Group's comprehensive risk management work and enhancing its continuing development.

The Bank's Risk Monitoring Department, Asset Preservation Department, Credit Authorization Department, the five regional credit authorization center, Retail Credit Department, Asset and Liability Management Department and Legal and Compliance Department constitute the main functional departments of the Group's risk management for carrying out the Group's risk management policies and regulations. Through vertical management and a closely connected and centralised management of provincial and overseas branches, the head office manages and supervises the risk conditions of branches at all levels. Through bilinear matrix reporting mechanisms, the head office takes up the overall risk management and control across all lines of business.

The Group faces mainly credit risk, liquidity risk, market risk and operational risk during business operation. Market risk refers to foreign exchange risk, interest rate risk and other pricing risk.

Credit Risk Management

Credit risk is the risk of a borrower or counterparty failing to meet due contractual obligations. Credit risk exists primarily in corporate loan, retail credit and treasury operations of the Group.

The Group implements standardized management throughout the whole credit process, including credit check and reporting, credit authorization investigation and approval, loan drawdown, post lending supervision and non-performing loan management. The development, promotion and application of our internal credit rating system for corporate and retail loan, the wholesale application and regular updating of the credit risk management manual, the development and promotion of various risk management information systems and the continuous adjustment and optimization of our credit orientation and credit structure all contributed to the Group's timely and effective identification, measurement, monitoring and management of potential credit risk at various aspects.

(1) Corporate loan credit risk management

Credit Check and Reporting: The Group's credit officers are responsible for collecting credit application documents, carrying out pre-lending investigation, assessing credit risk of applicants and their business and giving credit rating recommendations.

Management Discussion and Analysis (Continued)

Credit Authorization Investigation and Approval: According to different credit authorisation limits, there are branch-level and regional credit authorization approval centers and head office credit approval system. Credit limit is determined after considering an applicant's credit standings, financial status, status of pledge and guarantee, overall credit risk of loan portfolio, macro-control policies as well as the requirements under the relevant laws and regulations. In 2007, taking advantage of the five regional credit authorisation centers which are close to the regional and local economy, the head office further strengthened its control over credit risk. At the same time, the Group closely followed the trend of state's macro-control, strengthened the management of state policies and guidelines on loan business and the regional differences and continuously improved the structure of our loan portfolio. During the reporting period, the credit business in relation to transportation, petroleum, petrochemical, equipment manufacturing, power grids and other supported industries was steadily developed, whereas the credit business in relation to concerned sectors such as real estate, iron and steel, textile and education was effectively controlled. The structure of our borrower portfolio was continuously optimized.

Loan Drawdown: Loan Granting Centres at branch level are responsible for the Group's loan drawdown. A Loan Granting Centre assesses applications according to credit limits and ensures the legality, regularity, completeness and validity of the relevant loan documentations before the drawdown of the loan.

Post-lending monitoring: The Group's credit officers are responsible for regular and irregular post-lending monitoring. The Group has established a sound early warning system and implements daily risk monitoring via application of a series of tools and methods such as risk filtering, watch list and risk warning. In 2007, the launch and implementation of the Assets Risk Management System throughout the Bank further enhanced the post-lending risk filtering process, strengthened the management of the watch list and customers who are on the list and greatly improved the efficiency of post-lending risk monitoring. At the same time, the Group focused on the risk management of group customers and related enterprises. It strengthened the investigation of potential risk of group customers using the risk filtering process and actively promoted risks reduction strategies among the Bank's major group customers.

Non-performing Loan Management: The Group's Asset Preservation Department is responsible for the collection and disposal of the Group's corporate and retail non-performing loans. The Group handles non-performing loan by way of collection, restructuring, disposal of security, recourse to the guarantors, litigation, arbitration and write-off according to the regulatory requirements and endeavours to reduce the loss from credit risk suffered by the Group.

(2) Retail loan credit risk management

Currently, the Group's Retail Credit Department employs a centralized management of credit risk of the Bank's retail loans. The Group attaches importance to the borrower's pre-lending credit check and business operation authenticity review. The loan drawdown of both retail loans and corporate loans are collectively managed at the Loan Granting Centres. The Group continuously strengthens its retail loan collection processes and transfers non-performing retail loans to Assets Preservation Department for collection or disposal.

The Group continually standardizes and improves the risk management of retail loans. It plans to establish and optimize a series of new policies, methods, tools and techniques based on the framework of internal controls, policies and systems, standard process and risk control measures in order to enhance the level of our retail business risk management in three years time.

In 2007, the Group implemented a series of concrete measures to continuously strengthen retail loan risk management, including: on-site inspection and implementation of major reporting policy to manage the overall status of retail business risk; improvement of the individual credit management system to intensify the monitoring and advance warning on daily risk; amending the retail loan manual to further regulate the retail operation process, establishment of risk inspection mechanisms to strengthen the prevention and control of the risk of fake mortgage, and introduction of the concept of watch list management to set in place an advance risk management control.

Management Discussion and Analysis (Continued)

(3) Credit risk classification and management methods

For corporate loans, the Group determines impaired credit assets via its asset risk management system daily by using the three-tier risk filtering method and discounted cash flow to estimate the expected loss resulting from each corporate loan. For impaired credit assets, the Group formulates an action plan for each customer and appoints designated personnel to collect or dispose of such assets, and makes a provision for allowance of impairment loss according to the expected loss. For non-impaired corporate loans, taking into account customers' credit standings, financial status and repayment capability, the Group uses an internally developed 10-class credit rating system for management of such corporate loans. Customers with class 1-5 were considered by the Group as high-quality customers, class 6-7 were considered as general quality customers and class 8-10 were considered as risk quality customers. The Group adopts different business strategies depending on customers' different grading.

The Group manages retail loans by category based on the overdue status and guarantee type. With regard to the non-overdue retail customers, the Group strengthens their management through regular visits to customers, and puts potentially higher risk customers into watch lists for exclusive management. For overdue retail customers, the collection approach differs according to overdue duration. Retail loans overdue for longer than a certain period of time are treated as impaired assets for management and impairment provisions are made accordingly.

(4) Treasury credit risk management

The Group maintains control limits on treasury operations with counterparties of other financial institutions, whose credit authorization are approved by the headquarter. Treasury credit risk is managed through a careful selection of counterparties, timely focus on risk, comprehensive reference to internal and external credit rating information, split-hierarchy credit grading system and examination and adjustment of credit limits using a real-time credit limit management system.

Liquidity risk management

Liquidity risk is the risk that the Group does not have sufficient liquidity to meet its payment obligations associated with its financial liabilities when they fall due. The Group's liquidity risk mainly arises from early or concentrated deposit withdrawals, borrowers' extended loan repayment and asset and liabilities maturity mismatch.

The Group manages liquidity risk centrally. Liquidity of the Bank is regularly reviewed by the Bank's Treasury department (for Renmenbi) and International Banking Department (for foreign currency) respectively to monitor the daily liquidity risk.

Based on forecasts of the liquidity requirement, the Group formulates appropriate liquidity management programs, conducts regular analysis of the macroeconomic situation, the central bank's monetary policy and the capital market activities and actively manages the liquidity of the Bank. Principal measures include: (i) maintaining liability stability and raising the proportion of core deposit in liabilities; (ii) setting parameters and limits to monitor and manage the Bank's liquidity position and implementing centralized management and application of currency by the headquarter; (iii) maintaining an appropriate proportion of central bank reserve, interbank overnight and highly liquid debt investment, and actively participating in open market, money market and bond market to ensure favorable financing capacity; (iv) reasonably matching the assets maturity structure to avoid liquidity risk through multiple levels of liquidity portfolio; (v) signing overdraft contracts with other banks, and establishing early warning mechanisms and liquidity contingency plans.

As of 31 December 2007, indicators relating to the Bank's liquidity are as follows:

Major regulatory indicators		As of	As of	Change
		31 December 2007 (%)	31 December 2006 (%)	(percentage points)
Liquidity Ratio ^(Note 1)	RMB and Foreign Currency Combined	27.07	33.62	-6.55
Loan-to-deposit ratio ^(Note 2)	RMB	62.60	60.55	2.05
	Foreign Currency	74.80	61.39	13.41
Deposit reserve ratio ^(Note 3)	RMB	3.76	11.55	-7.79

Notes:

- Liquidity ratio = Outstanding balance of current assets as of the end of the reporting period/Outstanding balance of current liabilities as of the end of the reporting period, which is calculated in accordance with CBRC's guidelines.
- Loan-to-deposit ratio = Outstanding balance of various loans (excluding discounted bills) as of the end of the reporting period/Outstanding balance of the deposits as of the end of the reporting period.
- Deposit reserve ratio = (Reserve in PBOC in excess of the regulatory requirements+ cash)/Outstanding balance of various RMB deposits.

Management Discussion and Analysis (Continued)

In 2007, the factors affecting the Group's liquidity are mainly as follows: (i) due to the rapid development of the capital market, there is a change in the Group's deposit structure largely resulting from increased share of deposits from other banks. The instability of deposits from other banks increased the volatility of the Group's liquidity; and (ii) the PBOC's raising of its reserve ratio on 10 occasions by a total of 5.5 percentage points reduced the Group's available funds and resulted in an impact on the Group's liquidity.

Market Risk Management

Market risk refers to the risk of loss in on- and off-balance sheet positions of the Bank's operations as a result of adverse changes in market price. The principal types of market risk for the Group are interest rate risk, exchange rate risk and other price risks. Market risks exist in the Group's trading book and banking book.

As a specialised management department, the Group's Asset and Liability Management Department centralizes its market risk management. The Group has set up a market risk limits management system and has refined and standardized the market risk management processes and reporting mechanisms. Audit Department performs regular audits of market risk management.

The trading book records the Group's tradable financial assets and liabilities in treasury transaction including derivatives. The Group set up position limits to manage the market risk of the trading book. Primary controls include the setting up of transaction limits, stop-loss limits, exposure limits and risk limits on the trading book and a systematic monitoring of the limits. With respect to operation, the Group manages market risks of the portfolio in the trading book through the introduction of parameters such as duration, convexity and basis point combined with an analysis of the market environment and position distribution of the Group. Moreover, the appropriate use of financial derivatives and other transactions achieved the control and hedging of market risk in the trading book.

The banking book records the Group's non-tradable financial assets and liabilities. The primary market risk for the Group's banking book is mainly interest rate risk and exchange rate risk.

The Group uses the analysis of Value at Risk (VaR) for monitoring and measuring market risk in part of trading book. Sensitivity analysis is the Group's main method to assess and measure market risk in the trading book and banking book.

(1) Interest rate risk

Interest rate risk mainly arises from the impact on the fair value of tradable assets and liabilities arising from mismatches in the repricing periods of the Group's assets and liabilities and the movement of market interest rate. The Group performs regular monitoring of the gap in the repricing period with interest rate sensitivity through gap analysis system, taking the initiative to adjust the proportion of floating-rate and fixed-rate assets to manage the interest rate risk.

(2) Exchange Rate Risk

The Group's exchange rate risk mainly arises from trading risk of the Bank's trading and agency foreign exchange trading and the structural risk of maintaining certain foreign currency positions and operating overseas. Based on the Group's risk tolerance and operation status, it seeks to manage and control bank exchange rate risk by setting limits, by controlling and intensifying the matching of the currency structure of assets and liabilities and by appropriate application of financial derivatives instruments under the support of various trading systems and management information systems.

(3) Other Price Risk

Other price risk is largely derived from the equity investments held by the Group and other commodity price linked derivatives. Most equity investment arises from foreclosed assets or other historical reasons. The Group deems that other price risk faced by the Group is not significant.

Operational Risk

Operational risk refers to the direct or indirect risk of losses caused by inadequate or improper internal processes, systems, issues in human resources or external events. Under the leadership of the Board of Directors and senior management, the Group's Risk Management Department assists in forming the Bank's operational risk management system. Business and management departments at all levels perform their specific operational risk management functions within the scope of their responsibilities.

Management Discussion and Analysis (Continued)

The Group focuses on managing the operational risk of accounting settlement, e-banking and information technology management and continually enhances operational risk prevention and control capacity on risky cases and case accountability.

The Group's accounting operational risk is managed under the model of "unified standard, three-level management". In 2007, the Group adopted factor lists for operational risk assessment and check as well as continuous improvement. The Group also explores and practises qualitative classification and quantitative grading standards of accounting for operational risk. It develops and applies accounting operational risk management systems and improves internal control systems covering almost all aspects of accounting and operational risk, thereby reducing significant accounting operational risks.

The Group has set up a monitoring system for e-banking operational risk in daily operations and has built long-term risk management mechanisms. In 2007, the Group reinforced management for operational risk in e-banking business through improving the management system, constantly optimizing e-banking operational processes, strengthening security measures of important transactions as well as intensifying management of e-banking account opening and early warning of risks.

The Group constantly standardizes and improves its information technology production system, strengthening the unified planning and management. In 2007, the Group upgraded its information technology operational risk management through establishing a sound IT management system and mechanism, strengthening professional standards for information technology management, establishing a local data backup center and implementing inspection mechanism in computer operation security.

In 2007, through intensified monitoring of policy implementation, the Group strengthened prevention, early warning and investigations of anti-fraud and operational risk cases, strictly regulated irregularities accountability and enhanced the digital control and management centralization of security guard. These factors help contribute to the avoidance of major significant economic events and accidents.

Anti-money Laundering

The Group has gradually set up an Anti-Money Laundering (AML) system based on its organisational infrastructure with internal control at its core and protected by the IT system platform. This has resulted in the strengthening of the Group's awareness of AML. In 2007, Shanghai branch and Beijing branch of the Group were both honored for assisting case-handling agencies in tackling serious money laundering cases. Various lines and departments at all levels of the Group work together with joint efforts to build up a dragnet to prevent and combat money-laundering crimes.

10 INTERNAL CONTROL MANAGEMENT

In 2007, the Group continues to improve its internal control structure and promote comprehensive risk management in its bid to ensure that the internal control measures are effectively implemented.

Firstly, based on a platform of front, middle and back offices with clear duties assigned, mutual constraints, specialization and an integrated internal control system, the Bank continues to improve its structure with reference to the latest requirements for business development and risk management, and during the reporting period: established the role of Chief Risk Management Officer to strengthen comprehensive and integrated risk management, established the Investment Management Division to accelerate the pace of comprehensive operation and improve the management of strategic investment; re-integrated the retail business segments to promote the development of personal financing business and strengthen risk management of retail loans; established the Assets and Liabilities Management Department to enhance market risk management and promote the implementation of new capital agreement. At the same time, the Bank adjusted its second-tier institutions under ten departments such as Credit Authorization Department, Business Sales Department and the International Business Department to strengthen and rationalize the duties in these divisions and the internal constraints therein.

Management Discussion and Analysis (Continued)

Secondly, based on a data centralization project, the Bank continues to develop systems for business development, management support and internal control and supervision, and gradually implement the computerization and electronic information access development of the Bank's overall business development and management. Firstly, a total of more than 20 business systems relating to teller counter, corporate, fiduciary, notes and treasury business have been launched. Secondly, systems for regulatory information delivery, data exchange, personnel recruitment and budgeting have been activated to accelerate information transmission and further improve management efficiency. Thirdly, more than 10 systems such as asset risk control, accounting operational risk management, anti-money laundering for monitoring of suspicious transactions, treasury back office and audit support are put into operation, which provide multi-directional enhancements to risk monitoring, investigation and early warning.

At the same time, in accordance with "2005-2007 comprehensive risk management framework", the Group continues to promote the implementation of various risk management measures. Firstly, for credit risk, the Group steadily promoted its internal rating project for corporate and retail business and a comprehensive updating of credit asset risk classification, and strengthened the monitoring of key risk industries and fields through measures such as issuing credit orientation guidelines, industry-specific guide and establishment of positions for retail loan risk examination. Secondly, for market risk, the Group strengthened the coordination and integration of RMB and foreign currency risk management, and established "Management Guideline on Classification of Financial Instruments in Treasury Business" to facilitate the management on financial instruments of the treasury business. The Group has completed the first phase of OPICS and has gradually integrated the back office processing platforms for Renminbi and foreign currency treasury business. The Group also strengthened the risk management of its notes business, promoted the "Operation Manual on Notes Business" and started to implement the scorecard management of notes business. Thirdly, for operational risk management, the Group optimized business processes to achieve concentration of parameter and ciphertext, retail business documentation integration and direct connection to the core banking system for corporate and retail business. At the same time as we continued to introduce accounting director appointment system, the Group has also started to introduce finance director appointment system. Meanwhile, the Group enhanced the monitoring of key aspects of operational risk such as cash, cashbox and

reconciliation between bank and corporations. It has further improved the cashbox management regulations and reconciliation procedures between the Bank and corporations with the development of an electronic reconciliation system. Fourthly, for anti-money-laundering, the Group formulated “Anti-Money Laundering Management Policy” and the “Anti-Money Laundering Management Policy on Customer Risk Levels”. It conducted onsite inspections of anti-money laundering work of some branches. Fifthly, for information technology, the Group was certified with ISO20000, an IT service and management system certification, and formulated management regulations for contingent events to strengthen the ability to deal with contingencies.

Through the effective implementation of the above measures, the Bank has further improved its internal control and risk management competency, and effectively promoted the sound development of various business with no major economic incidents or accidents during the year. In 2008, the Bank will continue to accelerate the building of a processing bank and promote operation process reengineering, optimize the risk management systems, gradually form “four internal control defenses – front office business department – specialized line management department – full-time risk management department – internal audit department”; strengthen market risk and liquidity risk management by further integrating market risk management framework and strictly preventing liquidity risks; further enhance compliance management and prevent operational risk; earnestly implement the country’s macro-control policies and perform well across its credit risk management activities.

11 COOPERATION WITH HSBC

There has been three years of strategic cooperation between the Bank and HSBC in 2007. Pursuant to the cooperation agreement between the parties, the two banks have carried out broad and in-depth collaboration in the fields of technical support, credit card business and other businesses. Through the cooperation, the Bank has been able to share HSBC’s advanced management philosophy and experiences. At the same time, HSBC achieved prosperous returns from the Bank’s sustainable business growth. HSBC’s reputation and influence in mainland market have also been significantly strengthened. The cooperation between the two banks is mutually beneficial and leads to a win-win situation.

In 2007, the senior management of HSBC and the Bank closely communicated with each other. Periodic meetings have been held between the Chairmen and CEOs of HSBC and the Bank. At the level of executive chairman, conferences have also been held frequently to discuss and promote a closer cooperation between the two banks.

Management Discussion and Analysis (Continued)

The implementation of the Technical Support and Assistance (TSA) Program continued. A total of five experts from HSBC have been to the Bank to provide the Bank with guidance on various key projects in the areas including internal grading system, corporate culture and brand building, management accounting and human resources management reform and 11 personnel were seconded to the Bank from HSBC. During the reporting period, 30 senior management personnel from the Group attended on-site training at HSBC and 438 man-times attending the lectures and training courses conducted by HSBC. As at the end of the reporting period, a total of 1,109 man-times have attended the lectures and training courses conducted by HSBC. At the same time, the Bank's experts also provided HSBC with guidance on its data centre relocation project and training courses on RMB bank notes anti-counterfeiting measures and enterprise credit management were also arranged. In August 2007, the three-year term of the TSA agreement between the parties expired. The parties entered into a Technical Cooperation Exchange (TCE) Agreement for a term of three years. The new agreement changed the manner of cooperation from unilateral technical support and assistance from HSBC to the Bank into mutual communication and cooperation by way of the exchange of experts for provision of guidance, lectures, training and exchange programme.

Important progress was achieved in the business cooperation between the parties in 2007. There were a total of 55 cooperation projects involving 47 types of specific products. The development of the parties' cooperation project of credit card business has gained a strong momentum. As at the end of 2007, the total number of credit cards issued exceeded 5 million, representing an increase of more than 3 million cards as compared to the previous year, and the consumption per card exceeded RMB12,000. The parties also carried out broader collaboration across various areas including corporate business, personal finance, international business and treasury operation while specifically focusing on the joint marketing, co-branded products and IT cooperation. A series of co-branded products such as Express Remittance and China Express have received positive market responses.

Given the confidence in the Bank's future development and the prospects of the cooperation between the parties, HSBC increased its shareholding in the Bank to 19.15% by making purchasing in the secondary market in Hong Kong from 18.6% at the time when the Bank's A share listing was completed. In the future, the parties will continue to strengthen their communication and coordination, and handle their cooperation and competing interests properly. The parties will further enhance the effectiveness of their technical cooperation and exchange, continuously broaden the scope of business cooperation, and seek cooperation opportunities in the areas of securities, insurance and pension funds to the extent permitted by law and policies.

12 2008 OUTLOOK

In the outlook for the year 2008, the economic environment in which we operate will continue to undergo changes. Firstly, macro-control will be further strengthened. As a result, the Group's business development and asset quality will face more challenges. Secondly, competition with other banks will further intensify. Competition to attract high quality customers as well as new businesses will become more intense. The Group will have increasing cost pressures to meet the ever-changing and increasing demands for higher quality customer services. Thirdly, there will be more market fluctuation and the stability of business development will face new challenges. Fourthly, under the continued appreciation of Renminbi, the pressure from the shortage of foreign exchange and control of foreign exchange exposures may further increase. Fifthly, with further integration and more comprehensive operation, the Group's risk management and internal controls will face more challenges in a diversified operating environment.

Facing the above issues and challenges and based on the reform and development experiences accumulated over the past three years, the Group will launch a new three-year development plan in order to actively adjust its development approach, improve corporate governance, strengthen risk management, maintain operational compliance, enhance customer service ability, improve market competitiveness and achieve the goal of making Bank of Communications into a first-class public bank as well as the best wealth management bank. The Group will focus on the following key missions:

Firstly, we will identify profitable business opportunities, currently under-developed business and innovative business taking into account their current level of development and their future potential, adopt a diversified marketing strategy and security mechanism and achieve a more harmonious and stable development of each type of business. Secondly, we will further improve our network, strengthen distribution channels, accelerate product innovation, enhance wealth management functions and strive towards becoming the best wealth management bank. Thirdly, we shall earnestly implement macro-control policies, focus on transformation goals, optimize business structure and further improve operating management capability. Fourthly, we must optimize resources distribution and security, strengthen the development of operation networks, human resources as well as IT function and further improve service quality. Fifthly, we shall follow the guidance from comprehensive risk management plan for the next three years and further strengthen internal control and risk management by focusing on the development of processing bank. Sixthly, we should pay close attention to the US subprime mortgage crisis and its global economic impact, and take effective measures to positively cope with such. Finally, we must accelerate the business development of subsidiaries, construct a comprehensive operating platform with distinct features and work towards the overall improvement and develop synergy between the Bank and its subsidiaries.

交通銀行

Rich History



In 2007, with the support of our shareholders, our customers as well as the community at large, the Group has once again achieved excellent operating results.

Outstanding Capability



Details of Changes in Share Capital and Shareholdings of Substantial Shareholders

1. DETAILS OF CHANGES IN SHARE CAPITAL

As at 31 December 2007, the Bank had a total of 418,217 shareholders, of which 369,743 were holders of A shares and 48,474 were holders of H Shares.

	1 January 2007		Increase/decrease as a result of the change				31 December 2007		
	Number of shares	Percentage (%)	Shares issued	Bonus shares	Shares transferred from the surplus reserve	Others	Sub-total	Number of shares	Percentage (%)
I. Shares subject to restriction on sales									
1. State-owned shares	13,181,997,864	28.78	-	-	-	-	-	13,181,997,864	26.91
2. Shares held by State-owned legal persons	7,329,448,924	16.00	-	-	-	-	-	7,329,448,924	14.96
3. Shares held by other domestic investors									
Comprising:									
Shares held by domestic non									
state-owned legal persons	2,204,427,331	4.81	1,595,176,487	-	-	(638,071,341)	957,105,146	3,161,532,477	6.45
Shares held by domestic natural persons	-	-	-	-	-	-	-	-	-
4. Shares held by foreign investors									
Comprising:									
Shares held by foreign legal persons	9,138,693,541	19.95	-	-	-	-	-	9,138,693,541	18.65
Shares held by foreign natural persons	-	-	-	-	-	-	-	-	-
II. Shares not subject to restriction on sales									
1. RMB-denominated ordinary shares	-	-	1,595,174,000	-	-	638,071,341	2,233,245,341	2,233,245,341	4.56
2. Domestic listed foreign shares	-	-	-	-	-	-	-	-	-
3. Overseas listed foreign shares	13,949,465,556	30.46	-	-	-	-	-	13,949,465,556	28.47
4. Others	-	-	-	-	-	-	-	-	-
III. Total	45,804,033,216	100	3,190,350,487	-	-	-	3,190,350,487	48,994,383,703	100

Considering that the A share offering would provide the Bank with funds required for its ongoing business development, establish a new financing platform, resolve the share redesignation issue and enhance the competitiveness of the Bank, the Bank completed an initial public offering of 3,190,350,487 A shares of the nominal value of RMB1.00 each at an offer price of RMB7.90 each in China in April 2007, as approved by the CSRC and the Shanghai Stock Exchange. The proceeds of the A share offering (after deducting issue expenses) is RMB24.750 billion and have been used to strengthen the capital base of the Bank. The A shares of the Bank were listed on the Shanghai Stock Exchange on 15 May 2007. Upon completion of the A share offering and as at 31 December 2007, the Bank had a total of 48,994,383,703 shares in issue, comprising 25,929,915,567 A shares and 23,064,468,136 H shares.

2. PARTICULARS OF SHAREHOLDINGS OF THE TOP 10 SHAREHOLDERS SUBJECT TO RESTRICTION ON SALES, TOP 10 SHAREHOLDERS, TOP 10 SHAREHOLDERS NOT SUBJECT TO RESTRICTIONS ON SALES

(1) Particulars of Shareholdings of the Top 10 Shareholders subject to Restriction On Sales

Pursuant to the Investor Rights Agreement entered into with the strategic investor, HSBC at the listing of the Bank's H Shares, HSBC shall not sell or transfer the 7,774,942,580 shares of the Bank it subscribed on 18 August 2004 and the 1,340,060,000 shares of the Bank it subscribed during the H Share public offering until after 18 August 2008. Upon the completion of the Bank's H Share public offering, HSBC held an aggregate of 9,115,002,580 H Shares of the Bank.

As stated in the section headed "Restriction on Sales over the Shareholdings in the Bank held by the then Shareholders prior to this Offering and Voluntary Share Lock-up Undertaking" in the A share prospectus, as of 31 December 2007, the total A shares of the Bank in issue were 25,929,915,567, of which 23,696,670,226 shares are subject to restrictions on sales. Among these shares, the lock-up period of 13,243,135,005 shares will expire on 15 May 2008, the lock-up period of 478,552,573 shares will expire on 15 November 2008 and the lock-up period of 9,974,982,648 shares will expire on 15 May 2010.

Particulars of the Top 10 Shareholders subject to Restrictions on Sales as at 31 December 2007:

Name of shareholder	Number of shares subject to restrictions on sales	Date on which shares become tradeable	Number of tradeable shares	Restrictions
Ministry of Finance of People's Republic of China	9,974,982,648	16 May 2010	9,974,982,648	36 months
The Hongkong and Shanghai Banking Corporation Limited	9,115,002,580	19 August 2008	9,115,002,580	contractual undertaking
Capital Airports Holding (Group) Company	985,447,500	16 May 2008	985,447,500	12 months
State Grid Corp of China	451,445,193	16 May 2008	451,445,193	12 months
Shanghai Tobacco (Group) Corp.	378,328,046	16 May 2008	378,328,046	12 months
Yunnan Hongta Group Co. Ltd.	346,787,979	16 May 2008	346,787,979	12 months
Sinopec Finance Company Limited	304,320,800	16 May 2008	304,320,800	12 months
Huaneng Capital Services Corporation Ltd.	268,501,276	16 May 2008	251,001,276	12 months
		16 November 2008	17,500,000	18 months
Daqing Petroleum Administration Bureau	233,151,118	16 May 2008	233,151,118	12 months
China National Cereals, Oils and Foodstuffs Corp.	213,106,024	16 May 2008	195,606,024	12 months
		16 November 2008	17,500,000	18 months

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

(2) Particulars of Shareholdings of the Top 10 Shareholders (according to the Bank's register of shareholders maintained at its share registrar)

Name of shareholder	Nature of Shareholders	Shareholding percentage	Total number of shares held	Number of shares subject to restriction on sales	Number of pledged or frozen shares (Note 1)
HKSCC Nominees Limited (Note 2)	Foreign	22.02%	10,786,214,629	–	
Ministry of Finance of the People's Republic of China	State	20.36%	9,974,982,648	9,974,982,648	
The Hongkong and Shanghai Banking Corporation Limited (Note 3)	Foreign	18.60%	9,115,002,580	9,115,002,580	
Central SAFE Investments Limited	State	6.12%	3,000,000,000	–	
Capital Airports Holding (Group) Company	State-owned	2.01%	985,447,500	985,447,500	
State Grid Corp of China	State-owned	0.92%	451,445,193	451,445,193	
Shanghai Tobacco (Group) Corp.	State-owned	0.77%	378,328,046	378,328,046	
Yunnan Hongta Group Co. Ltd.	State-owned	0.71%	346,787,979	346,787,979	
Sinopec Finance Company Limited	Domestic legal person	0.62%	304,320,800	304,320,800	
Huaneng Capital Services Corporation Ltd.	State-owned	0.55%	268,649,276	268,501,276	

Notes:

- The Bank is not aware of whether the shares held by the above shareholders have been pledged or frozen, nor the existence of any connections between the above shareholders.
- This represent the aggregate number of shares held by HKSCC Nominees Limited as nominee for all institutional and individual investors that maintains an account with it as of 31 December 2007. According to the information provided by SSF, SSF held 5,555,555,556 H shares of the Bank, representing 11.34% of the total issued share capital of the Bank and all these shares have been transferred to HKSCC Nominees Limited. (Similarly hereinafter)
- According to the Bank's register of shareholders kept by Computershare Hong Kong Investor Services Limited, HSBC held 9,115,002,580 H shares of the Bank as of 31 December 2007. In addition, according to the disclosure of interests form filed with the Hong Kong Stock Exchange by HSBC Holding plc. HSBC beneficially owned 9,312,013,580 H shares of the Bank and, through its subsidiaries, indirectly held 69,470,681 H shares as of 31 December 2007. In aggregate, HSBC held 9,381,484,261 H shares of the Bank, representing 19.15% of the total issued share capital of the Bank. (Please refer to the section headed "4. Substantial Shareholders and Holders of Interests or Short Positions Required to be Disclosed under Divisions 2 and 3 of Part XV of the Hong Kong Securities and Futures Ordinance" for details.) (Similarly hereinafter)

(3) Particulars of Shareholdings of the Top 10 Shareholders not subject to restriction on sales (according to the Bank's register of shareholders maintained at its share register)

Name of shareholder	Number of shares held	Shareholding percentage	Type of shares
HKSCC Nominees Limited	10,786,214,629	22.02%	H Share
Central SAFE Investments Limited	3,000,000,000	6.12%	H Share
Industrial and Commercial Bank of China – Nuoan Securities Investment Fund	100,592,929	0.21%	A Share
Bank of China – Dacheng Blue-chip Securities Investment Fund	44,619,457	0.09%	A Share
Taihe Securities Investment Fund	33,999,956	0.07%	A Share
Industrial and Commercial Bank of China – Nuoan Value Growth Securities Investment Fund	28,227,982	0.06%	A Share
Bank of China – Dacheng Wealth Management Lifecycle 2020 Securities Investment Fund	27,795,133	0.06%	A Share
China Merchants Bank Co., Ltd. – Everbright and Pramerica Advanced Configuration Securities Investment Fund	27,591,475	0.06%	A Share
Industrial and Commercial Bank of China – E Fund Value Growth Securities Investment Fund	23,524,761	0.05%	A Share
Industrial and Commercial Bank of China – Hua An Small and Medium-Cap Growth Securities Investment Fund	23,300,000	0.05%	A Share
Connected relations and concerted action between the above shareholders:	Save and except that certain of the above shareholders are managed by the same legal person, the Bank is not aware of any connected relations between the above shareholders or whether they are parties acting in concert.		

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

3. SHAREHOLDERS WITH 5% OR ABOVE SHAREHOLDING IN THE BANK

(1) Ministry of Finance

Ministry of Finance is a department under the State Council responsible for various matters including overseeing the country's fiscal revenue and expenditure and taxation policies. The address is No.3, Nansanxiang, Sanlihe, Xicheng District, Beijing.

As at 31 December 2007, Ministry of Finance held 9,974,982,648 shares of the Bank, representing 20.36% of the total issued share capital of the Bank. These shares were neither pledged nor subject to any disputes.

(2) HSBC

HSBC is a wholly-owned subsidiary of HSBC Holdings plc. It is principally engaged in banking and financial services. It is one of the founding members of HSBC Holdings plc, the largest licensed bank in Hong Kong and one of the three note-issuing banks in Hong Kong. In 2004, the Bank introduced HSBC as its strategic investor in order to promote the development of the Group having considered its abundant experience in risk management, capital management, products innovation and financing business. The registered address is 1 Queen's Road Central, Hong Kong.

As at 31 December 2007, HSBC, directly or indirectly through its subsidiaries, held 9,381,484,261 H shares of the Bank, representing 19.15% of the total issued share capital of the Bank. These shares were neither pledged nor subject to any disputes.

(3) SSF

SSF is a government agency on the ministerial level directly under the State Council. It is responsible for the management and operation of the national social security fund, the management of the proceeds derived from reduction of state-owned shares, funds allocated by the central government and capital raised in other manners, and the selection and engagement of asset management companies for operation of the fund assets so as to seek capital appreciation of assets. The registered address is Fenghui Times Mansion, No.11, Fenghuiyuan, Xicheng District, Beijing.

As at 31 December 2007, SSF held 5,555,555,556 H shares of the Bank, representing 11.34% of the total issued share capital of the Bank. These shares have been transferred to HKSCC Nominees Limited. These shares were neither pledged nor subject to any disputes.

(4) SAFE Investment

SAFE Investment is a wholly state-owned company with limited liability. It is principally engaged in equity investment and capital management. The registered address is Pingan Mansion, No.23, Jinrong Road, Xicheng District, Beijing.

As at 31 December, SAFE Investment held 3,000,000,000 H shares of the Bank, representing 6.12% of the total issued share capital of the Bank. These shares were neither pledged nor subject to any disputes.

4. SUBSTANTIAL SHAREHOLDERS AND HOLDERS OF INTERESTS OR SHORT POSITIONS REQUIRED TO BE DISCLOSED UNDER DIVISIONS 2 AND 3 OF PART XV OF THE HONG KONG SECURITIES AND FUTURES ORDINANCE

As of 31 December 2007, the substantial shareholders and other persons (other than the Bank's directors, supervisors and chief executive) who had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the Hong Kong Securities and Futures Ordinance (the "SFO") are as follows:

Name of substantial shareholder	Capacity	Number of A Shares	Nature of interest (<i>Note 1</i>)	Approximate percentage of issued A Shares (%)	Approximate percentage of total issued Shares (%)
Ministry of Finance of the People's Republic of China	Beneficial owner	9,974,982,648	Long position	38.47	20.36

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

Name of substantial shareholder	Capacity	Number of H Shares	Nature of interest (Note 1)	Approximate percentage of issued H Shares (%)	Approximate percentage of total issued Shares (%)
National Council for Social Security Fund	Beneficial owner	5,555,555,556	Long position	24.09	11.34
Central SAFE Investments Limited	Beneficial owner	3,000,000,000	Long position	13.01	6.12
The Hongkong and Shanghai Banking Corporation Limited	Beneficial owner	9,312,013,580	Long position	40.37	19.01
	Interest of controlled corporations (Note 2)	69,470,681	Long position	0.30	0.14
	Total:	9,381,484,261		40.67	19.15
HSBC Finance (Netherlands)	Interest of controlled corporations (Note 3)	9,381,484,261	Long position	40.67	19.15
HSBC Bank plc	Interest of controlled corporations (Note 4)	309,481	Long position	0.0013	0.0006
HSBC Holdings plc	Interest of controlled corporations (Note 5)	9,381,793,742	Long position	40.67	19.15

Notes:

1. Long positions held other than through equity derivatives.
2. HSBC holds 62.14% interest in Hang Seng Bank Limited. Pursuant to the SFO, HSBC is deemed to be interested in the H shares of the Bank (referred to as "H Shares" in this section) which are held by Hang Seng Bank Limited.

Hang Seng Bank Limited is deemed to be interested in the 69,470,681 H Shares held by its wholly-owned subsidiaries. Such 69,470,681 H Shares represent the aggregate of 7,139,564 H Shares indirectly held by Hang Seng Bank (Bahamas) Limited, 61,532,838 H Shares directly held by Hang Seng Bank Trustee International Limited and 798,279 H Shares directly held by Hang Seng Bank (Trustee) Limited.

Hang Seng Bank (Bahamas) Limited is deemed to be interested in the 7,139,564 H Shares held by its wholly-owned subsidiary, Hang Seng Bank Trustee (Bahamas) Limited.

3. HSBC is wholly-owned by HSBC Asia Holdings BV. HSBC Asia Holdings BV is in turn wholly-owned by HSBC Asia Holdings (UK). HSBC Asia Holdings (UK) is in turn wholly-owned by HSBC Holdings BV. HSBC Holdings BV is in turn wholly-owned by HSBC Finance (Netherlands). Pursuant to the SFO, each of HSBC Asia Holdings BV, HSBC Asia Holdings (UK), HSBC Holdings BV and HSBC Finance (Netherlands) is deemed to be interested in the 9,381,484,261 H Shares which HSBC has an interest.
4. HSBC Financial Products (France) holds 309,481 H Shares. HSBC Financial Products (France) is held as to 58.25% by HSBC France and as to 41.75% by HSBC Securities (France) SA, a wholly-owned subsidiary of HSBC France. HSBC France is in turn wholly-owned by HSBC Bank plc. Pursuant to the SFO, each of HSBC Securities (France) SA, HSBC France and HSBC Bank plc is deemed to be interested in the 309,481 H Shares held by HSBC Financial Products (France).
5. HSBC Finance (Netherlands) and HSBC Bank plc are wholly-owned by HSBC Holdings plc. Pursuant to Note 2, Note 3, Note 4 and the SFO, HSBC Holdings plc is deemed to be interested in the 9,381,484,261 H Shares which HSBC has an interest and the 309,481 H Shares which the HSBC Bank plc has an interest.

Save as disclosed above, as of 31 December 2007, no person 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 under Divisions 2 and 3 of Part XV of the SFO.

Directors, Supervisors, Senior Management and Staff

1. PROFILE OF DIRECTORS



Mr. Jiang Chaoliang, aged 50, joined the Bank in June 2004, Chairman of the Board, Chairman of China Banking Associate and a member of monetary policy committee the PBOC. Before joining the Bank, Mr. Jiang served as Deputy Governor of Hubei Province from September 2002 to June 2004, Assistant Governor of PBOC, Director of the General Office of PBOC and Director of Working Committee of PBOC from June 2000 to September 2002, and Deputy Director General of Banking Division of PBOC, Governor of PBOC Shenzhen Economic Special Zone Branch and Director of the Shenzhen Division of State Administration of Foreign Exchange (“SAFE”), and Governor of PBOC Guangdong Branch and Chief of Guangdong Division of SAFE from April 1996 to June 2000. Mr. Jiang received a master’s degree in Economics from Southwestern University of Finance and Economics in 1996. Mr. Jiang has served as the Chairman of the Board and Non-executive Director since June 2004.



Mr. Li Jun, aged 51, joined the Bank in October 1990, Vice Chairman of the Board of Directors and President of the Bank. Mr. Li Jun has served in several positions in the Bank, including Vice Chairman of the Board of Directors and President of the Bank from September 2006, Vice President of the Bank from November 2000, Controller General of the Bank from April 1998 to April 2001 and Vice President and President of the Bank’s Wuhan Branch from October 1990 to April 1998. Mr. Li received a master’s degree in Economics from Huazhong University of Science and Technology in 1995. Mr. Li has served as Executive Director of the Bank since June 2000.



Mr. Peng Chun, aged 46, joined the Bank in January 1994, Executive Director and Vice President of the Bank. Mr. Peng has served as Vice President of the Bank from September 2004. He also served as Assistant to President of the Bank from September 2001 to September 2004, Vice President and President of Urumqi Branch and President of Nanning Branch and Guangzhou Branch from 1994 to 2001. Mr. Peng received a master’s degree of Economics in Graduate School of PBOC in 1986. Mr. Peng has served as Executive Director of the Bank since August 2005.

Mr. Qian Wenhui, aged 46, joined the Bank in October 2004, Executive Director and Vice President of the Bank. Mr. Qian has served as Vice President of the Bank from October 2004 (also as President of Shanghai Branch from July 2005 to November 2006 concurrently). Before joining the Bank, Mr. Qian worked in China Construction Bank (“CCB”), served successively as Director of the General Office of the Asset and Liability Management Committee of CCB and concurrently Vice President of CCB Shanghai Branch, Director of the General Office of the Asset and Liability Management Committee of CCB and Director of System Reform Office and Vice President of Shanghai Branch concurrently, General Manager of Asset and Liability Management Department, and General Manager of Asset and Liability Management Department and Director of Restructuring Office concurrently. Mr. Qian received a MBA degree from Shanghai University of Finance and Economics in 1998. Mr. Qian has served as the Executive Director of the Bank since August 2007.



Mr. Zhang Jixiang, aged 54, joined the Bank in September 2004, Non-executive Director and Secretary of the Board of Directors. Before joining the Bank, Mr. Zhang served as Inspector of the General Department of the Ministry of Finance from January 2003 to September 2004, Deputy Director of the Basic Construction Department and Deputy Director of the General Department of Ministry of Finance from July 1998 to January 2003, Deputy Director and Director of the Foreign Studies Office of the Research Institute, Deputy Director and Director of the Property Ownership Department, and Director of Asset Appraisal Centre of the State Administration of State-Owned Assets from October 1990 to July 1998. Mr. Zhang received a Ph.D. degree of Economics from the Chinese Academy of Social Sciences in 1989. Mr. Zhang has served as Executive Director of the Bank and Secretary of the Board of Directors since September 2004, and as Non-executive Director since August 2007.



Mr. Hu Huating, aged 50, joined the Bank in September 2004, Non-executive Director of the Bank. Mr. Hu served in several positions in Ministry of Finance from December 1978 to September 2004, including Director of the Bureau for Retired Officials, Deputy Director General of Economic Construction Department, Assistant Inspector of Basic Construction Department, Chief of General Department, Chief of Second Investment Division, Chief of Second Division of Off-Budget Capital Management of General Planning Department, Deputy Chief of the Special Tax Division of the Agricultural Taxation Department, Deputy Chief of the Central Division of the Department of Off-Budget Capital Management, etc. Mr. Hu graduated from Hubei University of Finance and Economics in 1978. Mr. Hu has served as Non-executive Director of the Bank since September 2004.



Directors, Supervisors, Senior Management and Staff (Continued)



Mr. Peter Wong Tung Shun, aged 56, Non-executive Director of the Bank. Mr. Wong is currently the General Manager of HSBC Group and an Executive Director of HSBC, Vice Chairman of HSBC Bank (China) Company Limited, Chairman of Hubei Suizhou Cengdu HSBC Rural Bank Company Limited, Chairman of HSBC Insurance (Asia) Limited and HSBC Life (International) Limited, Director of Hang Seng Bank Limited and Ping An Insurance (Group) Company of China Ltd. and Vice Chairman of the Hong Kong Association of Banks. Before joining in HSBC in April 2005, Mr. Wong worked in Citibank and Standard Chartered Bank. Mr. Wong received a master's degree in marketing and finance and another master's degree in computer science from Indiana University of USA in 1976 and 1979 respectively. Mr. Wong has served as Non-executive Director of the Bank since August 2005.



Ms. Laura M. Cha, aged 58, honoured Silver Bauhinia Star, Non-executive Director of the Bank. Ms. Cha currently serves as a member of the Executive Council of Hong Kong Special Administrative Region, Vice Chairman of the International Consultant Committee of the CSRC, Non-executive Vice Chairman of HSBC (major shareholder of the Bank), and Independent Non-executive Director of Hong Kong Exchanges and Clearing Limited, Johnson Electric Holdings Limited, Baoshan Iron & Steel Co., Ltd., and Tata Consultancy Service Limited. Ms. Cha served as Vice Chairman of CSRC from February 2001 to September 2004 and Assistant Director of Corporate Finance, Senior Director, Executive Director and Vice Chairman of the Securities and Futures Commission of Hong Kong from 1991 to 2001. Ms. Cha received a doctorate degree of Law from Santa Clara University of USA in 1982. Ms. Cha has served as Non-executive Director of the Bank since June 2006.



Mr. Li Keping, aged 52, Non-executive Director of the Bank. Mr. Li currently serves as Vice Chairman of SSF (major shareholder of the Bank). Mr. Li joined SSF in June 2001 and served as Head of Investment Department, Director of Investment Department, Secretary General and Director of Investment Department, and Vice Chairman and Secretary, General of SSF. Mr. Li served as Deputy Chief and Inspector of Macro System of the State Office for System Restructuring of the State Council from July 1998 to June 2001, and cadre, Deputy Chief, Chief, Assistant Inspector and Deputy Director General of Macro System of the State Commission for System Restructuring from July 1992 to July 1998. Mr. Li received a bachelor's degree of Economics from Peking University in 1982. Mr. Li has served as Non-executive Director of the Bank since September 2004.

Mr. Gao Shiqing, aged 46, Non-executive Director of the Bank. Mr. Gao currently serves as Deputy General Manager of Capital Airports Holding Company and Director of Beijing Capital International Airport Company Limited. Mr. Gao served as Assistant General Manager of Capital Airports Holding Company from July 2004 to July 2005, and Assistant of Comprehensive Division of Planning Department, Deputy Chief of Investment Planning Division, Chief of Technology Improvement Division, Chief and Deputy Director General of Investment Division of the Planning and Technology Department and Deputy Director General of Planning, Development and Finance Department of the Civil Aviation Administration of China from August 1983 to July 2004. Mr. Gao received a master's degree of Engineering from Beijing University of Aeronautics and Astronautics in 2000. Mr. Gao has served as Non-executive Director of the Bank since September 2004.



Mr. Yang Fenglin, aged 38, Non-executive Director of the Bank. Mr. Yang currently serves as Deputy Chief of Financial Assets Management Department of State Grid Corporation of China. Mr. Yang served as Assistant to President of Pengrun Investment Limited from February 2006 to September 2006, General Manager of Fund Management Department of Coastal Greenland Limited from October 2005 to February 2006, Executive Director, Deputy General Manager and Managing Director of Guotai Junan Finance (Hong Kong) Ltd. from July 2002 to August 2005, Deputy Administrative Manager of the Board of Supervisors of, and Deputy General Manager of International Business Department of Guotai Junan Securities Co., Ltd. from July 1999 to July 2002 and Deputy Manager of Investment Banking Department and Deputy Manager of Research and Development Department of Guotai Junan Securities Co., Ltd. from April 1997 to July 1999. Mr. Yang received a Ph.D. in Engineering jointly granted by Xi'an Jiao Tong University and University of Alberta, Canada in 1997. Mr. Yang has served as Non-executive Director of the Bank since August 2007.



Mr. Xie Qingjian, aged 64, Independent Non-executive Director of the Bank. Mr. Xie currently serves as a Counselor of the PBOC. Mr. Xie has served in several positions in the PBOC for many years, including Governor of PBOC Nanjing Branch, Deputy Governor of PBOC Shanghai Branch, Deputy Governor and Governor of PBOC Zhejiang Branch and Governor of PBOC Wenzhou Branch, etc. Mr. Xie received a master's degree of Economics from Zhejiang University in 1998. Mr. Xie has served as Independent Non-executive Director of the Bank since September 2004.



Directors, Supervisors, Senior Management and Staff (Continued)



Mr. Ian R. Wilson, aged 67, Justice of Peace, Independent Non-executive Director of the Bank. Mr. Wilson retired from Standard Chartered Bank in 1998. Before that, Mr. Wilson served as General Manager of Standard Chartered Bank for the regions of Hong Kong, China and Northeast Asia from 1994 to 1998, General Manager for regions of Middle East and South Asia from 1992 to 1994, Chief Executive Officer of Hong Kong Branch from 1990 to 1992. Mr. Wilson also served as Chairman of Hong Kong Interbank Clearing Limited, Chairman of the Hong Kong Association of Banks, First Deputy Chairman of Hong Kong Securities Clearing Company Limited and member of the Board of Directors of Hong Kong Red Cross. Mr. Wilson has served Independent Non-executive Director of the Bank since September 2004.



Mr. Thomas J. Manning, aged 52, Independent Non-executive Director of the Bank. Mr. Manning currently serves as CEO of Indachin Ltd, Chairman of China Business Outsourcing Ltd., and Independent Non-executive Director of Asia Info Holdings Inc., China Software Co., Ltd. and GOME Electrical Appliances Holding Limited. Mr. Manning once served as Chairman and CEO of Cap Gemini Ernst & Young Asia Pacific, as well as the Global Managing Director of Strategy & Technology Consulting. Mr. Manning also served as the Managing Director of Bain & Company. Mr. Manning graduated from Harvard University and received a bachelor's degree of East Asia Research and received an MBA degree from Leland Stanford Junior University in 1979. Mr. Manning has served as Independent Non-executive Director of the Bank since September 2004.



Mr. Chen Qingtai, aged 70, a researcher, Independent Non-executive Director of the Bank. Mr. Chen currently serves as a researcher at the Development Research Centre of the State Council, Deputy Director of the Economics Committee of the National Committee of the Chinese People's Political Consultative Conference, Vice President of the China Enterprises Association and Dean of the School of Public Affairs of Tsinghua University, and concurrently a professor and a tutor for students studying for doctorate degrees at Universities including Tsinghua University and Nankai University. Mr. Chen has served in important positions of State General Economic Administration Department, including as Secretary of the Communist Party Committee and Deputy Director of the Development Research Centre of the State Council and Deputy Director of the State Economic and Trade Commission. Mr. Chen graduated from the Dynamics Department of Tsinghua University in 1962. Mr. Chen has served as Independent Non-executive Director of the Bank since April 2005.

Mr. Eric Li Ka-cheung, aged 54, a Justice of Peace, an Officer of the Most Excellent Order of the British Empire (OBE) and a recipient of the Gold Bauhinia Star, Independent Non-executive Director of the Bank. Mr. Li currently serves as senior partner of Li, Tang, Chen & Co.. Mr. Li also serves as Independent Non-executive Director of Hang Seng Bank Limited, China Resources Enterprise Limited, Transport International Holdings Ltd., Roadshow Holdings Limited, SmarTone Telecommunications Holdings Limited, Wong's International (Holdings) Ltd. and Meadville Holdings Limited and also as a Non-executive Director of Sun Hung Kai Properties Limited. Mr. Li is a Fellow of the Hong Kong Institute of Certified Public Accountants (Practising), a Fellow of The Institute of Chartered Accountants in England and Wales and a Fellow of CPA Australia. Mr. Li is concurrently a Fellow of The Institute of Chartered Secretaries and Administrators and Hong Kong Institute of Chartered Secretaries. Mr. Li received a Bachelor of Arts (Economics) Honours degree from the University of Manchester and an Honorary Doctorate from the University of Manchester and the Hong Kong Baptist University. Mr. Li has served as Independent Non-executive Director of the Bank since January 2007.



Mr. Gu Mingchao, aged 64, Independent Non-executive Director of the Bank. Designated by the State Council, Mr. Gu serves as the Chairman of the Board of Supervisions of China Galaxy Securities Company Limited, Chairman of the Board of Supervisors of the Bank and Agricultural Bank of China from July 2000 to April 2007. Mr. Gu also served as Vice President and Executive Director of Import and Export Bank of China from June 1994 to June 2000. Mr. Gu graduated from Shanghai Foreign Trade Institute in 1968. Mr. Gu has served as Independent Non-executive Director of the Bank since August 2007.



Mr. Timothy D. Dattels, aged 50, Independent Non-executive Director of the Bank. Mr. Dattels is currently a partner of TPG Capital Group, responsible for the business in Asia-Pacific Region, Independent Non-executive Director of Shangri-la Asia Limited and Director of Parkway Holdings Limited and Sing Tao News Corporation Limited. Mr. Dattels once served as Partner and Managing Director of Goldman Sachs. Mr. Dattels received an MBA degree from Harvard Business School in 1984. Mr. Dattels has served as Independent Non-executive Director of the Bank since August 2007.



Directors, Supervisors, Senior Management and Staff (Continued)

2. PROFILE OF SUPERVISORS

Mr. Hua Qingshan, aged 55, joined the Bank in June 2007, Chairman of the Board of Supervisors of the Bank. Mr. Hua served as Vice President of Bank of China from December 1998 to June 2007, Non-executive Director of BOC Hong Kong (Holdings) Limited (one of the subsidiaries of Bank of China and listed in Hong Kong Stock Exchange) from June 2002 to June 2007, Executive Director of Bank of China from August 2004 to June 2007, and Assistant to the President of Bank of China from May 1994 to December 1998. Mr. Hua received a master's degree in Engineering from the University of Hunan in 1996. Mr. Hua has served as Supervisor of the Bank since August 2007.

Mr. Guan Zhenyi, aged 42, Supervisor of the Bank and Chief of the Investment Management Division of Shanghai Tobacco (Group) Corporation. Mr. Guan has served as and as the Chief of the Investment Management Division of Shanghai Tobacco (Group) Corporation since July 2006. From January 2003 to July 2006, Mr. Gu served as Deputy Chief of the Financial and Pricing Division of and the Deputy Chief of Investment Management Division of Shanghai Tobacco (Group) Corporation. From September 2000 to January 2003, Mr. Guan served as Chief of Three Asset Management Department of Shanghai Tobacco (Group) Corporation and concurrently the manager of the Haiyan Commercial Building, deputy director and manager of the Haiyan Commercial Building. Mr. Guan obtained a university degree in economic management in 2002 from Shanghai Branch of PLA Nanjing Institution of Politics. Mr. Guan has served as Supervisor of the Bank since August 2007.

Mr. Yang Fajia, aged 52, Supervisor of the Bank and general manager of Yunnan Hongta Group Ltd.. Mr. Yang has served as the general manager of Yunnan Hongta Group Ltd. since January 2003. From September 1993 to January 2003, Mr. Yang served as the deputy general manager of Yunnan Hongta Group Ltd.. Mr. Yang received a university degree in electromechanical science from China University of Mining & Technology in 1980. Mr. Yang has served as Supervisor of the Bank since August 2007.

Ms. Wang Lisheng, aged 61, Supervisor of the Bank and Chairman of the Board of Supervisors of Sinopec Financial Co., Ltd. Ms. Wang has served as the Chairman of the Board of Supervisors of Sinopec Finance Co., Ltd. since June 2006. From September 2000 to September 2007, Ms. Wang served as the Deputy Financial Director of China Petrochemical Corporation, she concurrently served as the Deputy Director of the Corporate Restructuring Office of Sinopec Group from December 2000 to September 2001, as the Deputy Director of the Corporate Reform Department of Sinopec Group from September 2001 to March 2003, and as the Deputy Director of Legal Affairs Department of China Petrochemical Corporation from December 2002 to March 2003. Ms. Wang received a bachelor's degree in Finance from Shanghai University of Finance and Economics in 1969. Ms. Wang has served as Supervisor of the Bank since August 2007.

Mr. Li Jin, aged 41, Supervisor of the Bank and Deputy General Manager of Huaneng Capital Service Co., Ltd.. Mr. Li has served as the Deputy General Manager of Huaneng Capital Service Co., Ltd. since September 2006. From January 2005 to September 2006, Mr. Li served as the President of Alltrust Insurance Company of China Limited and from December 2000 to January 2005, Mr. Li served as Deputy General Manager and General Manager of Huaneng Capital Service Co., Ltd. Mr. Li received a master's degree in Economics of Money and Banking from the Financial Research Institution of the Head Office of PBOC. Mr. Li has served as Supervisor of the Bank since August 2007.

Mr. Liu Qiang, aged 41, Supervisor of the Bank, Chief Accountant of Daqing Petroleum Administration Bureau and Director of China Petroleum Finance Co., Ltd.. Mr. Liu has served as the Chief Accountant of Daqing Petroleum Administration Bureau and Director of China Petroleum Financial Co., Ltd. since March 2005. From May 2002 to February 2005, Mr. Liu served Deputy Chief Accountant, and the Manager of the Financial Assets Department of Daqing Petroleum Administration Bureau. Mr. Liu received a master's degree in Administration from Tianjin University of Finance and Economics in 2002. Mr. Liu served as External Supervisor of the Bank from June 2004 to August 2007 and has served as Supervisor of the Bank since August 2007.

Directors, Supervisors, Senior Management and Staff (Continued)

Ms. Zheng Li, aged 72, Certified Public Accountant and Certified Internal Auditor, External Supervisor of the Bank. From June 1997 to July 2005, Ms. Zheng served as President of the Association of Internal Auditors of China. From January 1998 to January 2003 she was a member on the CPPCC Ninth National Committee. From November 1998 to March 2001, she served as Audit Commissioner of the State Council. From November 1996 to October 1998, she served as a member of the Board of Supervisors of the State Development Bank. From July 1987 to November 1996 Ms. Zheng served as Deputy Auditor General at the National Audit Office. Ms. Zheng received a university degree from the Moscow Institute of Finance of the former Soviet Union in 1959. Ms. Zheng has served as External Supervisor of the Bank since August 2007.

Mr. Jiang Zuqi, aged 67, External Supervisor of the Bank. From June 2000 to August 2005, Mr. Jiang served as the Chairman of the Board of Supervisors designated by the State Council to key state-owned financial institutions, including served as the Chairman of the Board of Supervisors of the Bank from June 2000 to August 2003 and as the Chairman of the Board of Supervisors of Export-Import Bank of China from August 2003 to August 2005. From August 1995 to June 2000, Mr. Jiang served as Vice Chairman of the Board and Vice President of the Bank of China and concurrently as a Director of the Hong Kong and Macau Affairs Management Department of Bank of China from August 1997 to February 1999. Mr. Jiang obtained bachelor's degree in finance and accounting from the Commerce and Economics Faculty of the Beijing Institute of Business in 1966. Mr. Jiang has served as External Supervisor of the Bank since August 2007.

Ms. Liu Sha, aged 52, joined the Bank in November 2004, currently serves as an employee designated Supervisor of the Bank and the General Manager of the Audit Department of the Bank's Northern China Region. Since September 2005, she has serves as the General Manager of Audit Department of the Bank's Northern China Region. From March 2005 to August 2005, Ms. Liu served as the Secretary of the Board of Supervisors. Ms. Liu served as a full-time Supervisor (ranking as assisting role of department or equivalent) of the Bank, designated directly by the State Council from August 2003 to October 2004 and as a full-time Supervisor (ranking successively as a leading role of division or equivalent and assisting role of department or equivalent) of China Galaxy Securities Company Limited designated directly by the State Council from August 2000 to July 2003. From September 1999 to August 2000, Ms. Liu served as Deputy Director of the Local Tax Bureau of Jinan, Shandong Province. Ms. Liu graduated from the Finance Faculty of Dongbei University of Finance and Economics in 1979. Ms. Liu has served as employee designated Supervisor of the Bank since November 2004.

Ms. Chen Qing, aged 47, joined the Bank in November 2004, employee designated Supervisor of the Bank and Director of the General Office of the Board of Supervisors. Since March 2005, Ms. Chen has served as Director of the General Office of the Board of Supervisors of the Bank. In November 2004, Ms. Chen was appointed Supervisor (ranking as an assisting role of department or equivalent) of the Bank and was elected as an employee designated Supervisor of the Bank in the same month. From August 2003 to October 2004, she served as a full time Supervisor (ranking as a leading role of department or equivalent) of Agricultural Bank of China. From May 2000 to July 2003, Ms. Chen served as Deputy Division Chief, Division Chief and a full-time Supervisor (ranking as leading role of division or equivalent) of the Board of Supervisors of Bank of China, designated by the State Council. Ms. Chen received a bachelor's degree in Economics from Renmin University of China in 1984. Ms. Chen has served as employee designated Supervisor of the Bank since November 2004.

Mr. Li Jun, aged 57, joined the Bank in September 1994, employee designated Supervisor of the Bank, Deputy Director of Labor Union Work Committee of the Bank and Chairman of the Board of Supervisors of BOCOM Leasing. Mr. Li joined the Bank in September 1994, serving successively as an Officer at the Ideological and Political Work Office, Deputy Director of the General Office of the Party Committee, Director of the General Office of the Party Committee, Deputy Chief of Propaganda Department of the Party Committee, full-time Deputy Secretary of the Party Committee and Deputy Chief of Propaganda Department of the Party Committee. Concurrently, he was the full-time Deputy Secretary of the Party Committee and Deputy Director of Labor Union Work Committee of the Bank and full-time Deputy Secretary of the Party Committee, Deputy Director of Labor Union Work Committee, General Manager of Employee Work Department of the Bank. Mr. Li graduated from Marine Politics College in China with a diploma in Political Work in 1986. Mr. Li has served as employee designated Supervisor of the Bank since November 2005.

Directors, Supervisors, Senior Management and Staff (Continued)

3. PROFILE OF SENIOR MANAGEMENT

Mr. Li Jun (Details refer to “1. Profile of Directors”)

Mr. Peng Chun (Details refer to “1. Profile of Directors”)

Mr. Qian Wenhui (Details refer to “1. Profile of Directors”)

Mr. Wang Bin, aged 49, joined the Bank in January 2000, Vice President of the Bank. Mr. Wang has successively served as Vice President and President of the Bank's Beijing Branch, President of Tianjin Branch. From December 1993 to January 2000, Mr. Wang successively served in several positions in the Agricultural Development Bank of China, consecutively as director of the Preparation Office, Vice Director and Director of General Office, Deputy President and President of Jiangxi Branch. Mr. Wang received Ph.D. of Economics from Nankai University in 2005.

Ms. Yu Yali, aged 50, joined the Bank in February 1993, Vice President & CFO of the Bank. Ms. Yu has served as CFO of the Bank since August 2004 and as General Manager of the Financial Accounting Department and Budgetary Finance Department of the Bank from December 1999 to August 2004. From February 1993 to December 1999, successively served as Chief of Financial Accounting Department of and Vice President of the Bank's Zhengzhou Branch and Deputy General Manager of Financial Accounting Department of Headquarter of the Bank. Ms. Yu received an MBA degree from Fudan University in 2006.

Mr. Shou Meisheng, aged 51, joined the Bank in January 1992, Secretary of Discipline Committee and Chief of Bank Industry Labor Union. From May 2005 to December 2007, Mr. Shou served as the General Manager of Human Resources Department of the Bank, and from June 1998 to May 2005 he served as the General Manager of International Banking Department of the Bank, while from January 2002 to March 2004 he was also the General Manager of Dalian Branch of the Bank. From November 1996 to June 1998 he served as the Deputy General Manager of International Banking Department and concurrently Deputy General Manager of Overseas Institutions Administration Department of the Bank. From November 1995 to November 1996 he served as the Deputy General Manager of the Comprehensive Planning Department of the Bank. From January 1992 to November 1995 he served as Vice President and President of Shaoxing Branch. Mr. Shou received a Ph.D. of Economics from Dongbei University of Finance & Economics in 2006.

Mr. Dicky Peter Yip, aged 61, joined the Bank in April 2005, Vice President of the Bank. Mr. Yip served as Chief Executive, China Business of HSBC since January 2003. From June 1988 to January 2003, Mr. Yip worked in several positions in HSBC including Senior General Manager of Personal Banking Service, Senior Manager of Retail Business, Assistant to General Manager of Retail Business, Assistant to General Manager of Personal Banking Service and concurrently Deputy Chief of Personal Wealth Management. Mr. Yip received an MBA degree from the University of Hong Kong.

Mr. Hou Weidong, aged 47, joined the Bank in April 2002, Chief Information Officer of the Bank. From November 2002 to August 2004, Mr. Hou served as General Manager of the Information Technology Department of the Bank and from April 2002 to November 2002, he also served as the Deputy General Manager of Computer Department of the Bank. Before joining the Bank, from November 1998 to April 2002, he served as Deputy General Manager of Technology Security Department of and General Manager of Data Center of Industrial and Commercial Bank of China. Mr. Hou received a Ph.D. degree in Economics from Peking University in 2003.

Mr. Yang Dongping, aged 50, joined the Bank in May 1989, Chief Risk Management Officer of the Bank. From September 2003 to September 2007 he successively served as Deputy General Manager and General Manager of the Bank's Hong Kong Branch. From May 1989 to September 2003, he served in several positions in the Bank's Wuhan Branch, including Deputy Manager of Securities Business Department, Deputy Chief and Chief of Credit Division, Manager of International Business Department, Vice President and President successively. Mr. Yang received a master's degree in International Finance from Wuhan University in 1998.

Directors, Supervisors, Senior Management and Staff (Continued)

4. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE PERIOD

(1) Changes in Directors

Pursuant to the Bank's Articles of Association and the respective Shareholders' resolutions approving the appointment of Directors, the terms of office of all Directors of the Fourth Session of the Board of Directors of the Bank expired at the 2006 Annual General Meeting. Pursuant to the Company Law and the Articles of Association, it was resolved at the meeting of the Board of Directors held on 25 June 2007 that the Fifth Session of the Board of Directors be established to replace the Fourth Session of the Board of directors. Accordingly, Mr. Jiang Chaoliang, Mr. Li Jun, Mr. Peng Chun, Mr. Zhang Jixiang, Mr. Hu Huating, Mr. Peter Wong Tung Shun, Ms. Laura M. Cha, Mr. Li Keping, Mr. Li Zexing, Mr. Gao Shiqing, Mr. Shen Weiming, Mr. Li Guanglin, Mr. Qian Ping, Mr. Xie Qingjian, Mr. Ian R. Wilson, Mr. Thomas J. Manning, Mr. Chen Qingtai and Mr. Eric Li Ka-cheung, were retired from office at the Annual General Meeting and each of them (other than Mr. Li Zexing, Mr. Shen Weiming, Mr. Li Guanglin and Mr. Qian Ping, who did not offer themselves for re-election upon expiry of the term of office of the Fourth Session of the Board) offered themselves for re-election at the 2006 Annual General Meeting held on 28 August 2007. In addition, Mr. Qian Wenhui, Mr. Yang Fenglin, Mr. Gu Mingchao and Mr. Timothy D. Dattels were nominated as candidates for Directors of the Fifth Session of the Board of Directors of the Bank.

Pursuant to the resolutions passed at the Bank's Shareholders' Meeting in relation to the re-election and appointment, Mr. Jiang Chaoliang, Mr. Zhang Jixiang, Mr. Hu Huating, Mr. Peter Wong Tung Shun, Ms. Laura M. Cha, Mr. Li Keping, Mr. Gao Shiqing and Mr. Yang Fenglin were appointed as Non-executive Directors of the Fifth Session of the Board of Directors; Mr Li Jun, Mr. Peng Chun and Mr. Qian Wenhui were appointed as Executive Directors of the Fifth Session of the Board of Directors; Mr. Xie Qingjian, Mr. Ian R. Wilson, Mr. Thomas J. Manning, Mr. Chen Qingtai, Mr. Eric Li Ka-cheung, Mr. Gu Mingchao and Mr. Timothy D. Dattels were appointed as Independent Non-executive Directors of the Fifth Session of the Board of Directors. The terms of office of all Directors of the Fifth Session of the Board of Directors will expire at the Bank's 2009 Annual General Meeting.

Pursuant to the resolutions passed at the first meeting of the Fifth Session of the Board of Directors, Mr. Jiang Chaoliang was appointed as Chairman of the Board of Directors and Mr. Li Jun was appointed as Vice Chairman of the Board of Directors.

Mr. Timothy D. Dattels has tendered his resignation from his positions as an independent non-executive director of the Bank and a member of the Audit Committee due to personal reasons with effect from 13 March 2008. Mr. Dattels has undertaken to surrender all his entitlement to Director's remuneration as an Independent Non-executive Director of the Bank.

(2) Changes in Supervisors

Pursuant to the Bank's Articles of Association and the respective Shareholders' resolutions approving the appointment of Supervisors, the terms of office of all Supervisors of the Fourth Session of the Board of Supervisors have expired at the 2006 Annual General Meeting. Pursuant to the Company Law and the Articles of Association, it was resolved at the meeting of the Board of Supervisors held on 25 June 2007 that the Fifth Session of the Board of Supervisors be established to replace the Fourth Session of the Board of Supervisors. Accordingly, Mr. Cui Leiping, Mr. Ning Jinbiao, Mr. Teng Tieqi, Mr. Ji Keliang, Mr. Liu Qiang and Ms. Chen Zheng retired from office at the Annual General Meeting and each of them (other than Mr. Cui Leiping, Mr. Ning Jinbiao, Mr. Teng Tieqi, Mr. Ji Keliang and Ms. Chen Zheng, who did not offer themselves for re-election upon the expiry of the term of office of the Fourth Session of the Board of Supervisors) offered themselves for re-election at the Annual General Meeting held on 28 August 2007. In addition, Mr. Hua Qingshan, Mr. Guan Zhenyi, Mr. Yang Fajia, Ms. Wang Lisheng, Mr. Li Jin, Ms. Zheng Li and Mr. Jiang Zuqi were nominated as candidates for Supervisors of Fifth Session of the Board Supervisors of the Bank.

Pursuant to the resolutions passed at the Bank's Shareholders' meeting in relation to the re-election and appointment, Mr. Hua Qingshan, Mr. Guan Zhenyi, Mr. Yang Fajia, Ms. Wang Lisheng, Mr. Li Jin, Mr. Liu Qiang, Ms. Zheng Li and Mr. Jiang Zuqi were appointed as Supervisors of the Fifth Session of the Board of Supervisors of the Bank, and Ms. Zheng Li and Mr. Jiang Zuqi were appointed as external Supervisors.

At the same time, as employee designated Supervisors of the Fourth Session of the Board of Supervisors of the Bank, Ms. Liu Sha, Ms. Chen Qing and Mr. Li Jun were re-elected as employee designated Supervisors of the Fifth Session of the Board of Supervisors at a meeting held on 18 June 2007 by the employee representatives of the Bank.

Directors, Supervisors, Senior Management and Staff (Continued)

The terms of office of all Supervisors of the Fifth Session of the Board of Supervisors will expire at the Bank's 2009 Annual General Meeting.

Pursuant to the resolution passed at the first meeting of the Board of Supervisors, Mr. Hua Qingshan was appointed as Chairman of the Board of Supervisors.

(3) Changes in Senior Management

It was approved at the 18th meeting of the Fourth Session of the Board of Directors held on 30 May 2007 to appoint Ms. Yu Yali as the Vice President and Mr. Yang Dongping as the Chief Risk Management Officer of the Bank.

It was approved at the first meeting of the Fifth Session of the Board of Directors held on 28 August 2007 to re-appoint Ms. Yu Yali as the Chief Financial Officer, Mr. Hou Weidong as the Chief Information Officer and Mr. Zhang Jixiang as the Secretary of the Board of Directors of the Bank.

It was approved at the second meeting of the Fifth Session of the Board of Directors held on 30 October 2007 to re-appoint Mr. Peng Chun as the Vice President of the Bank.

5. NUMBER, QUALIFICATION AND EDUCATION ATTAINMENT OF STAFF

As at the end of reporting period, the Bank employed a total of 68,083 employees, among whom 613 staff members (approximately 0.90%) possess advanced professional and technical qualification, 16,202 staff members (approximately 23.80%) possess intermediate professional and technical qualification. There were 2,153 employees (approximately 3.16%) possess postgraduate degrees, 28,802 employees (approximately 42.30%) possess undergraduate degrees and 31,884 employees (approximately 46.83%) who have received college and professional training education.

6. HUMAN RESOURCE MANAGEMENT

In view of the Bank's strategic goal, the Bank has unified and standardized its organization structure and job designation. Through proactive adjustment, the Bank further strengthened the correlation between its organization structure, job designation and strategic goal. The Bank has decreased the number of management level, established the "Pyramid Management Structure", simplified the structure of each level of management, and enhanced management efficiency. The Bank has established a job designation model which promoted bilateral management and professional development thereby broadening the opportunities for the employees'

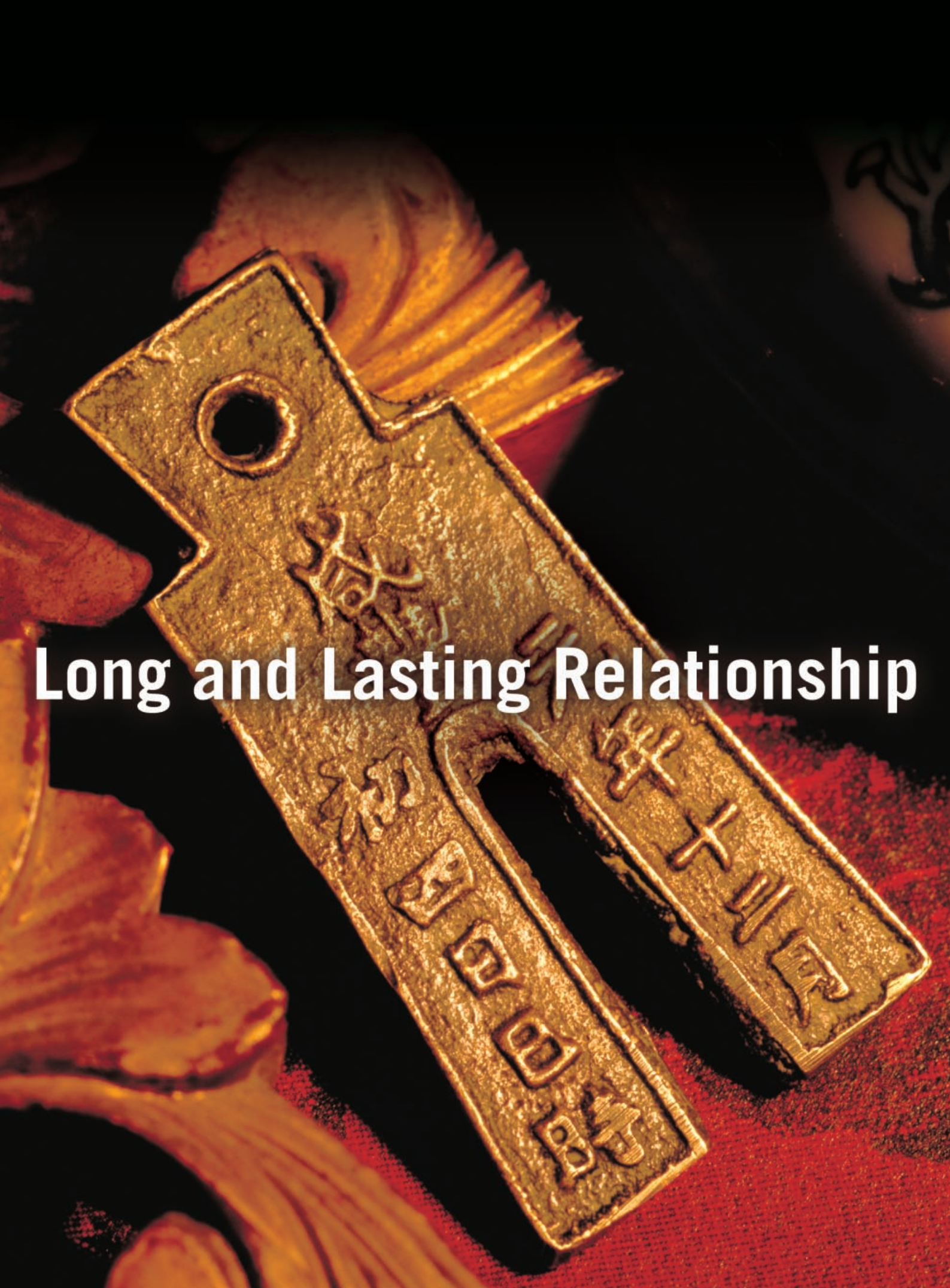
career development. By utilizing a centralized human resource information management system (e-HR), the Bank is able to manage and control the disclosure of Bank-wide human resource information and changes in its human resources as well as to standardize the management of labour utilization of the Bank.

7. REMUNERATION POLICY

The Bank continued to implement the new remuneration system under the principles of “ranking shall be determined with reference to job duties”, “remuneration shall be determined with reference to position, and “bonus shall be determined with reference to performance”. The Bank has strengthened the Bank-wide performance-based bonus and incentive program, which links to the Bank-wide key strategic businesses. The Bank implemented an annual remuneration adjustment policy with reference to market practice and performance. The Bank has committed itself in designing a corporate annuity plan with the characteristics of standardized principles and accruals, and centralized operation and payment. The comprehensive remuneration policy enhanced corporate loyalty as well as attracted and maintained key personnel.

During the reporting period, the Bank actively reformed its performance evaluation management and continuously implement the new performance evaluation management model based on a balanced scorecard and working matrix. The Bank committed to enhance the strategic connection between various levels of duties, strengthen the balance between financial and non-financial, long-term and short-term, external and internal, result and process management performance and operation performance, objectively evaluate personal performance and gradually introduce a scientific and effective incentive mechanism.

The Bank has adopted, and which has been approved at the Bank’s Shareholders’ meeting, remuneration standards for the Independent Non-executive Directors with reference to prevailing market condition. For other Directors, the remuneration includes salary, discretionary bonus and other benefits. The amount of salary was determined in accordance with their job duties and positions in the Bank.



Long and Lasting Relationship

The Group actively responded to the changes in the macro-economy and in the market and further deepened its strategic transformation. In addition, the Group adjusted and optimized its business strategies, deepened its internal reform, and accelerated its business innovation. Through these, the Group achieved favorable and rapid development in its various businesses.



Inheritance of Values

Report of the Board of Directors

The Board of Directors hereby present its report and the audited consolidated financial statements of the Bank and its subsidiaries for the fiscal year ended 31 December 2007.

1 PRINCIPAL ACTIVITIES

The Group is principally engaged in the provision of banking and related financial services. An analysis of the Bank's operating results by business segments for the year is set out in note 7 to the unaudited supplementary financial information.

2 RESULTS AND PROFIT DISTRIBUTION

The operating results of the Group for the year is set out in the consolidated profit and loss account on page 134.

The Board of Directors recommends the payment of a final dividend in the amount of RMB0.15 per share (2006: RMB0.10 per share), totaling approximately RMB7.349 billion (2006: RMB4.580 billion) for the fiscal year ended 31 December 2007. The distribution proposal will be implemented upon approval at the 2007 Annual General Meeting.

3 RESERVES

Details of movements in reserves of the Group are set out in the consolidated statement of changes in equity on page 137.

4 CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to RMB148.51 million (2006: RMB84.4095 million).

5 FIXED ASSETS

Details of movements in the fixed assets of the Group are set out in note 22 to the consolidated financial statements.

6 SHARE CAPITAL

Details of the share capital of the Bank are set out in note 31 to the consolidated financial statements.

During 2007 and for the period up to the latest practicable date prior to the issue of this annual report, the Bank has maintained the minimum prescribed public float as agreed with the Hong Kong Stock Exchange, which is 18.33% of the total issued share capital of the Bank, based on the information that is publicly available and within the knowledge of the Directors.

7 DISTRIBUTABLE RESERVES

As at 31 December 2007, pursuant to the relevant laws and regulations, the Bank's distributable reserves amounted to approximately RMB19.791 billion (2006: RMB12.635 billion).

8 FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Bank for the last five financial years is set out on page 3.

9 DIRECTORS AND SUPERVISORS

Biographical details of the Directors, Supervisors and senior management are set out on pages 74 to 85 of this annual report.

10 BOARD COMMITTEES

Please refer to the corporate governance report on page 106 to 121 of this annual report.

11 DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

None of the Directors and Supervisors of the Bank has entered into a service contract with the Bank or its subsidiaries that is not determinable within one year without payment of compensation (other than statutory compensation).

12 EMOLUMENTS OF DIRECTORS AND SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS OF THE BANK

Details of the emoluments of the Directors, Supervisors and the five highest paid individuals of the Bank are set out in note 13 to the consolidated financial statements.

13 INTERESTS OF DIRECTORS AND SUPERVISORS IN SIGNIFICANT CONTRACTS

No contract of significance in respect of the business of the Bank, to which the Bank or any of its subsidiaries was a party and in which a Director or a Supervisor of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

14 DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESS OF THE BANK

None of the Directors and Supervisors of the Bank is interested in any business that competes or is likely to compete, whether directly or indirectly, with the Bank's business.

Report of the Board of Directors (Continued)

15 DIRECTORS' AND SUPERVISORS' RIGHTS TO SUBSCRIBE FOR SHARES

Name	Position	Number of shares as at the beginning of the year	Number of shares acquired during the year	Number of shares disposed during the year	Shares as at the end of the Reporting Period	Reason
Li Jun	Supervisor	0	3,000	0	3,000	Subscription of new shares
Yang DongPing	Chief Risk Management Officer	0	75,000	0	75,000	Secondary market acquisition

Li Jun, Supervisor of the Bank, acquired 3,000 A shares of the Bank by subscribing through internet application and had been allotted such shares during the A share offering of the Bank. Yang DongPing, the Chief Risk Management Officer of the Bank, acquired 75,000 A shares of the Bank through the secondary market on 15 May 2007. All of the above shares are subject to lock-up.

Save as disclosed above, during the year, the Bank has not granted to its Directors, Supervisors or their respective spouses or their children under 18 years of age any rights to subscribe for the shares or debentures of the Bank or any of its associated corporations, nor have any such rights to subscribe for the above shares or debentures been exercised by them. The Bank and its subsidiaries also have not entered into any agreement or arrangement to enable the Directors or Supervisors to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

16 INTERESTS OF DIRECTORS

As at 31 December 2007, none of the Bank's Directors, Supervisors, Chief Executive and their associates 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 Securities and Futures Ordinance (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 (including interests and short positions which they were deemed or taken to have under such provisions of the SFO), or which were required to be entered in the register pursuant to section 352 of the SFO, or which were required, pursuant to Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Bank and the Hong Kong Stock Exchange.

17 INTERESTS OF SUBSTANTIAL SHAREHOLDERS

Interests of substantial shareholders of the Bank are set out in the section headed “Details of Changes in Share Capital and Shareholdings of Substantial Shareholders”.

18 PURCHASE, SALE OR REDEMPTION OF SHARES OF THE BANK

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

19 ISSUE OF SHARES AND DEBENTURES

Please refer to the section headed “Details of Changes in Share Capital and Shareholdings of Substantial Shareholders” for details of the A share offering of the Bank during the reporting period.

In addition, taking into account the interest rate environment, the Board of Directors of the Bank consider the issue of subordinated bonds would reduce the financial expenses, effectively lower the overall capital costs and raise the solvency margin of the Bank. On 6 March 2007, the Bank issued subordinated bonds in an amount of RMB25 billion, out of which RMB16 billion of bonds have a maturity of 10 years plus 5 years and a fixed interest rate of 4.13% for the first 10 years and 7.13% for the remaining 5 years. The remaining RMB9 billion of subordinated bonds have a maturity of 5 years plus 5 years and a fixed interest rate of 3.73% for the first 5 years and 6.73% for the remaining 5 years. The bonds were offered to members of the national inter-bank bond market. The proceeds from the subordinated bond issue, after deducting relating expenses, were used to replenish the subordinated capital of the Bank, increase its capital adequacy ratio, improve its intermediate and long term equity-debt structure and support the development of the new business of intermediate and long term asset management.

Except for the issue of A shares and subordinated bonds as abovementioned, the Bank and its subsidiaries did not issue, redeem or grant any convertible securities, options, warrants or other similar rights.

20 PRE-EMPTIVE RIGHTS AND SHARE OPTION ARRANGEMENTS

There are no provisions for pre-emptive rights pursuant to the Bank’s Articles of Association and the relevant laws and regulations of the People’s Republic of China. Currently, the Bank does not have any arrangement with respect to share option.

Report of the Board of Directors (Continued)

21 SHARE APPRECIATION RIGHTS

As part of the incentive scheme, the Bank has granted to its members of senior management share appreciation rights. The issuance of share appreciation rights does not involve any issue of new shares. There is no dilution of existing shareholders' equity. Details of the share appreciation rights are set out on page 225.

22 MAJOR CUSTOMERS

The Bank's five largest customers accounted for less than 2% of the Bank's total interest income and other operating income for the year. None of the Bank's Directors, their associates or shareholders (who, to the best knowledge of the Directors, owns more than 5% of the Bank's total issued share capital), had any beneficial interest in the Bank's five largest customers.

23 CONTINUING CONNECTED TRANSACTIONS

HSBC and its subsidiaries and associates (together the "HSBC Group") are connected persons of the Bank, as HSBC is a substantial shareholder of the Bank. The Bank and its subsidiaries have regularly engaged in various kinds of transactions (both one-off transactions and continuing transactions) in the normal course of banking business with the HSBC Group, such as foreign currency exchange transactions, capital markets (equity and debt securities) transactions, derivatives transactions (primarily interest rate swaps), guarantees, trade finance, credit card settlement services, electronic payment services (EPS), and payment and reference agency services and agency services for syndicated loans.

To regulate these on-going transactions, the Bank has entered into an interbank transactions master agreement with HSBC on 1 June 2005, pursuant to which the HSBC Group and the Bank agree to conduct interbank transactions in accordance with applicable normal interbank practices and on normal commercial terms. During the reporting period, the Bank and the HSBC were engaged in the following continuing connected transactions or the balances of transactions between the Bank and the HSBC were as follows:

- (1) For the year ended 31 December 2007, the aggregate balance of deposits placed in and loans to HSBC by the Bank's branches amounted to RMB1.415 billion, and the interest income of deposits and loans were approximately RMB186 million in 2007.
- (2) For the year ended 31 December 2007, the aggregate balance of deposits placed in and loans to the Bank's branches by HSBC amounted to RMB1.769 billion, and the interest expenses of deposits and loans were approximately RMB136 million in 2007.
- (3) For the year ended 31 December 2007, the aggregate balance of securities investments purchased by the Bank's branches from HSBC amounted to RMB788 million, and the interest income from the securities investments was approximately RMB50 million in 2007.
- (4) For the year ended 31 December 2007, the notional principal amount of unsettled financial derivatives contracts between the Bank's branches and HSBC amounted to RMB13.577 billion.

The Bank has made an application to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the announcement and independent shareholders' approval requirements of the Hong Kong Listing Rules in respect of the abovementioned continuing connected transactions.

After careful review of the abovementioned continuing connected transactions, each Independent Non-executive Director of the Bank considers that the abovementioned continuing connected transactions which have been entered into by the Bank as having been entered into by the Bank:

- (i) in the ordinary and usual course of business;

Report of the Board of Directors (Continued)

- (ii) on normal commercial terms or on terms no less favorable to the Bank than terms available to or from independent third parties; and
- (iii) in accordance with the interbank transactions master agreement, and the terms of which are considered as fair and reasonable and in the interests of the Bank's shareholders as a whole.

The auditors have also issued a letter to the Board of Directors of the Bank confirming that the abovementioned continuing connected transactions:

- (i) have received the approval of the Board of Directors;
- (ii) are in accordance with the pricing policies of the Bank; and
- (iii) have been entered into in accordance with the interbank transactions master agreement.

24 COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE HONG KONG LISTING RULES

For details of the Bank's corporate governance practices, please refer to the corporate governance report on pages 106 to 121 of this annual report.

25 USE OF PROCEEDS FROM PUBLIC OFFERINGS

All the funds raised by the Bank were used to replenish the capital of the Bank.

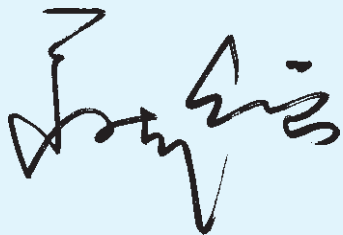
26 WORK PERFORMED BY THE AUDIT COMMITTEE AND PERSONNEL AND COMPENSATION COMMITTEE

The work performed by the Audit Committee and Personnel and Compensation Committee of the Bank are set out in section headed “4. Board of Directors and Board Committees – (3) Committees of the Board of Directors” of the corporate governance report in this report.

27 AUDITORS

The Bank’s financial statements for 2007 were audited by PricewaterhouseCoopers and Deloitte Touche Tohmatsu. A resolution will be proposed at the forthcoming annual general meeting for the reappointment of PricewaterhouseCoopers and Deloitte Touche Tohmatsu as the Group’s auditors for 2008.

By order of the Board
Chairman

A handwritten signature in black ink, appearing to be 'Jiang Chaoliang', written in a cursive style.

Jiang Chaoliang

19 March 2008, Shanghai, PRC

Report of the Board of Supervisors

In 2007, in accordance with the requirements of the Company Law and the Articles of Association, the Board of Supervisors monitored the Board's execution of the resolutions approved at Shareholders' meetings and decisions made within the Board's scope of power. The Board of Supervisors also monitored the senior management's implementation of resolutions approved at Shareholders' General Meetings and Board of Directors' meetings, and the business activities that were carried out within their scope of power. The Board of Supervisors is also responsible for monitoring the performance of the Directors and senior management, and for investigating the Bank's financial condition.

1. MAIN SUPERVISORY WORK OF THE BOARD OF SUPERVISORS

During the reporting period, the Board of Supervisors performed the supervisory work by direct monitoring methods including investigation and research, performance of duties survey, attending Shareholders' General Meetings, Board of Directors' meetings and special committees' meetings; and also by indirect monitoring methods including reviewing periodic reports, analyzing investigation reports, integrated information analysis and submitting "Report on Supervision Recommendations" and "Memorandum on Internal Control Management". The Board of Supervisors:

- (1) thoroughly investigated risks and internal control management at various levels. The Board of Supervisors has performed investigations on 33 departments in the Head Office and on other branch offices and produced investigation reports and improvement suggestions to the Board of Directors and senior management regarding compliance culture and philosophies, institutional mechanism, integration of business process, asset quality, human resources and remuneration management, basic data and IT system development, centralized procurement, customer service quality and controllability of Head Office.
- (2) completed a survey to better understand the performance of Directors and senior management. Based on the earnest feedback from Directors and senior management, a report titled "Summary Report of a Survey on the Performance of Directors and senior management in 2006" was submitted to the Board of Directors, senior management and CBRC.
- (3) analyzed and reviewed meeting minutes of the previous session of the Board of Directors meeting, and monitor the performance of the Directors. The Board of Supervisors summarized and reviewed the Director's contributions in all 21 meetings of the Fourth Session of the Board of Directors, understood the extent of each Director's familiarity and concern with the Bank's business development in order to gain an understand of the performance of the Directors.

- (4) completed the supervisory report on senior management and evaluation on the independent Directors and external Supervisors. Based on daily monitoring, the Board of Supervisors submitted the “Report regarding the Performance of Ms. Yu Yali as the Chief Financial Officer of the Bank” to CBRC when the Board of Directors proposed to appoint Ms. Yu Yali as the Bank’s Vice President. In addition, the Board of Supervisors submitted the supervisory evaluation on the three years’ performance of independent Directors and external Supervisors to the Ministry of Finance.
- (5) sampled and reviewed the quality of work performed by the accounting firm. Based on reviewing periodic reports, the Board of Supervisors followed up on remedial actions to problems raised by the accounting firm, verified the accuracy of the relevant data produced by the accounting firm regarding impairment allowance, and the representativeness and coverage of the samples selected.
- (6) the Board of Supervisors submitted a “Report on Supervision Recommendations” and a “Memorandum on Internal Control Management” to the Board of Directors and senior management. Firstly, this continuously followed up issues identified in last years’ “Report on Supervision Recommendations”. For example, in respect of the management of overdue bank loans of the Bank, the Board of Supervisors raised the proposal of “Regarding the Implementation of Article 5 of the “Report on Supervision Recommendations, Prudent Management of Performing Loans which are Overdue for over 90 days”. In addition, research suggests that the Bank should comprehensively increase comparison based on analysis of key indicators of the banking industry such as overdue loans to improve the quality of the management of the Bank. Secondly, is to pay attention to overall and key issues of the Bank. For example, based on the issues raised by CBRC in the inspection reports for the past three years on the monitoring procedures of Group customers, the Board of Supervisors raised a “Recommendation to Optimize the Management on Loan Authorization to Group Customers”. This focused on the problem where the right to choose a valuation institution is not independent from the right of loan authorization, which may result in inaccurate valuation of collaterals. After performing a survey on 95 branches and sub-branches regarding the management of collaterals, the Board of Supervisors issued the “Recommendations to Improve the Management of the Valuation of Collaterals”. After considering the macro-control policies stipulated by the government, the Board of Supervisors followed up on the Bank’s execution and implementation of such macro-control policies in a timely manner. Thirdly, the Board of Supervisors monitored the accuracy and completeness of disclosure information. For example, the Board of Supervisors sampled the related-party transactions of the Bank, requested internal audit department to perform annual audit on related-party transactions of the Bank according to “Regulations on the Management of Related-party

Report of the Board of Supervisors (Continued)

Transactions between Commercial Banks and Internal Personnel as well as Shareholders” and submitted the audit results to the Board of Directors and the Board of Supervisors.

The Board of Directors and senior management have made timely responses to the aforementioned issues and have taken remedial actions promptly. Several issues have been remedied completely, which facilitated the standardization of the Bank’s operation and enhanced its effectiveness.

2. MEETINGS OF THE BOARD OF SUPERVISORS

During the reporting period, the Board of Supervisors held six meetings on 7 March, 25 May (via conference call), 25 June, 15 August, 28 August and 30 October respectively. During the meetings, the Board of Supervisors discussed the “Summary of the Performance Review Survey of the Directors and Senior Management of the Bank”, listened to the reports of operation results from the senior management and the audit and review results from the external auditors, announced the election result of employee Supervisors, attended to the lecture hosted by CSRC Shanghai Branch called the “Regulations on the Management and Movement of Shares held by Directors, Supervisors and Senior Management of Listed Companies”. The meetings approved 18 resolutions, including the “2006 Report of the Board of Supervisors” submitted at the Shareholders’ General Meeting.

- (1) With respect to the development of the organization structure, the Board of Supervisors approved four resolutions including “Nomination of Candidates for the Fifth Session of the Board of Supervisors”, “Nomination of Mr. Hua Qingshan as the Chairman of the Fifth Session of the Board of Supervisors”, “Nomination of Candidates for the Nomination Committee of the Fifth Session of the Board of Supervisors” and “Nomination of Candidates for the Supervision Committee of the Fifth Session of the Board of Supervisors”.
- (2) With respect to the development of internal policy, the Board of Supervisors approved seven resolutions including “Proposal to Amend ‘Regulations on the Work of the Board of Supervisors’”, “Proposal to Amend the ‘Regulations on the Work of the Nomination Committee’”, “Proposal to Amend the ‘Regulations on the Work of the Supervision Committee’” “Proposal to Abolish the ‘Procedures and Standards of the Election of Supervisor’s’”, “2007 Work Plan of the Board of Supervisors”, “2007 Work Plan of the Nomination Committee” and “2007 Work Plan of Supervision Committee”.
- (3) With respect to the review of financials, the Board of Supervisors approved six resolutions including the “2006 Annual Report”, the “2006 Financial Report”, the “2006 Profit Distribution Plan”, the “2007 First Quarter Results Announcement”, the “2007 Interim Report” and the “2007 Third Quarter Results Announcement”.

Summary of Supervisors' Attendance at Meetings of the Board of Supervisors

Supervisors	Number of Attendance in Person	Attendance Rate
Mr. Hua Qingshan	2/2 <i>(Note 2)</i>	100%
Mr. Cui Leiping	4/4 <i>(Note 1)</i>	100%
Ms. Zheng Li	2/2 <i>(Note 2)</i>	100%
Mr. Jiang Zuqi	2/2 <i>(Note 2)</i>	100%
Mr. Guan Zhenyi	1/2 <i>(Note 2)</i>	50%
Mr. Yang Fajia	1/2 <i>(Note 2)</i>	50%
Ms. Wang Lisheng	1/2 <i>(Note 2)</i>	50%
Mr. Li Jin	1/2 <i>(Note 2)</i>	50%
Mr. Liu Qiang	5/6	83%
Ms. Liu Sha	6/6	100%
Ms. Chen Qin	6/6	100%
Mr. Li Jun	6/6	100%
Mr. Ning Jinbiao	3/4 <i>(Note 1)</i>	75%
Mr. Teng Tieqi	1/4 <i>(Note 1)</i>	25%
Mr. Ji Keliang	3/4 <i>(Note 1)</i>	75%
Ms. Chen Zheng	3/4 <i>(Note 1)</i>	75%
Average Attendance Rate		77%

Note 1: Mr. Cui Leiping, Mr. Ning Jinbiao, Mr. Teng Tieqi, Mr. Ji Keliang and Ms. Chen Zheng were no longer Supervisors of the Bank since 28 August 2007.

Note 2: Mr. Hua Qingshan, Ms. Zheng Li, Mr. Jiang Zuqi, Mr. Guan Zhenyi, Mr. Yang Fajia, Ms. Wang Lisheng and Mr. Li Jin have served as Supervisors of the Bank since 28 August 2007.

Report of the Board of Supervisors (Continued)

3. INDEPENDENT OPINION OF THE BOARD OF SUPERVISORS ON RELEVANT MATTERS

(1) Compliance with laws

During the reporting period, the Bank followed the government's macro-control policies, strictly controlled the amount of credit granted, monitored the credit business development process, consistently conducted business to comply with laws and regulations, enhanced the risk management and internal control system, optimized business procedures and improved the asset-liability structure. The decision-making procedure of the Bank complied with the laws, Directors and senior management earnestly, prudently and diligently fulfilled their responsibilities and no issues were noted which may result in a material breach of laws or regulations and which may damage the interest of the Bank and its shareholders.

(2) Truthfulness of the financial statements

The financial statements present, truly and fairly, the financial position and business result of the Bank.

(3) Use of funds

During the reporting period, the Bank issued 3,190 million A shares, which amounted to 6.51% of total issued shares, at a price of RMB7.90 per share and raised funds of RMB25.204 billion. After the deduction of issuing expenses, the amount of funds received was RMB24.750 billion, of which RMB3.190 billion was accounted as share capital and RMB21.560 billion was accounted as share premium in capital.

During the reporting period, the Bank issued RMB25 billion of subordinated loans to the members of the China inter-bank bond market.

The aforementioned funds raised were used to supplement the Bank's capital, which is consistent with the Bank's commitment.

(4) Acquisition and disposal of assets

During the reporting period, the Bank did not make any acquisition or disposal of assets that would damage the interest of the shareholders or which may cause a loss to the Bank's assets.

(5) Related party transactions

During the reporting period, the Bank did not conduct any related party transactions that would damage the interest of the Bank or its shareholders.

(6) The Auditor's Report

The Board of Supervisors reviewed the unqualified report issued by PricewaterhouseCoopers and Deloitte Touche Tohmatsu on the financial position and business performance of the Bank in 2007 and have no objection to the report.

(7) Execution of resolutions approved at the Shareholders' meeting

The Board of Supervisors considered the Board of Directors to have effectively executed the resolutions approved at the Shareholders' General Meetings during the reporting period.

(8) Implementation of information disclosures

During the reporting period, the Bank actively accepted market and social supervision, disclosed 45 statements to the Hong Kong Stock Exchange and 40 statements to the Shanghai Stock Exchange, regarding periodical results announcements, corporate governance, significant investment plans and other sensitive information related to stock price, in compliance with relevant laws. The Bank made the above disclosure timely and accurately and have not identified any false records, misleading statements or material omissions.

(9) Improvements in operation and management

During the reporting period, the Bank fully implemented scientific development, further optimized corporate governance, expanded the profit contribution from retail business and fee-based business, continued to improve risk management techniques, constantly enhanced internal control systems, further promoted corporate culture, significantly expanded the influence of the brand, continuously strengthen the sense of social responsibilities and achieved a significant improvement in its business performance. However, the Bank still needs to make further improvements to achieve its strategic transformation objective, to improve the stability and coordination of its business development and some procedures in operational management and, to comprehensively and further enhance its risk management ability. The Bank will further boost structural reform, ensure operations stability and improve the level of management and service quality. The Bank should adhere to its strategic objective of becoming a first-class publicly-owned bank and the best wealth management bank.

Corporate Governance Report

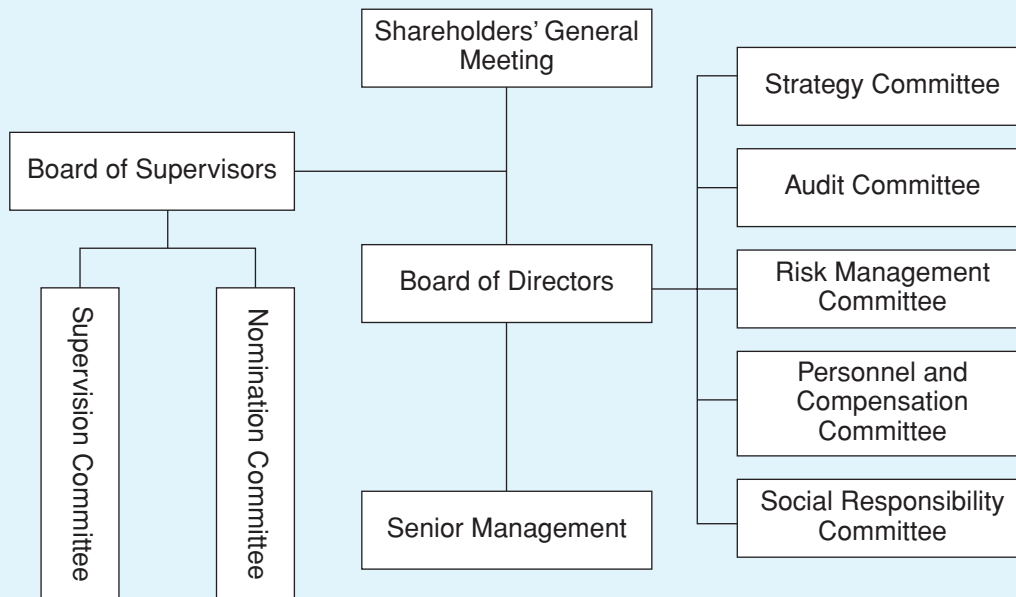
During 2007, the Bank has complied with relevant laws and regulations such as the Company Law, rules and guidelines issued by domestic and overseas regulatory authorities, and the Hong Kong Listing Rules, including the code provisions set out in Appendix 14 to the Hong Kong Listing Rules – the Code on Corporate Governance Practices (the “Code”). The Bank has continuously strived to optimize its corporate governance, improved the level of implementation of corporate governance and effectively protected the legal interest of shareholders and other stakeholders.

During the reporting period, under the requirement of CSRC and its Shanghai branch, the Bank earnestly performed corporate governance special procedures, conducted self-inspections in different stages and accepted on-site inspections by the CSRC Shanghai branch, evaluation from the Shanghai Stock Exchange and comments from investors and the public. The Bank analysed recommendations and suggestions from the regulatory authorities and the stock exchanges item by item, formulated and implemented related remedial actions. This has effectively motivated the continuous improvement of the Bank’s corporate governance.

The Directors of the Bank confirm that for the year ended 31 December 2007, the Bank has complied with the Hong Kong Listing Rules, including the code provisions set out in the Code. Detailed implementation of the Code will be described in the following sections.

1. CORPORATE MANAGEMENT STRUCTURE

The Bank has currently established an effectively balanced and independently operated management structure comprised of Shareholders’ General Meeting, the Board of Directors, the Board of Supervisors and senior management, with clearly stated rights and obligations (refer to chart below). The roles of the Chairman of the Board of Directors and the President of the Bank are performed by two individuals respectively so as to prevent the concentration of power in one person. Currently, Mr. Jiang Chaoliang serve as the Chairman of the Board of Directors and Mr. Li Jun serve as the President of the Bank. There is no material financial, business, family or other relations between members of the Board of Directors and the Board of Supervisors.



2. CORPORATE GOVERNANCE RULES AND REGULATIONS

During the reporting period, in compliance with the Hong Kong Listing Rules, including the code provisions set out in the Code, for the satisfaction of the regulatory requirements for its A share listing and considering the pragmatics of the Bank itself, the Bank has amended the Articles of Association, “Procedures of Shareholders’ General Meeting”, “Procedures of the Board of Directors’ meetings”, “Procedures of the Board of Supervisors’ meetings” and “Rules on the Management of Disclosure of Information” and constituted the “Rules on the Board of Directors’ Social Responsibility Committee”. At the same time, in order to further clarify the rights and obligations of the Shareholders’ General Meeting, the Board of Directors and senior management, and to make the corporate governance more scientific and systematic, the Bank has constituted the “Trial Measures for the Delegation of Authority to the Board of Directors by the Shareholders’ General Meeting”, “Administrative Measures for the Delegation of Authority to the President by the Board of Directors” and “Trial Measures for the Delegation of Authority to the President by the Board of Directors”, which defined the scope of authorization as well as limits so as to ensure that clear guidance is given when powers are granted. With the above efforts, the Bank has established sound corporate governance system and regulations.

Corporate Governance Report (Continued)

3. SHAREHOLDERS AND SHAREHOLDERS' GENERAL MEETING

As of 31 December 2007, the total share capital of the Bank was 48.994 billion shares, including 25.930 billion A shares and 23.064 billion H shares. The top five shareholders of the Bank are the Ministry of Finance, HSBC, SSF, SAFE Investment and Capital Airports Holding (Group) Company, who held an aggregate of 58.98% of the total shares, of which, the Ministry of Finance held 20.36% of total shares as the largest shareholder and HSBC held 19.15% of the total shares as the second largest shareholder. The Bank is independent from all shareholders with respect to its business, personnel, assets, branches and finance, and possesses a completely independent business and autonomous operations.

The Shareholders' General Meeting is the supreme authority of the Bank. During the reporting period, the Bank has held two general meetings: the First Extraordinary General Meeting of shareholders in 2007 was held on 9 January 2007 in Shanghai and the 2006 Annual General Meeting of shareholders was held on 28 August 2007 in Shanghai. Mr. Jiang Chaoliang, Chairman of the Board of Directors, participated in the above Shareholder's General Meetings and arranged with Directors and senior management including Mr. Li Jun, President of the Bank, to participate in the above meetings. Each independent event was proposed some individual agenda items, which were approved through voting after full communications between the shareholders, the Directors, the Supervisors and senior management. The poll results announcement of the First Extraordinary General Meeting had been published on the official website of the Hong Kong Stock Exchange and the Bank on 9 January 2007. The poll results announcement of the 2006 Annual General Meeting had been published on the official website of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Bank on 29 August 2007, and have been published on the *China Securities Journal* and the *Shanghai Securities News* on the same day.

4. BOARD OF DIRECTORS AND BOARD COMMITTEES

(1) Summary of the election of the Board

The terms of office of all Directors of the Fourth Session of the Board of Directors expired in 2007. On 28 August 2007, the Bank held the general election of the Board at the 2006 Annual General Meeting. Pursuant to the resolutions passed at the Annual General Meeting, Mr. Jiang Chaoliang, Mr. Li Jun, Mr. Peng Chun, Mr. Zhang Jixiang, Mr. Hu Huating, Mr. Peter Wong Tung Shun, Ms. Laura M Cha, Mr. Li Keping, Mr. Gao Shiqing, Mr. Xie Qingjian, Mr. Ian R. Wilson, Mr. Thomas J. Manning, Mr. Chen Qingtai and Mr. Eric Li Ka-cheung were elected as Directors of the Bank. Mr. Li Zexing, Mr. Shen Weiming, Mr. Li Guanglin and Mr. Qian Ping no longer serve as the Directors of the Bank. Mr. Qian Wenhui, Mr. Yang Fenglin and Mr. Gu Mingchao and Mr. Timothy D. Dattels were the newly appointed Directors of the Bank.

The Fifth Session of the Board of Directors comprises 18 members, including three Executive Directors, eight Non-executive Directors and seven Independent Non-executive Directors. The term of office of all the Directors (including Non-executive Directors) will last until the 2009 Annual General Meeting. Subject to the resolution of the first meeting of the Fifth Session of the Board of Directors, Mr. Jiang Chaoliang continued to serve as the Chairman of the Board of Directors and Mr. Li Jun continued to serve as the Vice Chairman of the Board of Directors. The Independent Non-executive Directors of the Bank accounted for over one-third of total number of Directors, which meets the regulatory requirements of CSRC.

(2) Board meetings

The Board of Directors is the strategic decision making body of the Bank. The major responsibilities of the Board includes, but is not limited to, assembly of the Shareholders' General Meeting and reporting at the Shareholder's General Meeting, execution of the resolutions passed at Shareholders' General Meeting, determining the Bank's business plan and investment scheme, and reviewing the President's work report and inspecting his daily work. Senior management is responsible for the daily operation of the Bank. The Articles of Association of the Bank has clearly stated the scope of duties and members composition of the Board of Directors. Meanwhile, the Bank has drawn up the "Procedures of the Board of Directors' meeting" to clearly state the requirements to assemble, notify and to conduct Board meetings, the procedures of Board meetings, the meeting agenda and the record of meetings. During the reporting period, the Bank has held seven Board meetings (including five meetings of the Fourth Session of the Board of Directors and two meetings of the Fifth Session of the Board of Directors) and reviewed and approved 42 resolutions. On 28 March 2007, the 17th meeting of the Fourth Session of the Board of Directors was held in Hong Kong. On 30 May 2007, the 18th meeting of the Fourth Session of the Board of Directors was held in Shanghai (live) and Hong Kong (video conferencing). On 25 June 2007, the 19th meeting of the Fourth Session of the Board of Directors was held in Hangzhou, Zhejiang Province. On 25 July 2007, the 20th meeting of the Fourth Session of the Board of Directors was held via teleconference. On 16 August 2007, the 21st meeting of the Fourth Session of the Board of Directors was held in Dongguan, Guangdong Province. On 28 August 2007, the 1st meeting of the Fifth Session of the Board of Directors was held in Shanghai. On 30 October 2007, the 2nd meeting of the Fifth Session of the Board of Directors was held in Shanghai. All the above seven Board meetings were held in compliance with the Bank's Articles of Association "Procedures of the Board of Directors' meeting" and the code provisions of the Code.

Corporate Governance Report (Continued)

Summary of attendance at the meetings of the Fourth Session of the Board of Directors and the Fifth Session of the Board of Directors during the reporting period:

Summary of individual attendance at the meetings of the Fourth Session and the Fifth Session of the Board of Directors

Directors of the Fourth Session of the Board of Directors	Number of Board Meetings Attended	Attendance Rate
Executive Directors (3)		
Li Jun	4/5	80%
Peng Chun	5/5	100%
Zhang Jixiang	5/5	100%
Non-executive Directors (10)		
Jiang Chaoliang	5/5	100%
Hu Huating	5/5	100%
Peter Wong Tung Shun	3/5	60%
Laura M. Cha	3/5	60%
Li Keping	2/5	40%
Li Zexing	5/5	100%
Gao Shiqing	3/5	60%
Shen Weiming	4/5	80%
Li Guanglin	3/5	60%
Qian Ping	2/5	40%
Independent Non-executive Directors (5)		
Xie Qingjian	5/5	100%
Ian R. Wilson	3/5	60%
Thomas J. Manning	4/5	80%
Chen Qingtai	4/5	80%
Eric Li Ka-cheung	5/5	100%
Average attendance rate		78%

Directors of the Fifth Session of the Board of Directors	Number of Board Meetings Attended	Attendance Rate
Executive Directors (3)		
Li Jun	2/2	100%
Peng Chun	2/2	100%
Qian Wenhui	2/2	100%
Non-executive Directors (8)		
Jiang Chaoliang	2/2	100%
Zhang Jixiang	2/2	100%
Hu Huating	2/2	100%
Peter Wong Tung Shun	1/2	50%
Laura M. Cha	1/2	50%
Li Keping	1/2	50%
Gao Shiqing	0/2	0%
Yang Fenglin	2/2	100%
Independent Non-executive Directors (7)		
Xie Qingjian	2/2	100%
Ian R. Wilson	2/2	100%
Thomas J. Manning	0/2	0%
Chen Qingtai	2/2	100%
Eric Li Ka-cheung	2/2	100%
Gu Mingchao	2/2	100%
Timothy D. Dattels	1/2	50%
Average attendance rate		78%

Corporate Governance Report (Continued)

(3) Committees of the Board of Directors

All committees of the Board of Directors have drawn up specific work rules, and recorded in writing on matters such as the members composition, duties and responsibilities, and procedures for meetings of such special committees.

1. *The Strategy Committee*

The Strategy Committee is responsible for researching and analyzing business objectives, medium and long term development strategy, significant equity investment proposals and capital management of the Bank. It comprises five members including Mr. Jiang Chaoliang, Mr. Li Jun, Mr. Peng Chun, Mr. Qian Wenhui and Mr. Peter Wong Tung Shun. Mr. Jiang Chaoliang serves as the Chairman of the Strategy Committee. During the reporting period, no meeting was held by the Strategy Committee.

2. *The Audit Committee*

The Audit Committee is mainly responsible for the proposal of appointment, change or dismissal of the Bank's external auditors, monitoring the Bank's internal audit system and its implementation, communication between internal and external auditors, reviewing the Bank's financial statements and related disclosures, and overseeing the Bank's accounting policies, financial conditions and financial reporting procedures, inspect the Bank's implementation of internal control system and inspect the Bank's compliance management. It comprises five members including Mr. Eric Li Ka-cheung, Mr. Zhang Jixiang, Mr. Yang Fenglin, Mr. Gu Mingchao and Mr. Timothy D. Dattels. Mr. Eric Li Ka-cheung who is an Independent Non-executive Director serves as the Chairman of the Audit Committee and the number of Independent Non-executive Directors exceeds half of the total members of the Audit Committee.

During the reporting period, the Audit Committee held four meetings to approve periodic reports, announcement drafts, financial budgets, profit distribution proposals, internal control reports and appointment of auditors and submitted the approved matters to the Board of Directors. A meeting attendance summary is as follows:

**Summary of individual attendance at the meetings of
the Fourth Session and the Fifth Session of the Audit Committee**

Members of the Fourth Session of the Audit Committee	Number of Meetings Attended	Attendance Rate
Eric Li Ka-cheung (<i>Chairman</i>)	3/3	100%
Peter Wong Tung Shun	2/3	67%
Li Zexing	3/3	100%
Xie Qingjian	3/3	100%
Chen Qingtai	2/3	67%
Average attendance rate		87%

Members of the Fifth Session of the Audit Committee	Number of Meetings Attended	Attendance Rate
Eric Li Ka-cheung (<i>Chairman</i>)	1/1	100%
Zhang Jixiang	1/1	100%
Yang Fenglin	1/1	100%
Gu Mingchao	1/1	100%
Timothy D. Dattels	0/1	0%
Average attendance rate		80%

Corporate Governance Report (Continued)

3. *The Risk Management Committee*

The Risk Management Committee is mainly responsible for monitoring and controlling the Bank's credit, market and operation risks, periodically assessing the Bank's risk exposure, management condition, and risk tolerance capability and level, approving material related-party transactions, significant fixed assets investment, asset disposal, asset collateral or guarantee to third party, and proposing comprehensive risk management and internal control recommendations to the Board of Directors. It comprises four members including Mr. Xie Qingjian, Mr. Li Keping, Mr. Gao Shiqing and Mr. Ian R. Wilson. Mr. Xie Qingjian who is an Independent Non-executive Director serves as the Chairman of the Committee.

During the reporting period, the Risk Management Committee held four meetings to review the risk assessment report and to raise comments to the Board of Directors on a quarterly basis. The meeting attendance summary is as follows:

Summary of individual attendance at the meetings of the Fourth Session and the Fifth Session of the Risk Management Committee

Members of the Fourth Session of the Risk Management Committee	Number of Meetings Attended	Attendance Rate
Xie Qingjian (<i>Chairman</i>)	3/3	100%
Li Keping	2/3	67%
Gao Shiqing	3/3	100%
Ian R. Wilson	3/3	100%
Average attendance rate		92%

Members of the Fifth Session of the Risk Management Committee	Number of Meetings Attended	Attendance Rate
Xie Qingjian (<i>Chairman</i>)	1/1	100%
Li Keping	1/1	100%
Gao Shiqing	1/1	100%
Ian R. Wilson	1/1	100%
Average attendance rate		100%

4. **The Personnel and Compensation Committee**

The Personnel and Compensation Committee is mainly responsible for advising on the recruitment procedures, the performance assessment standards and remuneration and incentive plan of Directors and senior management, monitoring the implementation of the procedures, as well as preliminary assessment of the qualification and capabilities of Directors and senior management. The meeting of the Personnel and Compensation Committee can only be held under the condition that at least half of its members are presented at the meeting. The proposals submitted to the Board of Directors should be agreed by a majority of all of its members. The Personnel and Compensation Committee has set up a sub-committee, being the Nomination Committee. The major nomination procedures of the Nomination Committee includes timely update of the Bank's demand for Directors and senior management, seeking for appropriate candidates internally as well as externally based on the above demand, performing preliminary assessment on the qualifications and capabilities of the candidates (including understanding and reviewing the educational background and qualifications of such candidates and check against the need as well as the practices of the Bank) and submit appointment proposals to the Board of Directors. The Personnel and Compensation Committee comprises four members including Mr. Thomas J. Manning, Mr. Hu Huating, Ms. Laura M. Cha and Mr. Chen Qingtai. Mr. Thomas J. Manning who is an Independent Non-executive Director serves as the Chairman of the Personnel and Compensation Committee.

During the reporting period, the Personnel and Compensation Committee held three meetings to approve nomination of Directors, appointment of senior management and their annual incentive scheme and submitted the approved recommendation to the Board of Directors. The meeting attendance summary is as follows:

Summary of attendance of the Fourth Session of the Personnel and Compensation Committee

Members of the Fourth Session of the Personnel and Compensation Committee	Number of Meetings attended	Attendance Rate
Mr. Thomas J. Manning (<i>Chairman</i>)	3/3	100%
Mr. Hu Huating	3/3	100%
Mr. Chen Qingtai	2/3	67%
Ms. Laura M. Cha	2/3	67%
Average attendance rate		83%

During the reporting period, no meeting was held by the Fifth Session of the Personnel and Compensation Committee.

Corporate Governance Report (Continued)

5. *The Social Responsibility Committee*

To actively fulfil social responsibilities and contribute to the harmonious development of the whole society, the Bank established the Social Responsibility Committee of the Fifth Session of the Board of Directors. The Bank became the first listed domestic bank to establish a Social Responsibility Committee of the Board of Directors. The primary responsibilities of the Social Responsibility Committee is to research and formulate the Bank's social responsibility strategy and policy, monitor, examine and assess the social responsibility actions taken by the Bank, and approve donations approved and authorized by the Board of Directors. It comprises four members including Mr. Li Jun, Mr. Qian Wenhui, Mr. Li Keping and Mr. Gu Mingchao. Mr. Li Jun serves as the Chairman of the Committee.

During the reporting period, no meeting was held by the Social Responsibility Committee.

(4) **Performance of Independent Non-executive Directors**

All Independent Non-executive Directors of the Bank worked earnestly and diligently. During the reporting period, the Board meeting attendance rate of Independent Non-executive Directors of the Bank was 100% and physical attendance rate was 82%. Currently, the three special committees established by the Board of Directors of the Bank, being the Audit Committee, the Risk Management Committee and the Personnel and Compensation Committee are all chaired by Independent Non-executive Director. In particular, all seven Independent Non-executive Directors of the Bank are experts with rich practical experience in the field of banking, financial accounting, corporate management and capital markets. They have fully utilize their professional advantages, which not only enhanced the strategic decision-making ability of the Board of Directors, but also encouraged senior management to earnestly execute resolutions of the Board of Directors, as well as to pursue scientific development and maintain stable and compliant operations. In their daily work, the Independent Non-executive Directors performed field inspection in selected branches, regional credit authorization centre and regional internal audit department. They proactively raised recommendations and suggestions for the Bank's reform, operation and development and solidly maintained the legal interests of shareholders and other stakeholders.

During the reporting period, Independent Non-executive Directors had given independent opinion on the nomination of Directors and recruitment of senior management and had no objections to the resolutions of the Board of Directors and other resolutions.

The qualifications of the seven Independent Non-executive Directors of the Bank fully meet the requirements of Rule 3.10(1) and (2) of the Hong Kong Listing Rules. The Independent Non-executive Directors of the Bank have no business interest or financial interest in the Bank or any of its subsidiaries, nor do they hold any executive positions in the Bank. The Bank has received an annual confirmation of independence from each Independent Non-executive Director confirming their independence and the Bank is of the opinion that each Non-executive Director is independent from the Bank.

(5) The Directors' responsibility for the financial statements

The Directors are responsible for monitoring the preparation of the financial statements of each fiscal year so as to make sure that the financial statements give a true and fair view of the state of the Group's business conditions, performance as well as cash flow. In the financial statements as of 31 December 2007, the Directors have selected and applied appropriate accounting policies and have made reasonable and prudent accounting estimates. The Directors have confirmed their responsibility for the preparation of the financial statements, while the auditors' responsibility statement is contained in page 132 of the Independent Auditors' Report.

(6) Independent Non-executive Directors' special notification and independent opinion on external guarantees made by the Bank

The Independent Directors consider that external guarantee business is one of the regular businesses of the Bank approved by the CBRC and the Bank has formulated detailed procedures on risk management and operational authorization procedures for this business.

As of 31 December 2007, all the transactions between the Bank and its related-parties are regular operational treasury business.

Corporate Governance Report (Continued)

5. BOARD OF SUPERVISORS AND THE SPECIAL COMMITTEE

Board of Supervisors is the supervisory body of the Bank and is responsible to the Shareholders' General Meeting. Its primary responsibilities includes examination of the financial condition of the Bank, monitor the performance of Directors, President and other senior management on the performance of their duty, provide suggestions on the removal of Directors, President and other senior management who have breached laws, administrative regulations, the Bank's Articles of Associations and resolutions passed at the Shareholders' General Meeting, review financial information including financial statements, operations report and profit distribution proposals submitted by the Board of Directors at Shareholders' General Meeting, appoint certified public accountants or professional auditors to review financial statements on behalf of the Bank, propose to hold Extraordinary General Meeting and assemble and conduct Shareholders' General Meetings if the Board of Directors refuse to take such responsibilities as required by the Company Law.

The terms of office of the Supervisors of the Fourth Session of the Board of Supervisors expired in 2007. The new session of the Board of Supervisors was elected at the 2006 Annual General Meeting held on 28 August 2007. The Fifth Session of the Board of Supervisors comprises 11 members including one Chairman of the Board of Supervisors, five Supervisors, two External Supervisors and three employee designated Supervisors. Mr. Hua Qingshan serves as the Chairman of the Board of Supervisors.

For the performance of the Board of Supervisors and its special committee, please refer to the "Report of the Board of Supervisors" from page 100 to page 105 of the Annual Report.

6. SENIOR MANAGEMENT

The Bank's senior management comprises the President, Vice President, Secretary of the Discipline Inspection Commission, Chief Financial Officer, Chief Risk Management Officer and Chief Information Officer. The Bank adopted the system of accountability by the president under the leadership of the Board of Directors. The President is accountable to the Board of Directors, whereas various functional departments of the Bank, branch offices and other senior management of the Bank are accountable to the President. The President has the right to organize, develop and operate management activities in accordance with laws, regulations, the Bank's Articles of Association and authorization from the Board of Directors.

7. SPECIFIC CORPORATE GOVERNANCE ACTIVITIES

According to the notification requirements of the CSRC and its Shanghai branch, the Bank carried out specific corporate governance activities during the reporting period, a self-inspection report and an improvement report have been publicly disclosed on 27 July 2007 and 31 October 2007, respectively.

Through self-inspection, the Bank identified certain aspects of the corporate governance of the Bank which need to be improved. Firstly, Independent Non-executive Directors have not yet reached a third of the total number of members of the Board of Directors. Secondly, risk management and internal controls need to be further strengthened. In addition, the Shanghai Branch of the CSRC and the Shanghai Stock Exchange have also provided recommendations and suggestions as to the roles and the functions of the special Board committees and the Board of Supervisors, as well as improvements in the incentive and restraint mechanisms and enhancement of domestic investors relationship management.

The Bank researched and implemented recommendations and suggestions raised by regulatory institutions and the stock exchanges. As at the end of the reporting period, the number of Independent Non-executive Directors in the Board of Directors was seven, which accounts for more than one-third. Through the strengthening of organizational structure and system, enriching monitoring and evaluation tools, techniques and approaches, the Bank's risk management and internal control levels have been continuously upgraded. All special committees of the Board of Directors play an active advisory role in decision-making. The Bank initiated the first Social Responsibility Committee for a domestic listed company. The Board of Supervisors made full use of direct and indirect forms of supervision such as surveys, inquiry, e-mail box dedicated to the Board of Supervisors, "Proposals of the Supervisors" and the "Memorandum on Internal Control Management". At the same time, the Bank continuously deepened the form and content of its supervision. After the A share listing, the Bank focused on strengthening communications with domestic investors and analysts, and on the basis of regulatory compliance, the Bank proactively initiated disclosure of information to continuously improve its transparency of information.

Corporate Governance Report (Continued)

8. EQUITY TRANSACTIONS BY DIRECTORS

The Bank adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Hong Kong Listing Rules, as the code of conduct governing Directors’ security transactions. Based on specific enquiries made to the Directors and Supervisors, all the Directors and Supervisors have complied with the required standards of the Model Code for the year under review.

The Board will review from time to time the Bank’s corporate governance practices and operations to ensure compliance with relevant requirements of the Hong Kong Listing Rules and to protect the interests of the shareholders.

9. AUDIT FEE

The Group’s annual financial statements were prepared in accordance with International Financial Reporting Standards for the year 2007 and were audited by PricewaterhouseCoopers. The Group’s annual financial statements prepared in accordance with the Generally Accepted Accounting Principles of the People’s Republic of China were audited by Deloitte Touche Tohmatsu CPA Ltd. The aggregate audit fee was RMB59.87 million.

The Bank incurred a fee of RMB1.18 million for non-audit services provided by PricewaterhouseCoopers in 2007. The Audit Committee has gained a basic understanding of the nature of non-audit services (including translation of information) and related service fees. The Audit Committee is satisfied that the non-audit services (taking into account the aggregate fees with respect to non-audit services and the nature of the services) did not affect the independence of PricewaterhouseCoopers.

The Board of Directors approved the recommendation by the Audit Committee to appoint PricewaterhouseCoopers and Deloitte Touche Tohmatsu as the Bank’s external auditors for 2008. The recommendation will be presented to shareholders for approval at the Bank’s 2007 Annual General Meeting.

10. INTERNAL MONITORING CONTROL

The Board of Directors of the Bank is responsible for the establishment of the Bank's overall risk management strategy, monitoring of its risk management and internal control system, the assessment of overall risk, and regular review of the effectiveness of the internal control system. Based on the risk management strategy established by the Board of Directors, senior management formulated and implemented related risk management policies, regulations and procedures. During the reporting period, the Bank continued to improve its internal control structure, in particular the appointment of the Chief Risk Management Officer to assist the President in leading the Bank's risk management and to promote overall risk management to ensure that all internal control procedures will be effectively implemented.

During the reporting period, the Board of Directors have reviewed the effectiveness of the internal control system of the Bank.

The Bank will further boost structural reform, ensure operations stability and improve the level of management and service quality. The Bank should adhere to its strategic objective of becoming a first-class publicly-owned bank and the best wealth management bank.

A large, open vault door is shown in the foreground, revealing a hallway with a red carpet and rows of green safes. The vault door is made of heavy metal and has a complex locking mechanism. The hallway is brightly lit, and the safes are arranged in a grid pattern. The overall scene conveys a sense of security and trust.

Reputable and Trustworthy

Fulfilling the Bank's Social Responsibility

In 2007, the Bank remained committed to “operating with responsibility and developing with innovation” and strived towards “providing better financial solutions whilst creating value for the community”. The Bank has actively and seriously undertaken corporate social responsibility and, to live harmoniously with its stakeholders, so as to create a favorable environment for its own growth and development.

1. ADHERING TO THE BELIEF OF CUSTOMER FIRST AND ACTING AS A FACILITATOR OF A HARMONIOUS SOCIETY

In 2007, the Bank focused on establishing a wealth management bank, developing innovative products and responding to the needs of the market. It emphasized on customer value, and created and integrated a number of new financial services brands. The Bank launched the “Win To Wealth” (蕴通财富) so as to provide comprehensive institutional financial services. Meanwhile, to expand the value-added services of its personal finance brand, namely the “OTO Fortune” (沃德财富), the Bank opened VIP channels in major airports in China and cooperated with leading service providers in medical, automotive and legal advisory areas in order to build a comprehensive platform and to provide one-stop services for customers. As a result, “OTO Fortune” (沃德财富) won various wealth management prizes in 2007. At the same time, to simplify its comprehensive wealth management services so as to save time for customers, the Bank has launched a comprehensive wealth service product, “BoCom Fortune (交银理财)”, which won an award for its outstanding financial services at the “China International Financial Services Expo”.

2. FOCUSING ON HUMAN RESOURCES AND DEVELOPING EMPLOYEE POTENTIALS AND VALUE

The Bank has implemented a scientific and effective human resources management system through its management trainee program, annual salary adjustments mechanism, career development mechanism, performance management mechanism, which effectively optimized its human resources management system. The Bank also facilitated the employees to demonstrate their capabilities through work opportunities, competitive remuneration and benefits and a diversified incentive scheme and personalized career development program, in order to maximize the potentials of the employee so that they might grow and develop together with the Bank.

3. PROTECTING THE ENVIRONMENT, SUPPORTING NEW RURAL CONSTRUCTION AND THE DEVELOPMENT OF SMALL AND MID-SIZE ENTERPRISES (“SMES”) AND CONTRIBUTING TO THE HARMONIOUS DEVELOPMENT OF SOCIETY

Firstly, the Bank has taken steps to protect the environment and actively respond to the Central State Council’s call to conserve energy and reduce emission. In 2007, the Bank published documents such as “Tips for Credit Funding and Credit Management 2007”, “Opinions on Supporting Energy Conservation and Emission Reduction, Enhance Development Quality”, which clarified the importance of energy consumption and environmental indicators used by the Bank for its credit granting consideration and for quantifying and measurement of risks. In the second and third quarter of 2007, the Bank also expanded its examination of credit risk of industries which are linked with high energy consumption and high levels of emissions.

Secondly, the Bank actively supported new rural construction and saw the breakthrough of “industry financed agriculture”. In one way, the Bank sought to support new rural construction by focusing its support on professional, specialized and strong leading agriculture enterprises, and aiming to provide comprehensive financial services for new rural construction by taking advantage of the competitive advantages of other financial institutions, which consolidated the efforts for the provision of such financial services. At the same time, the Bank increased its financial support and optimized its financial services to SMEs amongst private agricultural enterprises and township enterprises to promote the development of related enterprises. The Bank has also strengthened its co-operation with China Development Bank in important projects related to new rural construction. To meet the financial needs of the rural market, the Bank has proactively innovated and upgraded the level of financial services offered, such services including financial advisory, settlement and wealth management services to new rural construction related enterprises, institutions and individuals.

Thirdly, in order to meet the economic demands and development needs of the financial markets, the Bank has long placed emphasis on supporting the financial needs of SMEs. In accordance with the new guidance issued by the CBRC in 2007 – “Guidance on Credit Authorization to Small Enterprises by Banks”, the Bank provided active support to small enterprises which had credit limits of less than RMB5 million.

Fulfilling the Bank's Social Responsibility (Continued)

4. ACTIVELY SUPPORTING CHARITY AND PUBLIC WELFARE, AND CONTRIBUTING TO THE SOCIETY

In recent years, the Bank has increased its support of various charitable and public welfare causes, such as regional economic development, poverty and disaster relief, care and assistance to vulnerable groups and environment protection, thereby contributing to the creation of a more prosperous, caring, and responsible society. In 2007, the Bank donated a total of RMB148.51 million. In June 2007, the Bank supported the China Disabled Persons' Federation to launch the "To the Future – BOCOM Disabled Youth Scholarship Program". The kick-off ceremony was held in the Beijing Great Hall of the People and the Bank donated RMB100 million to support the development of education for disabled youth. This is not only the largest donation for public welfare in the Bank's history but also the largest donation received by the China Disabled Persons' Federation from a Chinese mainland enterprise. A significant portion of the donation came from the funds from the 20th anniversary celebration of the Bank's reorganization as well as voluntary contributions from over 60,000 employees of the Bank, which demonstrated the kindness of the Bank and its employees. The event symbolized the Bank's fulfillment of its social responsibility at a greater and faster pace and has established a role model for all domestic enterprises. In September 2007, the Bank also donated RMB500,000 to the Habahe county, Xinjiang province for the construction of school campus for the "Qibaer Center School".

5. STRENGTHENING THE ORGANIZATION AND MANAGEMENT OF THE BANK'S CORPORATE SOCIAL RESPONSIBILITY

Actively fulfilling its social responsibility is an important aspect of the Bank's business development strategy. In recent years, the Bank has organized and managed its corporate social responsibility based on the context of globalization and in response to the development of the financial services industry in China and the concurrent development of a harmonious society. In April 2007, the Bank presented its first corporate social responsibility report. In August of the same year, during the first meeting of the Bank's Fifth Session of the Board of Directors, the Board approved the setup of a Social Responsibility Committee under the Board of Directors. The Bank became the first listed Chinese company to establish such committee, thus enabling the Bank to maintain its leading position in corporate governance and representing a major step forward towards meeting international standards. The Bank has also developed the "Regulations on the Work of the Social Responsibility Committee", which specifies the responsibilities of the Committee in developing, implementing, reviewing, supervising, inspecting and evaluating the Bank's social responsibility strategies and the implementation and formulation of the policies and implemented day-to-day communication and interaction of the entire organization.

Investor Relations Management

Through multiple channels of communication, the Bank's Investor Relations ("IR") management team aims to increase the transparency of information disclosure through press releases and exchange program or events with investors. The goal of IR management is to ensure that the information provided to investors is complete, accurate and delivered in a timely manner to enhance the investors' understanding and recognition of the Bank, improve corporate governance, protect the interest of investors and maximize the interests of the shareholders.

In 2007, the Bank successfully returned to the domestic capital market and was listed on the Shanghai Stock Exchange. During the issuance of A shares, the Bank's management communicated extensively with both domestic institutional and individual investors through one-on-one meetings, larger scale meetings, Internet roadshows and so on, to effectively present the value of investing in the Bank. Due to the Bank's outstanding IR management during its A shares listing process, the Bank was awarded the "Best IPO IR 2007 Award" at the "China Investors Relationship Management Annual Meeting 2007" co-sponsored by Nanjing University and China Securities Journal.

Following the A shares listing, the Bank updated its policies and procedures relating to IR management, thereby further enhancing its domestic IR network and increasing the scope of its function from pure shareholding management to more comprehensive IR management for domestic investors. With the intensive development of the Bank's IR management, our multi-level IR team continued to strengthen. Currently, the Bank's IR management includes most of the senior management and heads of key business divisions. The strengthened team structure guarantees the quality and depth of communications with investors.

To assist investors to better understand the Bank's business development and financial performance, the Bank discloses information strictly in accordance with the principles of compliance, transparency and sufficiency, and has released quarterly reports in compliance with interim reporting standards and required formats, which provides further details than those required by the rules and regulations. In addition, the Bank discloses material events to investors in a timely and accurate manner in accordance with the requirements of domestic and overseas listing rules.

Investor Relations Management (Continued)

Through a variety of different channels and methods, the Bank has communicated regularly and effectively with investors. In 2007, in addition to accommodating to the ordinary visits by the investors, the Bank's IR team has actively participated in major investors promotional meetings held by major Chinese and overseas investment banks, conducted roadshows in China and overseas, and invited investors to special purpose promotional meetings and reverse roadshows. During the year, the Bank communicated with investors and analysts for more than 1,000 man-times to help them gain an in-depth understanding of the Bank's market position, comparative advantages, strategic focus and operating performance. In addition, the Bank has designated personnel to maintain a hotline and an e-mail account specifically used for communicating with investors and has consistently achieved a high rate of response to investors' enquiries. The Bank also improved its IR website layout to enrich the information in order to satisfy the needs of investors.

The Bank will further pursue the goal of maximizing shareholders' value by constantly creating new and enriching communication channels and methods for IR management, strengthening communication with investors, promoting investors' recognition of the Bank's development strategy and operational management, and striving to create substantial investment value and return for all our investors.

Significant Events

1. UNDERTAKINGS IN THE PROSPECTUS AND ITS FULFILLMENT

(1) Significant undertakings by Ministry of Finance and its fulfillment

As the Bank's largest shareholder at the time of the Bank's A share listing, the Ministry of Finance undertook that it will not transfer or entrust others to manage its holding of the Bank's A shares nor require the Bank to acquire its holding of the Bank's A shares within 36 months from the date of listing of the Bank's A shares on the Shanghai Stock Exchange (being 15 May 2010). The Ministry of Finance confirmed that it has strictly complied with this undertaking.

(2) Significant undertakings by HSBC and its fulfillment

As the Bank's strategic investor and pursuant to the "Investor Rights Agreement" dated 18 August 2004 entered into between HSBC and the Bank, HSBC has undertaken on matters regarding share transfer restriction and rights to hold a proportionate share interests in the Bank. Please refer to the section headed "Other Significant Events – 2. Material Contracts, Claims and Liabilities – (2) Other Material Contracts – 1. Material Contracts with HSBC" in Section 16 of the Bank's A share prospectus for details. HSBC confirmed that it has strictly complied with this undertaking.

2. MATERIAL LITIGATION AND ARBITRATION

During the reporting period, there was no material litigation and arbitration that might have a significant adverse impact on the operation of the Bank.

As at 31 December 2007, the Bank has been involved in certain outstanding litigations as defendant or third party. The outstanding litigation amount was about RMB1.785 billion. After legal consultations, the management of the Bank is of the view that these litigation and arbitration cases will not have any significant impact on the financial position of the Bank. The Bank has accrued sufficient provisions for any responsibilities arising from these outstanding litigations and arbitrations.

Significant Events (Continued)

3. HOLDING OF SHARES ISSUED BY OTHER LISTED COMPANIES

Stock Code	Simplified Stock Name	Initial Investment Cost (yuan)	Shareholding Percentage	Term-end Cost (yuan)	Gain/Loss in the reporting period (yuan)	Equity movement in the reporting period (yuan)	Accounting Items	Source of Shares
600068	Gezhouba	147,128,191.00	2.15%	550,803,940.00	316,239,222.18	403,675,749.00	AFS Securities	Foreclosed assets acquisition
600000	Pufayinhang	6,000,000.00	0.19%	432,644,784.00	–	426,644,784.00	AFS Securities	Equity investment
600635	Dazhonggongyong	1,000,000.00	0.99%	211,310,116.88	–	210,310,116.88	AFS Securities	Equity investment
000686	Dongbeizhengquan	3,740,000.00	0.38%	114,127,779.15	–	110,387,779.15	AFS Securities	Foreclosed assets acquisition
000691	ST Huandao	6,470,000.00	3.20%	94,203,200.00	–	87,733,200.00	AFS Securities	Equity investment
600642	Shennenggufen	10,283,333.33	0.18%	92,452,500.00	8,122,429.22	82,169,166.67	AFS Securities	Equity investment
000979	ST Keyuan	12,494,400.00	8.84%	64,444,800.00	–	51,950,400.00	AFS Securities	Foreclosed assets acquisition
600774	Hanshangjituan	8,400,000.00	4.02%	63,004,176.69	–	54,604,176.69	AFS Securities	Equity investment
600643	Aijiangufen	7,000,000.00	0.45%	59,147,385.32	–	52,147,385.32	AFS Securities	Equity investment
000001	Shenfazhan A	5,830,806.84	0.07%	57,899,814.72	–	52,069,007.88	AFS Securities	Equity investment
	Others	71,806,765.63		254,532,747.56		186,396,881.93		
	Total	280,153,496.80		1,994,571,244.32	324,361,651.40	1,718,088,647.52		

Notes:

1. The table above sets out the Group's holdings of shares in other listed companies recorded in the Group's Long-term equity investment, investment securities – available-for-sale.
2. Gain or loss in the reporting period refers to the impact of such investments on the Group's consolidated net profit in the reporting period.
3. The information in the above table is prepared in accordance with the Generally Accepted Accounting Principles of the People's Republic of China.

4. HOLDING OF SHARES ISSUED BY UNLISTED FINANCIAL INSTITUTIONS

Name of institution	Initial Investment Cost (yuan)	Number of Shares held	Shareholding Percentage	Term-end Cost (yuan)	Gain/Loss in the reporting period (yuan)	Equity movement in the reporting period (yuan)	Accounting Items	Source of Shares
Yueyang City Commercial Bank Co., Ltd.	3,000,000.00	3,000,000.00	3.00%	0.00	0.00	0.00	AFS Securities	Equity Investment
Hainan Development Bank Co., Ltd.	4,000,000.00	4,000,000.00	6.67%	0.00	0.00	0.00	AFS Securities	Equity Investment
China Union Pay Co., Ltd.	90,000,000.00	90,000,000.00	5.45%	90,000,000.00	0.00	0.00	Long-Term Equity Investment	Equity Investment
Jiangsu Changsu Rural Commercial Bank Co., Ltd.	380,000,000.00	380,000,000.00	10.00%	380,000,000.00	0.00	0.00	Long-Term Equity Investment	Equity Investment
Total	477,000,000.00	477,000,000.00	-	470,000,000.00	-	-		

Note: The information in the above table is prepared in accordance with the Generally Accepted Accounting Principles of the People's Republic of China.

Independent Auditors' Report



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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF BANK OF COMMUNICATIONS CO., LTD.

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

We have audited the consolidated financial statements of Bank of Communications Co., Ltd. ("the Bank") and its subsidiaries (collectively "the Group") set out on pages 134 to 291, which comprise the Bank's and its consolidated balance sheets as at 31 December 2007, and the consolidated profit and loss account, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and true and fair presentation of these financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Bank and the Group as at 31 December 2007 and of the profit and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 19 March 2008

Consolidated Financial Statements

Consolidated Profit and Loss Account

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

Group

	Note	For the year ended 31 December	
		2007	2006
Interest income		90,319	64,543
Interest expense		(36,175)	(24,740)
Net interest income	4	54,144	39,803
Fee and commission income	5	8,245	3,594
Fee and commission expense	6	(1,150)	(603)
Net fee and commission income		7,095	2,991
Dividend income	7	77	123
Gains less losses arising from trading activities	8	49	(57)
Gains less losses arising from de-recognition of investment securities	21	657	58
Other operating income	9	767	920
Impairment losses	10	(6,380)	(5,538)
Other operating expenses	11	(25,295)	(20,895)
Operating profit before tax		31,114	17,405
Income tax	14	(10,712)	(5,136)
Net profit for the year		20,402	12,269
Attributable to:			
Shareholders of the Bank		20,274	12,274
Minority interest		128	(5)
		20,402	12,269
Basic and diluted earnings per share			
For profit attributable to the shareholders of the Bank (in RMB)	15	0.42	0.27

The accompanying notes presented on pages 140 to 291 form an integral part of these consolidated financial statements.

Consolidated Balance Sheet*(All amounts expressed in millions of RMB unless otherwise stated.)***Group**

	<i>Note</i>	As at 31 December	
		2007	2006
ASSETS			
Cash and balances with central banks	16	261,433	253,941
Due from other banks and financial institutions	17	156,110	118,623
Financial assets held for trading	18	19,445	12,995
Loans and advances to customers	20	1,085,724	910,307
Investment securities – loans and receivables	21	67,596	48,050
Investment securities – available-for-sale (“AFS”)	21	147,573	339,823
Investment securities – held-to-maturity (“HTM”)	21	330,927	–
Property and equipment	22	32,199	26,284
Deferred tax assets	28	2,524	3,520
Other assets	23	6,913	5,940
Total assets		2,110,444	1,719,483
LIABILITIES			
Due to other banks and financial institutions	24	332,556	236,107
Financial liabilities held for trading	25	10,028	8,724
Due to customers	26	1,567,142	1,352,890
Other liabilities	27	22,814	16,151
Current taxes		5,872	2,501
Deferred tax liabilities	28	504	323
Subordinated term debt	30	38,207	12,292
Total liabilities		1,977,123	1,628,988
EQUITY			
Capital and reserves attributable to the Bank’s shareholders			
Share capital	31	48,994	45,804
Capital surplus	31	43,100	21,540
Other reserves		20,422	10,364
Retained earnings		20,387	12,728
		132,903	90,436
Minority Interest		418	59
Total equity		133,321	90,495
Total equity and liabilities		2,110,444	1,719,483

These consolidated financial statements were approved for issue by the Board of Directors on 19 March 2008 and signed on its behalf by:

Chairman of Board: Jiang Chaoliang

Vice Governor and Chief Financial Officer: Yu Yali

The accompanying notes presented on pages 140 to 291 form an integral part of these consolidated financial statements.

Consolidated Financial Statements (Continued)

Balance Sheet

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

Bank

	Note	As at 31 December	
		2007	2006
ASSETS			
Cash and balances with central banks	16	259,007	253,191
Due from other banks and financial institutions	17	154,976	118,623
Financial assets held for trading	18	19,429	12,995
Loans and advances to customers	20	1,084,996	910,307
Investment securities – loans and receivables	21	67,596	48,050
Investment securities – available-for-sale (“AFS”)	21	145,422	339,110
Investment securities – held-to-maturity (“HTM”)	21	330,927	–
Investments in and due from subsidiaries	38	5,184	1,344
Property and equipment	22	30,937	25,077
Deferred tax assets	28	2,524	3,520
Other assets	23	4,872	5,122
Total assets		2,105,870	1,717,339
LIABILITIES			
Due to other banks and financial institutions	24	332,556	236,107
Financial liabilities held for trading	25	10,028	8,724
Due to customers	26	1,567,142	1,352,890
Other liabilities	27	19,480	13,831
Current taxes		5,811	2,497
Deferred tax liabilities	28	298	227
Subordinated term debt	30	38,207	12,292
Total liabilities		1,973,522	1,626,568
EQUITY			
Capital and reserves attributable to the Bank’s shareholders			
Share capital	31	48,994	45,804
Capital surplus	31	43,992	22,432
Other reserves		19,571	9,900
Retained earnings		19,791	12,635
Total equity		132,348	90,771
Total equity and liabilities		2,105,870	1,717,339

The accompanying notes presented on pages 140 to 291 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

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

	Share capital <i>Note 31</i>	Capital surplus <i>Note 31</i>	Statutory reserve <i>Note 32</i>	Discretionary reserve <i>Note 32</i>	Other reserves			Retained earnings <i>Note 31, 32</i>	Minority interest	Total	
					Statutory general reserve <i>Note 32</i>	Revaluation reserve for AFS securities	Revaluation reserve for properties				Translation reserve on foreign operations
Balance at 1 January 2006	45,804	21,540	-	-	-	2,603	4,040	(88)	9,183	64	83,146
Losses from changes in fair value of AFS securities, net of tax	-	-	-	-	-	(1,695)	-	-	-	-	(1,695)
Transfer to net profit on disposal of AFS securities, net of tax	-	-	-	-	-	(41)	-	-	-	-	(41)
Revaluation of property	-	-	-	-	-	-	605	-	-	-	605
Translation difference on foreign operations	-	-	-	-	-	-	-	(125)	-	-	(125)
Revaluation reserve realization upon disposals	-	-	-	-	-	-	(262)	-	262	-	-
Net income/(expense) recognized directly in equity	-	-	-	-	-	(1,736)	343	(125)	262	-	(1,256)
Net profit	-	-	-	-	-	-	-	-	12,274	(5)	12,269
Dividends	-	-	-	-	-	-	-	-	(3,664)	-	(3,664)
Transfer to reserves	-	-	899	-	4,428	-	-	-	(5,327)	-	-
Balance at 31 December 2006	45,804	21,540	899	-	4,428	867	4,383	(213)	12,728	59	90,495
Balance at 1 January 2007	45,804	21,540	899	-	4,428	867	4,383	(213)	12,728	59	90,495
Gains from changes in fair value of AFS securities, net of tax	-	-	-	-	-	1,049	-	-	-	51	1,100
Transfer to net profit on disposal of AFS securities, net of tax	-	-	-	-	-	(483)	-	-	-	-	(483)
Revaluation of property	-	-	-	-	-	-	1,236	-	-	-	1,236
Translation difference on foreign operations	-	-	-	-	-	-	-	(403)	-	-	(403)
Realisation of revaluation reserve upon disposals	-	-	-	-	-	-	(20)	-	20	-	-
Tax rate change impact (<i>Note 28</i>)	-	-	-	-	-	118	506	-	-	-	624
Net income/(expense) recognized directly in equity	-	-	-	-	-	684	1,722	(403)	20	51	2,074
Net profit	-	-	-	-	-	-	-	-	20,274	128	20,402
Acquisition of new subsidiary (<i>Note 39</i>)	-	-	-	-	-	-	-	-	-	180	180
Dividends	-	-	-	-	-	-	-	-	(4,580)	-	(4,580)
Transfer to reserves	-	-	1,271	576	6,208	-	-	-	(8,055)	-	-
Issue of shares (<i>Note 31</i>)	3,190	21,560	-	-	-	-	-	-	-	-	24,750
Balance at 31 December 2007	48,994	43,100	2,170	576	10,636	1,551	6,105	(616)	20,387	418	133,321

The accompanying notes presented on pages 140 to 291 form an integral part of these consolidated financial statements.

Consolidated Financial Statements (Continued)

Consolidated Statement of Cash Flows

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

	For the year ended 31 December	
	2007	2006
Cash flows from operating activities:		
Net profit before taxation:	31,114	17,405
Adjustments for:		
Impairment of loans and advances to customers	5,961	5,748
Write-back of due from banks and financial institutions	(113)	(117)
(Reversal of)/charge impairment of other receivables	(592)	311
Impairment of investment securities	692	49
Depreciation of property and equipment	2,665	2,501
(Reversal of)/revaluation deficit of property and equipment	(70)	41
Amortization of prepaid staff subsidies	15	118
Amortization of prepaid rental expenses	94	180
Amortization of land use rights	10	3
Amortization of intangible assets	223	136
Gains less losses arising from de-recognition of investment securities	(657)	(58)
Gains on disposal of fixed assets	(99)	(54)
Amortisation of fair value re-measurement on AFS to HTM	(122)	–
Increase in the fair value of investment property	(13)	(16)
Losses on disposal of investment property	–	5
Accrued interest expense on subordinated term debt	1,492	636
Net increase in mandatory reserve deposits	(96,069)	(30,774)
Net (increase)/decrease in due from other banks and financial institutions	(38,456)	53,155
Net increase in financial assets held for trading	(6,450)	(9,767)
Net increase in loans and advances to customers	(181,378)	(157,282)
Net (increase)/decrease in other assets	(128)	3,748
Net increase in due to other banks and financial institutions	96,449	84,572
Net Increase/(decrease) in financial liabilities held for trading	1,304	(831)
Net increase in due to customers	214,252	199,492
Net increase in other liabilities	6,887	1,548
Net increase in business tax payable	508	125
Income tax paid	(6,272)	(5,389)
Net cash from operating activities	31,247	165,485

Consolidated Statement of Cash Flows (Continued)

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

	For the year ended	
	31 December	
	2007	2006
Cash flows from investing activities:		
Acquisition of subsidiary, net of cash acquired	11	–
Purchase of investment securities	(536,749)	(486,037)
Disposal or redemption of investment securities	379,441	409,884
Acquisition of intangible assets	(191)	(164)
Prepaid rental expenses	(59)	(145)
(Purchase)/disposal of land use rights	(3)	13
Purchase of property and equipment	(7,227)	(3,258)
Disposal of property and equipment	636	490
Disposal of investment property	–	586
Net cash used in investing activities	(164,141)	(78,631)
Cash flows from financing activities:		
Issue of shares	24,750	–
Subordinated debts issued	25,000	–
Interest paid on subordinated term debt	(577)	(636)
Dividends paid	(5,311)	(1,665)
Net cash (used in)/from financing activities	43,862	(2,301)
Effect of exchange rate changes on cash and cash equivalents	(627)	(135)
Net increase/(decrease) in cash and cash equivalents	(89,659)	84,418
Cash and cash equivalents at the beginning of the period	185,723	101,305
Cash and cash equivalents at the end of the period (Note 37)	96,064	185,723
Supplementary Information		
Interest received	89,113	63,798
Interest paid	(31,853)	(23,405)

The accompanying notes presented on pages 140 to 291 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(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 as a joint stock national commercial bank on 1 April 1987, in accordance with the approval notice (Guo Fa (1986) No. 81) issued by the State Council of the PRC and the approval notice (Yin Fa (1987) No. 40) issued by the People’s Bank of China (“PBOC”). Headquartered in Shanghai, the Bank operates 100 city level branches in the PRC. In addition, the Bank has branches in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt and Macau.

2 ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to the periods presented unless otherwise stated.

A Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) and requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of investment securities classified as available for sale, financial assets and financial liabilities held at fair value through profit or loss, property and equipment, investment properties and all derivative contracts, which are revalued at fair value.

Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IFRS and the disclosure requirements of the Hong Kong Companies Ordinance requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies.

1) *Impairment losses on loans and advances*

The Group reviews its loan portfolios to assess impairment on a quarterly basis, unless known circumstances indicate that impairment may have occurred as of an interim date. In determining whether an impairment loss should be recorded in the consolidated profit and loss account, the Group makes judgment as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2 ACCOUNTING POLICIES *(Continued)*

A Basis of presentation *(Continued)*

Critical accounting estimates and judgments in applying accounting policies *(Continued)*

2) *Fair value of financial instruments*

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Valuation techniques used include discounted cash flows analysis and models. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

3) *Income taxes*

The Group is subject to income taxes in various jurisdictions; principally, however in the Chinese Mainland and Hong Kong. Significant estimates are required in determining the provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. In particular, the deductibility of certain items in Mainland China is subject to government approval. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period during which such a determination is made (Note 28).

4) *Held-to-maturity*

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to hold these investments to maturity other than for specific circumstances defined in IAS 39 such as, selling an insignificant amount close to maturity, it will be required to reclassify the entire portfolio of assets as available-for-sale. The investments would therefore be measured at fair value, not at amortised cost. Please refer to Note 3.4 for estimated fair value of held-to-maturity securities at year end.

Notes to the Consolidated Financial Statements (Continued)

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

2 ACCOUNTING POLICIES (Continued)

A Basis of presentation (Continued)

The Group adopted the following standards, amendments and interpretations that were effective as at 1 January 2007:

- IFRS 7, Financial Instruments: Disclosures and the Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures, are effective for annual accounting periods beginning on or after 1 January 2007. IFRS 7 introduces certain new disclosures relating to financial instruments while incorporating many of the requirements in IAS 32. IFRS 7 supersedes IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and the disclosure requirements of IAS 32 Financial Instruments: Disclosure and Presentation. The Group has adopted IFRS 7 and the amendment to IAS 1 and the key impact are more qualitative and quantitative disclosures primarily related to fair value measurement and risk management. Accordingly the adoption of this standard has no effect on the Group's results of operations or financial position; and
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). IFRIC 9 requires an entity to assess whether an embedded derivatives is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group has applied IFRIC 9 from 1 January 2007, and it has no impact on the Group's financial statements; and
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group has applied IFRIC 10 from 1 January 2007, and it has no impact on the Group's annual financial statements.

Other amendments and interpretations that were effective for annual period beginning 1 January 2007 are not applicable to the Group's business operations.

2 ACCOUNTING POLICIES *(Continued)*

A Basis of presentation *(Continued)*

The Group has chosen not to early adopt the following standards and interpretations that were issued but not yet effective for accounting period beginning on 1 January 2007:

- IAS 1 (revised), Presentation of Financial Statements is effective for accounting periods beginning on or after 1 January 2009. The revised standard is aimed at improving users' ability to analyse and compare the information given in financial statements. IAS 1 (revised) affects the presentation of owner changes in equity and of comprehensive income. All owner changes in equity are required to be presented in a statement of changes in equity, and all non-owner changes in equity are required to be presented in a statement of comprehensive income (or in an income statement and a statement of comprehensive income). The revised standard does not change the recognition, measurement or disclosure of specific transactions and other events required by other IFRSs. This standard will have no impact on the Group's operating results or financial position; and
- IAS 27 (Revised), Consolidated and Separate Financial Statements is effective for all transactions for which the transaction date is on or after the first accounting period beginning on or after 1 July 2009. The revised standard requires the effects of all transactions with noncontrolling interests to be recorded in equity if there is no change in control specifying that such transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost after which any remaining interest in the entity is remeasured to fair value and a gain or loss is recognised in profit or loss. Transactions with minority interests that occurred prior to the adoption of IAS 27 (Revised) are not restated. This standard is not expected to have a material effect on the Group's operating results or financial position; and
- IFRS 3 (Revised), Business Combinations is effective for business combinations for which the acquisition date is on or after the first accounting period beginning on or after 1 July 2009. IFRS 3 (Revised) supersedes IFRS 3 Business Combinations and is a further development of the acquisition method of accounting for business combinations. The revised standard applies to more transactions, as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard. Common control transactions and the formation of joint ventures remain outside the scope of the standard. The standard amends the definition of a business to one for which the elements are 'capable of being conducted' rather than 'are conducted and managed'. This change is supplemented by a significant expansion of the application guidance. Business combinations that occurred prior to the adoption of IFRS 3 (Revised) are not restated. This standard is not expected to have a material effect on the Group's operating results or financial position; and

Notes to the Consolidated Financial Statements *(Continued)*

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

2 ACCOUNTING POLICIES *(Continued)*

A Basis of presentation *(Continued)*

- IFRS 8, Operating Segments is effective for annual periods beginning on or after 1 January 2009. IFRS 8 supersedes IAS 14, Segment Reporting, under which segments were identified and reported on the basis of a risk and return analysis. Items were reported on the basis of the accounting policies used for external reporting. Under IFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker. Items are reported based on internal reporting. This interpretation is not expected to have a material effect on the Group's operating results or financial position; and
- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions is effective for annual periods beginning on or after 1 March 2007 and clarifies the accounting by a subsidiary when its employees receive shares of its parent as equity-settled or cash-settled transactions. It also addresses the accounting for share-based payment transactions involving two or more entities within one group. This interpretation is not expected to have a material effect on the Group's operating results or financial position; and
- IFRIC 13 – Customer Loyalty Programmes is effective for annual periods beginning on or after 1 July 2008 and addresses accounting by entities that grant loyalty award credits (such as “points” or travel miles) to customers as incentive to buy their goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services (“awards”) to customers who redeem award credits. This interpretation is not expected to have a material effect on the Group's operating results or financial position; and
- IFRIC 14, ‘IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction’ (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The group will apply IFRIC 14 from 1 January 2008, but it is not expected to have any impact on the group's accounts.

2 ACCOUNTING POLICIES *(Continued)*

B Subsidiary undertakings

Subsidiaries, which are those companies and other entities (including Special Purpose Entities) in which the Group, directly or indirectly, has control, are consolidated.

The Group controls another entity when the Group has the power to govern the financial and operating policies of the entity. The existence and effect of potential voting rights that are presently exercisable or presently convertible are also considered when assessing whether the Group controls the entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of Group's share of the identifiable net assets acquired is recorded as goodwill. Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the loss cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the stand alone financial statements of the Bank, the subsidiaries are measured at cost less provision for impairment. The amount of impairment loss is included in the net profit or loss for the year. The Group applies a policy of treating transactions with minority interests as transactions with parties external the Group.

C Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps, and other derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profits on day 1.

Notes to the Consolidated Financial Statements (Continued)

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

2 ACCOUNTING POLICIES (Continued)

C Derivative financial instruments (Continued)

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and economic characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealized gains and losses reported in the profit and loss account. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss account.

Certain derivative transactions, while considered as hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading.

Changes in the fair value of derivatives held for trading are included in gains less losses arising from trading activities.

D Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Financial assets are designated at fair value through profit or loss when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for such as loans and advances to customers or banks and debt securities in issue;

2 ACCOUNTING POLICIES *(Continued)*

D Financial assets *(Continued)*

(a) Financial assets at fair value through profit or loss (Continued)

- Certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in gains and losses arising from trading activities.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (i) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (ii) those that the entity upon initial recognition designates as available for sale; or (iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. After initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any impairment allowances.

(c) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

Notes to the Consolidated Financial Statements (Continued)

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

2 ACCOUNTING POLICIES (Continued)

D Financial assets (Continued)

(d) Available-for-sale financial assets

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates, equity prices or management intention.

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date – the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the profit and loss account. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in gains and losses arising from trading activities in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest earned whilst holding financial assets is reported as interest income using the effective interest rate method. Dividends receivable are included separately in dividend income when the entity's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

2 ACCOUNTING POLICIES *(Continued)*

E Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidences of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (eg equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Notes to the Consolidated Financial Statements (Continued)

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

2 ACCOUNTING POLICIES (Continued)

E Impairment of financial assets (Continued)

(a) *Assets carried at amortised cost* (Continued)

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and twelve months; in exceptional cases, longer periods are warranted.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit and loss account in the impairment charge for credit losses.

2 ACCOUNTING POLICIES *(Continued)*

E Impairment of financial assets *(Continued)*

(b) Assets classified as available for sale

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit and loss account.

F Interest income and expense

Interest income and expense are recognised in the profit and loss account for interest-bearing instruments on an accruals basis using the effective interest method. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

G Fee and commission income

Fees and commission are generally recognised on an accruals basis when the service has been provided. Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective interest on the loan. Fees and commission arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to assets held in a fiduciary capacity are recognised ratably over the period the service is provided.

Notes to the Consolidated Financial Statements (Continued)

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

2 ACCOUNTING POLICIES (Continued)

H Sale/purchase and repurchase/resale agreements

Securities sold subject to a linked repurchase agreements ('repos') with banks and other financial institutions are retained in the financial statements as financial assets held for trading or investment securities, as the Group still retains substantially all risk and rewards of the ownership of underlying securities. The counterparty liability is included in amounts due to other banks and financial institutions.

Securities purchased under agreements to resell ('reverse repos') are recorded as due from other banks and financial institutions. The difference between sale and repurchase price (purchase and resale price) is treated as interest expense (income) and accrued over the life of the repos (reverse repos) using the effective interest method.

I Property and equipment

All property, plant and equipment is initially measured at its cost, which includes expenditure that is directly attributable to the acquisition of the items.

Subsequent to initial recognition, the Group adopts a revaluation policy to carry all classes of property and equipment except for leasehold improvements at revaluation, being their fair value at the date of the revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Leasehold improvements continue to be stated at cost less accumulated impairment losses and depreciation.

Increases in the carrying amount arising on revaluation of property and equipment are credited to revaluation reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against revaluation reserves; all other decreases are charged to the profit and loss account. The revaluation reserves are transferred directly to retained earnings when the relevant items of property and equipment are retired or disposed of.

Depreciation is calculated on the straight-line method to write off the cost or revalued amount of each asset to their residual values over their estimated useful lives as follows:

Land and buildings	25-50 years
Leasehold improvements	3-10 years
Equipment and motor vehicles	3-8 years

No depreciation is provided against construction in progress.

2 ACCOUNTING POLICIES *(Continued)*

I Property and equipment *(Continued)*

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the Group's property and equipment are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. The recoverable amount is the higher of the assets' fair value less costs to sell and value in use. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a property or equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

Repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

J Foreclosed assets

Foreclosed assets are initially and subsequently measured at lower of carrying values or fair value less cost to sale. Foreclosed assets are included in the balance of other assets.

K Land use rights

Land use rights are recognised initially at 'cost', being the consideration paid for the rights to use and occupy the land. Land use rights are amortised using the straight-line method to write off the cost over their estimated useful lives of 30 to 70 years.

Land use rights are not separately presented from building, when they are acquired together with the building at inception and the costs attributable to the land use rights cannot be reasonably measured and separated from that of the building.

Notes to the Consolidated Financial Statements (Continued)

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

2 ACCOUNTING POLICIES (Continued)

L Intangible assets

Intangible assets are recognized initially at its cost, which includes expenditure that is directly attributable to the acquisition of the items. Where payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. Costs associated with maintaining computer software program are recognised as an expense as incurred. However, expenditure that enhances or extends the performance of computer software program beyond their original specifications is recognised as capital improvement and added to the original cost of the software. Amortization for intangible assets is calculated on a straight-line basis from the month of acquisition over the estimated useful period and is recognized in the profit and loss account. Intangible assets are stated at cost less accumulated amortization and impairment.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested for impairment as part of the overall balance.

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2 ACCOUNTING POLICIES *(Continued)*

M Investment property

Property held to earn rentals which is not occupied by the Group is classified as investment property. Investment property comprises land and buildings.

Investment property is initially measured at its cost, which includes expenditure that is directly attributable to the acquisition of the items. Subsequent to initial recognition, the Group adopts the fair value model to account for its investment property. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Where active market price information is not available, the Group uses alternative valuation methods such as discounted cash flow projections or recent prices on less active markets. These valuations are reviewed annually by an independent valuer. Changes in fair values are recorded in the profit and loss account.

N Leases

The leases entered into by the Group as lessee or lessor have been determined to be operating leases. The lease payments/receipts made under operating leases are charged to/recognised in the profit and loss account on a straight-line basis over the period of the lease.

O Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with central banks (after deduction of mandatory reserve deposits) and amounts due from other banks and financial institutions used for the purpose of meeting short-term cash commitments.

P Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Notes to the Consolidated Financial Statements (Continued)

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

2 ACCOUNTING POLICIES (Continued)

Q Deferred income taxes

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The principal temporary differences arise from depreciation of property and equipment, impairment of loans and advances, receivables and other assets, and revaluation of certain financial assets and liabilities. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized. Deferred tax liabilities are the amounts of income tax payable in respect of taxable temporary differences, which are measured at the amount expected to be paid to the tax authorities in the future.

Income tax payable on profits, based on the applicable tax law in each jurisdiction is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to fair value re-measurement of available-for-sale investments, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the profit and loss account together with the deferred gain or loss.

R Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

S Share capital

(1) Share issue costs

External costs directly attributable to the issue of new shares are deducted from equity.

(2) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the financial period in which they are declared and approved.

2 ACCOUNTING POLICIES *(Continued)*

T Acceptances

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. Acceptances are accounted for as financial guarantees and credit related commitments transactions and are disclosed as contingent liabilities and commitments.

U Employee benefits

(1) *Staff benefit and retirement benefit obligations*

Salaries and bonuses, housing benefits and costs for social security benefits are accrued in the financial period in which the services are rendered by employees of the Group. The Group also participates in various defined contribution retirement plans principally organised by municipal and provincial governments. The Group's contributions to these pension plans are charged to the profit and loss account in the financial period to which they relate.

(2) *Share-based compensation*

The Group operates a cash-settled, share-based compensation plan to certain senior management of the Bank. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account with a corresponding adjustment to the liability recognized.

Notes to the Consolidated Financial Statements (Continued)

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

2 ACCOUNTING POLICIES (Continued)

V Foreign currency translation

(1) *Functional and presentation currency*

The Group's presentation currency is Renminbi ("RMB"), the legal currency of China. Items included in the financial statements of each of the entities of the Group are measured using the currency that best reflects the economic environment of the underlying events and circumstances relevant to that entity ("the functional currency"). The consolidated financial statements are presented in RMB which is the functional and presentation currency of the Bank.

(2) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(3) *Group companies*

The results and financial positions of all group companies that have functional currencies different from the presentation currency are translated into RMB, the Group's presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings are taken to equity. When a foreign operation is disposed of, or partially disposed of, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

2 ACCOUNTING POLICIES *(Continued)*

W Contingent liabilities and contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

X Financial guarantee contracts

The Group has the following types of financial guarantee contracts: acceptances, letters of credit and letters of guarantee issued. These contracts provide for specified payments to be made to reimburse the holder for a loss it incurs when a guaranteed party defaults under the original or modified terms of a debt instrument.

The Group initially recognises all financial guarantee contracts at the proceeds received. They are recorded in other liabilities at fair value in the balance sheet, which is amortised into profit and loss account ratably over the guarantee period. Subsequently, they are carried at the higher of amortised carrying value or the provision required to meet the Group's guarantee obligation. The changes in carrying value are recorded in the profit and loss account under fee and commission income.

Y Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from the financial statements where the Group acts in a fiduciary capacity such as nominee, trustee, custodian or agent.

The Group grants entrusted loans on behalf of third-party lenders. The Group grants loans to borrowers, as agent, at the direction of the third-party lenders, who fund these loans. The Group has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans including their purposes, amounts, interest rates, and repayment schedule. The Group charges a commission related to its activities in connection with the entrusted loans which is recognised ratably over the period the service is provided. The risk of loss is borne by the third-party lenders.

Notes to the Consolidated Financial Statements (Continued)

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

2 ACCOUNTING POLICIES (Continued)

Z Segment reporting

A geographical segment is engaged in providing products or services within a particular economic environment, which are subject to risks and returns that are different from those of segments operating in other economic environments. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. In accordance with the Group's internal financial reporting format, the Group has determined that geographical segments be presented as the primary reporting format. The geographical segment reporting format is based upon location of assets, as the local branches mainly serve local customers with only a few customers from other regions. Business segments are presented as secondary segment reporting format, which is divided into corporate, retail, treasury and others.

AA Offset financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legal enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the assets and settle the liability simultaneously.

3 FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. 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 emerging best practice.

The Board of Directors provides strategy for overall risk management. The senior management established related risk management policies and procedures under the strategy approved by the Board, including written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. Such risk policies and procedures are carried out by various departments at head office after Board's approval. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The most important types of operating risk are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate and other price risk.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the balance sheet date. Credit exposures arise principally in loans and advances, debt securities and due from banks and other financial institutions. There is also credit risk in off-balance sheet financial arrangements such as loan commitments. The majority of the Group's operation is located within China, however different areas in China have their own unique characteristics in economic development. Management therefore carefully manages its exposure to credit risk. The risk management department at head office is responsible for the overall management of the Group's credit risk. The credit risk management and control of debt securities, and due from banks and other financial institutions are centralized in treasury department and international business department. These departments reported 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 one 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 capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

3.1.1 Credit risk measurement

(a) *Loans and advances and off balance exposures*

In measuring credit risk of loan and advances to corporate customers at a counterparty level, the Group reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Group derive the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

These credit risk measurements as required under IAS 39 are based on losses that have been incurred at the balance sheet date (the 'incurred loss model') rather than expected losses.

- (i) The Group assesses the probability of default of individual corporate customers using an internally developed 10-grade system. The system was developed internally using credit officer judgment and is validated, where appropriate, by comparison with externally available data. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating system is kept under review and upgraded as necessary. The Group regularly validates the performance of the rating and their predictive power with regard to default events.

Notes to the Consolidated Financial Statements (Continued)

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.1 Credit risk measurement (Continued)

(a) Loans and advances and off balance exposures (Continued)

Group's internal rating scale

Group's rating	Description of the grade
1	Basically borrower does not default with solid debt servicing capacity.
2	Less affected by uncertainties, borrower is extremely unlikely to default with solid debt servicing capacity.
3	Sometimes affected by uncertainties, borrower is unlikely to default with sufficient debt servicing capacity.
4	Affected by some uncertainties, borrower is less likely to default with favourable debt servicing capacity.
5	Basically borrower does not defaults with the capability of repayment on principal and interest. Though uncertain factors lies, it is extremely unlikely to degrade Risk Grading.
6	Borrower currently has repayment capabilities on principals and interests with possibilities of default. Uncertainties might impact loan repayment and degrade Risk Grading. Generally, Effective guarantees are provided for access to bank financing.
7	Borrower is more likely to default in despite of having certain level of debt serving capacity. However, uncertainties will materially affect the solvency. Very effective guarantees are provided for access to bank financing.
8	Borrower has defaulted or is very likely to default with an obvious difficulty in debt serving capacity. Normal operating income fails to ensure full repayment of principal and interest. A certain loss may still occur even with the implementation of guarantees.
9	Borrower has defaulted without full repayment of principal and interest. More serious loss may still occur even with the implementation of guarantees.
10	Borrower's severe default results in full or partial loan loss after taking all feasible actions and necessary legal procedures.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk measurement *(Continued)*

(a) Loans and advances and off balance exposures *(Continued)*

Customers with grade 1-5 were considered by the Group as high-quality customers, grade 6-7 were considered as general quality customers and grade 8-10 were considered as risk quality customers. The Group adopts different business strategy by different customers' grading.

Exposure at default is based on the amounts the Group expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Group includes any amount already drawn plus the 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 default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation.

The Group has issued credit related 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.

- (ii) The Group monitored the overdue status of its loans and advances to retail customers in managing the credit risk.

The Group identifies credit exposures by industry, geography and customer risk. This information is monitored regularly by the senior management.

Notes to the Consolidated Financial Statements (Continued)

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.1 Credit risk measurement (Continued)

(b) Debt securities

For debt securities and other bills, other than those issued by PRC Ministry of Finance, PBOC and state policy banks, external ratings (such as Standard and Poor's) are used by Group for managing of the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

(c) Loans to banks and other financial institutions

The head office monitored and reviewed the credit risk of loans to banks and other financial institutions by counterparties periodically. Limits are placed on different counterparties.

3.1.2 Risk limit control and mitigation policies

The Group manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and regions.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are reviewed or approved regularly.

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 capital repayment obligations and by changing these lending limits where appropriate.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Risk limit control and mitigation policies *(Continued)*

Some other specific control and mitigation measures are outlined below.

(a) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of collateral, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

The value of collateral at the time of loan origination is determined by credit authorization department and is subject to loan-to-value ratio limits based on type. The principal collateral types for corporate loans and retail loans are as follows:

Collateral	Maximum loan-to-value ratio
Cash deposits with the Group	90%
PRC treasury bonds	90%
PRC financial institution bonds	90%
Publicly traded stocks	60%
Rights to collect fees or operate	60%
Fixed assets	70%
Land use rights	70%
Vehicles	50%

Notes to the Consolidated Financial Statements (Continued)

(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 policies (Continued)

(a) Collateral (Continued)

Longer-term finance and lending to corporate entities and retail customers are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed 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.

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

(b) Derivatives

The Group maintains strict control limits on net open derivative positions (ie, the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (ie, assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Group's market transactions on any single day.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Risk limit control and mitigation policies *(Continued)*

(c) 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 balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable 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 it is affected by each transaction subject to the arrangement.

3.1.3 Impairment and provisioning policies

The internal rating systems described in Note 3.1.1 focus more on credit-quality mapping from the inception of the lending activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment (see Note 2(E)). 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 tool 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 (eg equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

Notes to the Consolidated Financial Statements (Continued)

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.3 Impairment and provisioning policies (Continued)

The Group's policy requires the review of individual financial assets that are above materiality thresholds at least quarterly or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

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

Group

	31 December	
	2007	2006
Assets		
Due from other banks and financial institutions	156,110	118,623
Financial assets held for trading	19,445	12,995
Loans and advances to customers		
– Loans to corporate entities	915,302	785,507
– Loans to individuals	170,422	124,800
Investment securities – loans and receivables	67,596	48,050
Investment securities – available-for-sale	147,573	339,823
Investment securities – held-to-maturity	330,927	–
Other financial assets	4,065	2,750
	1,811,440	1,432,548
Off-balance exposures		
Financial guarantees, acceptance and letter of credit	362,479	278,386
Other credit related commitments	71,276	35,647
	433,755	314,033

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** *(Continued)*

The above table represents a worse case scenario of credit risk exposure to the Group at 31 December 2007 and 2006, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 60% of the total maximum exposure is derived from loans and advances to customers (2006: 64%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both its loan and advances portfolio and debt securities based on the following:

- 89% of the corporate loans and advances portfolio is categorised in grade 1-5 of the internal rating system (2006: 85%);
- Mortgage loans, which represent the biggest group in the individual portfolio, are backed by collateral;
- 97% of the loans and advances portfolio are considered to be neither past due nor impaired (2006: 96%);
- Of the 1,107,500 million loans and advances less than 2.05% is impaired.

Notes to the Consolidated Financial Statements (Continued)

(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

Group

	31 December 2007		31 December 2006	
	Loans and advances to customers	Due from other banks and financial institutions	Loans and advances to customers	Due from other banks and financial institutions
Neither past due nor impaired	1,075,922	156,096	890,239	118,608
Past due but not impaired	8,884	14	13,689	15
Individually impaired	22,694	314	23,477	626
Gross	1,107,500	156,424	927,405	119,249
Less: collective impairment allowances	(7,690)	–	(5,705)	–
individual impairment allowances	(14,086)	(314)	(11,393)	(626)
Net	1,085,724	156,110	910,307	118,623

Bank

	31 December 2007		31 December 2006	
	Loans and advances to customers	Due from other banks and financial institutions	Loans and advances to customers	Due from other banks and financial institutions
Neither past due nor impaired	1,075,194	154,962	890,239	118,608
Past due but not impaired	8,884	14	13,689	15
Individually impaired	22,694	314	23,477	626
Gross	1,106,772	155,290	927,405	119,249
Less: collective impairment allowances	(7,690)	–	(5,705)	–
individual impairment allowances	(14,086)	(314)	(11,393)	(626)
Net	1,084,996	154,976	910,307	118,623

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

The total impairment provision for loans and advances is 21,776 million (2006: 17,098 million) of which 14,086 million (2006: 11,393 million) represents the individually impaired loans and the remaining amount of 7,690 million (2006: 5,705 million) represents the portfolio provision. Further information of the impairment allowance for loans and advances to banks and to customers is provided in Note 20.

During the year ended 31 December 2007, the Group's total loans and advances increased by 19% as a result of the expansion of the lending business, especially in mainland China. When entering into new markets or new industries, in order to minimise the potential increase of credit risk exposure, the Group focused more on the business with large corporate enterprises or banks with good credit rating or retail customers providing sufficient collateral.

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

The Group monitored the credit risk of corporate loans and advances neither past due nor impaired by internal 10 grading system on individual customers' basis.

Group

31 December 2007

	Grade 1-5	Grade 6-7	Grade 8-10	Total
Loans and advances to customers				
Corporate entities				
– Commercial loans	776,154	77,336	912	854,402
– Trade finance	52,454	3,118	–	55,572
Total	828,608	80,454	912	909,974
Individual				
– Mortgages				109,068
– Credit Cards				7,609
– Other				49,271
Total				165,948

Notes to the Consolidated Financial Statements (Continued)

(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 (Continued)

(i) Loans and advances neither past due nor impaired (Continued)

Bank

31 December 2007

	Grade 1-5	Grade 6-7	Grade 8-10	Total
Loans and advances to customers				
Corporate entities				
– Commercial loans	775,426	77,336	912	853,674
– Trade finance	52,454	3,118	–	55,572
Total	827,880	80,454	912	909,246
Individual				
– Mortgages				109,068
– Credit Cards				7,609
– Other				49,271
Total				165,948

Group

31 December 2006

	Grade 1-5	Grade 6-7	Grade 8-10	Total
Loans and advances to customers				
Corporate entities				
– Commercial loans	597,743	85,229	570	683,542
– Trade finance	79,414	6,924	–	86,338
Total	677,157	92,153	570	769,880
Individual				
– Mortgages				79,946
– Credit Cards				1,919
– Other				38,494
Total				120,359

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

(i) Loans and advances neither past due nor impaired *(Continued)*

Bank

31 December 2006

	Grade 1-5	Grade 6-7	Grade 8-10	Total
Loans and advances to customers				
Corporate entities				
– Commercial loans	597,743	85,229	570	683,542
– Trade finance	79,414	6,924	–	86,338
Total	677,157	92,153	570	769,880
Individual				
– Mortgages				79,946
– Credit Cards				1,919
– Other				38,494
Total				120,359

Notes to the Consolidated Financial Statements (Continued)

(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 (Continued)

(ii) Loans and advances past due but not impaired

Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

Group and Bank

31 December 2007

	Past due up to 30 days	Past due 30- 60 days	Past due 60- 90 days	Past due over 90 days	Total	Fair value of collateral
Loans and advances to customers						
Corporate entities						
– Commercial loans	802	825	143	2,291	4,061	2,638
Individuals						
– Mortgages	1,785	779	329	250	3,143	6,253
– Credit Cards	75	–	–	–	75	–
– Other	991	357	152	105	1,605	3,605
Total Loans and advances to customers	3,653	1,961	624	2,646	8,884	12,496
Due from other banks and financial institutions	–	–	–	14	14	16

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

(ii) Loans and advances past due but not impaired (Continued)

Group and Bank

31 December 2006

	Past due up to 30 days	Past due 30- 60 days	Past due 60- 90 days	Past due over 90 days	Total	Fair value of collateral
Loans and advances						
to customers						
Corporate entities						
– Commercial loans	3,463	1,294	668	3,638	9,063	4,783
Individuals						
– Mortgages	1,357	756	410	589	3,112	5,636
– Credit Cards	26	–	–	–	26	–
– Other	563	352	197	376	1,488	3,029
Total Loans and advances						
to customers	5,409	2,402	1,275	4,603	13,689	13,448
Due from other banks and						
financial institutions	–	–	–	15	15	16

The fair value of collaterals was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience and market situation.

Notes to the Consolidated Financial Statements (Continued)

(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 (Continued)

(iii) Loans and advances individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is RMB22,694 million (2006: RMB23,477 million).

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

Group and Bank

	As at 31 December	
	2007	2006
Corporate entities	20,971	22,341
Individuals	1,723	1,136
Individually identified loans with impairment	22,694	23,477
Fair value of collaterals	6,481	6,497

The total gross amount of individually impaired due from other banks and financial institutions as at 21 December 2007 was RMB314 million (2006: RMB626 million). No collateral is held by the Group, and a full provision has been provided against the gross amount.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

(iv) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired totalled 6,047 million at 31 December 2007 (2006: 6,902 million).

Group and Bank

	31 December 2007	31 December 2006
Corporate entities	6,047	6,902

Notes to the Consolidated Financial Statements (Continued)

(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 (Continued)

(v) Geographic sector risk concentration for loans and advances to customers (gross):

Group

	31 December 2007		31 December 2006	
		%		%
Domestic regions				
– Beijing	143,486	13	109,585	12
– Jiangsu	131,598	12	109,198	12
– Shanghai	111,489	10	98,816	11
– Guangdong	107,862	10	83,014	9
– Zhejiang	92,536	8	74,341	8
– Shandong	56,141	5	50,756	5
– Henan	40,521	4	35,956	4
– Hubei	39,000	4	33,868	4
– Sichuan	35,975	3	30,498	3
– Others	281,367	25	241,896	26
Domestic regions total	1,039,975	94	867,928	94
Hong Kong and overseas countries	64,515	6	56,897	6
Interest receivables	3,010	–	2,580	–
Gross amount of loans and advances before allowance for impairment	1,107,500	100	927,405	100

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

(v) *Geographic sector risk concentration for loans and advances to customers (gross): (Continued)*

Bank

	31 December 2007		31 December 2006	
		%		%
Domestic regions				
– Beijing	143,486	13	109,585	12
– Jiangsu	131,598	12	109,198	12
– Shanghai	111,489	10	98,816	11
– Guangdong	107,862	10	83,014	9
– Zhejiang	92,536	8	74,341	8
– Shandong	56,141	5	50,756	5
– Henan	40,521	4	35,956	4
– Hubei	39,000	4	33,868	4
– Sichuan	35,975	3	30,498	3
– Others	281,367	25	241,896	26
Domestic regions total	1,039,975	94	867,928	94
Hong Kong and overseas countries	63,787	6	56,897	6
Interest receivables	3,010	–	2,580	–
Gross amount of loans and advances before allowance for impairment	1,106,772	100	927,405	100

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

Notes to the Consolidated Financial Statements (Continued)

(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 (Continued)

(vi) Industry analysis

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

Group

	31 December 2007		31 December 2006	
		%		%
Corporate loans				
Manufacturing				
– Petroleum and chemical	50,245	5	41,227	4
– Electronics	30,823	3	26,917	3
– Steel	29,345	3	26,448	3
– Machinery	38,725	3	25,592	3
– Textile	24,170	2	20,420	2
– Other manufacturing	123,860	11	100,141	11
Transportation	120,484	11	93,035	10
Trading	98,172	9	81,945	9
Services	99,617	9	79,630	9
Real estate	78,080	7	65,962	7
Utilities	85,457	8	63,289	7
Construction	48,805	4	35,961	4
Educations and scientific research	26,993	2	25,521	3
Post and telecommunications	11,078	1	11,456	1
Agriculture	2,609	–	2,440	–
Non-banking financial institutions	13,792	1	13,020	1
Others	18,281	2	12,888	1
Corporate loans total	900,536	81	725,892	78
Mortgage loans	112,941	10	83,417	9
Medium-term and long-term working capital loans	22,709	2	17,626	2
Short-term working capital loans	11,333	1	10,321	1
Car loans	4,534	1	3,932	1
Credit card advances	7,929	1	2,054	–
Loans secured by deposits	–	–	1,284	–
Others	13,028	1	7,494	1
Individual loans total	172,474	16	126,128	14
Discounted bills	31,480	3	72,805	8
Interest receivables	3,010	–	2,580	–
	34,490	3	75,385	8
Gross amount of loans and advances before allowance for impairment	1,107,500	100	927,405	100

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

(vi) Industry analysis *(Continued)*

Bank

	31 December 2007		31 December 2006	
		%		%
Corporate loans				
Manufacturing				
– Petroleum and chemical	50,245	5	41,227	4
– Electronics	30,823	3	26,917	3
– Steel	29,345	3	26,448	3
– Machinery	38,725	3	25,592	3
– Textile	24,170	2	20,420	2
– Other manufacturing	123,860	11	100,141	11
Transportation	120,484	11	93,035	10
Trading	98,172	9	81,945	9
Services	99,617	9	79,630	9
Real estate	78,080	7	65,962	7
Utilities	85,457	8	63,289	7
Construction	48,805	4	35,961	4
Educations and scientific research	26,993	2	25,521	3
Post and telecommunications	11,078	1	11,456	1
Agriculture	2,609	–	2,440	–
Non-banking financial institutions	13,792	1	13,020	1
Others	17,553	2	12,888	1
Corporate loans total	899,808	81	725,892	78
Mortgage loans	112,941	10	83,417	9
Medium-term and long-term working capital loans	22,709	2	17,626	2
Short-term working capital loans	11,333	1	10,321	1
Car loans	4,534	1	3,932	1
Credit card advances	7,929	1	2,054	–
Loans secured by deposits	–	–	1,284	–
Others	13,028	1	7,494	1
Individual loans total	172,474	16	126,128	14
Discounted bills	31,480	3	72,805	8
Interest receivables	3,010	–	2,580	–
	34,490	3	75,385	8
Gross amount of loans and advances before allowance for impairment	1,106,772	100	927,405	100

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

Notes to the Consolidated Financial Statements (Continued)

(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 (Continued)

(vii) Loans and advances to customers analysed by customer type (gross):

Group

	31 December 2007	31 December 2006
Domestic		
Corporate entities		
State owned entities	287,406	240,214
Collective owned entities	10,110	13,456
Private unlimited companies	58,099	47,733
Private limited companies	283,080	204,038
Joint stock companies	89,930	64,937
Foreign invested enterprises	110,805	83,408
Other domestic entities	12,329	31,226
	851,759	685,012
Individuals	157,527	112,129
	1,009,286	797,141
Hong Kong and Overseas		
Corporate entities	48,777	40,880
Individuals	14,947	13,999
	63,724	54,879
Discounted bills	31,480	72,805
Interest receivables	3,010	2,580
	63,724	54,879
Gross amount of loans and advances before allowance for impairment	1,107,500	927,405

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.5 Loans and advances *(Continued)*

(vii) Loans and advances to customers analysed by customer type (gross):
(Continued)

Bank

	31 December 2007	31 December 2006
Domestic		
Corporate entities		
State owned entities	287,406	240,214
Collective owned entities	10,110	13,456
Private unlimited companies	58,099	47,733
Private limited companies	283,080	204,038
Joint stock companies	89,930	64,937
Foreign invested enterprises	110,805	83,408
Other domestic entities	12,329	31,226
	851,759	685,012
Individuals	157,527	112,129
	1,009,286	797,141
Hong Kong and Overseas		
Corporate entities	48,049	40,880
Individuals	14,947	13,999
	62,996	54,879
Discounted bills	31,480	72,805
Interest receivables	3,010	2,580
	34,490	75,385
Gross amount of loans and advances before allowance for impairment	1,106,772	927,405

Notes to the Consolidated Financial Statements (Continued)

(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 by rating agency designation at 31 December 2007 and 2006:

Group

2007	Investment securities – loans and receivables	Investment securities – available-for-sale (“AFS”)	Investment securities – held-to-maturity (“HTM”)	Financial assets held for trading	Total
RMB securities					
AAA	45	20,778	24,254	3,148	48,225
AA- to AA+	400	49	3,954	–	4,403
A- to A+	–	–	146	–	146
BBB	–	–	20	–	20
Unrated ⁽¹⁾	66,491	93,605	299,722	11,179	470,997
Sub-total	66,936	114,432	328,096	14,327	523,791
Foreign currency securities					
AAA	294	2,086	218	1	2,599
AA- to AA+	365	17,039	244	241	17,889
A- to A+	–	9,398	740	1,356	11,494
BBB- to BBB+	–	911	–	392	1,303
Unrated ⁽¹⁾	1	3,707	1,629	790	6,127
Sub-total	660	33,141	2,831	2,780	39,412
Total	67,596	147,573	330,927	17,107	563,203

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.6 Investment securities *(Continued)*

Bank

2007	Investment securities – loans and receivables	Investment securities – available-for-sale (“AFS”)	Investment securities – held-to-maturity (“HTM”)	Financial assets held for trading	Total
RMB securities					
AAA	45	20,778	24,254	3,148	48,225
AA- to AA+	400	49	3,954	–	4,403
A- to A+	–	–	146	–	146
BBB	–	–	20	–	20
Unrated ⁽¹⁾	66,491	93,170	299,722	11,163	470,546
Sub-total	66,936	113,997	328,096	14,311	523,340
Foreign currency securities					
AAA	294	2,086	218	1	2,599
AA- to AA+	365	17,039	244	241	17,889
A- to A+	–	9,398	740	1,356	11,494
BBB- to BBB+	–	911	–	392	1,303
Unrated ⁽¹⁾	1	1,991	1,629	790	4,411
Sub-total	660	31,425	2,831	2,780	37,696
Total	67,596	145,422	330,927	17,091	561,036

Notes to the Consolidated Financial Statements (Continued)

(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

2006	Investment securities – loans and receivables	Investment securities – available-for-sale ("AFS")	Investment securities – held-to-maturity ("HTM")	Financial assets held for trading	Total
RMB securities					
AAA	45	13,405	–	154	13,604
AA- to AA+	400	2,012	–	–	2,412
A- to A+	–	20	–	–	20
Unrated ⁽¹⁾	45,975	282,401	–	8,183	336,559
Sub-total	46,420	297,838	–	8,337	352,595
Foreign currency securities					
AAA	250	3,503	–	–	3,753
AA- to AA+	770	18,577	–	30	19,377
A- to A+	563	13,077	–	1,419	15,059
BBB- to BBB+	47	2,143	–	330	2,520
Unrated ⁽¹⁾	–	4,685	–	2,487	7,172
Sub-total	1,630	41,985	–	4,266	47,881
Total	48,050	339,823	–	12,603	400,476

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.6 Investment securities (Continued)

Bank

2006	Investment securities – loans and receivables	Investment securities – available-for-sale (“AFS”)	Investment securities – held-to-maturity (“HTM”)	Financial assets held for trading	Total
RMB securities					
AAA	–	11,281	–	154	11,435
AA- to AA+	400	2,012	–	–	2,412
A- to A+	–	20	–	–	20
Unrated ⁽¹⁾	46,020	284,524	–	8,183	338,727
Sub-total	46,420	297,837	–	8,337	352,594
Foreign currency securities					
AAA	250	3,503	–	–	3,753
AA- to AA+	770	18,577	–	30	19,377
A- to A+	563	13,077	–	1,419	15,059
BBB- to BBB+	47	2,143	–	330	2,520
Unrated ⁽¹⁾	–	3,973	–	2,487	6,460
Sub-totals	1,630	41,273	–	4,266	47,169
Total	48,050	339,110	–	12,603	399,763

⁽¹⁾ These mainly represent investment and trading securities issued by PRC Ministry of Finance, central bank and policy banks which are not rated by independent rating agencies.

Notes to the Consolidated Financial Statements (Continued)

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.7 Repossessed assets

Group and Bank

	As at 31 December	
	2007	2006
Residential property	10	46
Business property	374	752
Others	109	346
Total	493	1,144

Repossessed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. Where excess funds are available after the debt has been repaid, they are available either for other secured lenders or are returned to the customer. The Group does not generally occupy repossessed properties for its business use. Repossessed assets are classified in the balance sheet within other assets.

3.1.8 Concentration of risks of financial assets with credit risk exposure:

Geographical sectors

Group

	Mainland China	Hong Kong	Others	Total
31 December 2007				
Financial Assets				
Due from other banks and financial institutions	130,745	22,971	2,394	156,110
Financial assets held for trading	16,423	2,389	633	19,445
Loans and advances to customers	1,021,777	52,154	11,793	1,085,724
Investment securities – loans and receivables	67,596	–	–	67,596
Investment securities – available-for-sale	123,919	18,616	5,038	147,573
Investment securities – held-to-maturity	328,634	–	2,293	330,927
Other financial assets	75	2,428	1,562	4,065
At 31 December 2007	1,689,169	98,558	23,713	1,811,440

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.8 Concentration of risks of financial assets with credit risk exposure: (Continued)

Geographical sectors (Continued)

Bank

	Mainland China	Hong Kong	Others	Total
31 December 2007				
Financial Assets				
Due from other banks and financial institutions	129,611	22,971	2,394	154,976
Financial assets held for trading	16,407	2,389	633	19,429
Loans and advances to customers	1,021,777	51,426	11,793	1,084,996
Investment securities – loans and receivables	67,596	–	–	67,596
Investment securities – available-for-sale	123,484	16,900	5,038	145,422
Investment securities – held-to-maturity	328,634	–	2,293	330,927
Other financial assets	28	759	1,562	2,349
At 31 December 2007	1,687,537	94,445	23,713	1,805,695

Group

	Mainland China	Hong Kong	Others	Total
31 December 2006				
Financial Assets				
Due from other banks and financial institutions	95,652	22,052	919	118,623
Financial assets held for trading	8,599	4,239	157	12,995
Loans and advances to customers	854,040	46,559	9,708	910,307
Investment securities – loans and receivables	48,050	–	–	48,050
Investment securities – available-for-sale	315,155	18,282	6,386	339,823
Investment securities – held-to-maturity	–	–	–	–
Other financial assets	1,144	1,565	41	2,750
At 31 December 2006	1,322,640	92,697	17,211	1,432,548

Notes to the Consolidated Financial Statements (Continued)

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.8 Concentration of risks of financial assets with credit risk exposure: (Continued)

Bank

	Mainland China	Hong Kong	Others	Total
31 December 2006				
Financial Assets				
Due from other banks and financial institutions	95,652	22,052	919	118,623
Financial assets held for trading	8,599	4,239	157	12,995
Loans and advances to customers	854,040	46,559	9,708	910,307
Investment securities – loans and receivables	48,050	–	–	48,050
Investment securities – available-for-sale	314,973	17,751	6,386	339,110
Investment securities – held-to-maturity	–	–	–	–
Other financial assets	967	925	41	1,933
At 31 December 2006	1,322,281	91,526	17,211	1,431,018

Total financial assets are based on the country/region in which the counterparties are located.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk

3.2.1 Overview

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in 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 movements 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 non-trading portfolios.

In accordance with the China Banking Regulatory Commission (CBRC) requirements, the Group categorizes its business into either the trading book or the banking book. The trading book consists of positions in financial instruments held either with trading intent or in order to hedge other elements of the trading book or the banking book. The banking book consists of investment book through which the Group purchases the financial instruments by using excess funds and other financial instruments that are not captured in trading book.

The Group's risk management committee under Board of Directors and senior management of the Bank approve the overall market risk policies and procedures. Market Risk Management team within the Assets and Liability department monitors the Group's market risk exposure and reports the risk exposures and interest rate sensitivity to senior management on a quarterly basis. The senior management of the Group approves the limits over the foreign currency exposures and the limits for trading book.

As part of the management of market risk, 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.

Notes to the Consolidated Financial Statements (Continued)

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.2 Sensitivity tests

The Group performs interest rate sensitivity analysis on net interest income and reported equity for the Group by measuring the impact of a change in net interest income on financial position, not taking customer behavior and prepayment option into consideration. On an assumption of an upward parallel shift of 100 basis points in Renminbi, US dollar and Hong Kong dollars, the Group calculates the change in net interest income for the year and reported equity on a monthly basis.

The table below illustrates the potential impact of a simple 100 basis point move on the financial position of the Group at 31 December to the net interest income of the coming year.

	Net interest income	
	2008	2007
+ 100 basis point parallel move in all yield curves	4,477	2,967
- 100 basis point parallel move in all yield curves	(4,477)	(2,967)

The table below illustrates the potential impact of a 100 basis point move on the financial position of the Group to the reported equity.

	Equity	
	31 December 2007	31 December 2006
+ 100 basis point parallel move in all yield curves	(1,351)	(5,510)
- 100 basis point parallel move in all yield curves	1,380	5,817

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.2 Sensitivity tests *(Continued)*

The interest rate sensitivities set out in the table above are illustrative only and are based on simplified scenarios. The figures represent the effect on projected net interest income of the pro forma movements of the yield curve on the Group's current interest rate risk profile. This effect, however, does not incorporate actions that would be taken by the Group to mitigate the impact of this interest rate risk. 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 of some rates changing while others remain unchanged. The projections make other simplifying assumptions too, including that all positions run to maturity.

The Group performs exchange rate sensitivity analysis on net profit and reported equity for the Group by measuring the impact of a change in exchange rate on financial position. On an assumption of an appreciation of Renminbi against US dollar, HK dollar and other currencies by 5%, the Group calculates the change in net profit and reported equity for the year on a monthly basis.

Notes to the Consolidated Financial Statements (Continued)

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.2 Sensitivity tests (Continued)

The table below illustrates the potential impact of an appreciation of Renminbi against US dollar, HK dollar and other currencies by 5% on the Group's net profit.

Group

	Net Profit	
	2007	2006
+5% appreciation of Renminbi	(1,066)	(355)
-5% appreciation of Renminbi	1,066	355

The table below illustrates the potential impact an appreciation of Renminbi against US dollar, HK dollar and other currencies by 5% on the Group's reported equity.

Group

	Equity	
	31 December 2007	31 December 2006
+5% appreciation of Renminbi	(299)	(250)
-5% appreciation of Renminbi	299	250

3.2.3 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 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 or create losses in the event that unexpected movements arise.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Interest rate risk *(Continued)*

The Group operates its business predominantly in Mainland China under the interest rate scheme regulated by the PBOC. According to the PBOC regulations, there is no ceiling for loan interest rates, whilst the floor for loan interest rates is 10% below the stipulated rates. It is normal practice for the interest rates of both interest-bearing assets and liabilities 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 related commitments based upon 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 future.

The interest rate repricing risk for foreign currency denominated debt securities and the remaining part of financial guarantees and credit related 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, categorized by the earlier of contractual repricing or maturity dates.

Notes to the Consolidated Financial Statements (Continued)

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.3 Interest rate risk (Continued)

Expected repricing and maturity dates do not differ significantly from the contract dates, except for the maturity of amounts classified as “Due to customers up to one month”. These amounts classified as “Due to customers up to one month” represent balances on current accounts considered by the Group as a relatively stable core source of funding of its operations.

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 2007							
Assets							
Cash and balances with central banks	246,088	-	-	-	-	15,345	261,433
Due from other banks and financial institutions	128,579	16,047	10,469	26	-	989	156,110
Financial assets held for trading	2,436	6,667	4,815	2,318	872	2,337	19,445
Loans and advances to customers	382,070	143,823	504,763	26,999	28,069	-	1,085,724
Investment securities							
– loans and receivables	9	1,678	2,503	62,443	963	-	67,596
– available-for-sale	19,998	33,871	48,188	26,523	14,923	4,070	147,573
– held-to-maturity	8,818	17,225	93,447	121,815	89,622	-	330,927
Other assets, including deferred tax assets	57	-	-	-	-	41,579	41,636
Total assets	788,055	219,311	664,185	240,124	134,449	64,320	2,110,444
Liabilities							
Due to other banks and financial institutions	(229,304)	(21,597)	(16,547)	(50,650)	(14,341)	(117)	(332,556)
Financial liabilities held for trading	-	(876)	(3,520)	(2,312)	(1)	(3,319)	(10,028)
Due to customers	(1,036,111)	(139,334)	(288,262)	(75,787)	(6)	(27,642)	(1,567,142)
Other liabilities, including deferred tax liabilities	(200)	(852)	(12,355)	(9,000)	(16,000)	(28,990)	(67,397)
Total liabilities	(1,265,615)	(162,659)	(320,684)	(137,749)	(30,348)	(60,068)	(1,977,123)
Total interest sensitivity gap	(477,560)	56,652	343,501	102,375	104,101	4,252	133,321

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Interest rate risk *(Continued)*

Bank

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
As at 31 December 2007							
Assets							
Cash and balances with central banks	246,088	-	-	-	-	12,919	259,007
Due from other banks and financial institutions	127,445	16,047	10,469	26	-	989	154,976
Financial assets held for trading	2,419	6,667	4,815	2,318	872	2,338	19,429
Loans and advances to customers	382,070	143,823	504,763	26,999	27,341	-	1,084,996
Investment securities							
– loans and receivables	9	1,678	2,503	62,443	963	-	67,596
– available-for-sale	19,998	33,871	48,188	26,523	14,923	1,919	145,422
– held-to-maturity	8,818	17,225	93,447	121,815	89,622	-	330,927
Investments in and due from subsidiaries	-	-	-	-	-	5,184	5,184
Other assets, including deferred tax assets	-	-	-	-	-	38,333	38,333
Total assets	786,847	219,311	664,185	240,124	133,721	61,682	2,105,870
Liabilities							
Due to other banks and financial institutions	(229,304)	(21,597)	(16,547)	(50,650)	(14,341)	(117)	(332,556)
Financial liabilities held for trading	-	(876)	(3,520)	(2,312)	(1)	(3,319)	(10,028)
Due to customers	(1,036,111)	(139,334)	(288,262)	(75,787)	(6)	(27,642)	(1,567,142)
Other liabilities, including deferred tax liabilities	(200)	(852)	(12,355)	(9,000)	(16,000)	(25,389)	(63,796)
Total liabilities	(1,265,615)	(162,659)	(320,684)	(137,749)	(30,348)	(56,467)	(1,973,522)
Total interest sensitivity gap	(478,768)	56,652	343,501	102,375	103,373	5,215	132,348

Notes to the Consolidated Financial Statements (Continued)

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.3 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 2006							
Assets							
Cash and balances with central banks	243,516	-	-	-	-	10,425	253,941
Due from other banks and financial institutions	88,653	15,204	14,255	-	-	511	118,623
Financial assets held for trading	2,659	1,785	4,916	1,977	1,266	392	12,995
Loans and advances to customers	166,340	145,915	512,872	50,260	34,920	-	910,307
Investment securities							
– loans and receivables	164	862	21,194	24,835	995	-	48,050
– available-for-sale	14,464	30,574	96,519	129,433	67,574	1,259	339,823
Other assets, including deferred tax assets	154	-	-	-	-	35,590	35,744
Total assets	515,950	194,340	649,756	206,505	104,755	48,177	1,719,483
Liabilities							
Due to other banks and financial institutions	(156,400)	(28,015)	(8,862)	(40,690)	(1,944)	(196)	(236,107)
Financial liabilities held for trading	(1,434)	(2,472)	(997)	(3,239)	(12)	(570)	(8,724)
Due to customers	(899,479)	(107,309)	(250,798)	(72,466)	(62)	(22,776)	(1,352,890)
Other liabilities, including deferred tax liabilities	(17)	-	(12,292)	-	-	(18,958)	(31,267)
Total liabilities	(1,057,330)	(137,796)	(272,949)	(116,395)	(2,018)	(42,500)	(1,628,988)
Total interest sensitivity gap	(541,380)	56,544	376,807	90,110	102,737	5,677	90,495

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.3 Interest rate risk *(Continued)*

Bank

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
As at 31 December 2006							
Assets							
Cash and balances with central banks	243,515	-	-	-	-	9,676	253,191
Due from other banks and financial institutions	88,653	15,204	14,255	-	-	511	118,623
Financial assets held for trading	2,659	1,785	4,916	1,977	1,266	392	12,995
Loans and advances to customers	166,340	145,915	512,872	50,260	34,920	-	910,307
Investment securities							
– loans and receivables	164	862	21,194	24,835	995	-	48,050
– available-for-sale	15,613	30,574	96,519	129,433	64,860	2,111	339,110
Investments in and due from subsidiaries	-	-	-	-	-	1,344	1,344
Other assets, including deferred tax assets	-	-	-	-	-	33,719	33,719
Total assets	516,944	194,340	649,756	206,505	102,041	47,753	1,717,339
Liabilities							
Due to other banks and financial institutions	(156,400)	(28,015)	(8,862)	(40,690)	(1,944)	(196)	(236,107)
Financial liabilities held for trading	(1,434)	(2,472)	(997)	(3,239)	(12)	(570)	(8,724)
Due to customers	(899,479)	(107,309)	(250,798)	(72,466)	(62)	(22,776)	(1,352,890)
Other liabilities, including deferred tax liabilities	(17)	-	(12,292)	-	-	(16,538)	(28,847)
Total liabilities	(1,057,330)	(137,796)	(272,949)	(116,395)	(2,018)	(40,080)	(1,626,568)
Total interest sensitivity gap	(540,386)	56,544	376,807	90,110	100,023	7,673	90,771

Notes to the Consolidated Financial Statements (Continued)

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.4 Foreign exchange risk

The Group conducts the majority of its businesses in RMB, with certain foreign transactions in Hong Kong dollars and US dollars and other currencies. The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The senior management sets limits on the level of exposure by currency, which is monitored regularly. The tables below summarize the Group's exposure to foreign currency exchange rate risk at the end of each year. The tables show the Group's assets and liabilities at carrying amounts in RMB, categorized by the original currency.

Group

	RMB	US Dollars	HK Dollars	Others	Total
As at 31 December 2007					
Assets					
Cash and balances with central banks	257,268	2,567	1,156	442	261,433
Due from other banks and financial institutions	107,813	30,542	9,557	8,198	156,110
Financial assets held for trading	16,094	1,768	577	1,006	19,445
Loans and advances to customers	979,962	58,327	42,048	5,387	1,085,724
Investment securities-loans and receivables	66,936	660	–	–	67,596
Investment securities-available-for-sale	113,708	22,532	4,277	7,056	147,573
Investment securities-held-to-maturity	328,096	1,410	100	1,321	330,927
Other assets, including deferred tax assets	28,737	(120)	9,364	3,655	41,636
Total assets	1,898,614	117,686	67,079	27,065	2,110,444
Liabilities					
Due to other banks and financial institutions	(294,330)	(23,250)	(6,232)	(8,744)	(332,556)
Financial liabilities held for trading	(231)	(3,136)	(6,293)	(368)	(10,028)
Due to customers	(1,445,368)	(55,987)	(50,448)	(15,339)	(1,567,142)
Other liabilities, including deferred tax liabilities	(56,241)	(7,167)	(3,727)	(262)	(67,397)
Total liabilities	(1,796,170)	(89,540)	(66,700)	(24,713)	(1,977,123)
Net position	102,444	28,146	379	2,352	133,321
Financial guarantees and credit related commitments	294,026	90,963	25,353	23,413	433,755

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Foreign exchange risk *(Continued)*

Bank

	RMB	US Dollars	HK Dollars	Others	Total
As at 31 December 2007					
Assets					
Cash and balances with central banks	255,326	2,567	672	442	259,007
Due from other banks and financial institutions	106,679	30,542	9,557	8,198	154,976
Financial assets held for trading	16,078	1,768	577	1,006	19,429
Loans and advances to customers	979,962	58,327	41,320	5,387	1,084,996
Investment securities-loans and receivables	66,936	660	–	–	67,596
Investment securities-available-for-sale	113,273	22,532	2,561	7,056	145,422
Investment securities-held-to-maturity	328,096	1,410	100	1,321	330,927
Investments in and due from subsidiaries	2,970	–	2,214	–	5,184
Other assets, including deferred tax assets	28,213	(120)	6,584	3,656	38,333
Total assets	1,897,533	117,686	63,585	27,066	2,105,870
Liabilities					
Due to other banks and financial institutions	(294,330)	(23,250)	(6,232)	(8,744)	(332,556)
Financial liabilities held for trading	(231)	(3,136)	(6,293)	(368)	(10,028)
Due to customers	(1,445,368)	(55,987)	(50,448)	(15,339)	(1,567,142)
Other liabilities, including deferred tax liabilities	(54,781)	(7,167)	(1,586)	(262)	(63,796)
Total liabilities	(1,794,710)	(89,540)	(64,559)	(24,713)	(1,973,522)
Net position	102,823	28,146	(974)	2,353	132,348
Financial guarantees and credit related commitments	294,026	90,963	25,353	23,413	433,755

Notes to the Consolidated Financial Statements (Continued)

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.4 Foreign exchange risk (Continued)

Group

	RMB	US Dollars	HK Dollars	Others	Total
As at 31 December 2006					
Assets					
Cash and balances with central banks	249,224	2,949	1,332	436	253,941
Due from other banks and financial institutions	70,367	37,773	6,495	3,988	118,623
Financial assets held for trading	8,346	1,849	2,385	415	12,995
Loans and advances to customers	821,997	43,954	38,515	5,841	910,307
Investment securities-loans and receivables	46,420	1,630	–	–	48,050
Investment securities-available-for-sale	296,890	27,583	5,912	9,438	339,823
Other assets, including deferred tax assets	34,583	(3,711)	4,372	500	35,744
Total assets	1,527,827	112,027	59,011	20,618	1,719,483
Liabilities					
Due to other banks and financial institutions	(207,691)	(23,748)	(1,460)	(3,208)	(236,107)
Financial liabilities held for trading	(101)	(2,448)	(6,024)	(151)	(8,724)
Due to customers	(1,229,158)	(59,115)	(51,068)	(13,549)	(1,352,890)
Other liabilities, including deferred tax liabilities	(27,326)	(560)	(3,374)	(7)	(31,267)
Total liabilities	(1,464,276)	(85,871)	(61,926)	(16,915)	(1,628,988)
Net position	63,551	26,156	(2,915)	3,703	90,495
Financial guarantees and credit related commitments	228,549	59,009	14,874	11,601	314,033

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.4 Foreign exchange risk *(Continued)*

Bank

	RMB	US Dollars	HK Dollars	Others	Total
As at 31 December 2006					
Assets					
Cash and balances with central banks	249,224	2,949	582	436	253,191
Due from other banks and financial institutions	70,367	37,773	6,495	3,988	118,623
Financial assets held for trading	8,346	1,849	2,385	415	12,995
Loans and advances to customers	821,997	43,954	38,515	5,841	910,307
Investment securities-loans and receivables	46,420	1,630	–	–	48,050
Investment securities-available-for-sale	295,324	27,583	6,765	9,438	339,110
Investments in and due from subsidiaries	122	–	1,222	–	1,344
Other assets, including deferred tax assets	34,397	(3,711)	2,533	500	33,719
Total assets	1,526,197	112,027	58,497	20,618	1,717,339
Liabilities					
Due to other banks and financial institutions	(207,691)	(23,748)	(1,460)	(3,208)	(236,107)
Financial liabilities held for trading	(101)	(2,448)	(6,024)	(151)	(8,724)
Due to customers	(1,229,158)	(59,115)	(51,068)	(13,549)	(1,352,890)
Other liabilities, including deferred tax liabilities	(26,006)	(560)	(2,274)	(7)	(28,847)
Total liabilities	(1,462,956)	(85,871)	(60,826)	(16,915)	(1,626,568)
Net position	63,241	26,156	(2,329)	3,703	90,771
Financial guarantees and credit related commitments	228,549	59,009	14,874	11,601	314,033

Notes to the Consolidated Financial Statements (Continued)

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk

3.3.1 Overview

Liquidity risk is the risk that the Group is 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 its needs to fund deposit withdrawals and other liabilities as they fall due, as well as being 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 set limits on the minimum proportion of funds to be made available 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. 14.5% of the Bank's total RMB denominated deposits and 5% (4% as at 31 December 2006) of the total foreign currency denominated deposits must be deposited with PBOC. The deposit ratio of RMB deposit has been increased by PBOC ten times in the year, which increases the deposit ratio from 9% as of 31 December 2006 to 14.5% as of 31 December 2007.

3.3.2 Liquidity risk management process

The Group's liquidity management process, as monitored by separate teams in RMB treasury department and International Banking department for RMB business and foreign exchange business respectively and, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities; and
- Setting up contingency plan by signing overdrafts contracts with other Chinese banks.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.2 Liquidity risk management process *(Continued)*

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets (Notes 3.3.3-3.3.4).

Sources of liquidity are regularly reviewed by separate teams in RMB Treasury department and International Banking department respectively to maintain a wide diversification by currency, geography, provider, product and term.

3.3.3 Non-derivative cash flows

The table below presents the cash flows payable by the Group under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

Group

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2007						
Liabilities						
Due to other banks and financial institution	(223,399)	(26,222)	(19,297)	(62,919)	(18,880)	(350,717)
Due to customers	(1,050,526)	(141,058)	(294,994)	(98,263)	(155)	(1,584,996)
Financial liabilities held for trading	(36)	(4,146)	(442)	(2,366)	(1)	(6,991)
Subordinated term debts	-	(997)	(670)	(25,656)	(19,304)	(46,627)
Other financial liabilities	(16,270)	(25)	(161)	(562)	(15)	(17,033)
Total liabilities (contractual maturity dates)	(1,290,231)	(172,448)	(315,564)	(189,766)	(38,355)	(2,006,364)

Notes to the Consolidated Financial Statements (Continued)

(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 cash flows (Continued)

Bank

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2007						
Liabilities						
Due to other banks and financial institution	(223,399)	(26,222)	(19,297)	(62,919)	(18,880)	(350,717)
Due to customers	(1,050,526)	(141,058)	(294,994)	(98,263)	(155)	(1,584,996)
Financial liabilities held for trading	(36)	(4,146)	(442)	(2,366)	(1)	(6,991)
Subordinated term debts	-	(997)	(670)	(25,656)	(19,304)	(46,627)
Other financial liabilities	(13,077)	(25)	(161)	(562)	(15)	(13,840)
Total liabilities (contractual maturity dates)	(1,287,038)	(172,448)	(315,564)	(189,766)	(38,355)	(2,003,171)

Group

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2006						
Liabilities						
Due to other banks and financial institution	(160,617)	(24,250)	(8,885)	(40,690)	(1,944)	(236,386)
Due to customers	(904,701)	(108,584)	(262,401)	(98,107)	(2,518)	(1,376,311)
Financial liabilities held for trading	(3,644)	(498)	(927)	(3,373)	(1)	(8,443)
Subordinated term debts	-	-	(572)	(12,573)	-	(13,145)
Other financial liabilities	(9,738)	(1,426)	(90)	(665)	(17)	(11,936)
Total liabilities (contractual maturity dates)	(1,078,700)	(134,758)	(272,875)	(155,408)	(4,480)	(1,646,221)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.3 Non-derivative cash flows *(Continued)*

Bank

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2006						
Liabilities						
Due to other banks and financial institution	(160,617)	(24,250)	(8,885)	(40,690)	(1,944)	(236,386)
Due to customers	(904,701)	(108,584)	(262,401)	(98,107)	(2,518)	(1,376,311)
Financial liabilities held for trading	(3,644)	(498)	(927)	(3,373)	(1)	(8,443)
Subordinated term debts	–	–	(572)	(12,573)	–	(13,145)
Other financial liabilities	(7,426)	(1,426)	(90)	(665)	(17)	(9,624)
Total liabilities (contractual maturity dates)	(1,076,388)	(134,758)	(272,875)	(155,408)	(4,480)	(1,643,909)

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, central bank balances, items in the course of collection and treasury; loans and advances to banks; and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. In addition, debt securities and treasury and other bills have been pledged to secure liabilities. The Group would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources.

Notes to the Consolidated Financial Statements (Continued)

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.4 Derivative cash flows

The Group's derivatives were either settled on a net basis or a gross basis.

(a) Derivatives settled on a net basis

The Group's derivatives that will be settled on a net basis include:

- Interest rate derivatives: interest rate swaps, forward rate agreements and OTC interest rate options.

The table below analyses the Group's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group and Bank

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2007						
Derivatives held for trading:						
- Interest rate derivatives	(7)	(42)	(121)	(154)	(76)	(400)
	(7)	(42)	(121)	(154)	(76)	(400)

Group and Bank

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2006						
Derivatives held for trading:						
- Interest rate derivatives	(6)	(23)	(65)	(165)	(152)	(411)
	(6)	(23)	(65)	(165)	(152)	(411)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.4 Derivative cash flows *(Continued)*

(b) Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include:

- Foreign exchange derivatives: currency forward, currency swaps; and
- Interest rate derivatives: cross currency interest rate swaps.

The table below analyses the Group's derivative financial liabilities that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group and Bank

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2007						
Derivatives held for trading:						
Foreign exchange derivatives						
– Outflow	(40,926)	(18,099)	(55,331)	(16,669)	–	(131,025)
– Inflow	40,939	18,056	55,197	16,639	–	130,831
Interest rate derivatives						
– Outflow	–	(7)	(4,902)	(3,996)	(1,214)	(10,119)
– Inflow	–	5	4,932	3,920	1,198	10,055
Total outflow	(40,926)	(18,106)	(60,233)	(20,665)	(1,214)	(141,144)
Total inflow	40,939	18,061	60,129	20,559	1,198	140,886

Notes to the Consolidated Financial Statements (Continued)

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.4 Derivative cash flows (Continued)

(b) Derivatives settled on a gross basis (Continued)

Group and Bank

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As at 31 December 2006						
Derivatives held for trading:						
Foreign exchange derivatives						
– Outflow	(40,382)	(20,566)	(24,678)	(1,551)	–	(87,177)
– Inflow	40,379	20,502	24,654	1,534	–	87,069
Interest rate derivatives						
– Outflow	–	(158)	(134)	(469)	(93)	(854)
– Inflow	–	158	139	447	90	834
Total outflow	(40,382)	(20,724)	(24,812)	(2,020)	(93)	(88,031)
Total inflow	40,379	20,660	24,793	1,981	90	87,903

3.3.5 Off-balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 34), are summarised in the table below.

(b) Acceptances, letter of credit and financial guarantees

Acceptance, letter of credit and financial guarantees (Note 34), are also included below based on the earliest contractual maturity date.

(c) Operating lease commitments

Where a Group company is the lessee, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note 34, are summarised in the table below.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Liquidity risk *(Continued)*

3.3.5 Off-balance sheet items *(Continued)*

(d) Capital commitments

Capital commitments for the acquisition of buildings and equipment (Note 34) are summarised in the table below.

Group and Bank

	No later than 1 year	1-5 years	Over 5 years	Total
At 31 December 2007				
Loan commitments	59,369	10,794	1,113	71,276
Acceptances, letter of credit and financial guarantees	214,446	105,675	42,358	362,479
Operating lease commitments	769	1,756	636	3,161
Capital commitments	203	-	-	203
Total	274,787	118,225	44,107	437,119

	No later than 1 year	1-5 years	Over 5 years	Total
At 31 December 2006				
Loan commitments	24,694	9,825	1,128	35,647
Acceptances, letter of credit and financial guarantees	200,370	60,319	17,697	278,386
Operating lease commitments	657	1,476	519	2,652
Capital commitments	293	2	-	295
Total	226,014	71,622	19,344	316,980

Notes to the Consolidated Financial Statements (Continued)

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.4 Fair values of financial assets and liabilities

The total amount of the change in fair value estimated using a valuation technique that was recognized in profit and loss account as a loss during the year is RMB1,622 million (2006: loss of RMB168 million).

The following table summarizes the carrying amounts and the approximate fair values of those financial assets and liabilities not presented on the Group's and the Bank's balance sheet at their fair value. Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities, where instruments are quoted in the active market.

Group

	31 December 2007		31 December 2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Due from other banks and financial institutions	156,110	156,110	118,623	118,623
Loans and advances to customers	1,085,724	1,085,120	910,307	909,972
Investment securities				
– loans and receivables	67,596	65,459	48,050	48,071
– held to maturity	330,927	323,119	–	–
Financial liabilities				
Due to other banks and financial institutions	332,556	332,533	236,107	235,566
Due to customers	1,567,142	1,564,776	1,352,890	1,352,511
Subordinated term debt	38,207	35,780	12,292	12,292

3 FINANCIAL RISK MANAGEMENT *(Continued)*

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

Bank

	31 December 2007		31 December 2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Due from other banks and financial institutions	154,976	154,976	118,623	118,623
Loans and advances to customers	1,084,996	1,084,392	910,307	909,972
Investment securities				
– loans and receivables	67,596	65,459	48,050	48,071
– held to maturity	330,927	323,119	–	–
Due from/(to) subsidiaries	539	539	125	125
Financial liabilities				
Due to other banks and financial institutions	332,556	332,533	236,107	235,566
Due to customers	1,567,142	1,564,776	1,352,890	1,352,511
Subordinated term debt	38,207	35,780	12,292	12,292

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

Due from other banks and financial institutions

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

Notes to the Consolidated Financial Statements (Continued)

(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)

Loans and advances to customers

Loans and advances to customers are stated net of impairment allowance. All except a very insignificant portion of loans and advances to customers bear interest at a floating rate. Therefore, the carrying value of loans and advances to customers is a reasonable estimate of fair value.

Investment securities

Investment securities include interest-bearing loans and receivables securities and held to maturity securities, as available-for-sale securities are measured at fair value. The fair value is determined by following the hierarchy given below:

- the price used in recent transactions of similar financial instruments with adjustment when the market conditions have changed.
- valuation techniques, including: cash flow models etc.
- if fair value cannot be measured reliably, equity and security investments are recognised at cost less impairment.

Due to other banks and financial institutions and customers

The estimated fair value of liabilities due to other banks and financial institutions and customers with no stated maturity, which includes non-interest-bearing liabilities due to other banks and financial institutions and customers, is the amount repayable on demand. The fair value of floating rate liabilities due to other banks and customers is their carrying amount. The estimated fair value of fixed interest bearing liabilities due to other banks and financial institutions and customers without quoted market price, which are normally less than one year, is based on discounted cash flows using interest rates for new debts with similar remaining maturities. Therefore, the fair value of due to other banks and financial institutions and customers is approximately equal to its carrying value.

Subordinated term debt

The fair value of floating rate subordinated term debts is approximately equal to its carrying amount. The fair value of fixed interest bearing subordinated term debts is calculated using a discounted cash flow model which is based on a current yield curve appropriate for the remaining term to maturity.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.5 Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored quarterly by the Group's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBRC, for supervisory purposes. The required information is filed with the CBRC on a quarterly basis.

The CBRC requires each bank or banking group to maintain a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%, and a core capital ratio of above 4%. The Group's capital as monitored by its Planning and Finance department is divided into two tiers:

- Core capital: Paid up ordinary share capital, capital surplus, statutory reserve, statutory general reserve, discretionary reserve, retained earning and minority interest; and
- Supplementary capital: Revaluation reserve for properties and AFS securities, collectively assessed impairment allowance for impaired assets and regulatory reserve, qualified portion of subordinated term debts.

Good will, unconsolidated investment in financial associates and investments in non-financial related entities are deducted from Core and Supplementary capital to arrive at the capital.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The capital adequacy ratio that the Group submitted to the Regulators is calculated in accordance with the formula promulgated by CBRC. The table below summarises the composition of regulatory capital and the ratios of the Group that submitted to the Regulators for the years ended 31 December.

Notes to the Consolidated Financial Statements (Continued)

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.5 Capital management (Continued)

	31 December 2007	31 December 2006
Core capital:		
Paid up ordinary share capital	48,994	45,804
Surplus	38,614	19,355
Reserves and general provision	14,360	5,330
Profit and loss account	17,780	12,591
Minority interest	418	58
	120,166	83,138
Supplementary capital:		
Revaluation reserve for properties	4,097	4,100
Revaluation reserve for AFS securities	15,027	11,865
Impairment allowances for impaired assets and regulatory reserves	29,800	7,200
Term subordinated debt	–	–
	48,924	23,165
Eligible value of supplementary capital	48,924	23,165
Total capital base before deductions	169,090	106,303
Deductions:		
Goodwill	(200)	–
Unconsolidated investments in financial institutions	(426)	(177)
Investments in enterprises	(606)	(1,632)
	(1,232)	(1,809)
Total capital base after deductions	167,858	104,494
Risk-weighted assets:		
On-balance sheet risk-weighted assets	987,297	822,840
Off-balance sheet risk-weighted assets	151,990	119,169
Total risk-weighted assets	1,139,287	942,009
Market risk capital	1,865	1,823
Capital adequacy ratio	14.44%	10.83%
Core capital adequacy ratio	10.27%	8.52%

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.6 Fiduciary activities

The Group provides custody and trustee services to third parties. Those assets that are held in a fiduciary capacity are not included in the financial statements.

Group and Bank

	As at 31 December	
	2007	2006
Investment custody accounts	567,934	190,248

4 NET INTEREST INCOME

Group

	Year ended 31 December	
	2007	2006
Interest income		
Balances with central banks	3,438	2,096
Due from other banks and financial institutions	5,971	4,863
Loans and advances to customers	65,417	46,599
Investment securities	15,493	10,985
	90,319	64,543
Interest expense		
Due to other banks and financial institutions	(10,182)	(5,425)
Due to customers	(25,993)	(19,315)
	(36,175)	(24,740)
Net interest income	54,144	39,803
	Year ended 31 December	
	2007	2006
Interest income accrued on loans and advances to customers individually identified with impairment	654	553

Notes to the Consolidated Financial Statements (Continued)

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

5 FEE AND COMMISSION INCOME

Group

	Year ended 31 December	
	2007	2006
Settlement and agent service commission income	1,744	1,124
Bank card annual fee and commission income	2,017	1,122
Guarantee and commitment commission income	399	329
Custodian commission income	530	143
Funds sales commission income	2,191	159
Funds management commission income	614	118
Other commission income	750	599
	8,245	3,594

6 FEE AND COMMISSION EXPENSE

Group

	Year ended 31 December	
	2007	2006
Settlement and agent service commission expense	526	197
Syndicated loan commission expense	107	46
Bank card commission expense	272	187
Other commission expense	245	173
	1,150	603

7 DIVIDEND INCOME

Group

	Year ended 31 December	
	2007	2006
Dividend income	77	123

Dividend income was from equity investments classified as available-for-sale securities or as financial assets held for trading.

8 GAINS LESS LOSSES ARISING FROM TRADING ACTIVITIES

Group

	Year ended 31 December	
	2007	2006
Foreign exchange	65	253
Interest rate instruments	(16)	(310)
	49	(57)

Net income on foreign exchange includes gains and losses from spot and forward contracts, currency swaps, currency options, currency futures and from the translation of foreign currency monetary assets and liabilities into Renminbi.

Net expense on interest rate instruments includes the results of marking securities held for trading, debt securities in issue, interest rate swaps, cross currency interest rate swaps, interest rate options and other interest rate derivatives to market.

9 OTHER OPERATING INCOME

Group

	Year ended 31 December	
	2007	2006
Profit on sales of land use rights and buildings	99	54
Sales of foreclosed assets and other assets	423	148
Revaluation surplus of investment property	13	16
Other miscellaneous income	232	702
	767	920

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

Notes to the Consolidated Financial Statements (Continued)

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

10 IMPAIRMENT LOSSES

Impairment losses on loans and advances

Group

	Year ended 31 December	
	2007	2006
Due from other banks and financial institutions and securities purchased under resale agreements (Note 17(b))	(113)	(117)
Loans and advances to customers (Note 20(b))		
– Collectively assessed provision	2,016	1,207
– Individually assessed provision	4,599	4,541
	6,615	5,748
Less: recovery of loans previously written off	(122)	(93)
	6,380	5,538

11 OTHER OPERATING EXPENSES

Group

	Year ended 31 December	
	2007	2006
Staff costs (Note 12)	9,458	7,391
General and administrative expenses	5,277	3,742
Depreciation (Note 22)	2,665	2,501
Business tax and surcharges	3,664	2,555
Operating lease rentals	994	849
Impairment of investment securities((i), Note 21)	692	49
(Reversal of)/revaluation deficit of property and equipment (Note 22)	(70)	41
(Reversal of)/impairment of other receivables	(592)	311
Regulator's supervision fee	273	317
(Reversal of)/provision for outstanding litigation	(120)	197
Amortization of intangible assets	223	136
Professional fees	68	40
Losses on sales of investment property	–	5
Amortization of land use rights	10	3
Others	2,753	2,758
	25,295	20,895

11 OTHER OPERATING EXPENSES *(Continued)***(i) Net impairment losses on investment securities****Group**

	Year ended 31 December	
	2007	2006
Loans and receivables <i>(Note 21)</i>	(28)	—
Available-for-sale <i>(Note 21)</i>	720	49
Net charge of impairment losses	692	49

12 STAFF COSTS**Group**

	Year ended 31 December	
	2007	2006
Salaries and bonus	6,290	4,780
Pension costs <i>(Note 29)</i>	1,186	529
Housing benefits and subsidies	583	649
Other social security and benefit costs	1,399	1,433
	9,458	7,391

Notes to the Consolidated Financial Statements (Continued)

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

13 DIRECTORS' EMOLUMENTS

(a) Directors' and supervisors' taxable emoluments (In RMB Yuan)

Name	Year ended 31 December						2006
	2007					Total	
	Emoluments	Salary	Discretionary bonuses	Other benefits	Employer's contribution to pension scheme		
Executive directors							
Mr. Li, Jun	-	960,000	648,640	126,634	143,032	1,878,306	1,481,646
Mr. Peng, Chun	-	768,000	573,312	126,496	123,960	1,591,768	1,401,893
Mr. Qian Wenhui	-	768,000	573,312	111,946	123,960	1,577,218	1,401,480
Mr. Zhang, Jianguo	NA	NA	NA	NA	NA	NA	1,284,939
Non-executive directors							
Mr. Jiang, Chaoliang	-	960,000	716,640	132,160	143,032	1,951,832	1,732,851
Mr. Zhang, Jixiang	-	673,200	501,648	97,066	104,887	1,376,801	1,207,207
Mr. Hu, Huating	-	672,000	501,648	89,794	104,887	1,368,329	1,206,524
Mr. Wang Dongshen	15,000	-	-	-	-	15,000	6,000
Mr. Li Keping	15,000	-	-	-	-	15,000	6,000
Mr. Li Zexing	30,000	-	-	-	-	30,000	12,000
Mr. Gao Shiqing	10,000	-	-	-	-	10,000	4,000
Mr. Yang Fenglin	-	-	-	-	-	-	NA
Mr. Shen Weiming	15,000	-	-	-	-	15,000	6,000
Mr. Li Guanglin	10,000	-	-	-	-	10,000	4,000
Mr. Qian Ping	-	-	-	-	-	-	2,000
Ms. Shi Meilun	20,000	-	-	-	-	20,000	2,000
Mr. Hui Ho Ming Herbert	NA	NA	NA	NA	NA	NA	200,000
Mr. Xie Qingjian	-	216,667	-	-	-	216,667	200,000
Mr. Ian Ramsay Wilson	-	216,667	-	-	-	216,667	200,000
Mr. Thomas Joseph Manning	-	216,667	-	-	-	216,667	200,000
Mr. Chen Qingtai	-	216,667	-	-	-	216,667	200,000
Mr. Gu Ming Chao	-	83,333	-	-	-	83,333	NA
Mr. Li Jia Xiang	-	216,667	-	-	-	216,667	NA
Mr. Timothy David Dattels	-	-	-	-	-	-	NA

13 DIRECTORS' EMOLUMENTS *(Continued)*

(a) Directors' and supervisors' taxable emoluments (In RMB Yuan) *(Continued)*

Name	Year ended 31 December						2006
	2007					2006	
	Emoluments	Salary	Discretionary bonuses	Other benefits	Employer's contribution to pension scheme	Total	Total
Supervisors							
Mr. Hua Qingshan	-	320,000	114,800	55,337	78,822	568,959	NA
Mr. Cui Leiping	-	720,000	540,240	90,572	107,161	1,457,973	1,733,129
Ms. Liu Sha	-	375,000	639,447	182,913	21,164	1,218,524	433,743
Ms. Chen Qing	-	375,000	425,825	60,418	99,166	960,409	1,106,700
Mr. Lee Jun	-	375,000	425,825	66,946	99,166	966,937	601,063
Mr. Ning Jinbiao	10,000	-	-	-	-	10,000	6,000
Mr. Teng Tieqi	-	-	-	-	-	-	2,000
Mr. Ji Keliang	10,000	-	-	-	-	10,000	2,000
Mr. Liu Qiang	25,000	106,667	-	-	-	131,667	166,000
Ms. Chen Zheng	10,000	106,667	-	-	-	116,667	168,000
Mr. Guan Zhenyi	5,000	-	-	-	-	5,000	NA
Mr. Yang Fajia	5,000	-	-	-	-	5,000	NA
Mr. Wang Lisheng	5,000	-	-	-	-	5,000	NA
Mr. Li Jin	5,000	-	-	-	-	5,000	NA
Mr. Zheng Li	-	66,667	-	-	-	66,667	NA
Mr. Jiang Zuqi	-	66,667	-	-	-	66,667	NA
Total	190,000	8,479,536	5,661,337	1,140,282	1,149,237	16,620,392	14,995,175

* NA: Not applicable

Above listed amounts only include emoluments of the Directors or Supervisors during their tenure of Director or Supervisor.

Notes to the Consolidated Financial Statements (Continued)

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

13 DIRECTORS' EMOLUMENTS (Continued)

(b) Five Highest Paid Individuals

The five highest paid individuals in the Bank for the related years are as follows:

	Year ended 31 December	
	2007	2006
Salary	4	5
Discretionary bonuses	3	2
Employer's contribution to pension scheme	2	1
	9	8

Emoluments of above five highest paid individuals in the Bank are within the following bands:

	Number of employees	
	2007	2006
RMB1,000,000 – RMB1,499,999	–	3
RMB1,500,000 – RMB2,000,000	5	2
	5	5

During the year, no emoluments were paid by the Bank to any of the directors or supervisors as an inducement to join or upon joining the Bank or as compensation for loss of office.

In 2007, RMB1,250,000 was accrued for independent non-executive directors' emolument (2006: RMB250,000).

13 DIRECTORS' EMOLUMENTS *(Continued)*

(c) Share-based compensation

On 18 November 2005, the Board resolved to grant certain cash settled share appreciation rights ("SARs") to several senior executives of head office under long term incentive plan. According to the resolution, the initial grant of SARs targeted at senior executives of the head office as at 23 June 2005. The exercise price of each SARs is HK\$2.5, being 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 will be valid for a period of ten years from 23 June 2005, with a two-year vesting period.

On 3 November 2006, the Board resolved to grant certain cash settled SARs to several senior executives of head office under long term incentive plan. According to the resolution, the grant of SARs targeted at senior executives of the head office as at 3 November 2006. The exercise price of each SARs is HK\$6.13, being 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 will be valid for a period of ten years from 3 November 2006, with a two-year vesting period.

During the year 2007, no SARs were granted and exercised. Benefits arising from the granting of these SARs were recognized in the consolidated profit and loss account but not included in the directors' emoluments disclosed above.

Movements in the number of SARs outstanding are as follows:

Group and Bank

	Year ended 31 December	
	2007	2006
	Number of shares (In millions)	Number of shares (In millions)
Outstanding at beginning of the period	11	8
Granted	–	3
Outstanding at end of the period	11	11

The fair value of SARs using Binomial Option Pricing model at 31 December 2007 is RMB36 million (31 December 2006: RMB17 million).

Notes to the Consolidated Financial Statements (Continued)

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

14 INCOME TAX EXPENSE

Group

	Year ended 31 December	
	2007	2006
Current tax		
– Mainland China income tax	9,346	6,706
– Hong Kong profits tax	282	188
– Overseas taxation	15	245
	9,643	7,139
Deferred tax (Note 28)	1,069	(2,003)
	10,712	5,136

The current provision for Mainland China income tax is calculated based on the statutory rate of 33% of the assessable income of the Bank and each of the subsidiaries established in Mainland China as determined in accordance with the relevant PRC income tax rules and regulations for the year ended 31 December 2007.

From 1 January 2008 the corporate income tax rate for Mainland China will be 25% (Note 28).

Profits earned by the Hong Kong branch or subsidiaries in Hong Kong are subject to Hong Kong profits tax at the rate of 17.5%, on the estimated assessable profit for the year ended 31 December 2007. Taxation on overseas profits has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries in which the Group operates during the year ended 31 December 2007.

14 INCOME TAX EXPENSE *(Continued)*

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Bank at 33%. The reconciliation is as follows:

	Year ended 31 December	
	2007	2006
Profit before tax	31,114	17,405
Tax calculated at a tax rate of 33%	10,268	5,744
Effect of different tax rates in other countries	24	(3)
Tax credit arising from income not subject to tax ⁽¹⁾	(1,332)	(970)
Tax effect of expenses that are not deductible for tax purposes ⁽²⁾	360	365
Tax rate change impact <i>(Note 28)</i>	1,392	–
Income tax expense	10,712	5,136

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

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

15 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share is 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.

	Year ended 31 December	
	2007	2006
Profit attributable to shareholders of the Bank	20,274	12,274
Weighted average number of ordinary shares in issue	47,931	45,804
Basic and diluted earnings per share (expressed in RMB per share)	0.42	0.27

Notes to the Consolidated Financial Statements (Continued)

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

16 CASH AND BALANCES WITH CENTRAL BANKS

Group

	As at 31 December	
	2007	2006
Cash	14,753	10,415
Balances with central banks other than mandatory reserve deposits	46,528	139,443
Included in cash and cash equivalents (Note 37(b))	61,281	149,858
Mandatory reserve deposits	200,152	104,083
	261,433	253,941

Bank

	As at 31 December	
	2007	2006
Cash	12,327	9,665
Balances with central banks other than mandatory reserve deposits	46,528	139,443
Included in cash and cash equivalents	58,855	149,108
Mandatory reserve deposits	200,152	104,083
	259,007	253,191

The Group is required to place mandatory deposits with central banks. The deposits are calculated based on the amount of deposits placed with the Group by its customers.

	As at 31 December	
	2007	2006
Mandatory reserve rate for deposits denominated in RMB	14.5%	9%
PBOC reserve rate for deposits denominated in foreign currencies	5%	4%

Mandatory reserve deposits with central banks are not available for use by the Group in its day to day operations.

17 DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS

(a) Due from other banks and financial institutions

Group

	As at 31 December	
	2007	2006
Placement with other banks and included in cash equivalents <i>(Note 37(b))</i>	34,783	35,865
Securities purchased under resale agreement	50,849	25,972
Less: allowance for impairment losses on securities purchased under resale agreement	—	(10)
	50,849	25,962
Loans purchased under resale agreement	22,112	5,326
Loans and advances to other banks	42,622	45,342
Loans to other financial institutions	6,058	6,744
	48,680	52,086
Less: Individual impairment allowance on amounts due from other banks and financial institutions	(314)	(616)
	48,366	51,470
	156,110	118,623

Notes to the Consolidated Financial Statements (Continued)

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

17 DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS (Continued)

(a) Due from other banks and financial institutions (Continued)

Bank

	As at 31 December	
	2007	2006
Placement with other banks and included in cash equivalents	33,649	35,865
Securities purchased under resale agreement	50,849	25,972
Less: allowance for impairment losses on securities purchased under resale agreement	—	(10)
	50,849	25,962
Loans purchased under resale agreement	22,112	5,326
Loans and advances to other banks	42,622	45,342
Loans to other financial institutions	6,058	6,744
	48,680	52,086
Less: Individual impairment allowance on amounts due from other banks and financial institutions	(314)	(616)
	48,366	51,470
	154,976	118,623

17 DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS *(Continued)*

(b) Movements in allowance for impairment losses on amounts due from other banks and financial institutions and securities purchased under resale agreement

Group and Bank

	Year ended 31 December	
	2007	2006
Balance at beginning of the year	626	743
Impairment allowances charged to profit and loss account <i>(Note 10)</i>	52	–
Reversal of impairment, net <i>(Note 10)</i>	(165)	(117)
Amount written off during the year as uncollectible	(199)	–
Balance at end of the year	314	626

(c) Impaired amount of due from other banks and financial institutions:

Group and Bank

	As at 31 December	
	2007	2006
Impaired amount of due from other banks and financial institutions	314	626
Impaired amount of due from other banks and financial institutions to total balance of due from other banks and financial institutions (percentage)	0.20%	0.53%

Notes to the Consolidated Financial Statements (Continued)

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

18 FINANCIAL ASSETS HELD FOR TRADING

Group

	As at 31 December	
	2007	2006
Derivative financial instruments (Note 19)	2,338	392
Government bonds		
– Listed in Hong Kong	491	24
– Listed outside Hong Kong	529	83
– Unlisted	6,002	5,709
Other debt securities		
– Listed in Hong Kong	632	680
– Listed outside Hong Kong	347	–
– Unlisted – corporate bonds	2,719	2,731
– Unlisted – public sector	172	46
– Unlisted – banking sector	6,215	3,330
	19,445	12,995

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

Trading securities at fair value of RMB486 million (2006: RMB2,230 million) were pledged to third parties in repurchase agreements.

18 FINANCIAL ASSETS HELD FOR TRADING *(Continued)*

Bank

	As at 31 December	
	2007	2006
Derivative financial instruments <i>(Note 19)</i>	2,338	392
Government bonds		
– Listed in Hong Kong	491	24
– Listed outside Hong Kong	513	83
– Unlisted	6,002	5,709
Other debt securities		
– Listed in Hong Kong	632	680
– Listed outside Hong Kong	347	–
– Unlisted – corporate bonds	2,719	2,731
– Unlisted – public sector	172	46
– Unlisted – banking sector	6,215	3,330
	19,429	12,995

19 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative instruments are utilized by the Group for trading purpose:

Currency forwards represent commitments to purchase/sell foreign exchanges including unsettled spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

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 Consolidated Financial Statements (Continued)

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

19 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Foreign 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 or a financial instrument at a predetermined price. 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 (OTC).

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet 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 favourable (assets) or unfavourable (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 and Bank

	Contract/notional Amount	Fair values	
		Assets	Liabilities
As at 31 December 2007			
Foreign exchange contracts	154,261	1,653	(2,620)
Interest rate contracts	87,565	685	(699)
Others derivative contracts	14	—	—
Total derivatives		2,338	(3,319)

Group and Bank

	Contract/notional Amount	Fair values	
		Assets	Liabilities
As at 31 December 2006			
Foreign exchange contracts	97,700	161	(138)
Interest rate contracts	40,897	231	(430)
Total derivatives		392	(568)

19 DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

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

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

Credit risk weighted amounts

Group and Bank

	As at 31 December	
	2007	2006
Derivatives		
– Exchange rate contracts	846	264
– Interest rate contracts	287	101
– Other derivative contracts	2	–
	1,135	365

The credit risk weighted amounts are the amounts calculated with reference to the guidelines issued by the China Banking Regulatory Commission (“CBRC”) and are dependent on, amongst other factors, the creditworthiness of the counterparty and the maturity characteristics of each type of contract.

Replacement costs

Group and Bank

	As at 31 December	
	2007	2006
Derivatives		
– Exchange rate contracts	1,653	161
– Interest rate contracts	685	231
	2,338	392

Notes to the Consolidated Financial Statements (Continued)

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

19 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Replacement costs (Continued)

Replacement cost is the cost of replacing all contracts which have a positive value when marked to market (should the counterparty default on its obligations) and is obtained by marking contracts to market. Replacement cost is a close approximation of the credit risk for these contracts as of the balance sheet date.

The credit risk weighted amounts and replacement costs stated above have taken the effects of netting arrangements into account.

Notional amounts of derivative financial instruments by original currency

Group and Bank

	RMB	US Dollars	HK Dollars	Others	Total
As at 31 December 2007					
Notional amount of derivative financial instruments	110,038	98,854	22,673	10,275	241,840
As at 31 December 2006					
Notional amount of derivative financial instruments	38,662	79,145	11,958	8,832	138,597

20 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers

Group

	As at 31 December	
	2007	2006
Loans and advances to customers	1,107,500	927,405
Less: collective impairment allowances	(7,690)	(5,705)
individual impairment allowances	(14,086)	(11,393)
	1,085,724	910,307

20 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(a) Loans and advances to customers *(Continued)*

Bank

	As at 31 December	
	2007	2006
Loans and advances to customers	1,106,772	927,405
Less: collective impairment allowances	(7,690)	(5,705)
individual impairment allowances	(14,086)	(11,393)
	1,084,996	910,307

(b) Movements in allowance for losses on loans and advances

Group and Bank

	As at 31 December			
	2007		2006	
	Collectively accessed	Individually impaired	Collectively accessed	Individually impaired
Balance at beginning of year	5,705	11,393	4,520	8,081
Impairment allowances for loans charged to profit and loss account	2,016	8,333	1,207	7,773
Reversal of impairment allowances for loans	–	(3,734)	–	(3,232)
Net impairment allowances for loans charged to profit and loss account <i>(Note 10)</i>	2,016	4,599	1,207	4,541
Unwind of discount on allowances	–	(654)	–	–
Loans written off during the year as uncollectible	–	(1,121)	–	(1,147)
Exchange difference	(31)	(131)	(22)	(82)
Balance at end of the year	7,690	14,086	5,705	11,393

Notes to the Consolidated Financial Statements (Continued)

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

20 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Individually identified loans with impairment

Group and Bank

	31 December 2007		31 December 2006	
	Impaired loan	Specific Provision	Impaired loan	Specific Provision
Corporate	20,971	(13,166)	22,341	(10,881)
Individual	1,723	(920)	1,136	(512)
	22,694	(14,086)	23,477	(11,393)

Group and Bank

	As at 31 December	
	2007	2006
Individually identified loans with impairment to loans and advances to customers (percentage)	2.05%	2.53%

21 INVESTMENT SECURITIES

Group

	As at 31 December	
	2007	2006
Securities – loans and receivables		
Debt securities – at amortised cost		
– Unlisted	67,671	48,153
Allowance for loans and receivables	(75)	(103)
Loans & receivables securities, net	67,596	48,050
Securities – available-for-sale		
Debt securities – at fair value		
– Listed in Hong Kong	9,939	9,497
– Listed outside Hong Kong	8,613	74,783
– Unlisted	125,692	254,284
Allowance for debt securities	(741)	–
Debt securities, net	143,503	338,564
Equity securities – at fair value		
– Listed in Hong Kong	–	531
– Listed outside Hong Kong	1,938	–
– Unlisted ⁽¹⁾	2,370	1,018
Allowance for equity securities	(238)	(290)
Equity securities, net	4,070	1,259
Securities – available-for-sale Total	147,573	339,823

⁽¹⁾ Approved by CBRC No.[2007]589 <Approval of Changshu rural commercial bank absorb Bank of Communications' investment>, the Group purchased 10% shares of Changshu Rural Commercial Bank with proceeds of RMB380 million on 26 December 2007.

Listed debt securities at fair value of RMB9,908 million (2006: RMB1,318 million) were pledged to third parties under repurchase agreements.

Notes to the Consolidated Financial Statements (Continued)

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

21 INVESTMENT SECURITIES (Continued)

Group

	As at 31 December	
	2007	2006
Securities – held-to-maturity		
Debt securities-at amortized cost		
– Listed outside Hong Kong	66,833	–
– Unlisted	264,094	–
Allowance for debt securities	–	
Held-to-maturity securities, net	330,927	–

Bank

	As at 31 December	
	2007	2006
Securities – loans and receivables		
Debt securities – at amortised cost		
– Unlisted	67,671	48,153
Allowance for loans and receivables	(75)	(103)
Loans & receivables securities, net	67,596	48,050

21 INVESTMENT SECURITIES *(Continued)*

Bank

	As at 31 December	
	2007	2006
Securities – available-for-sale		
Debt securities – at fair value		
– Listed in Hong Kong	9,939	9,497
– Listed outside Hong Kong	8,613	74,783
– Unlisted	125,692	254,284
Allowance for debt securities	(741)	–
Debt securities, net	143,503	338,564
Equity securities – at fair value		
– Listed outside Hong Kong	1,116	–
– Unlisted	1,041	836
Allowance for equity securities	(238)	(290)
Equity securities, net	1,919	546
Securities – available-for-sale Total	145,422	339,110
Securities – held-to-maturity		
Debt securities-at amortized cost		
– Listed outside Hong Kong	66,833	–
– Unlisted	264,094	–
Allowance for debt securities	–	–
Held-to-maturity securities, net	330,927	–

Notes to the Consolidated Financial Statements (Continued)

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

21 INVESTMENT SECURITIES (Continued)

In 2004, the Group disposed of investment securities classified as held-to-maturity in the amount of RMB1.1 billion prior to their contractual maturity dates. As a result, the Group reclassified all its held-to-maturity investments with the amortised cost of RMB4,378 million to available-for-sale investments on 30 September 2004. The Group was also prohibited by Paragraph 9 of IAS 39 to classify any financial assets as held-to-maturity before 1 January 2007 and all investment securities purchased by the Group during 30 September 2004 to 31 December 2006 with the intention and ability to hold through maturity are classified as available-for-sale financial instruments in accordance with Paragraph 9 of IAS 39. On 1 January 2007, the management of the Group reclassified its available-for-sale investment securities with the fair value and amortised cost of RMB231,434 million and RMB230,177 million respectively to held-to-maturity investments. Included in the revaluation reserve at 31 December 2007 was amount of RMB1,135 million (net of tax impact: RMB851 million) relating to securities reclassified from available-for-sale to held-to-maturity investments on 1 January 2007 which will be amortized through profit and loss account over the remaining period through their maturities in accordance with IAS 39.

The Group holds bonds issued by the PBOC as at 31 December 2007 amounting to RMB142,063 million (2006: RMB86,628 million). The related interest rate range on such bonds for the year ended 31 December 2007 was 1.89%-4.47%. (2006: 1.89%-4.15%)

Gains less losses arising from investment securities comprise:

Group

	As at 31 December	
	2007	2006
Gains less losses arising from de-recognition of investment securities	657	58

21 INVESTMENT SECURITIES *(Continued)*

The movement in investment securities may be summarized as follows:

Group

	Loans and receivables	Available- for-sale	Held-to- maturity	Total
Before allowance				
Balance at 1 January 2007	48,153	340,113	–	388,266
Reclassification	–	(231,434)	231,434	–
Additions	42,163	279,510	216,719	538,392
Disposals (sale or redemption)	(22,539)	(239,152)	(117,124)	(378,815)
Gains from changes in fair value	–	950	–	950
Exchange differences	(106)	(1,435)	(102)	(1,643)
At 31 December 2007	67,671	148,552	330,927	547,150
Allowance for impairment loss				
Balance at 1 January 2007	(103)	(290)	–	(393)
Allowance for impairment	–	(769)	–	(769)
Amounts recovered during the year	28	49	–	77
Amounts written off during the year as uncollectible	–	31	–	31
At 31 December 2007	(75)	(979)	–	(1,054)
Net book value				
At 31 December 2007	67,596	147,573	330,927	546,096

Notes to the Consolidated Financial Statements (Continued)

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

21 INVESTMENT SECURITIES (Continued)

Bank

	Loans and receivables	Available- for-sale	Held-to- maturity	Total
Before allowance				
Balance at 1 January 2007	48,153	339,400	–	387,553
Reclassification	–	(231,434)	231,434	–
Additions	42,163	281,932	216,719	540,814
Disposals (sale or redemption)	(22,539)	(242,573)	(117,124)	(382,236)
Gains from changes in fair value	–	579	–	579
Exchange differences	(106)	(1,503)	(102)	(1,711)
At 31 December 2007	67,671	146,401	330,927	544,999
Allowance for impairment loss				
Balance at 1 January 2007	(103)	(290)	–	(393)
Allowance for impairment	–	(769)	–	(769)
Amounts recovered during the year	28	49	–	77
Amounts written off during the year as uncollectible	–	31	–	31
At 31 December 2007	(75)	(979)	–	(1,054)
Net book value				
At 31 December 2007	67,596	145,422	330,927	543,945

21 INVESTMENT SECURITIES *(Continued)*

Group

	Loans and receivables	Available- for-sale	Held-to- maturity	Total
Before allowance				
Balance at 1 January 2006	28,475	286,316	–	314,791
Additions	23,020	463,742	–	486,762
Disposals (sale or redemption)	(3,282)	(406,757)	–	(410,039)
Losses from changes in fair value	–	(2,632)	–	(2,632)
Exchange differences	(60)	(556)	–	(616)
At 31 December 2006	48,153	340,113	–	388,266
Allowance for impairment loss				
Balance at 1 January 2006	(103)	(345)	–	(448)
Allowance for impairment	–	(108)	–	(108)
Amounts recovered during the year	–	59	–	59
Amounts written off during the year as uncollectible	–	104	–	104
At 31 December 2006	(103)	(290)	–	(393)
Net book value				
At 31 December 2006	48,050	339,823	–	387,873

Notes to the Consolidated Financial Statements (Continued)

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

21 INVESTMENT SECURITIES (Continued)

Bank

	Loans and receivables	Available- for-sale	Held-to- maturity	Total
Before allowance				
Balance at 1 January 2006	28,475	286,003	–	314,478
Additions	23,020	463,742	–	486,762
Disposals (sale or redemption)	(3,282)	(407,032)	–	(410,314)
Losses from changes in fair value	–	(2,756)	–	(2,756)
Exchange differences	(60)	(557)	–	(617)
At 31 December 2006	48,153	339,400	–	387,553
Allowance for impairment loss				
Balance at 1 January 2006	(103)	(345)	–	(448)
Allowance for impairment	–	(108)	–	(108)
Amounts recovered during the year	–	59	–	59
Amounts written off during the year as uncollectible	–	104	–	104
At 31 December 2006	(103)	(290)	–	(393)
Net book value				
At 31 December 2006	48,050	339,110	–	387,160

21 INVESTMENT SECURITIES *(Continued)*

The investment securities are analysed by issuer as follows:

Group

	As at 31 December	
	2007	2006
Securities – loans and receivables		
– Central governments and central banks	66,390	45,436
– Public sector entities	149	370
– Banks and other financial institutions	884	1,705
– Corporate entities	173	539
	67,596	48,050
Securities – available-for-sale		
– Central governments and central banks	53,311	144,405
– Public sector entities	1,762	2,119
– Banks and other financial institutions	64,121	178,495
– Corporate entities	28,379	14,804
	147,573	339,823
Securities – held-to-maturity		
– Central governments and central banks	180,258	–
– Public sector entities	4,708	–
– Banks and other financial institutions	137,410	–
– Corporate entities	8,551	–
	330,927	–

Notes to the Consolidated Financial Statements (Continued)

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

21 INVESTMENT SECURITIES (Continued)

Bank

	As at 31 December	
	2007	2006
Securities – loans and receivables		
– Central governments and central banks	66,390	45,436
– Public sector entities	149	370
– Banks and other financial institutions	884	1,705
– Corporate entities	173	539
	67,596	48,050
Securities – available-for-sale		
– Central governments and central banks	53,311	144,406
– Public sector entities	1,762	2,119
– Banks and other financial institutions	64,121	178,494
– Corporate entities	26,228	14,091
	145,422	339,110
Securities – held-to-maturity		
– Central governments and central banks	180,258	–
– Public sector entities	4,708	–
– Banks and other financial institutions	137,410	–
– Corporate entities	8,551	–
	330,927	–

21 INVESTMENT SECURITIES *(Continued)*

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

Group and Bank

	As at 31 December	
	2007	2006
Available-for-sale, at fair value		
– Unlisted	318	1,329

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

Group and Bank

	As at 31 December	
	2007	2006
Up to 3 months	216	–
3 to 12 months	102	1,066
1 to 5 years	–	263
	318	1,329

Notes to the Consolidated Financial Statements (Continued)

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

22 PROPERTY AND EQUIPMENT

Group

	Land and Buildings	Construction in Progress	Equipment	Motor Vehicles	Leasehold Improvement	Total
Cost or valuation						
At 1 January 2007	21,615	787	4,888	135	1,201	28,626
Additions	927	4,012	1,775	114	399	7,227
Disposals	(511)	–	(681)	(5)	(80)	(1,277)
Transfers	764	(764)	–	–	–	–
Revaluation	974	(7)	–	–	–	967
At 31 December 2007	23,769	4,028	5,982	244	1,520	35,543
Accumulated depreciation						
At 1 January 2007	–	–	(1,889)	76	(529)	(2,342)
Charge for the period	(963)	–	(1,309)	(85)	(308)	(2,665)
Disposals	40	–	631	4	65	740
Reclassification	79	–	–	–	–	79
Revaluation	844	–	–	–	–	844
At 31 December 2007	–	–	(2,567)	(5)	(772)	(3,344)
Net book value						
At 31 December 2007	23,769	4,028	3,415	239	748	32,199
Carrying amount at 31 December 2007, if at cost						
	13,106	4,615	3,302	197	748	21,968

22 PROPERTY AND EQUIPMENT *(Continued)*

Group

	Land and Buildings	Construction in Progress	Equipment	Motor Vehicles	Leasehold Improvement	Total
Cost or valuation						
At 1 January 2006	20,047	1,125	4,050	236	1,221	26,679
Additions	532	1,083	1,271	50	322	3,258
Disposals	(327)	(59)	(433)	(151)	(342)	(1,312)
Transfers	1,333	(1,333)	–	–	–	–
Revaluation	30	(29)	–	–	–	1
At 31 December 2006	21,615	787	4,888	135	1,201	28,626
Accumulated depreciation						
At 1 January 2006	–	–	(953)	(2)	(560)	(1,515)
Charge for the period	(826)	–	(1,349)	(67)	(259)	(2,501)
Disposals	9	–	413	145	290	857
Revaluation	817	–	–	–	–	817
At 31 December 2006	–	–	(1,889)	76	(529)	(2,342)
Net book value						
At 31 December 2006	21,615	787	2,999	211	672	26,284
Carrying amount						
at 31 December 2006, if at cost	12,946	685	2,823	191	672	17,317

Notes to the Consolidated Financial Statements (Continued)

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

22 PROPERTY AND EQUIPMENT (Continued)

Bank

	Land and Buildings	Construction in Progress	Equipment	Motor Vehicles	Leasehold Improvement	Total
Cost or valuation						
At 1 January 2007	20,255	940	4,888	135	1,201	27,419
Additions	925	3,996	1,769	114	399	7,203
Disposals	(422)	–	(681)	(5)	(80)	(1,188)
Transfers	917	(917)	–	–	–	–
Revaluation	855	(7)	–	–	–	848
At 31 December 2007	22,530	4,012	5,976	244	1,520	34,282
Accumulated depreciation						
At 1 January 2007	–	–	(1,889)	76	(529)	(2,342)
Charge for the period	(928)	–	(1,309)	(85)	(308)	(2,630)
Disposals	40	–	630	4	65	739
Reclassification	79	–	–	–	–	79
Revaluation	809	–	–	–	–	809
At 31 December 2007	–	–	(2,568)	(5)	(772)	(3,345)
Net book value						
At 31 December 2007	22,530	4,012	3,408	239	748	30,937
Carrying amount at 31 December 2007, if at cost						
	12,236	4,599	3,296	197	748	21,076

22 PROPERTY AND EQUIPMENT (Continued)

Bank

	Land and Buildings	Construction in Progress	Equipment	Motor Vehicles	Leasehold Improvement	Total
Cost or valuation						
At 1 January 2006	18,564	1,125	4,050	236	1,221	25,196
Additions	530	1,083	1,271	50	322	3,256
Disposals	(144)	(59)	(433)	(151)	(342)	(1,129)
Transfers	1,333	(1,333)	–	–	–	–
Revaluation	(28)	124	–	–	–	96
At 31 December 2006	20,255	940	4,888	135	1,201	27,419
Accumulated depreciation						
At 1 January 2006	–	–	(953)	(2)	(560)	(1,515)
Charge for the period	(826)	–	(1,349)	(67)	(259)	(2,501)
Disposals	13	–	413	145	290	861
Revaluation	813	–	–	–	–	813
At 31 December 2006	–	–	(1,889)	76	(529)	(2,342)
Net book value						
At 31 December 2006	20,255	940	2,999	211	672	25,077
Carrying amount at 31 December 2006, if at cost	12,181	685	2,823	191	672	16,552

Pan-China Assets Appraisal Co., Ltd. (北京天健興業資產評估有限公司) was appointed as its external valuer for the Group's (excluding Hong Kong Branch) latest valuation exercise as at 31 December 2007 to revalue land and buildings, construction in progress, with reference to the open market value, while equipment and motor vehicles were not revalued due to their insignificance.

CB Richard Ellis Ltd. was appointed as the external valuer for the Hong Kong Branch's latest valuation exercise as at 31 December 2007 to revalue lands and buildings, construction in progress, with reference to the open market value, while the equipment and motor vehicles were not revalued due to their insignificance.

The revaluation reserve relating to revaluation of property and equipment is not distributable to shareholders.

Notes to the Consolidated Financial Statements (Continued)

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

22 PROPERTY AND EQUIPMENT (Continued)

Group

	Movement for the year ended	
	2007	2006
Revaluation surplus classified in equity, net of tax	1,236	605
Deferred tax liability (Note 28)	521	244
Revaluation deficit reversal/(charged) to profit and loss account (Note 11)	70	(41)
Exchange (loss)/gain	(16)	10
	1,811	818

Bank

	Movement for the year ended	
	2007	2006
Revaluation surplus classified in equity, net of tax	1,107	647
Deferred tax liability	496	294
Revaluation deficit reversal of/(charged to) profit and loss account	70	(41)
Exchange (loss)/gain	(16)	9
	1,657	909

All land and buildings of the Group are located outside Hong Kong, except for those of Hong Kong branch.

	As at 31 December	
	2007	2006
Net book value of land and buildings of Hong Kong Branch	1,396	1,370

According to relevant PRC laws and regulations, after conversion into a joint stock limited liability company, the Bank is required to re-register its property and equipment under the name of Bank of Communication Limited. As at 31 December 2007, the process of re-registration has not been completed. However, this registration process does not affect the rights of the Bank of Communication Limited to these assets.

23 OTHER ASSETS

Group

	As at 31 December	
	2007	2006
Settlement accounts	1,254	264
Other receivables	4,524	4,681
Less: impairment allowance	(1,511)	(2,243)
Foreclosed assets	493	1,144
Prepaid staff housing subsidies	81	96
Prepaid rental expenses	279	314
Land use rights	575	592
Intangible assets	877	709
Including: Goodwill (<i>Note 39</i>)	200	—
Investment property	136	145
Others	205	238
	6,913	5,940

Bank

	As at 31 December	
	2007	2006
Settlement accounts	1,254	264
Other receivables	2,809	3,962
Less: impairment allowance	(1,511)	(2,243)
Foreclosed assets	493	1,144
Prepaid staff housing subsidies	81	96
Prepaid rental expenses	279	314
Land use rights	575	592
Intangible assets	677	709
Investment property	136	143
Others	79	141
	4,872	5,122

Notes to the Consolidated Financial Statements (Continued)

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

24 DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

Group and Bank

	As at 31 December	
	2007	2006
Deposits from other banks	8,958	5,465
Deposits from other financial institutions	254,576	189,807
Loans from other banks	69,022	40,835
	332,556	236,107

25 FINANCIAL LIABILITIES HELD FOR TRADING

Group and Bank

	As at 31 December	
	2007	2006
Derivative financial instruments (Note 19)	3,319	568
Short position of securities held for trading	479	2,228
Debt securities in issue	6,230	5,928
	10,028	8,724

25 FINANCIAL LIABILITIES HELD FOR TRADING *(Continued)*

Debt securities in issue are:

	31 December 2007		31 December 2006	
	Amount	Interest rate per annum (%)	Amount	Interest rate per annum (%)
HKD short term Certificate of Deposit	291	4.28%	923	4.28%
HKD medium term Certificate of Deposit	35	4.75%	268	4.25%
USD short term Certificate of Deposit	20	4.72%	224	4.30%
USD medium term Certificate of Deposit	19	4.87%	–	–
USD floating rate Certificate of Deposit (maturing in January 2007)	–	–	1,154	3M LIBOR+0.20%
HKD floating rate Certificate of Deposit (maturing in November 2008)	846	HIBOR+0.18%	909	HIBOR+0.18%
HKD fixed rate step-up rate Certificate of Deposit (maturing in May 2009)	398	range from 3.10% to 4.60%	440	range from 3.10% to 4.60%
HKD floating rate Certificate of Deposit (maturing in September 2008)	376	HIBOR+0.26%	404	HIBOR+0.26%
HKD fixed rate step-up Certificate of Deposit (maturing in July 2008)	247	range from 3.57% to 4.07%	–	–
HKD floating rate Certificate of Deposit (maturing in July 2008)	1,133	3-mth HIBOR+0.05%	–	–
HKD floating rate Certificate of Deposit (maturing in July 2008)	1,134	3-mth HIBOR+0.08%	–	–
HKD floating rate Certificate of Deposit (maturing in December 2008)	188	3-mth HIBOR+0.16%	–	–
HKD floating rate Certificate of Deposit (maturing in December 2009)	376	3-mth HIBOR+0.23%	–	–
USD floating rate Certificate of Deposit (maturing in June 2007)	–	–	235	LIBOR+0.12%
Others	1,167		1,371	
Total	6,230		5,928	

Notes to the Consolidated Financial Statements (Continued)

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

26 DUE TO CUSTOMERS

Group and Bank

	Year ended 31 December	
	2007	2006
Corporate current deposits	699,289	512,030
Corporate savings deposits	7,785	6,151
Corporate time deposits	292,966	303,828
Individual current deposits	227,796	188,299
Individual savings deposits	14,295	14,183
Individual time deposits	299,355	307,552
Other deposits	14,113	12,134
Interest payable	11,543	8,713
	1,567,142	1,352,890
Including:		
Pledged deposits held as collateral for letters of credit	9,733	5,066

27 OTHER LIABILITIES

Group

	Year ended 31 December	
	2007	2006
Settlement accounts	10,075	4,269
Dividends payable	1,289	2,020
Staff benefits payables	3,481	2,278
Tax payable	1,449	941
Provision for outstanding litigation	875	995
Others	5,645	5,648
	22,814	16,151

27 OTHER LIABILITIES (Continued)**Bank**

	Year ended 31 December	
	2007	2006
Settlement accounts	10,075	4,269
Dividends payable	1,289	2,020
Staff benefits payables	3,443	2,278
Tax payable	1,346	931
Provision for outstanding litigation	875	995
Others	2,452	3,338
	19,480	13,831

28 DEFERRED INCOME TAXES

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"), which is effective from 1 January 2008. Under the new CIT Law, the corporate income tax rate applicable to domestic companies from 1 January 2008 will be decreased from 33% to 25%. This reduction in enterprise income tax rate will directly reduce the Group's effective tax rate prospectively from 2008. According to IAS 12, the deferred tax assets and deferred tax liabilities shall be measured at the tax rates of 25% that are expected to apply to the period when the asset is realized or the liability is settled. As a result, such change in the corporate income tax rate impacted the financial position of the Group at 31 December 2007 as following table. Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 17.5% for the period ended 31 December 2007 (Year 2006: 17.5%) for transactions in Hong Kong.

	Year ended 31 December 2007
Increase: income tax expense of current year	1,392
Increase: revaluation reserve for AFS securities	(118)
Increase: revaluation reserve for properties	(506)
Decrease: deferred tax assets	(1,451)
Decrease: deferred tax liabilities	683

Notes to the Consolidated Financial Statements (Continued)

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

28 DEFERRED INCOME TAXES (Continued)

The movement in the deferred income tax account is as follows:

Group

	Year ended 31 December	
	2007	2006
Balance at beginning of the year	3,197	542
(Debit)/credit to profit and loss account	(1,069)	2,003
Available-for-sale securities		
– fair value remeasurement	(93)	896
Property revaluation	(15)	(244)
At end of the year	2,020	3,197

Bank

	Year ended 31 December	
	2007	2006
Balance at beginning of the year	3,293	666
(Debit)/credit to profit and loss account	(1,069)	2,003
Available-for-sale securities		
– fair value remeasurement	(8)	918
Property revaluation	10	(294)
At end of the year	2,226	3,293

28 DEFERRED INCOME TAXES *(Continued)*

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

Group

	Year ended 31 December	
	2007	2006
Deferred income tax liabilities		
Available-for-sale securities	(511)	(380)
Property revaluation reserve	(1,759)	(1,738)
Other temporary differences	(324)	(271)
	(2,594)	(2,389)
Deferred income tax assets		
Provision for loan losses	2,468	2,229
Impairment allowances for investments	189	240
Decelerated tax depreciation	99	129
Impairment of other assets	1,819	2,987
Available-for-sale securities	39	1
	4,614	5,586
Net deferred income tax assets	2,020	3,197

Notes to the Consolidated Financial Statements (Continued)

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

28 DEFERRED INCOME TAXES (Continued)

Bank

	Year ended 31 December	
	2007	2006
Deferred income tax liabilities		
Available-for-sale securities	(404)	(358)
Property revaluation reserve	(1,650)	(1,654)
Other temporary differences	(324)	(271)
	(2,378)	(2,283)
Deferred income tax assets		
Provision for loan losses	2,468	2,229
Impairment allowances for investments	189	240
Decelerated tax depreciation	90	119
Impairment of other assets	1,818	2,987
Available-for-sale securities	39	1
	4,604	5,576
Net deferred income tax assets	2,226	3,293

The above net deferred income tax assets are disclosed separately on the balance sheet based on different responsible taxation authorities:

Group

	As at 31 December	
	2007	2006
Deferred tax assets	2,524	3,520
Deferred tax liabilities	(504)	(323)

28 DEFERRED INCOME TAXES (Continued)**Bank**

	As at 31 December	
	2007	2006
Deferred tax assets	2,524	3,520
Deferred tax liabilities	(298)	(227)

The deferred tax (charge)/credit in the profit and loss account comprises the following temporary differences:

Group

	As at 31 December	
	2007	2006
Provision for loan losses:		
Additional provisions for loan losses	902	1,739
Utilization	(663)	(102)
Sub-total	239	1,637
Impairment allowances for investments	(51)	(152)
Impairment of other assets	(1,168)	318
Decelerated depreciation	(30)	1
Depreciation/disposal of property and equipment	(6)	183
Other temporary differences	(53)	16
	(1,069)	2,003

Notes to the Consolidated Financial Statements (Continued)

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

29 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 profit and loss account in the period to which they relate.

The Group pays supplementary retirement benefits (SRPA) to employees in Mainland China, who retired or expected to be retired at the earlier of 31 December 2008 or the introduction of the new annuity plan. 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 are discounted to determine their present values. The discount rate is the yield on government bonds at the balance sheet date, the maturity dates of which approximate to the terms of the Group's obligations. The amounts recognised in the balance sheet represent the present value of unfunded obligations plus any unrecognised actuarial gains and losses minus any unrecognised past service cost.

Management is undertaking a comprehensive design of a new employee Annuity Plan which is expected to be introduced in 2009.

This plan will not be applicable to any employee receiving benefits under SPRA. As no new plan has been approved or established at 31 December 2007, no obligation or entitlement exists or has been provided for.

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. They are accounted for in the profit and loss account in the period when the payment is made.

	As at 31 December	
	2007	2006
Expenses incurred for retirement benefit plans	640	529
Expenses incurred for supplementary retirement benefits	546	–

29 RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

	2007
Balance sheet obligations for:	
– Pension benefits	546
Income statement charge for:	
– Pension benefits	546

(a) Pension benefits

The amounts recognised in the balance sheet are determined as follows:

	2007
Present value of unfunded obligations	619
Unrecognised actuarial losses	–
Unrecognised past service cost	(73)
Liability in the balance sheet	546

The amounts recognised in the income statement are as follows:

	2007
Past service cost	546

The principal actuarial assumptions used were as follows:

	2007
Discount rate	4.72%
Pension plan inflation rate	4%

Mortality rate

Assumptions regarding future mortality experience are set based on published statistics by China Insurance Regulatory Commission.

Notes to the Consolidated Financial Statements (Continued)

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

30 SUBORDINATED TERM DEBT

Group and Bank

	31 December 2007	31 December 2006
Floating rate subordinated debt – 2009 ⁽¹⁾	12,000	12,000
Fixed rate subordinated debt – 2022 ⁽²⁾	16,000	–
Fixed rate subordinated debt – 2017 ⁽²⁾	9,000	–
Interest payable	1,207	292
	38,207	12,292

(1) The RMB12 Billion floating rate subordinated term debt bears interest at the rate of 1 year fixed deposit rate set by the PBOC plus 2.52% and will mature in July 2009.

(2) The Group issued following subordinated debt on 6 March 2007 in the inter-bank market of mainland China:

The first tranche of subordinated debt amounting to RMB16 Billion issued on 6 March 2007 has a fix coupon rate of 4.13% for the first ten years, paid annually. The Group has the option to extend all of the bonds at face value for another five years through 8 March 2017 at a fixed rate of original coupon rate plus 3%.

The second tranche of subordinated debt amounting to RMB9 Billion issued on 6 March 2007 has a fixed coupon rate of 3.73% for the first 5 years, paid annually. The Group has the option to extend all of the bonds at face value for another five years through 8 March 2012 at a fixed rate of original coupon rate plus 3%.

31 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)
At 1 January 2007	45,804	45,804	21,540	67,344
Issue of shares ⁽¹⁾	3,190	3,190	22,014	25,204
Issuance cost	–	–	(454)	(454)
At 31 December 2007	48,994	48,994	43,100	92,094

Bank

	Number of shares (in millions)	Ordinary shares of RMB1 each (RMB million)	Capital surplus (RMB million)	Total (RMB million)
At 1 January 2007	45,804	45,804	22,432	68,236
Issue of shares ⁽¹⁾	3,190	3,190	22,014	25,204
Issuance cost	–	–	(454)	(454)
At 31 December 2007	48,994	48,994	43,992	92,986

- (1) On 24 April 2007, a total of 3.19 billion Renminbi ordinary shares (“A shares”) were subscribed by various third parties at a price of RMB7.90 per share with a total consideration of RMB25,204 million. The excess over par value of RMB21,560 million was included in capital surplus after the issuance cost of RMB454 million was netted off against capital surplus.

Notes to the Consolidated Financial Statements (Continued)

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

31 SHARE CAPITAL AND CAPITAL SURPLUS (Continued)

The shareholding structures of the Group and the Bank as at 31 December 2007 are as follow:

Group and Bank

	Number of shares (in millions)	Approximated percentage of the Bank's issued share capital
Domestic Shares in issue	25,930	52.92%
H shares offered under the Global Offering and converted from Domestic Shares	23,064	47.08%
Total number of shares	48,994	100.00%

Generally, transactions of the following nature are recorded in the capital surplus:

- (i) share premium arising from the issue of shares at prices in excess of their par value;
- (ii) donations received from shareholders; and
- (iii) any other items required by the PRC regulations to be so treated.

Capital surplus can be utilized to offset prior years' accumulated losses, for the issue of bonus shares or for increasing paid-up capital as approved by the Shareholders.

32 RESERVES AND RETAINED EARNINGS

Pursuant to the 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 passing of resolutions to be considered at the Bank's Annual General Meeting to be held subsequent to each year end.

In accordance with the PRC legislation, 10% of the net distributable profit of the Bank (Note 33), as determined under the PRC accounting regulations, is required to be transferred to a non-distributable statutory reserve until such time when this reserve represents 50% of the share capital of the Bank. Such profit distribution is recognized in the balance sheet upon approval by the shareholders at the Annual General Meeting.

32 RESERVES AND RETAINED EARNINGS *(Continued)*

Pursuant to the PRC banking regulations, the Bank is required to transfer a certain amount of its net income, as determined based on the degree of overall unidentified loss exposure, normally no lower than 1% of the ending balance of risk assets, to the statutory general reserve through its profit appropriation. The statutory general reserve is an integral part of equity interest but not subject to dividend distribution. Such statutory general reserve is recognized in the balance sheet upon approval by the shareholders at the Annual General Meeting. Statutory reserve of Hongkong branch required by Hong Kong Monetary Authority (“HKMA”) is also included in above statutory general reserve.

In accordance with the PRC legislation, after the statutory reserve has been transferred from the net distributable profit of the bank, discretionary reserve may be provided upon approval by the shareholders at the Annual General Meeting. Such discretionary reserve is recognized in the balance sheet upon approval by the shareholders at the Annual General Meeting.

Based on the 2006 financial results, on 8 March 2007, the Directors proposed the following profit appropriation, which was approved by the shareholders at the Annual General Meeting on 28 August 2007. Based on the 2005 financial results, on 28 March 2006, the Directors proposed the following profit appropriation, which was approved by the shareholders at the Annual General Meeting on 22 June 2006.

	Amount arising from the prior year, approved and processed in 2007 and 2006	
	2006	2005
Statutory reserve	1,271	899
Statutory general reserve	6,208	4,428
Discretionary reserve	576	–
	8,055	5,327

On 19 March 2008, the Directors proposed the following profit appropriation, which is still subject to the approval by the shareholders at the Annual General Meeting:

	2007
Statutory reserve	1,993
Statutory general reserve	1,938
Discretionary reserve	8,511
	12,442

Notes to the Consolidated Financial Statements (Continued)

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

33 DIVIDENDS

	Year ended 31 December	
	2007	2006
Paid in the year	5,311	1,665

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

- (i) Making up prior year's cumulative losses, if any;
- (ii) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under PRC accounting regulations;
- (iii) Allocations to statutory general reserve;
- (iv) Allocations to the discretionary revenue reserve fund if approved by the Bank's Annual General Meeting. These funds form part of the shareholders' equity.

In accordance with the relevant regulations, the distributable profit is deemed to be the lesser of (i) the distributable profit determined in accordance with PRC GAAP and (ii) the distributable profit determined in accordance with IFRS.

The dividends are recognized in the balance sheet upon approval by the shareholders at the Annual General Meeting. At 31 December 2007, the aggregate amount of distributable profit was RMB19,791 million, being the distributable profit determined in accordance with IFRS (2006: IFRS GAAP). On 19 March 2008, the directors proposed a cash dividend of RMB0.15 (2006: RMB0.10) per share, amounting to RMB7,349 million (2006: RMB4,580 million), which is subject to the approval by shareholders at the Annual General Meeting.

34 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 commits to extend to customers:

Group and Bank

	As at 31 December	
	2007	2006
Guarantees	155,573	83,917
Letters of credit	34,779	28,375
Acceptances	172,127	166,094
Other commitments with an original maturity of		
– Under 1 year	59,369	24,694
– 1 year and over	11,907	10,953
	433,755	314,033

Capital expenditure commitments

Group and Bank

	As at 31 December	
	2007	2006
Capital expenditure commitments for buildings	203	295

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancelable operating leases in respect of buildings are as follows:

Group and Bank

	As at 31 December	
	2007	2006
Not later than 1 year	769	657
Later than 1 year and not later than 5 years	1,756	1,476
Later than 5 years	636	519
	3,161	2,652

Notes to the Consolidated Financial Statements (Continued)

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

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

Commitments on security underwriting and bond acceptance

Group and Bank

	As at 31 December	
	2007	2006
Outstanding balance on security underwriting	6,750	10,200
Outstanding balance on bond acceptance ⁽¹⁾	17,842	24,523

- (1) The Bank is entrusted by the Ministry of Finance (“MOF”) to underwrite certain Certificates of Treasury Bond. The investors of Certificates of Treasury Bond have a right to redeem the bonds at par any time prior to maturity and the Bank is committed to redeem those bonds. The redemption price is the principal value of the Certificates of Treasury Bond plus unpaid interest.

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

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

Legal proceedings

A number of legal proceedings are initiated by third parties against the Group as defendant. The total outstanding claims at end of the year are as follows:

Group and Bank

	As at 31 December	
	2007	2006
Outstanding claims	1,785	2,058
Provision for losses	875	995

35 ASSETS PLEDGED

Assets are pledged as collateral under repurchase agreements with other banks and financial institutions and for security deposits relating to local futures, options and stock exchange memberships.

Group and Bank

	Pledged Assets As at 31 December		Related Liabilities As at 31 December	
	2007	2006	2007	2006
Trading securities	486	2,230	479	2,225
Investment securities	9,908	1,318	8,747	121
Loans	18,973	–	18,973	–
	29,367	3,548	28,199	2,346

36 CREDIT RISK WEIGHTED AMOUNT OF FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS

Group and Bank

	As at 31 December	
	2007	2006
Financial guarantees and credit related commitments	151,990	119,168

The credit risk weighted amount refers to the amount as computed in accordance with the formula promulgated by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments.

Notes to the Consolidated Financial Statements (Continued)

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

37 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Analysis of changes in financing during the year

	Dividends	Share capital	Capital surplus	Subordinated term debt
At 1 January 2007	2,020	45,804	21,540	12,292
Net cash outflow	(5,311)	–	–	(577)
Issue of shares	–	3,190	21,560	–
Issue subordinated term debt	–	–	–	25,000
Interest expense recognised on subordinated term debts	–	–	–	1,492
Dividends	4,580	–	–	–
At 31 December 2007	1,289	48,994	43,100	38,207
At 1 January 2006	136	45,804	21,540	12,292
Net cash outflow from financing/ other transferred out	(1,780)	–	–	(636)
Interest expense recognised on subordinated term debt	–	–	–	636
Dividends	3,664	–	–	–
At 31 December 2006	2,020	45,804	21,540	12,292

(b) Analysis of the balance of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with original maturities of less than 90 days used for the purpose of meeting short-term cash commitments:

	As at 31 December	
	2007	2006
Cash and balances with central banks (Note 16)	61,281	149,858
Due from other banks and financial institutions (Note 17 (a))	34,783	35,865
	96,064	185,723

38 PRINCIPAL SUBSIDIARIES

(a) Particulars of the principal subsidiaries are as follows:

Name of subsidiaries	Place of incorporation and operation	Date of incorporation	Issued and fully paid up share capital	Bank equity interest %	Principal activities
Kiu Fai Company Limited	Hong Kong	18 Mar 1967	HKD3,000,000	100	Property holding and investment holding
BCOM Finance (Hong Kong) Limited	Hong Kong	13 Mar 1979	HKD90,000,000	100	Deposit taking
Amiwell Company Limited	Hong Kong	18 Mar 1980	HKD2	100	Property holding and investment
Bank of Communications (Nominee) Company Limited	Hong Kong	21 Aug 1981	HKD200,000	100	Investment holding
Bank of Communications Trustee Limited	Hong Kong	13 Oct 1981	HKD50,000,000	100	Trustee Service
Chiao Tung Developments Limited	Hong Kong	5 Feb 1985	HKD50,000,000	100	Investment holding
Expectation Investment Limited	Hong Kong	29 Jan 1997	HKD2	100	Investment holding
BOCOM International Holdings Company Limited (former known as BCOM Securities Company Limited)	Hong Kong	3 Jun 1998	HKD800,000,000	100	Securities dealing
Unique Profit Limited	Hong Kong	12 Jun 1998	HKD10,000	100	Property holding
Right Master Investment Limited	Hong Kong	23 Dec 1998	HKD10,000	100	Property development
Creative Mart Limited	Hong Kong	12 May 1999	HKD100	100	Property development
Star Wealthy Secretarial Company Limited	Hong Kong	23 Aug 1999	HKD2,000,000	100	Investment holding
City Wisdom Limited	Hong Kong	19 Jul 2000	HKD10,000	100	Property holding
Eastern Sky Limited	Hong Kong	21 Aug 2000	HKD10,000	100	Property development
China BOCOM Insurance Company Limited (former known as China Communications Insurance Company Limited)	Hong Kong	1 Nov 2000	HKD400,000,000	100	General insurance and reinsurance
Bank of Communications Charitable Foundation Limited	Hong Kong	19 Jun 2002	–	100	Charity fund
BOCOM International Asset Management Limited ⁽¹⁾	Hong Kong	18 May 2007	HKD5,000,000	100	Asset management
BOCOM International Securities Limited ⁽¹⁾	Hong Kong	18 May 2007	HKD310,000,000	100	Securities dealing
BOCOM International (Asia) Limited ⁽¹⁾	Hong Kong	18 May 2007	HKD10,000,000	100	Securities dealing
Career Computer (Shenzhen) Company Limited	PRC	22 Dec 1997	USD3,000,000	100	Development of computer software and hardware , electronic equipments and communication network
Bank of Communications Schroder Fund Management Co., Ltd.	PRC	4 Aug 2005	RMB200,000,000	65	Fund management
Bank of Communications International Trust Co., LTD. (Note 39)	PRC	29 Sep 2007	RMB1,200,000,000	85	Trust investment
Bank of Communications Financial Leasing Co., Ltd. ⁽¹⁾	PRC	20 Dec 2007	RMB2,000,000,000	100	Financial leasing

Notes to the Consolidated Financial Statements (Continued)

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

38 PRINCIPAL SUBSIDIARIES (Continued)

(a) Particulars of the principal subsidiaries are as follows: (Continued)

(1) Changes of subsidiaries

These companies are the sub- subsidiaries of the Bank. The BOCOM International Asset Management Limited, BOCOM International Securities Limited and BOCOM International (Asia) Limited are all subsidiaries of BOCOM International Holdings Company Limited. Right Master Investment Limited was liquidated in January 2007, liquidation of the subsidiary did not have a material impact to the Bank.

Bank of Communications Financial Leasing Co., Ltd. is a wholly owned subsidiary set up in December 2007.

(2) Auditors of subsidiaries

For the year ended 31 December 2007 or 31 March 2008, PricewaterhouseCoopers Hong Kong CPAs 羅兵咸永道會計師事務所 are the auditors of all principal subsidiaries incorporated in Hong Kong.

For the years ended 31 December 2006 and 2007, Career Computer (Shenzhen) Company Limited was audited by Shenzhen Peng Cheng CPAs Limited 深圳鵬城會計師事務所.

The Bank of Communications Schroder Fund Management Co., Ltd. and Bank of Communications Financial Leasing Co., Ltd. are audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Co., 普華永道中天會計師事務所有限公司.

Bank of Communications International Trust Co., LTD. is audited by Hubei A&C Credited Public Accountants CO., LTD.

(b) Investment costs and balances with subsidiaries:

	Year ended 31 December	
	2007	2006
Investment cost – subsidiaries	4,645	1,219
Amount due from subsidiaries	2,026	1,784
Amount due to subsidiaries	(1,487)	(1,659)
Total	5,184	1,344

39 BUSINESS COMBINATION

Bank of Communications International Trust Co., LTD.

On 29 September 2007, the Group acquired 85% interest of Hubei International Trust Investment Ltd, Co. (the "Acquired Company"), a trustee investment company operating in Hubei Province, for cash consideration of RMB1,220 million. After the business combination, the Acquired Company was renamed Bank of Communications International Trust Co., LTD.

The operating income of the Acquired Company was not significant to the Group for the period ended 30 September 2007.

The details of the fair value of the assets and liabilities acquired and goodwill arising as at 29 September 2007 are as follows:

	Fair value	Acquiree's carrying amount
Cash & Bank	1,231	1,231
Other Payable	(31)	(31)
Net assets	1,200	1,200
Fair value of net assets acquired (85%)	1,020	
Goodwill	200	
Total purchase consideration paid by cash	1,220	
Less: cash and cash equivalents in subsidiary acquired	(1,231)	
Net Cash inflow on acquisition	(11)	

The goodwill is attributable to the significant synergies expected to arise after the Group's acquisition. Fair value of assets and liabilities acquired were based on discounted cash flow models.

There was no provision required in connection with this acquisition.

Notes to the Consolidated Financial Statements (Continued)

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

40 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group is subject to the control of the State Council of the PRC Government.

(a) Transactions with the MOF

The Group enters into banking transactions with the MOF in the normal course of business. These include the purchase and redemption of investment securities issued by the MOF. The volumes of related party transactions, outstanding balances at the period end, and related income for the year are as follows:

Treasury bonds

	Year ended 31 December	
	2007	2006
Purchase during the year	73,896	54,840
Redemption during the year	(28,689)	(11,543)
Interest income	3,960	2,858
	Year ended 31 December	
	2007	2006
Outstanding balance at beginning of the year	102,767	79,368
Outstanding at end of the year	163,049	102,767

40 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with other government agencies and other state controlled entities

The Group is ultimately controlled by the PRC government, which also directly and indirectly controls a significant number of entities through its government authorities, agencies and affiliates. Accordingly, the Group is likely to have extensive transactions with government authorities, agencies and affiliates and other State-controlled entities.

Transactions with government authorities and agencies conducted include purchase and redemption of investment securities issued by government agencies, maintenance of mandatory reserves and other deposits and amounts due to government agencies.

The state controlled entities are those over which the PRC government directly holds over 50% of the outstanding shares or voting rights, and has the ability to control or the power to govern their financial or operational policies.

Transactions with other state controlled entities are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group has also established its pricing strategy and approval processes for major products and services, such as loans, deposits, investment securities, money market transactions and financial guarantees and credit related commitments. Such pricing strategy and approval processes do not depend on whether the customers are state-owned entities or not. Except these disclosed elsewhere in these financial statements, the volumes of such related party transactions, outstanding balances and related provisions at the year end, and the related expense and interest ranges for the year are as follows:

(i) *Loans and advances to customers*

	Year ended 31 December	
	2007	2006
Outstanding balance at beginning of the year	240,214	207,715
Outstanding balance at end of the year	289,764	240,214
Less: allowance for impairment losses	(3,339)	(3,212)
	286,425	237,002
Including: discounted bills	2,358	8,439
Interest rate range for discounted bills	2.40%~7.96%	1.44%~5.74%
Interest rate range of loans and advances other than discounted bills	0.05%~18%	0.625%~18.72%

The loan interest rate range stated above covers interest rates for loans granted in various currencies and periods.

Notes to the Consolidated Financial Statements (Continued)

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

40 RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with other government agencies and other state controlled entities (Continued)

(i) Loans and advances to customers (Continued)

	Year ended 31 December	
	2007	2006
Maximum balance during the year	289,764	240,214
Provision for impairment during the year	127	899

(ii) Investment securities

	Year ended 31 December	
	2007	2006
Purchase during the year	395,384	221,232
Redemption during the year	(60,053)	(40,549)
Sales during the year	(268,742)	(329,844)
Interest income	8,066	5,182
	Year ended 31 December	
	2007	2006
Outstanding balance at beginning of the year	166,510	137,424
Outstanding balance at end of the year	220,659	166,510

40 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with other government agencies and other state controlled entities *(Continued)*

(iii) Due from other banks and financial institutions

	Year ended 31 December	
	2007	2006
Outstanding balance at beginning of the year	30,886	101,504
Outstanding balance at end of the year	51,388	31,502
Less: allowance for impairment losses	(158)	(616)
	51,230	30,886

	Year ended 31 December	
	2007	2006
Maximum balance during the year	141,958	70,768
Provision for impairment reversed during the year	(458)	(117)

(iv) Due to other banks and financial institutions

	Year ended 31 December	
	2007	2006
Outstanding balance at beginning of the year	89,864	73,797
Outstanding balance at end of the year	91,134	89,864
	Year ended 31 December	
	2007	2006
Maximum balance during the year	194,175	163,245

Notes to the Consolidated Financial Statements (Continued)

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

40 RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with other government agencies and other state controlled entities (Continued)

(v) Due to customers

	Year ended 31 December	
	2007	2006
Outstanding balance at beginning of the year	273,099	560,549
Outstanding balance at end of the year	361,337	273,099

	Year ended 31 December	
	2007	2006
Maximum balance during the year	361,782	560,549

(vi) Financial guarantees and credit related commitments

	As at 31 December	
	2007	2006
Guarantees	52,863	29,609
Letters of credit	50,195	7,043
Acceptances	17,886	13,779
Derivative transactions unsettled	15,966	10,199

40 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Transactions with directors and senior management

The Group enters into banking transactions with directors and senior management in the normal course of business. These include loans and deposits, which are carried out under commercial terms and at market rates except that loans and deposits have been made to and taken from senior management of the Hong Kong branch at preferential rates. The volumes of related party transactions during each of the years ended 31 December 2006 and 2007, outstanding balances at the balance sheet date are as follows:

(i) Loans

	Year ended at 31 December	
	2007	2006
Outstanding at beginning of the year	17	10
Granted during the year	52	26
Repaid during the year	(33)	(19)
Outstanding at end of the year	36	17

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

(ii) Deposits

	Year ended at 31 December	
	2007	2006
Outstanding at beginning of the year	33	34
Deposited during the year	143	89
Repaid during the year	(131)	(90)
Outstanding at end of the year	45	33

Notes to the Consolidated Financial Statements (Continued)

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

40 RELATED PARTY TRANSACTIONS (Continued)

(d) Transactions with HSBC

As at 31 December 2007, the Hong Kong and Shanghai Banking Corporation Limited (“HSBC”) holds 9,381 million shares of the bank which represents 19.15%. Transactions between the Group and HSBC are mainly banking activities under commercial terms and at market rates. Detail transaction volumes since the above share acquisition are set out below:

(i) Placement with HSBC

	Year ended 31 December	
	2007	2006
Outstanding at beginning of the year	1,434	4,654
Granted during the year	659,853	363,308
Repaid during the year	(659,872)	(366,528)
Outstanding at end of the year	1,415	1,434
Interest income	186	34

(ii) Deposits from HSBC

	Year ended 31 December	
	2007	2006
Outstanding at beginning of the year	489	2,318
Deposited during the year	394,478	124,264
Repaid during the year	(393,198)	(126,093)
Outstanding at end of the year	1,769	489
Interest expense on deposits	136	64

40 RELATED PARTY TRANSACTIONS *(Continued)***(d) Transactions with HSBC** *(Continued)***(iii) Investment securities**

	Year ended 31 December	
	2007	2006
Interest income	50	28

	As at 31 December	
	2007	2006
Outstanding balance	788	1,395

(iv) Derivative transactions unsettled

	As at 31 December	
	2007	2006
Derivative transactions unsettled	13,577	5,739

Notes to the Consolidated Financial Statements (Continued)

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

41 SEGMENTAL INFORMATION

- (a) The following table sets out the segmental information of the Group's operating results, assets and liabilities. The geographical segments are:
- (i) Northern China – Including the following provinces: Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia;
 - (ii) North Eastern China – Including the following provinces: Liaoning, Jilin, Heilongjiang;
 - (iii) Eastern China – Including the following provinces: Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;
 - (iv) Central & Southern China – Including the following provinces: Henan, Hunan, Hubei, Guangdong, Guangxi, Hainan;
 - (v) Western China – Including the following provinces: Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shanxi, Gansu, Qinghai, Ningxia and Xinjiang;
 - (vi) Head office;
 - (vii) Overseas – Including overseas subsidiaries and the following branches: Hong Kong, New York, Singapore, Seoul, Tokyo, Frankfurt and Macau.

41 SEGMENTAL INFORMATION *(Continued)*

(a) Geographical segment information

	Northern China	North- eastern China	Eastern China	Central & Southern China	Western China	Head Office	Eliminations & Overseas Consolidated	Group Total	
As at 31 December 2007									
Assets									
Cash and balances with central banks	11,614	3,478	21,071	8,746	4,278	211,497	749	-	261,433
Due from other banks and financial institutions	19,245	1,044	41,186	5,470	2,383	65,685	25,365	(4,268)	156,110
Financial assets held for trading	128	7	48	23	15	16,202	3,022	-	19,445
Loans and advances to customers	206,935	61,519	433,546	219,086	91,433	9,258	61,555	2,392	1,085,724
Investment securities									
– loans and receivables	6,488	3,632	13,619	10,801	2,905	30,151	-	-	67,596
– available-for-sale	17,728	183	107	3,237	24	102,640	23,654	-	147,573
– held-to-maturity	10,975	13,710	30,066	23,071	8,334	242,478	2,293	-	330,927
Other assets	32,535	8,304	38,855	26,069	8,734	11,341	13,841	(98,043)	41,636
Segment assets	305,648	91,877	578,498	296,503	118,106	689,252	130,479	(99,919)	2,110,444
Liabilities									
Due to other banks and financial institutions	(96,262)	(5,408)	(144,743)	(49,396)	(9,259)	(5,155)	(22,333)	-	(332,556)
Financial liabilities held for trading	(11)	(2)	(10)	(8)	(6)	(3,002)	(6,989)	-	(10,028)
Due to customers	(273,263)	(133,421)	(609,925)	(326,908)	(151,361)	(681)	(71,543)	(40)	(1,567,142)
Other liabilities	(3,970)	(1,422)	(93,709)	(4,769)	(1,982)	(35,892)	(25,612)	99,959	(67,397)
Segment liabilities	(373,506)	(140,253)	(848,387)	(381,081)	(162,608)	(44,730)	(126,477)	99,919	(1,977,123)
Net on balance sheet position	(67,858)	(48,376)	(269,889)	(84,578)	(44,502)	644,522	4,002	-	133,321
Off-balance exposures									
Financial guarantees, acceptance and letter of credit	97,774	10,222	163,335	59,544	19,382	1,001	11,221	-	362,479
Other credit related commitments	6,549	3,726	19,162	10,715	4,930	-	26,194	-	71,276
Acquisition cost of property and equipment ("PPE") and intangible assets	2,449	470	1,953	891	285	1,176	192	-	7,416

Notes to the Consolidated Financial Statements (Continued)

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

41 SEGMENTAL INFORMATION (Continued)

(a) Geographical segment information (Continued)

	Northern China	North- eastern China	Eastern China	Central & Southern China	Western China	Head Office	Eliminations & Overseas	Consolidated	Group Total
For the year ended									
31 December 2007									
Interest income	15,595	5,608	33,576	17,223	7,012	17,464	7,329	(13,488)	90,319
Interest expense	(7,159)	(2,478)	(13,135)	(6,482)	(2,530)	(12,639)	(5,203)	13,451	(36,175)
Net interest income	8,436	3,130	20,441	10,741	4,482	4,825	2,126	(37)	54,144
Fee and commission income	623	275	2,063	788	307	3,144	1,045	-	8,245
Fee and commission expense	(166)	(51)	(410)	(127)	(56)	(67)	(273)	-	(1,150)
Net fee and commission income	457	224	1,653	661	251	3,077	772	-	7,095
Dividend income	-	6	61	-	-	5	5	-	77
Gains less losses arising from trading activities	385	98	645	253	65	(1,208)	(189)	-	49
Gains less losses arising from investment securities	85	-	232	54	1	(2)	287	-	657
Other operating income	29	15	236	384	27	80	(27)	23	767
Reversal/(Impairment losses) on loans and advances	(1,320)	91	(3,336)	(1,413)	(284)	(75)	(43)	-	(6,380)
Other operating expenses	(3,249)	(2,379)	(8,131)	(4,395)	(2,284)	(3,245)	(1,612)	-	(25,295)
Operating profit/(loss) before tax	4,823	1,185	11,801	6,285	2,258	3,457	1,319	(14)	31,114
Income tax	(1,873)	(356)	(4,657)	(1,972)	(882)	(613)	(359)	-	(10,712)
Net profit/(loss) for the year	2,950	829	7,144	4,313	1,376	2,844	960	(14)	20,402
Depreciation and amortization of property and equipment and intangible assets	(297)	(280)	(865)	(430)	(254)	(640)	(132)	-	(2,898)

41 SEGMENTAL INFORMATION *(Continued)*

(a) Geographical segment information *(Continued)*

	Northern China	North- eastern China	Eastern China	Central & Southern China	Western China	Head Office	Overseas	Eliminations & Consolidated	Group Total
As at 31 December 2006									
Assets									
Cash and balances with central banks	51,808	3,910	44,740	11,046	6,007	135,413	1,017	-	253,941
Due from other banks and financial institutions	21,239	497	25,242	5,508	472	46,795	22,971	(4,101)	118,623
Financial assets held for trading	-	-	1	-	-	8,598	4,396	-	12,995
Loans and advances to customers	162,029	55,830	364,547	179,744	79,490	12,400	53,667	2,600	910,307
Investment securities									
- loans and receivables	2,564	1,514	5,214	3,384	1,800	33,574	-	-	48,050
- available-for-sale	31,462	17,042	38,566	27,449	10,221	190,415	24,668	-	339,823
- held-to-maturity	-	-	-	-	-	-	-	-	-
Other assets	11,229	8,241	27,408	13,129	7,227	1,747	7,646	(40,883)	35,744
Segment assets	280,331	87,034	505,718	240,260	105,217	428,942	114,365	(42,384)	1,719,483
Liabilities									
Due to other banks and financial institutions	(101,932)	(3,809)	(86,672)	(18,522)	(7,008)	(12,489)	(5,675)	-	(236,107)
Financial liabilities held for trading	-	-	-	-	-	(419)	(8,305)	-	(8,724)
Due to customers	(226,365)	(127,384)	(510,225)	(285,552)	(133,126)	(272)	(69,647)	(319)	(1,352,890)
Other liabilities	(3,408)	(1,103)	(23,821)	(3,520)	(1,521)	(13,225)	(27,372)	42,703	(31,267)
Segment liabilities	(331,705)	(132,296)	(620,718)	(307,594)	(141,655)	(26,405)	(110,999)	42,384	(1,628,988)
Net on balance sheet position									
	(51,374)	(45,262)	(115,000)	(67,334)	(36,438)	402,537	3,366	-	90,495
Off-balance exposures									
Financial guarantees, acceptance and letter of credit	60,991	9,319	132,849	44,611	18,535	1,036	11,045	-	278,386
Other credit related commitments	2,431	1,548	8,409	4,609	2,187	-	16,463	-	35,647
Acquisition cost of property and equipment ("PPE") and intangible assets									
	491	283	992	647	325	978	92	2	3,810

Notes to the Consolidated Financial Statements (Continued)

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

41 SEGMENTAL INFORMATION (Continued)

(a) Geographical segment information (Continued)

	Northern China	North- eastern China	Eastern China	Central & Southern China	Western China	Head Office	Overseas	Eliminations & Consolidated	Group Total
For the year ended									
31 December 2006									
Interest income	10,545	4,574	23,595	11,870	5,307	12,385	5,602	(9,335)	64,543
Interest expense	(4,620)	(1,829)	(8,372)	(4,209)	(1,707)	(9,441)	(3,897)	9,335	(24,740)
Net interest income	5,925	2,745	15,223	7,661	3,600	2,944	1,705	-	39,803
Fee and commission income	387	233	1,098	578	261	375	662	-	3,594
Fee and commission expense	(79)	(39)	(125)	(98)	(45)	(44)	(173)	-	(603)
Net fee and commission income	308	194	973	480	216	331	489	-	2,991
Dividend income	2	-	73	9	-	2	37	-	123
Gains less losses arising from trading activities	276	63	424	158	31	(802)	(207)	-	(57)
Gains less losses arising from investment securities	41	-	1	-	-	5	11	-	58
Other operating income	132	37	311	136	43	125	136	-	920
Reversal/(impairment losses) on loans and advances	(963)	(1,167)	(2,490)	(489)	(431)	(108)	110	-	(5,538)
Other operating expenses	(2,485)	(2,372)	(6,493)	(4,128)	(1,844)	(2,480)	(1,093)	-	(20,895)
Operating profit/(loss) before tax	3,236	(500)	8,022	3,827	1,615	17	1,188	-	17,405
Income tax	(1,348)	(270)	(3,213)	(1,466)	(604)	2,156	(391)	-	(5,136)
Net profit/(loss) for the year	1,888	(770)	4,809	2,361	1,011	2,173	797	-	12,269
Depreciation and amortization of property and equipment and intangible assets	(256)	(287)	(801)	(422)	(261)	(501)	(112)	-	(2,640)

41 SEGMENTAL INFORMATION *(Continued)*

(b) Business segment information

The Group is engaged predominantly in banking and related financial activities. It comprises retail banking, corporate banking, treasury and other classes of business.

Corporate banking mainly comprises corporate loans, bills, trade finance, corporate deposits and remittance. Retail banking mainly comprises retail loans, retail deposits, credit card and remittance. Treasury mainly comprises money market placements and takings, investment in securities, and securities sold subject to linked repurchase agreements ('repos'). The 'Others' business mainly comprises other items which cannot be categorized as above business segments.

	Corporate	Retail	Treasury	Others	Total
As at 31 December 2007					
Total carrying amount of segment assets	903,502	185,870	1,002,234	18,538	2,110,444
Segment revenue	60,479	13,772	25,405	458	100,114
Depreciation and amortization of PPE and intangible assets	832	1,046	179	841	2,898
Acquisition cost of PPE and intangible assets	2,266	2,782	475	1,961	7,484
As at 31 December 2006					
Total carrying amount of segment assets	736,304	133,685	815,778	33,716	1,719,483
Segment revenue	41,254	8,548	18,512	867	69,181
Depreciation and amortization of PPE and intangible assets	759	953	163	765	2,640
Acquisition cost of PPE and intangible assets	1,154	1,416	242	998	3,810

Supplementary Unaudited Financial Information

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

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1 LIQUIDITY RATIOS

Group

	As at 31 December	
	2007	2006
Liquidity ratios	27.20%	33.63%

Bank

	As at 31 December	
	2007	2006
Liquidity ratios	27.07%	33.62%

Supplementary Unaudited Financial Information (Continued)

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

2 CURRENCY CONCENTRATIONS

Group

	US Dollars	HK Dollars	Others	Total
As at 31 December 2007				
Spot assets	116,750	63,088	25,493	205,331
Spot liabilities	(90,078)	(66,702)	(24,785)	(181,565)
Forward purchases	78,968	1,020	7,286	87,274
Forward sales	(70,890)	(1,140)	(12,455)	(84,485)
Net long/(short) position	34,750	(3,734)	(4,461)	26,555
Net structural position	2,214	3,993	1,491	7,698

Group

	US Dollars	HK Dollars	Others	Total
As at 31 December 2006				
Spot assets	98,270	53,534	20,618	172,422
Spot liabilities	(86,405)	(61,936)	(17,164)	(165,505)
Forward purchases	48,670	3,445	6,256	58,371
Forward sales	(39,416)	(2,185)	(9,026)	(50,627)
Net long/(short) position	21,119	(7,142)	684	14,661
Net structural position	3,574	4,529	499	8,602

The net options position is calculated using the model user approach as set out in the banking return of the HKMA. 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.

3 CROSS-BORDER CLAIMS

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

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

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

	Bank and other financial institutions	Public sector entities	Others	Total
As at 31 December 2007				
Asia Pacific excluding Mainland China	19,915	2,789	38,129	60,833
– of which attributed to Hong Kong	3,001	2,643	31,167	36,811
North and South America	11,468	921	9,054	21,443
Europe	38,761	296	190	39,247
	70,144	4,006	47,373	121,523
	Bank and other financial institutions	Public sector entities	Others	Total
As at 31 December 2006				
Asia Pacific excluding Mainland China	31,644	4,189	38,704	74,537
– of which attributed to Hong Kong	3,116	4,036	36,849	44,001
North and South America	14,396	1,226	4,743	20,365
Europe	33,489	211	217	33,917
	79,529	5,626	43,664	128,819

Supplementary Unaudited Financial Information (Continued)

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

4 OVERDUE AND RESCHEDULED ASSETS

(a) Gross amount of overdue loans

Group and Bank

	As at 31 December	
	2007	2006
Gross advances to customers which have been overdue for:		
– within 3 months	7,583	9,991
– between 3 and 6 months	1,955	2,489
– between 6 and 12 months	3,405	3,918
– over 12 months	14,348	13,361
	27,291	29,759
Percentage:		
– within 3 months	0.68%	1.08%
– between 3 and 6 months	0.18%	0.27%
– between 6 and 12 months	0.31%	0.42%
– over 12 months	1.29%	1.44%
	2.46%	3.21%
Gross advances to banks and other financial institutions which have been overdue for:		
– within 3 months	–	–
– between 3 and 6 months	–	–
– between 6 and 12 months	–	–
– over 12 months	314	626
	314	626
Percentage:		
– within 3 months	–	–
– between 3 and 6 months	–	–
– between 6 and 12 months	–	–
– over 12 months	0.21%	0.32%
	0.21%	0.32%

4 OVERDUE AND RESCHEDULED ASSETS *(Continued)*

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

* Included in the gross overdue advances to customers as at 31 December 2007, there are trade bills which have been overdue for:

Group and Bank

	31 December 2007
– within 3 months	277
– between 3 and 6 months	35
– between 6 and 12 months	10
– over 12 months	269
	591

(b) Overdue and rescheduled loans

Group and Bank

	31 December 2007	31 December 2006
Total rescheduled loans and advances to customers	6,047	6,902
Including: rescheduled loans and advances to customers overdue within 3 months	(620)	(1,215)
Percentage of rescheduled loans and advances to customers overdue within 3 months in total loans	10%	18%

Supplementary Unaudited Financial Information (Continued)

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

5 SEGMENTAL INFORMATION OF LOANS

(a) Impaired loans by geographical area

Group and Bank

	31 December 2007		31 December 2006	
	Impaired loan	Specific provision	Impaired loan	Specific provision
Domestic regions				
– Northern China	3,787	(2,136)	3,097	(1,419)
– North-eastern China	3,480	(2,296)	4,605	(2,675)
– Eastern China	8,158	(5,072)	7,856	(3,435)
– Central & Southern China	4,010	(2,479)	4,014	(1,660)
– Western China	2,956	(1,807)	3,562	(1,849)
	22,391	(13,790)	23,134	(11,038)
Hong Kong and overseas countries	303	(296)	343	(355)
	22,694	(14,086)	23,477	(11,393)

5 SEGMENTAL INFORMATION OF LOANS *(Continued)*

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

Group and Bank

	31 December 2007			31 December 2006		
	Overdue loan	Specific provision	Collective provision	Overdue loan	Specific provision	Collective provision
Domestic regions						
– Northern China	4,541	(1,736)	(29)	4,265	(1,295)	(19)
– North-eastern China	4,061	(1,954)	(16)	5,305	(2,050)	(14)
– Eastern China	8,442	(3,915)	(34)	8,293	(2,083)	(32)
– Central & Southern China	5,874	(2,345)	(28)	6,088	(1,317)	(23)
– Western China	3,361	(1,538)	(9)	3,763	(1,365)	(12)
	26,279	(11,488)	(116)	27,714	(8,110)	(100)
Hong Kong and overseas countries	1,012	(296)	(2)	2,045	(310)	(4)
	27,291	(11,784)	(118)	29,759	(8,420)	(104)
Fair value of collateral	17,709			18,679		

Supplementary Unaudited Financial Information (Continued)

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

6 LOANS AND ADVANCES TO CUSTOMERS

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

Group and Bank

	31 December 2007			31 December 2006		
		%	Amount covered by collaterals		%	Amount covered by collaterals
<i>HK:</i>						
Corporate loans						
Manufacturing						
– Petroleum and chemical	–	–	–	–	–	–
– Electronics	594	1	183	412	1	59
– Steel	–	–	–	–	–	–
– Machinery	–	–	–	–	–	–
– Textile	251	–	110	233	–	109
– Other manufacturing	3,275	6	465	1,828	4	501
Transportation	1,080	2	859	966	2	966
Trading	5,713	11	1,997	4,174	9	2,266
Services	165	–	11	74	–	9
Real estate	5,898	11	5,898	5,961	12	5,510
Utilities	490	1	–	1,355	3	1
Construction	3,887	7	1,805	3,153	7	1,834
Educations and scientific research	–	–	–	–	–	–
Post and telecommunications	328	1	–	–	–	–
Agriculture	–	–	–	–	–	–
Non-banking financial institutions	7,135	13	1,009	6,490	14	243
Others	8,917	17	716	8,519	18	1,894
Corporate loans total	37,733	70	13,053	33,165	70	13,392
Mortgage loans	9,223	18	9,223	8,270	18	8,270
Medium-term and long-term working capital loans	178	–	178	224	–	216
Short-term working capital loans	–	–	–	–	–	–
Car loans	–	–	–	–	–	–
Credit card advances	50	–	–	21	–	–
Loans secured by deposits	–	–	–	–	–	–
Others	5,496	11	5,496	5,484	11	5,484
Individual loans total	14,947	29	14,897	13,999	29	13,970
Discounted bills	–	–	–	4	–	3
Interest receivables	306	1	–	302	1	–
Gross amount of loans and advances before allowance for impairment	52,986	100	27,950	47,470	100	27,365
<i>Outside HK:</i>	1,054,514			879,935		

6 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

(a) The economic sector risk concentration analysis for loans and advances to customers (gross) *(Continued)*

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

The collateral rate is 35% as the year ended 31 December 2007 (2006: 30%).

(b) Provision on loans and advances by loan usage

Group and Bank

	Individually assessed to be impaired	Specific provision
31 December 2007		
Corporate	20,971	(13,166)
Individual	1,723	(920)
	22,694	(14,086)
Fair value of collateral	6,481	

Group and Bank

	Individually assessed to be impaired	Specific provision
31 December 2006		
Corporate	22,340	(10,881)
Individual	1,137	(512)
	23,477	(11,393)
Fair value of collateral	6,497	

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

Supplementary Unaudited Financial Information (Continued)

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

6 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(b) Provision on loans and advances by loan usage (Continued)

The amount of new provisions charged to income statement, and the amount of impaired loans and advances written off during the year are disclosed in the below tables:

Group and Bank

	New provisions	Loans written off as uncollectible	Recoveries of advances written off in previous years
2007			
Corporate	5,719	1,056	(121)
Individual	896	65	(1)
	6,615	1,121	(122)

Group and Bank

	New provisions	Loans written off as uncollectible	Recoveries of advances written off in previous years
2006			
Corporate	5,378	1,142	(93)
Individual	370	5	—
	5,748	1,147	(93)

7 BUSINESS SEGMENT INFORMATION

Group

	Year ended 31 December 2007				Total
	Corporate	Retail	Treasury	Others and unallocated	
External net interest income/(expense)	32,965	118	21,135	(74)	54,144
Internal net interest income/(expense)	6,945	11,503	(18,448)	–	–
Net interest income	39,910	11,621	2,687	(74)	54,144
Net fee and commission income	3,257	3,856	6	(24)	7,095
Dividend income	–	–	41	36	77
Gains less losses arising from trading activities	810	6	(759)	(8)	49
Gains less losses arising from investment securities	–	–	290	367	657
Other operating income	308	52	10	397	767
Impairment losses on loans and advances	(5,653)	(840)	113	–	(6,380)
Other operating expenses					
– depreciation and amortisation	(832)	(1,046)	(179)	(841)	(2,898)
– others	(11,952)	(8,021)	(269)	(2,155)	(22,397)
Operating profit/(loss) before tax	25,848	5,628	1,940	(2,302)	31,114
Capital expenditure	2,266	2,782	475	1,961	7,484
Segment assets	903,502	185,870	1,002,534	18,538	2,110,444
Segment liabilities	(1,020,464)	(543,012)	(384,457)	(29,190)	(1,977,123)

Supplementary Unaudited Financial Information (Continued)

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

8 LIQUIDITY RISK

The table on the following page analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Over due	Total
As at 31 December 2007								
Assets								
Cash and balances with central banks	260,841	-	-	-	-	592	-	261,433
Due from other banks and financial institutions	30,207	97,544	16,223	12,110	26	-	-	156,110
Financial assets held for trading	-	2,177	5,191	5,069	4,959	2,049	-	19,445
Loans and advances to customers	865	72,497	135,269	434,784	229,664	197,788	14,857	1,085,724
Investment securities								
- loans and receivables	-	9	1,678	2,503	62,443	963	-	67,596
- available-for-sale	-	10,927	18,722	43,752	50,712	23,460	-	147,573
- held-to-maturity	-	4,373	13,331	60,726	149,697	102,800	-	330,927
Other assets, including deferred tax assets	2,485	1,967	3	974	12,172	23,680	355	41,636
Total assets	294,398	189,494	190,417	559,918	509,673	351,332	15,212	2,110,444
Liabilities								
Due to other banks and financial institution	(174,532)	(48,932)	(26,538)	(17,563)	(50,650)	(14,341)	-	(332,556)
Financial liabilities held for trading	-	(286)	(1,091)	(4,884)	(3,610)	(157)	-	(10,028)
Due to customers	(878,104)	(174,487)	(150,239)	(288,062)	(76,244)	(6)	-	(1,567,142)
Other liabilities, including deferred tax liabilities	(16,304)	(5,713)	(959)	(3,772)	(14,680)	(25,969)	-	(67,397)
Total liabilities	(1,068,940)	(229,418)	(178,827)	(314,281)	(145,184)	(40,473)	-	(1,977,123)
Net liquidity gap	(774,542)	(39,924)	11,590	245,637	364,489	310,859	15,212	133,321

Reconciliation of Net Assets and Net Profit from PRC GAAP to IFRS

Under PRC Generally Accepted Accounting Principles (“PRC GAAP”), the Group has, since 1 January 2007, implemented the new Accounting Standards for Business Enterprises (“ASBE”) issued by Ministry of Finance on 15 February 2006. According to requirements under “ASBE 38 – First-time adoption of ASBE”, the Group restated the financial reports under PRC GAAP for the 2006 fiscal year. The reconciliation of net assets and net profit from PRC GAAP to IFRS after the restatement is listed as follows:

(in millions of RMB)

	Net assets		Net profit	
	31 December 2007	31 December 2006 Restated	2007	2006 Restated
PRC GAAP figures	128,797	87,439	20,641	12,540
Adjustments for accounting standard differences:				
1. Revaluation surplus/deficit from fixed assets	6,185	4,631	(128)	(369)
2. Differences arising from the transfer of the non-performing loans to China Cinda Asset Management Corporation	(329)	(548)	218	212
3. Deferred taxes	(1,492)	(1,188)	(315)	(111)
4. Others	160	161	(14)	(3)
IFRS figures	133,321	90,495	20,402	12,269

Reconciliation of Net Assets and Net Profit from PRC GAAP to IFRS (Continued)

EXPLANATION OF THE ADJUSTMENTS FOR ACCOUNTING STANDARD DIFFERENCES:

Revaluation surplus/deficit from fixed assets

In 2007, the Group carried out a further revaluation exercise on land and buildings for the purpose of the preparation of its IFRS financial statements, which was not a statutory valuation. The valuation surplus/deficit arising from the valuation has been reflected in IFRS financial statements, while it is not recognized in PRC GAAP financial statements. The difference arising from the fixed assets revaluation exercise has been reflected as an accounting standard difference accordingly. Such difference will be depreciated during the remaining beneficiary period.

Differences arising from the transfer of the non-performing loans to China Cinda Asset Management Corporation

On 27 June 2004, the Group disposed of non-performing loans (the “**Transferred Loans**”) to China Cinda Asset Management Corporation in exchange for the bills (the “**Bills**”) issued by PBOC. The amount of carrying value of the Transferred Loans in excess of the fair value of the Bills, net of tax, was offset against capital surplus in its IFRS financial statements. However, the Bills were carried at face value under PRC GAAP. The discount will be amortized and recorded as interest income from securities during the remaining beneficiary period of the Bills.

Deferred taxes

In both PRC GAAP and IFRS financial statements prepared by the Group, deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Accordingly, all adjustments on accounting standard differences also gave rise to deferred taxation differences.

Others

All other differences are adjustments with minor amounts.

List of Branches

Domestic Branches

- **Beijing Branch**
33 Jin Rong Da Jie,
Xi Cheng District, Beijing
TEL: (010) 66101616
SWIFT: COMMCNSHBJG
P.C.: 100032
FAX: (010) 88086008
- **Taiyuan Branch**
BOCOM Tower, 35 Jie Fang Lu,
Taiyuan
TEL: (0351) 4070014 4070440
SWIFT: COMMCNSHTYN
P.C.: 030002
FAX: (0351) 4071457
- **Tianjin Branch**
35 Nanjing Lu, He Xi District,
Tianjin
TEL: (022) 23403701
SWIFT: COMMCNSHTJN
P.C.: 300200
FAX: (022) 23302004
- **Jincheng Branch**
878 Huang Hua Jie, Jincheng
TEL: (0356) 2026882
P.C.: 048026
FAX: (0356) 2029840
- **Shijiazhuang Branch**
22 Zi Qiang Lu, Shijiazhuang
TEL: (0311) 87026358
SWIFT: COMMCNSHSJZ
P.C.: 050000
FAX: (0311) 87016376
- **Huhehaote Branch**
110 West Daxue Lu, Sai Han
District, Huhehaote
TEL: (0471) 3396646
SWIFT: COMMCNSHHHH
P.C.: 010020
FAX: (0471) 3396580
- **Tangshan Branch**
103 Xin Hua Dong Dao,
Tangshan
TEL: (0315) 3720100
SWIFT: COMMCNSHTSN
P.C.: 063000
FAX: (0315) 2849299
- **Baotou Branch**
24 Gang Tie Da Jie, Qing Shan
District, Baotou
TEL: (0472) 5143280
SWIFT: COMMCNSHBTU
P.C.: 014030
FAX: (0472) 5144698
- **Qinhuangdao Branch**
174 Wen Hua Lu, Hai Gang
District, Qinhuangdao
TEL: (0335) 3038260
SWIFT: COMMCNSHQHD
P.C.: 066000
FAX: (0335) 3028046
- **Shenyang Branch**
100 Shi Yi Wei Lu, Shen He District,
Shenyang
TEL: (024) 22828080
SWIFT: COMMCNSHSYG
P.C.: 110014
FAX: (024) 22825238

List of Branches (Continued)

- **Anshan Branch**
38 Er Yi Jiu Lu, Tie Dong District, Anshan
TEL: (0412) 5554790
SWIFT: COMMCNSHASN
P.C.: 114001
FAX: (0412) 5554785
- **Fushun Branch**
2-1 Xi Yi Lu, Xin Fu District, Fushun
TEL: (0413) 2861800
SWIFT: COMMCNSHFSN
P.C.: 113008
FAX: (0413) 2648493
- **Dandong Branch**
68 Jin Shan Da Jie, Dandong
TEL: (0415) 2125736
SWIFT: COMMCNSHDDG
P.C.: 118000
FAX: (0415) 2131250
- **Jinzhou Branch**
42 Yun Fei Jie, Er Duan, Jinzhou
TEL: (0416) 3124258
SWIFT: COMMCNSHJIN
P.C.: 121000
FAX: (0416) 3125832
- **Yingkou Branch**
21 Bo Hai Da Jie Xi, Yingkou
TEL: (0417) 2881234
SWIFT: COMMCNSHYKU
P.C.: 115003
FAX: (0417) 2837764
- **Liaoyang Sub-branch**
114 Xin Yun Da Jie, Liaoyang
TEL: (0419) 2126778
P.C.: 111000
FAX: (0419) 2151178
- **Changchun Branch**
3515 Ren Min da Jie, Changchun
TEL: (0431) 8928485
SWIFT: COMMCNSHCCN
P.C.: 130061
FAX: (0431) 85579990
- **Jilin Branch**
4 Song Jiang Dong Lu, Jilin
TEL: (0432) 2102998
SWIFT: COMMCNSHJLN
P.C.: 132001
FAX: (0432) 2102996
- **Yanbian Branch**
172 Guang Ming Jie, Yanji
TEL: (0433) 2520486
SWIFT: COMMCNSHYBN
P.C.: 133000
FAX: (0433) 2520418
- **Harbin Branch**
428 You Yi Lu, Dao Li District, Harbin
TEL: (0451) 83085649
SWIFT: COMMCNSHHEB
P.C.: 150001
FAX: (0451) 82644448
- **Qiqihar Branch**
199 Bu Kui Da Jie, Jian Hua District, Qiqihar
TEL: (0452) 2559771
SWIFT: COMMCNSHQQH
P.C.: 161006
FAX: (0452) 2559777
- **Daqing Branch**
2 Re Yuan Jie Dong Feng Lu, Dong Feng Xin Cun, Daqing
TEL: (0459) 6688863
SWIFT: COMMCNSHDQG
P.C.: 163311
FAX: (0459) 6688860

■ Shanghai Branch

99 Zhong Shan Nan Lu, Shanghai
TEL: (021) 63111000
SWIFT: COMMCNSHSHI
P.C.: 200010
FAX: (021) 63744799

■ Nanjing Branch

124 Zhong Shan Bei Lu, Nanjing
TEL: (025) 83278888
SWIFT: COMMCNSHNJG
P.C.: 210009
FAX: (025) 83322050

■ Xuzhou Branch

56 Zhong Shan Nan Lu, Xuzhou
TEL: (0516) 85608180
SWIFT: COMMCNSHIUZ
P.C.: 221006
FAX: (0516) 85608186

■ Lianyungang Branch

141 Hai Lian Zhong Lu, Xin Pu
District, Lianyungang
TEL: (0518) 85414580
SWIFT: COMMCNSHLYG
P.C.: 222003
FAX: (0518) 85411387

■ Yangzhou Branch

2 Wen He Bei Lu, Yangzhou
TEL: (0514) 87344635
SWIFT: COMMCNSHYAN
P.C.: 225002
FAX: (0514) 87348552

■ Taizhou Branch

151 Qing Nian Bei Lu, Taizhou
TEL: (0523) 86242741
SWIFT: COMMCNSHTAI
P.C.: 225300
FAX: (0523) 86210456

■ Nantong Branch

27 Ren Min Zhong Lu, Nantong
TEL: (0513) 85058018
SWIFT: COMMCNSHNTG
P.C.: 226001
FAX: (0513) 85058028

■ Zhenjiang Branch

229 Jie Fang Lu, Zhenjiang
TEL: (0511) 85021069
SWIFT: COMMCNSHZJG
P.C.: 212001
FAX: (0511) 85021124

■ Changzhou Branch

171 Yan Ling Xi Lu, Changzhou
TEL: (0519) 86607696
SWIFT: COMMCNSHCHA
P.C.: 213003
FAX: (0519) 86607630

■ Yancheng Branch

68 Jian Jun Dong Lu, Yancheng
TEL: (0515) 88258200
SWIFT: COMMCNSHYCA
P.C.: 224002
FAX: (0515) 88299730

■ Hangzhou Branch

173 Qing Chun Lu, Hangzhou
TEL: (0571) 87216012 87216232
TLX: 351123 BOCOM CN
SWIFT: COMMCNSHHAN
P.C.: 310006
FAX: (0571) 87082330

■ Wenzhou Branch

Jiao Hang Plaza, Chezhandadao,
Wenzhou
TEL: (0577) 88068797
SWIFT: COMMCNSHWEN
P.C.: 325000
FAX: (0577) 88068567

List of Branches (Continued)

■ Jiaxing Branch

1086 Zhong Shan Dong Lu, Jiaxing
TEL: (0573) 2052112
SWIFT: COMMCNSHJXG
P.C.: 314000
FAX: (0573) 2052110

■ Huzhou Branch

299 Ren Min Lu, Huzhou
TEL: (0572) 2212138
SWIFT: COMMCNSHHUZ
P.C.: 313000
FAX: (0572) 2214738

■ Shaoxing Branch

283 Ren Min Zhong Lu, Shaoxing
TEL: (0575) 5115890
SWIFT: COMMCNSHSXG
P.C.: 312000
FAX: (0575) 5137247

■ Taaizhou Branch

298 Dong Huan da Dao,
Economic Evelopment
Zone, Taaizhou
TEL: (0576) 8599311
SWIFT: COMMCNSHTAA
P.C.: 318000
FAX: (0576) 8319000

■ Jinhua Branch

191 Shuangxi West Lu, Jinhua
TEL: (0579) 82139999
SWIFT: COMMCNSHJHA
P.C.: 321017
FAX: (0579) 82139998

■ Hefei Branch

38 Hua Yuan Jie, Hefei
TEL: (0551) 2637049
SWIFT: COMMCNSHHFI
P.C.: 230001
FAX: (0551) 2637010

■ Wuhu Branch

BOCOM Tower, Beijing Xi Lu, Wuhu
TEL: (0553) 3839500
SWIFT: COMMCNSHWHU
P.C.: 241000
FAX: (0553) 3839531

■ Bengbu Branch

88 Nan Shan Lu, Bengbu
TEL: (0552) 2040377
SWIFT: COMMCNSHBBU
P.C.: 233000
FAX: (0552) 2040376

Huainan Branch

95 Chao Yang Zhong Lu, Huainan
TEL: (0554) 6657888
P.C.: 232001
FAX: (0554) 6651788

■ Anqing Branch

99 Long Shan Lu, Anqing
TEL: (0556) 5509699
SWIFT: COMMCNSHAQG
P.C.: 246004
FAX: (0556) 5509641

■ Maanshan Branch

156 Hu Dong Nan Lu, Maansan
TEL: (0555) 2389158
SWIFT: COMMCNSHMAS
P.C.: 243000
FAX: (0555) 2389156

■ Fuzhou Branch

No.116 Hu Dong Road, Fuzhou
TEL: (0591) 87874839 87874850
SWIFT: COMMCNSHFUZ
P.C.: 350003
FAX: (0591) 87874837

■ Quanzhou Branch

No.550 Feng Ze Street, Quanzhou
TEL: (0595) 22695559
SWIFT: COMMCNSHQUA
P.C.: 362000
FAX: (0595) 22132988

■ Nanchang Branch

21 Yong Shu Lu, Nanchang
TEL: (0791) 6281014
SWIFT: COMMCNSHNCG
P.C.: 330003
FAX: (0791) 6214486

Jingdezhen Branch

1 Chang Nan Da Dao, Jingdezhen
TEL: (0798) 8570699
SWIFT: COMMCNSHJDZ
P.C.: 333000
FAX: (0798) 8570660

■ Xinyu Branch

98 Bei Hu Xi Lu, Xinyu
TEL: (0790) 6441577
P.C.: 338000
FAX: (0790) 6441943

■ Jiujiang Branch

139 Xun Yang Lu, Jiujiang
TEL: (0792) 8231117
SWIFT: COMMCNSHJJG
P.C.: 332000
FAX: (0792) 8118426

■ Jinan Branch

98 Gong Qing Tuan Lu, Jinan
TEL: (0531) 86106389
SWIFT: COMMCNSHJNN
P.C.: 250012
FAX: (0531) 86106390

■ Zibo Branch

100 Jin Jing Da Dao, Zhang Dian
District, Zibo
TEL: (0533) 2186999
SWIFT: COMMCNSHZBO
P.C.: 255040
FAX: (0533) 2687150

■ Weifang Branch

358 Dong Feng Dong Jie, Weifang
TEL: (0536) 8190228
SWIFT: COMMCNSHWFG
P.C.: 261041
FAX: (0536) 8190228

■ Yantai Branch

222 Nan Da Jie, Yantai
TEL: (0535) 6677088
SWIFT: COMMCNSHYTI
P.C.: 264000
FAX: (0535) 6677086

■ Weihai Branch

34 Hai Bin Bei Lu, Weihai
TEL: (0631) 5226210
SWIFT: COMMCNSHWHI
P.C.: 264200
FAX: (0631) 5230127

■ Jining Branch

36 Hong Xing Zhong Lu, Jining
TEL: (0537) 2883615
SWIFT: COMMCNSHJNG
P.C.: 272045
FAX: (0537) 2883615 2883659

List of Branches (Continued)

■ Taian Branch

55 Dong Yue Da Jie, Taian
TEL: (0538) 8220402
SWIFT: COMMCNSHTAN
P.C.: 271000
FAX: (0538) 8220402

■ Zhengzhou Branch

11 Zheng Hua Lu, Zhengzhou
TEL: (0371) 65723888
SWIFT: COMMCNSHZHE
P.C.: 450008
FAX: (0371) 65751011

■ Luoyang Branch

60 Kai Xuan Dong Lu, Luoyang
TEL: (0379) 63210987
SWIFT: COMMCNSHLYA
P.C.: 471000
FAX: (0379) 63938888

■ Wuhan Branch

A Ruitong Square, 847 Jianshe Avenue, Wuhan
TEL: (027) 85487102 85487110
SWIFT: COMMCNSHWHN
P.C.: 430015
FAX: (027) 85487112

■ Huangshi Branch

380 Yi Yang Lu, Huangshi
TEL: (0714) 6238934
SWIFT: COMMCNSHHSI
P.C.: 435000
FAX: (0714) 6221614

■ Yichang Branch

22 Sheng li Si Lu, Yichang
TEL: (0717) 6484982
SWIFT: COMMCNSHYCG
P.C.: 443000
FAX: (0717) 6484831

■ Changsha Branch

37 Shao Shan Zhong Lu, Changsha
TEL: (0731) 5555522
SWIFT: COMMCNSHCSA
P.C.: 410007
FAX: (0731) 5603737

■ Yueyang Branch

Yin Du Mansion, Nan Hu Da Dao, Yueyang
TEL: (0730) 8296189
SWIFT: COMMCNSHYYG
P.C.: 414000
FAX: (0730) 8296191

■ Guangzhou Branch

123 Jie Fang Nan Lu, Guangzhou
TEL: (020) 83271333
SWIFT: COMMCNSHGUA
P.C.: 510120
FAX: (020) 83270386

■ Zhuhai Branch

No.1227 Bocom Building, Jiu Zhou Road, Zhuhai
TEL: (0756) 3338822
SWIFT: COMMCNSHZHI
P.C.: 519015
FAX: (0756) 3330881

■ Shantou Branch

83 Jin Sha Lu, Shantou
TEL: (0754) 8246988
SWIFT: COMMCNSHSTU
P.C.: 515041
FAX: (0754) 8611962

■ Dongguan Branch

190 Qi Feng Lu, Dongguan
TEL: (0769) 22336998
SWIFT: COMMCNSHDGN
P.C.: 523008
FAX: (0769) 22336908

■ Zhongshan Branch

30 Yue Lai Nan Lu, Shi Qi,
Zhongshan
TEL: (0760) 8812999
SWIFT: COMMCNSHZSN
P.C.: 528400
FAX: (0760) 8808917

■ Foshan Branch

1-1 Ti Yu Lu, Foshan
TEL: (0757) 83215360
SWIFT: COMMCNSHFSA
P.C.: 528000
FAX: (0757) 83333125

■ Jieyang Sub-branch

6 Bei Huan Cheng Lu, Rong Cheng
District, Jieyang
TEL: (0663) 8611739
P.C.: 522000
FAX: (0663) 8634640

■ Huizhou Branch

8 Yunshan Xi Lu, Huizhou
TEL: (0752) 2856111
SWIFT: COMMCNSHHUI
P.C.: 516003
FAX: (0752) 2856113

■ Nanning Branch

228 Ren Min Dong Lu, Nanning
TEL: (0771) 2835260
SWIFT: COMMCNSHNNG
P.C.: 530012
FAX: (0771) 2835475

■ Liuzhou Branch

32 Yue Jin Lu, Liuzhou
TEL: (0772) 2860711
SWIFT: COMMCNSHLIU
P.C.: 545001
FAX: (0772) 2866680

■ Guilin Branch

8 Nan Huan Lu, Guilin
TEL: (0773) 2834167
SWIFT: COMMCNSHGLN
P.C.: 541002
FAX: (0773) 2826506

■ Wuzhou Branch

47 Da Zhong Lu, Wuzhou
TEL: (0774) 2832582
SWIFT: COMMCNSHWUZ
P.C.: 543000
FAX: (0774) 2827711

■ Beihai Branch

BOCOM Tower, 25 Yun Nan Lu,
Beihai
TEL: (0779) 3088836
SWIFT: COMMCNSHBHI
P.C.: 536000
FAX: (0779) 3038440

■ Hainan Branch

45, Guo Mao Lu, Finance and Trade
Zone, Haikou
TEL: (0898) 68532666
SWIFT: COMMCNSHHNN
P.C.: 570125
FAX: (0898) 68532333

List of Branches (Continued)

■ Chongqing Branch

158 Zhong Shan San Lu, Yu
Zhong District, Chongqing
TEL: (023) 63639888
SWIFT: COMMCNSHCQG
P.C.: 400015
FAX: (023) 63851916

■ Chengdu Branch

211 Xi Yu Long Jie, Chengdu
TEL: (028) 86525666
SWIFT: COMMCNSHCDU
P.C.: 610015
FAX: (028) 86525555

Zigong Branch

108 Wu Xing Jie, Zi Liu Jing
District, Zigong
TEL: (0813) 2105667
SWIFT: COMMCNSHZGG
P.C.: 643000
FAX: (0813) 2105667

Panzhuhua Branch

129 Bing Cao Gang Da Jie,
Panzhuhua
TEL: (0812) 3334197
SWIFT: COMMCNSHPZH
P.C.: 617000
FAX: (0812) 3334197

■ Guiyang Branch

4 Sheng Fu Lu, Guiyang
TEL: (0851) 5861460
SWIFT: COMMCNSHGYG
P.C.: 550001
FAX: (0851) 5861460

■ Zunyi Branch

108 Zhong Hua Lu, Hong Hua Gang
District Zunyi
TEL: (0852) 8824421
SWIFT: COMMCNSHZYI
P.C.: 563000
FAX: (0852) 8825356

■ Kunming Branch

67 Hu Guo Lu, Kunming
TEL: (0871) 3107673
SWIFT: COMMCNSHKMG
P.C.: 650021
FAX: (0871) 3107584

■ Qujing Branch

Qilinnan Lu and Wenchang Street
Crossing Qujing
TEL: (0874) 8988588 8988511
P.C.: 655000
FAX: (0874) 8988555

■ Yuxi Branch

61 Yu Xing Lu, Hong Ta District, Yuxi
TEL: (0877) 2056555
P.C.: 653100
FAX: (0877) 2056555

■ Chuxiong Branch

102 Bei Pu Lu, Chuxiong
TEL: (0878) 3124223
P.C.: 675000
FAX: (0878) 3121712

■ Xian Branch

88 Xi Xin Jie, Xian
TEL: (029) 87653017
SWIFT: COMMCNSHIAN
P.C.: 710004
FAX: (029) 87653019

Xianyang Branch

B2 Middle Weiyang Lu, Xianyang
TEL: (029) 33177301
SWIFT:
P.C.: 712000
FAX: (029) 33177301

■ Lanzhou Branch

129 Qing Yang Lu, Lanzhou
TEL: (0931) 8105273
SWIFT: COMMCNSHLAN
P.C.: 730030
FAX: (0931) 8105124

■ Yingchuan Branch

296 North Minzu road, Yingchuan
TEL: (0951) 6916803
SWIFT: COMMCNSHYCN
P.C.: 750001
FAX: (0951) 5014268

■ Urumqi Branch

16 Dong Feng Lu, Urumqi
TEL: (0991) 2833597
SWIFT: COMMCNSHWLM
P.C.: 830002
FAX: (0991) 2840184

■ Dalian Branch

6 Zhong Shan Square,
Zhong Shan District, Dalian
TEL: (0411) 82639911
SWIFT: COMMCNSHDLN
P.C.: 116001
FAX: (0411) 82656612

■ Ningbo Branch

55 Zhong Shan Dong Lu, Ningbo
TEL: (0574) 87361089
SWIFT: COMMCNSHNBO
P.C.: 315000
FAX: (0574) 87262365

■ Xiamen Branch

9 Hu Bin Zhong Lu, Xiamen
TEL: (0592) 2295012
SWIFT: COMMCNSHIMN
P.C.: 361004
FAX: (0592) 2295013

■ Qingdao Branch

6 Zhong Shan Lu, Qingdao
TEL: (0532) 82967888
SWIFT: COMMCNSHQDO
P.C.: 266001
FAX: (0532) 82897062

■ Shenzhen Branch

2066 Shen Nan Zhong Lu, Shenzhen
TEL: (0755) 83680000
SWIFT: COMMCNSHSZN
P.C.: 518031
FAX: (0755) 83680033

■ Wuxi Branch

198 Ren Min Zhong Lu, Wuxi
TEL: (0510) 82705226
SWIFT: COMMCNSHWXI
P.C.: 214001
FAX: (0510) 82701640

■ Suzhou Branch

77 Nan Yuan Bei Lu, Suzhou
TEL: (0512) 65188666
SWIFT: COMMCNSHSUZ
P.C.: 215006
FAX: (0512) 65186051

Branches and Sub-branches marked with ■ are authorized to conduct international banking business

Overseas Offices



Hong Kong Branch

Address : 20 Pedder Street
Central, Hong Kong
Tel : (00852)-28419611
Fax : (00852)-28106993

New York Branch

Address : One Exchange Plaza,
55 Broadway,
31st & 32nd Floors,
New York, U.S.A.
Postal Code : 10006-3008
Tel : (001)-(212)-376-8030
Fax : (001)-(212)-376-8089

Tokyo Branch

Address : Toranomon, No.37
Mori Bldg., 9F 3-5-1,
Toranomon minato-ku
Tokyo, Japan
Postal Code : 105-0001
Tel : (0081)-(3)-3432-1818
Fax : (0081)-(3)-3432-1824

Singapore Branch

Address : 50 Raffles Place
#26-04 Singapore
Land Tower
Postal Code : 048623
Tel : (0065)-65320335
Fax : (0065)-65320339



New York Branch

**Seoul Branch**

Address : 6th Samsung Fire &
Marine Bldg.
#87 Euljiro 1-Ga,
Jung-Gu Seoul, Korea

Postal Code : 100-782

Tel : (82)-(2)-2022-6888

Fax : (82)-(2)-2022-6899

Frankfurt Branch

Address : Neue Mainzer
Strasse 75,
FFM Germany

Postal Code : 60311

Tel : (0049)-(69)-6605890

Fax : (0049)-(69)-66058938

Macau Branch

Address : 16/F AIA Tower,
No. 251A-301, Avenida
Comercial De Macau

Tel : (0853)-28286611

Fax : (0853)-28286686

London Representative Office

Address : 3rd Floor,
145 Leadenhall Street
London EC3V 4QT,
U.K.

Tel : (0044)-207-9296050

Fax : (0044)-207-9296055

Definition

In this Annual Report, unless the context otherwise requires, the following expressions have the following meanings:

“the Bank”	Bank of Communications Co., Ltd.
“the Group”	the Bank and its subsidiaries
“CBRC”	China Banking Regulatory Commission
“PBOC”	the People’s Bank of China
“Ministry of Finance”	the Ministry of Finance of the People’s Republic of China
“CSRC”	China Securities Regulatory Commission
“Shanghai Stock Exchange”	Shanghai Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SAFE Investment”	Central SAFE Investments Limited
“SSF”	the National Council for Social Security Fund
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Company Law”	the Company Law of the People’s Republic of China
“Commercial Banks Law”	the Law on Commercial Banks of the People’s Republic of China
“Articles of Association”	the Articles of Association of the Bank of Communications Co., Ltd. as approved by CBRC
“HSBC”	The Hongkong and Shanghai Banking Corporation Limited
“Northern China”	includes Beijing Municipality, Tianjin Municipality, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region
“Northeastern China”	includes Liaoning Province, Jilin Province and Heilongjiang Province
“Eastern China”	includes Shanghai Municipality, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province
“Central and Southern China”	includes Henan Province, Hunan Province, Hubei Province, Guangdong Province, Hainan Province and Guangxi Autonomous Region
“Western China”	includes Chongqing Municipality, Sichuan Province, Guizhou Province, Yunan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region, Xinjiang Autonomous Region and Tibet Autonomous Region
“Overseas”	includes overseas subsidiaries and branches in Hong Kong, New York, Singapore, Tokyo, Seoul, Frankfurt and Macau
“Head Office”	the Head Office of the Bank in Shanghai
“yuan”	Renminbi Yuan
“basis point”	one of ten thousand
“BOCOM Schroder”	Bank of Communications Schroder Fund Management Co., Ltd.
“BOCOM International Trust”	Bank of Communications International Trust Co., Ltd.
“BOCOM Leasing”	Bank of Communications Financial Leasing Co., Ltd.
“BOCOM International”	BOCOM International Holdings Company Limited
“BOCOM Insurance”	China BOCOM Insurance Company Limited
“CRCB”	Jiangsu Changshu Rural Commercial Bank Co., Ltd.



交通銀行
BANK OF COMMUNICATIONS

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Bank of Communications Co., Ltd.

No. 188, Yin Cheng Zhong Lu, Shanghai P.R. China

www.bankcomm.com